# Pension Fund Committee AGENDA

**DATE:** Tuesday 12 March 2019

**TIME:** 6.30 pm

**VENUE:** Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

**MEMBERSHIP** (Quorum 3 Councillors)

**Chair:** Councillor Nitin Parekh

**Councillors:**

Antonio Weiss
Norman Stevenson
Bharat Thakker (VC)

**Non-Voting Co-optee:** Mr H Bluston

**Trade Union Observer(s):** Mr J Royle – UNISON
Ms P Belgrave – GMB

**Independent Advisers** Mr C Robertson
Honorary Alderman R Romain

**Reserve Members:**

1. Keith Ferry
2. Dean Gilligan

1. Kanti Rabadia
2. Amir Moshenson

**Contact:** Daksha Ghelani, Senior Democratic Services Officer
**Tel:** 020 8424 1881 **E-mail:** daksha.ghelani@harrow.gov.uk

Harrow COUNCIL LONDON

# Useful Information

## Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
http://www.harrow.gov.uk/site/scripts/location.php.

## Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

## Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

**Agenda publication date: Monday 4 March 2019**

# AGENDA - PART I

## 1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

## 2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Panel;
(b) all other Members present.

## 3. MINUTES (Pages 7 - 20)

That the minutes of the ordinary meeting held on 27 November 2018 and the special meeting held on 16 January 2019 be taken as read and signed as a correct record.

## 4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

**[The deadline for receipt of public questions is 3.00 pm, Thursday 7 March 2019. Questions should be sent to publicquestions@harrow.gov.uk**

**No person may submit more than one question].**

## 5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

## 6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

**7. MEETINGS OF THE PENSION FUND COMMITTEE - MUNICIPAL YEAR 2019/20**

Wednesday 26 June 2019 at 6.30pm
Wednesday 11 September 2019 at 6.30pm
Tuesday 26 November 2019 at 6.30pm
Wednesday 25 March 2019 at 6.30pm.

**8. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS** (Pages 21 - 26)

Report of the Director of Finance.

**9. INFORMATION REPORT - QUARTERLY TRIGGER MONITORING Q4 2018** (Pages 27 - 34)

Report of the Director of Finance.

**10. INFORMATION REPORT: PERFORMANCE MEASUREMENT SERVICES** (Pages 35 - 44)

Report of the Director of Finance.

**11. INFORMATION REPORT: EXTERNAL AUDIT PLANS 2018/19** (Pages 45 - 64)

Report of the Director of Finance.

**12. STATUTORY GUIDANCE ON ASSET POOLING** (Pages 65 - 78)

Report of the Director of Finance.

**13. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INVESTMENT MANAGERS** (Pages 79 - 84)

Report of the Director of Finance.

**14. INFORMATION REPORT - INVESTMENT CONSULTANCY SERVICES PROCUREMENT** (Pages 85 - 88)

Report of the Director of Finance.

**15. ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

**16. EXCLUSION OF THE PRESS PUBLIC**

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that they involve the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

| Agenda Item No | Title | Description of Exempt Information |
|---|---|---|
| 17. | Information Report - Annual Review of Internal Controls at Investment Managers - Appendix | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 18. | Information Report - Investment Consultancy Services Procurement - Appendix | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 19. | London CIV Asset Pooling; Investment Strategy Manager Review | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 20. | Information Report - Investment Manager Performance Monitoring for period ending 31 December 2018 | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 21. | Local Government Scheme Pension Scheme Amendment Regulations | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 22. | Independent Advisor Appointments | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |

# AGENDA - PART II

**17. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INVESTMENT MANAGERS** (Pages 89 - 96)

Appendix to the report of the Director of Finance at item 13 above.

**18. INFORMATION REPORT - INVESTMENT CONSULTANCY SERVICES PROCUREMENT** (Pages 97 - 98)

Appendix to the report of the Director of Finance at item 14 above.

**19. LONDON CIV ASSET POOLING; INVESTMENT STRATEGY MANAGER REVIEW** (Pages 99 - 116)

Report of the Director of Finance.

**20. INFORMATION REPORT - INVESTMENT MANAGER PERFORMANCE MONITORING FOR PERIOD ENDING 31 DECEMBER 2018** (Pages 117 - 194)

Report of the Director of Finance.

**21. LOCAL GOVERNMENT SCHEME PENSION SCHEME AMENDMENT REGULATIONS** (Pages 195 - 216)

Report of the Director of Finance.

**22. INDEPENDENT ADVISOR APPOINTMENTS** (Pages 217 - 224)

Report of the Director of Finance.

*[Please note that Aon Hewitt, Advisers to the Fund, will be attending this meeting.]*

*** DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

# PENSION FUND COMMITTEE

# MINUTES

# 27 NOVEMBER 2018

| | | | |
|---|---|---|---|
| **Chair:** | * | Councillor Nitin Parekh | |
| **Councillors:** | * | Kanti Rabadia (2) | Antonio Weiss |
| | * | Norman Stevenson | |
| **Co-optee (Non-voting):** | * | Howard Bluston | |
| **Trade Union Observers:** | | John Royle | Pamela Belgrave |
| **Independent Advisers:** | * | Mr C Robertson | Independent Adviser |
| | * | Honorary Alderman R Romain | Independent Adviser |

* Denotes Member present
(2) Denotes category of Reserve Member

**Quorum**

At 6.30 pm, the meeting was inquorate. The Democratic Services Officer informed Members that Committee Procedure Rule 13.3 stated that after 15 minutes from the advertised time of the start of the meeting, or such other longer period as the Chair decided, a quorum was not present, the meeting would not take place.

In accordance with Committee Procedure Rule 13.3, the Chair decided that if a quorum was not present by 6.55 pm, the meeting would not take place. The quorum was present before 6.55 pm and the meeting started at 6.52 pm.

**Agenda Items - Part II Section**

Prior to the consideration of Part II Section of the agenda, the Chair notified the Committee that the agenda order for this Section would be varied to allow interested external parties to make their presentations to the Committee prior to the consideration and decision-making by the Committee of the relevant items in private session. The agenda order of the substantive items was as follows:

| | | |
|---|---|---|
| Item 14 | - | Local Government Scheme Pension Scheme Amendment Regulation |
| Item 13 | - | Pension Fund Risk Register (Appendix 3) |
| Item 16 | - | Investment Manager Performance Monitoring for period ending 30 September 2018 |
| Item 15 | - | Investment Strategy Manager Review and Pooling Update |
| Item 17 | - | Investment Consultancy Services Procurement. |

For clarity, business in the minutes is recorded in the order set out on the agenda.

## 31. Attendance by Reserve Members

**RESOLVED:** To note the attendance at this meeting of the following duly appointed Reserve Member:

| Ordinary Member | Reserve Member |
|---|---|
| Councillor Bharat Thakker | Councillor Kanti Rabadia |

## 32. Declarations of Interest

All Agenda Items

Councillor Norman Stevenson, member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd, and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, non-voting co-optee, declared non-pecuniary interests in that he had previously worked with AON Hewitt and that he knew a number of Fund Managers, including BlackRock. He would remain in the room whilst all matters were considered and make contributions.

Colin Cartwright, Aon Hewitt, declared that his wife had a small investment in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and advise the Committee.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS (Global Absolute Return Strategies Fund. He would remain in the room whilst the matters were considered and make contributions.

**33. Minutes**

**RESOLVED:** That the minutes of the meeting held on 12 September 2018, be taken as read and signed as a correct record.

**34. Public Questions, Petitions and Deputations**

**RESOLVED:** To note that no public questions, petitions or deputations were received at the meeting.

## RESOLVED ITEMS

**35. Pension Fund Committee - Update on Regular Items**

The Committee received a report of the Director of Finance which provided an update on the Work Programme, the performance of Fund Managers and issues raised by the Pension Board.

An officer outlined the content of the report and highlighted the following:

- as at 31 October 2018, the market value of the Fund was £824m. This was a drop from £850m in September 2018. The drop was due to a general downturn in the financial markets;

- the transfer of the passive equity funds held with State Street Global Advisors Ltd to BlackRock, had been completed successfully and on budget except for the timelines. The cost of the transition was 0.7%. The final transition report would be circulated to all members of the Pension Fund Committee on request.

The Chair requested that the proportion of the Fund invested in the LCIV be reported to the Pension Fund Committee as a standing item.

A Member asked questions about the weighting being given to global equities and why there was an allocation of 50%. He asked about the confidence in the UK market. The same Member asked why assets had been moved to Blackrock.

In response, a representative from Aon Hewitt, stated that:

- there was a significant (10%) allocation within global equities to the UK market. The UK market was dominated by a couple of sectors such as the pharmaceutical industry which had resulted in concentrated investments. It was important that there was diversification. For example, the technology sector was underrepresented in the UK market and diversification was achieved by investing globally. Moreover, the global equity market had outperformed the UK market;

- the main reason for moving passive funds to Blackrock was due to their inclusion in the LCIV (London Collective Investment Vehicle). There was a requirement from the government to invest in the LCIV and the Fund benefited from fee reductions negotiated by the LCIV.

Members were informed that the Pension Board had received a presentation from the Pension Regulator and this had been well received. It was noted that the Board had reviewed the Fund's Breaches Policy and that no breaches had been reported.

The Chair suggested that training on LDI and Infrastructure was required and it was noted that this was referenced in the report(s) on the agenda.

Richard Romain, Independent Adviser, raised the issue of the attendance of the Chair of the Pension Board at Pension Fund Committee during consideration of exempt (Part II) business. He explained that, whilst local authorities were inconsistent in their approach, the Committee could agree to allow the Chair of Pension Board to remain in the meeting room during consideration of exempt business. He advocated such transparency. The Chair stated that the Members needed to adhere to the advice received from the Council's lawyers, HB Public Law, and referred to the minutes of 7 March 2018 Pension Fund Committee, Minute 272. Colin Robertson, Independent Adviser, pointed out that some authorities applied the same rules as Harrow.

**RESOLVED:** That the Work Programme for the period up to March 2019 be agreed.

[See also Minutes 41, 42 and 44.]

## 36. Information Report - Quarterly Trigger Monitoring- Quarter 3 2018

The Committee considered a report from Aon Hewitt, the Council's Investment Adviser, on Quarterly Trigger Monitoring and noted that no de-risking actions were recommended at the current time.

**RESOLVED:** That the report be noted.

## 37. Information Report - PIRC Performance Measurement Report for period ending 30 September 2018

The Committee received a report of the Director of Finance, which set out the performance management statistics being provided by Pension and Investment Consultants Limited (PIRC). The report benchmarked performance to 30 September 2018 and the Committee was invited to comment on the report.

Colin Robertson, Independent Adviser, stated that he remained dissatisfied with PIRC's work on performance measurement and he was of the view that the shortcomings needed to be addressed. He was concerned with the quality of the work, including the figures produced. He would provide detailed comments for the Committee. It was noted that officers would bring the Committee's concerns, including any additional issues, to the attention of

PIRC. A Member was concerned that the Fund was incurring unnecessary costs as the reports were not useful.

Colin Robertson informed the Committee that PIRC had recently published their annual report. An officer confirmed that the PIRC representative would be invited to attend the next Pension Fund Committee to present the annual report and to address the issues of concern that had been raised.

**RESOLVED:** That the report be noted.

**38. Information Report - Pension Fund Risk Register**

Members received a report of the Director of Finance, including a confidential appendix, inviting comments on the Risk Register.

The Chair referred to risk numbers 24 – 26 indicated in “red” which were of concern as they were classified as “fairly likely to occur” and deemed to be of “critical” importance. It was suggested that the Committee could review its scoring.

Richard Romain, Independent Adviser, suggested that Members of the Committee might want to hold a separate informal meeting to allow them to consider and understand the implications of each of the risks.

The Committee also discussed in detail the confidential appendix in private session. The discussion related to the risks associated with Brexit and the implications for the financial market(s). The appendix set out how the risks could be mitigated and concentrated on negative scenarios. The following issues were discussed and commented on, including how these would impact on the Fund:

- impact on sterling of a ‘No Deal’ Brexit;
- impact on UK property prices and the resultant impact on the Fund;
- whether or not to hedge against currency risk;
- impact on yields and dividends;
- use of the options strategies to protect against market volatility;
- impact of a fall in government bond yields, including the impact on longer term yields;
- an increase in inflation and higher interest rates and their impact on yields;
- the impact on financial markets, liquidity and the Fund of a ‘disorderly’ Brexit;
- the impact on assets and liabilities after Brexit.

A representative from Aon Hewitt advised the Committee on potential different scenarios and the various issues they would need to consider.

**RESOLVED:** That

(1) officers arrange a meeting with all Councillors serving on the Pension Fund Committee to discuss the risks in detail;

(2) all Councillors serving on the Pension Fund Committee be invited to all training sessions;

(3) the report be noted.

**39. Exclusion of the Press and Public**

**RESOLVED:** That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following items for the reasons set out below:

| Item No | Title | Description of Exempt Information |
|---|---|---|
| 13 | Information Report - Pension Fund Risk Register<br>- Appendix 3 | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 14 | Information Report - Local Government Scheme Pension Scheme Amendment Regulations | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 15 | Investment Strategy Manager Review and Pooling Update | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 16 | Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018 | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 17 | Investment Consultancy Services Procurement | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |

**40. Information Report - Pension Fund Risk Register**

[See Minute 38 above.]

**41. Information Report - Local Government Scheme Pension Scheme Amendment Regulations**

The Committee received a confidential report of the Director of Finance, which set out the potential impact of the payment of surplus exit credits on the Fund as a result of changes to the LGPS (Local Government Pension Scheme) Amendment Regulations 2018. Suggested options to manage the potential impact were set out in the appendices from the Fund Actuary, Hymans Robertson.

The report included reference to training and that the Funding Strategy Statement would be amended, if required, and presented for decision at the next Pension Fund Committee.

A representative from Hymans Robertson, briefed the Committee on the appendices in the private session of the meeting. She reported that the LGPS Amendment Regulations came into effect on 14 May 2018. The Regulations gave employers the ability to access surplus on exit of its Members. She outlined the potential implications on the Fund arising from recent changes in the Regulations and that the Committee would be required to consider funding arrangements for admission bodies.

The representative from Hymans Robertson explained how the system had worked under previous Regulations and how these had changed. She outlined options for mitigating any adverse impact on the Fund and the use of pass-through approach. Members' attention was drawn to the appendix 1, which outlined the risks that would remain.

A Member asked how the deficit in the Pension Fund would be funded. The representative from Hymans Robertson explained the role of the Actuary and that they would track the employers funding situation. Richard Romain, Independent Adviser, stated that it was important that the Council's lawyers were involved in drawing up the legal agreements/contracts setting out the allocation of assets and liabilities for employers or opting to mandate pass through arrangements for new employers. The lawyers would need to advise on the risks which were set out on page 75 of the agenda papers. It was important that the lawyers had had the necessary knowledge in drawing up any contracts which would need to withstand the test of time.

**RESOLVED:** That

(1) training on risk management be arranged for all Members of the Pension Fund Committee prior to a report being submitted to the next ordinary meeting of the Pension Fund Committee on 12 March 2019 for a decision;

(2) HB Public Law be invited to the meeting.

## 42. Investment Strategy Manager Review and Pooling Update

The Committee received a confidential report of the Director of Finance, which set out a summary of the 'Meet the Manager' day held on 5 November 2018 and to consider next steps required to manage the Fund Investment Strategy and to meet the requirement to invest through the London Collective Investment Vehicle (CIV).

An officer advised that, in light of earlier discussions at the meeting, it would be appropriate to defer a decision on Recommendation 1 to a special meeting agreed by the Committee. In relation to Recommendation 2, he advised that the decision be deferred to the March 2019 meeting of the Committee but a training session be held at a date to be agreed at the special meeting on 16 January 2019.

The Chair requested the training session on the Risk Register be held at 5.30 pm prior to the special meeting of the Committee on 16 January 2019.

**RESOLVED:** That

(1) a decision on Recommendation 1 set out in the officer report be deferred to the special meeting of the Committee scheduled to be held on 16 January 2019 at 6.30 pm;

(2) further information and training requirements be held on a date to be agreed prior to making any decision on committing to investing in the London CIV Infrastructure Fund at the ordinary meeting of the Committee scheduled to be held on 12 March 2019 at 6.30 pm.

**43. Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018**

Prior to the consideration of the confidential report, the Committee received a short presentation from one investment manager followed by robust questioning from the Committee and Independent Advisers. Thereafter, the investment manager representatives left the meeting.

Members received advice from representatives of Aon Hewitt. Members asked questions on performance, processes, ownership of decisions and key criteria. They noted the options set out in the tabled document, which had not been available at the time the agenda was despatched due to the need to provide the most up to date information to allow the Committee to make an informed decision. Members expressed their own views.

Thereafter, the Committee considered the confidential report of the Director of Finance, which included Aon Hewitt's quarterly report on Harrow's investment managers.

The Committee was advised that the decision on the investment manager presenting was of paramount importance and that it should have a full complement of Members prior to reaching a decision and it was

**RESOLVED:** That a special meeting of the Pension Fund Committee be held at 6.30 pm on 16 January 2019 to allow the Committee to make a decision in relation to the review of Investment Fund Managers.

**44. Investment Consultancy Services Procurement**

The Committee received a confidential report of the Director of Finance which set out the current position on the provision and re-procurement of Investment Consultancy Services using the National LGPS framework as previously agreed by Committee. The report sought agreement to the process for appointing the Investment Consultant to the Pension Fund.

Members made reference to the investment consultancy services shortlisted panel interviews scheduled for 11 December 2018 and noted that relevant documents for this informal meeting would be circulated by officers. Councillor Norman Stevenson indicated that he would not be able to attend this meeting.

**RESOLVED:** That, following interview and panel evaluation, the preferred supplier for the Investment Consultancy contract be confirmed by the Director of Finance, following consultation with the Chair of the Pension Fund Committee, and the appointment be reported to the next ordinary meeting of the Committee scheduled to be held on 12 March 2019.

(Note: The meeting, having commenced at 6.52 pm, closed at 9.50 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

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# PENSION FUND COMMITTEE (SPECIAL)

## MINUTES

## 16 JANUARY 2019

| | | | |
|---|---|---|---|
| **Chair:** | * Councillor Nitin Parekh | | |
| **Councillors:** | * Keith Ferry (1)<br>* Norman Stevenson | | * Bharat Thakker |
| **Co-optee (Non-voting):** | * Howard Bluston | | |
| **Trade Union Observers:** | John Royle | | Pamela Belgrave |
| **Independent Advisers:** | * Mr C Robertson | Independent Adviser | |
| | * Honorary Alderman R Romain | Independent Adviser | |

* Denotes Member present
(1) Denote category of Reserve Members

**45. Attendance by Reserve Members**

**RESOLVED:** To note the attendance at this meeting of the following duly appointed Reserve Member:-

| Ordinary Member | Reserve Member |
|---|---|
| Councillor Antonio Weiss | Councillor Keith Ferry |

**46. Declarations of Interest**

All Agenda Items

Councillor Norman Stevenson, member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd, and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, non-voting co-optee, declared non-pecuniary interests in that he had previously worked with AON Hewitt and that he knew a number of Fund Managers, including BlackRock. He added that he had clients who had invested in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and make contributions.

Colin Cartwright, Aon Hewitt, declared that his wife had a small investment in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and advise the Committee.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst the matters were considered and make contributions.

**47. Deputations**

**RESOLVED:** To note that no deputations were received at the meeting.

**48. Exclusion of the Press Public**

**RESOLVED:** That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item) for the reasons set out below:

| Items | Title | Reason |
|---|---|---|
| 5/6 | Investment Strategy Manager Review/Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018 | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information). |

## RESOLVED ITEMS

### 49. Investment Strategy Manager Review

The Committee received a confidential report of the Director of Finance setting out a summary of the 'Meet the Manager' day held on 5 November 2018 and, further to the Pension Fund Committee meeting on 27 November 2018, to consider the next steps required to manage the Fund Investment Strategy and to meet the requirement to invest through the London Collective Investment Vehicle.

The Committee also received a tabled document from Aon Hewitt, Advisers to the Fund, on the potential options available for replacing GARS (Global Absolute Return Strategies) following their revised 'sell' rating for Aberdeen Standard Investments. Consideration of the tabled document would depend on the decision of the Committee that evening. It was noted that the tabled document had not been available at the time the agenda was despatched due to the need to provide the most up to date information to allow the Committee to make an informed decision.

Representatives of Aon Hewitt explained why they had advised on this course of action in relation to the Investment Manager, Aberdeen Standard Investments and outlined the options available to the Committee. They added that the Committee needed to consider if it had confidence in the Investment Manager and whether to or not to replace them. They outlined the monetary value under consideration, which was £92m, representing 11% of the total Fund.

Members of the Committee referred to the presentation they had received from the Investment Manager, Aberdeen Standard Investments, at the meeting on 27 November 2018 and the responses given following robust questioning. Representatives of Aon Hewitt referred to the workings of the organisation, including how it operated, its direction of travel and its ability to navigate volatile markets. A Member of the Committee pointed out that the performance of the Fund had changed. Members also received advice from the Independent Advisers and the Co-optee serving on the Committee.

Following a lengthy discussion and upon receipt of further advice from the Independent Advisers, representatives of Aon Hewitt and an officer, Members of the Committee expressed their own views and reached a consensus view.

The Committee also discussed how best to take their decision forward and discussed possible suitable investments, such as equities, returns on cash holdings, infrastructure and 'other' suitable liquid assets. An officer advised that robust arguments would be required if the Committee was minded to invest elsewhere other than the London CIV.

Members also referred to the proposed training session on infrastructure with presentations from other managers to be held on 28 January 2019 and agreed that it would commence at 1.00pm.

**RESOLVED:** That

(1) the Pension Fund Committee seek to disinvest from Aberdeen Standard Investments, GARS (Global Absolute Return Strategies) as and when suitable acceptable alternative investments become available to the Committee;

(2) a further report setting out available options based on investments in infrastructure, LCIV (London Collective Investment Vehicle) and 'other' liquid assets be submitted to the March 2019 meeting of the Committee to allow Members to delegate to officers the execution of resolution (1) above.

**50. Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018**

The Committee received the confidential report of the Director of Finance, which included Aon Hewitt's quarterly report on Harrow's investment managers. Members noted that this information report which had been considered at the last meeting of the Committee had been included on the agenda to support any discussions at agenda item 6 (minute 49 refers).

**RESOLVED:** That the preamble be noted.

(Note: The meeting, having commenced at 6.33 pm, closed at 7.44 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

**REPORT FOR:** **Pension Fund Committee**

| | |
|---|---|
| **Date of Meeting:** | 12 March 2019 |
| **Subject:** | Pension Fund Committee - Update on Regular Items |
| **Responsible Officer:** | Dawn Calvert, Director of Finance |
| **Exempt:** | No |
| **Wards affected:** | All |
| **Enclosures:** | Appendix 1 – Fund Valuation and Performance |

## Section 1 – Summary and recommendation

### Summary

This report updates the Committee on regular items as follows:

- Draft work programme on which the Committee's comments and agreement are requested.
- Performance of fund managers for previous periods
- Issues raised by Pension Board

### Recommendation

That, subject to any comments the Committee wish to make, the work programme for the period up to March 2020 be agreed.



Harrow COUNCIL LONDON

# Section 2 – Report

## A Introduction

1. This report updates the Committee on regular items as follows:
    - Draft work programme for 2019-20 (Sub-section B)
    - Performance of fund managers for periods ended 30 September 2018 (Sub-section C)
    - Issues raised by Pension Board (Sub-section D)

## B Draft Work Programme 2019-20

**6 June 2019**

Update on regular items:
- Draft work programme for 2019-20
- Performance of fund managers for periods ended 31 March 2019
- Issues raised by Pension Board
- Emerging risks

Investment Strategy Review: Investment Strategy Statement update
Investment manager monitoring
Pooling and London Collective Investment Vehicle
Draft Annual Report and Financial Statements 2018-2019
Performance Review 2018-19
Quarterly trigger monitoring
Investment review update
Medium term cash flow
Monitoring of operational controls
Review of Investment Adviser contract
Training programme
Environmental, social and governance issues
Training session at 5.30 – (Introduction)-

**26 September 2019**

Update on regular items:
- Draft work programme for 2019-20
- Performance of fund managers for periods ended 30 June 2019
- Issues raised by Pension Board
- Emerging Risks

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Actuarial Valuation 2019 Update report
Audited Annual Report and Financial Statements 2018-19
Management expenses
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

**September/October 2019 – "Meet the Managers"**

**13 November 2019**

Update on regular items:
- Draft work programme for 2019-20 and 2020-21
- Performance of fund managers for periods ended 30 September 2019
- Issues raised by Pension Board
- Emerging risks

Investment manager monitoring
Actuarial Valuation 2019 Update report
Pooling and London Collective Investment Vehicle
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

**18 March 2020**

Update on regular items:
- Draft work programme for 2020-21
- Performance of fund managers for periods ended 31 December 2019
- Issues raised by Pension Board
- Emerging risks

Actuarial Valuation 2019 Final Report
Investment manager monitoring
Pooling and London Collective Investment Vehicle
Monitoring of operational controls at managers
External Audit plan 2019-20
Training programme 2020-21
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

2. The Committee will have the opportunity to update this programme at every meeting but are invited to comment on the draft above and agree it at this stage.

3. In addition to the Committee's work programme training opportunities will be offered for an hour prior to each meeting.

**C Performance of Fund Managers for Period Ended 31 December 2018**

4. Attached is a table summarising the Fund valuation from 1st October 2018 to 31 December 2018 and movement in the fund valuation for the year to date.

5. The Committee are aware that for periods up to 31 March 2016 performance data was provided by State Street Global Services but that this service is no longer available to the Fund. The Fund now subscribes

to the service provided by Pension and Investment Consultants Limited (PIRC) but they do not yet have full coverage of the LGPS and the value of the service will need to be assessed over coming months. It is understood that PIRC now have 61 pension schemes within their universe which is sufficient for comparative data to be of value. Elsewhere on the agenda is a performance report from PIRC and the information arising there from will be available at future committee meetings.

6. On 28th June 2017 the Committee agreed revisions to the investment strategy which included reducing the strategic asset allocation to global equities to 42% and to emerging market equities on a pro rata basis. The re-allocations are being made on a phased basis and recommendations are set out in the exempt report Equity and Diversified Growth Recommendation.

7. On 5th November 2017, the Committee agreed an immediate fund rebalancing exercise to reduce the equity weighting of the fund assets to 50%. The asset re-allocation required an equity reduction of £107m and a transfer of £25m cash. This transfer resulted in an increase in Diversified Growth Fund manager's holdings to 22% of fund assets, (the target allocation). In total £132m was transferred to Insight and Standard Life. (£65m was taken from State Street, £25m from GMO and £17m from Oldfields). The transition was completed by 12th December 2017.

8. On 27th June 2018 the Pension Fund Committee agreed to move the passive equity funds held with State Street Global Advisors Ltd ( SSAG) to Blackrock one of the London CIV preferred providers . £218.3m was transitioned from SSGA to Blackrock in September 2018.

9. There was a bulk transfer following the merger of Harrow College with Uxbridge College. The assets of Harrow College as at the calculated transfer date were £30.4 million. The transfer was part-funded from £15 million cash and the balance from a drawdown from fund managers in March 2018. All of Harrow College's liabilities are passed to the LB Hillingdon Pension Fund.

10. The value of the Fund at the 31st March 2018 had increased over the year to £816m (£807m as at 31 March 2017). . By 30th September 2018 the market value of the fund was £850m and by 31st October 2018 the value of the fund had dropped to £824m. The fund value fell to £800m by 31 December 2018 and rose to £830m by 31 January 2019. (see Appendix 1).

## D Meetings of Pension Board

11. Pension Board met on December 2018 and received confirmation that there had been no reported breaches of law in the previous quarter. They received reports on fund administration performance to 30 September 2019

### Financial Implications

12. There are several matters mentioned in this report, particularly asset allocation and manager performance which has significant financial implications but there are no direct financial implications arising from it as its main purpose is to provide an update on regular items.

### Risk Management Implications

13. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund. There are no new emerging risks to report

### Equalities implications

14. There are no direct equalities implications arising from this report.

### Council Priorities

15. The financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## Section 3 - Statutory Officer Clearance

| | | | |
|---|---|---|---|
| Name: | Dawn Calvert | ✓ | Director of Finance |
| Date: | 27 February 2019 | | |

**Ward Councillors notified:** **Not applicable**

## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager
0208 424 1432

## Background Papers - None

`

Appendix 1

## Fund Valuation and Performance

## 31st December & 31st January 2019

| Asset Class | Value 31.03.2018 £'000 | Value 31.12.2018 £'000 | Value 31.01.2019 £'000 | Allocation 31.01.2019 % | Strategic Allocation % | Strategic Range % |
|---|---|---|---|---|---|---|
| **Global Equities** | | | | | | |
| Longview (Aug17 with CIV Unhedged) | 90,034 | 97,896 | 101,111 | 12 | 10 | |
| State Street | 196,717 | 0 | 0 | 0 | 0 | |
| Blackrock (Oct18 with CIV) | 0 | 197,822 | 206,971 | 25 | 24 | |
| GMO | 77,181 | 68,970 | 72,249 | 9 | 8 | |
| Oldfields | 66,236 | 66,826 | 70,387 | 8 | 8 | |
| Record passive currency hedge | 5,865 | -5,182 | 1,562 | **N/A** | **N/A** | |
| **Total Global Equities** | 436,033 | 426,332 | 452,280 | | | |
| **Total Equities** | **436,033** | **426,332** | **452,280** | **55** | **50** | **45-55** |
| **Private Equity** | | | | | | |
| Pantheon | 13,844 | 13,260 | 13,260 | | | |
| **Total Private Equity** | 13,844 | 13,260 | 13,260 | 2 | 5 | 0-6 |
| **Property** | | | | | | |
| Aviva | 67,656 | 69,000 | 68,902 | | | |
| **Total - property** | 67,656 | 69,000 | 68,902 | 8 | 10 | 8-12 |
| **Bonds** | | | | | | |
| Blackrock - FI | 81,651 | 80,423 | 82,260 | 11 | 10 | |
| Blackrock - IL | 20,794 | 20,579 | 20,784 | 3 | 3 | |
| **Total Bonds** | 102,445 | 101,002 | 103,044 | 13 | 13 | 11-15 |
| **Alternatives** | | | | | | |
| Insight | 93,978 | 91,669 | 94,065 | 11 | 11 | |
| Standard Life | 95,601 | 91,637 | 93,082 | 11 | 11 | |
| **Total Alternatives** | 189,579 | 183,306 | 187,147 | 23 | 22 | 20-24 |
| **Cash & NCA** | | | | | | |
| Cash Managers | 53 | 44 | 788 | | | |
| Cash NatWest | 3,205 | 2,508 | 1,974 | | | |
| Cash Custodian (JP Morgan) | 1,438 | 2,341 | 1 | | | |
| Debtors and Creditors | 1,728 | 1,806 | 1,731 | | | |
| CIV Investment | 150 | 150 | 150 | | | |
| **Total Net Current Assets** | 6,574 | 6,850 | 4,644 | 1 | 0 | |
| **Total Assets** | 816,131 | 799,750 | 829,278 | 100 | 100 | |

# REPORT FOR: Pension Fund Committee

| | |
|---|---|
| **Date of Meeting:** | 12 March 2019 |
| **Subject:** | **Information Report** – Quarterly Trigger Monitoring Q4 2018 |
| **Responsible Officer:** | Dawn Calvert, Director of Finance |
| **Exempt:** | No |
| **Wards affected:** | All |
| **Enclosures:** | Quarterly Trigger Monitoring Q4 2018 (Aon Hewitt) |

## Section 1 – Summary

**Summary**

The Committee is requested note a report from the Fund's investment advisers Aon Hewitt on Quarterly Trigger Monitoring in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

**For Information**

## Section 2 – Report

1. At their meeting on 8 September 2015 the Committee considered a report entitled "Options for Liability Driven Investments (LDI) Strategy. After discussion they resolved: *That the status quo, a 13% Bond*



Harrow COUNCIL LONDON

*allocation invested in a combination of corporate bonds and index-linked gilts, be retained in relation to the Fund's Bond portfolio and that Aon Hewitt be requested to provide guidance on the catalysts that would trigger a move to an LDI Strategy with Option 2 being the preferred Option.*

2. On 25 November 2015 the Committee considered a further report from Aon Hewitt which set out options for taking forward the consideration of an LDI Strategy. They resolved:

   *That they should receive a short report on funding levels at the next meeting of the Committee and thereafter on a quarterly basis.*

3. Attached is the report for the period up to 30 June 2018. The Committee are invited to note this report from Aon Hewitt as no de-risking actions are recommended at the current time.

4. The funding level as at 31 December was 76.2% compared to 82% on 30 September, 80.0% as at 30 June 2018 and 74.3% as at 31 March 2016. The funding level fell significantly over the quarter reflecting the fall in the value of investment assets to £800m as at 31 December 2018. Long term bond yields remain at low levels. Aon believe that yields will rise faster than indicated by the market over the next three and five year period

## Financial Implications

5. The consideration of strategy changes is an important part of the management of the Pension Fund investments and the performance of the Fund's investments plays an extremely important part in the financial standing of the Fund. The only financial implications arising from this report are those associated with not making any strategic changes and continuing to accept the current levels of risk.

## Risk Management Implications

6. The risks arising from investment performance are included in the Pension Fund risk register.

## Equalities implications

7. There are no direct equalities implications arising from this report.

## Council Priorities

8. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

## Section 3 - Statutory Officer Clearance

| | | | |
|---|---|---|---|
| Name: | Dawn Calvert | ✓ | Director of Finance |
| Date: | 27 February 2019 | | |

**Ward Councillors notified:** **NO**

## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager
0208 424 1432

## Background Papers – None

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**London Borough of Harrow Pension Fund ('the Fund')**

Date: 22 February 2019

Prepared for: Pension Fund Committee ('the Committee')

Prepared by: Colin Cartwright
Joseph Peach

# Quarterly Trigger Monitoring – Q4 2018

**Introduction**

The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon's view of bond yields

**Funding level**

The charts and table below show the Fund's funding level at the end of the quarter compared with the level at the last actuarial valuation as at 31 March 2016.

The funding level as at 31 December 2018 was 76.4%, compared to 82.1% as at 30 September 2018 and 74.3% as at 31 March 2016.

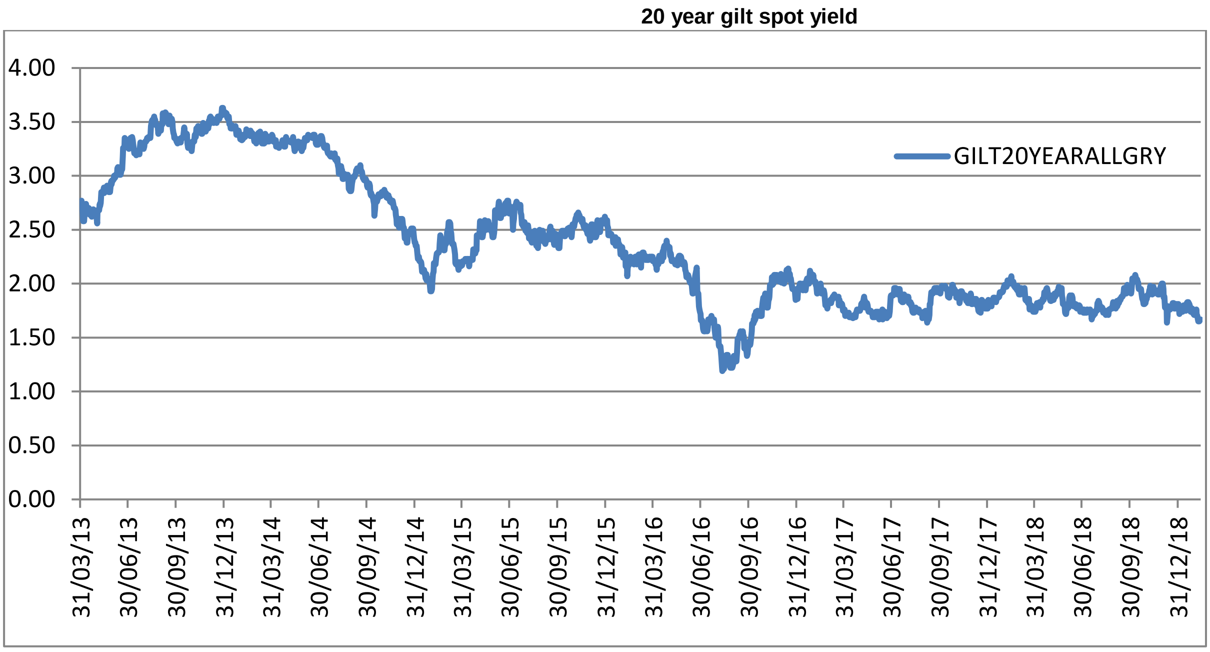
| 31 December 2018 | Ongoing Basis |
|---|---|
| Assets | £800m |
| Liabilities | £1,047m |
| Surplus (deficit) | (£247m) |
| Funding Level | 76.4% |


Source: Hymans Robertson

The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN
t +44 (0) 20 7086 8000 | f +44 (0) 20 7621 1511 | aon.com

**20 year spot yield**

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 12 February 2019. Yields ended the fourth quarter of 2018 at 1.81%, a decrease from their 1.93% level at the end of Q3 2018. Yields fluctuated throughout October and November but remained relatively stable. At the start of December yields began to fall, reaching a low of 1.64% before making a recovery towards the end of December. Since the turn of the year yields have remained low, and have declining slightly in recent weeks.




**Aon views on bond yields**

Given the uncertainty surrounding Brexit the Fixed Income Team has suspended its medium term projections on rates until the Brexit landscape offers more clarity. The table below sets out the market in terms of spot and forward rates as at 13 February 2019. 3 year market pricing is currently not available for real rate and breakeven inflation rates.

**Summary of market spot and forward rates**

| | **13 February 2019** | **In 3 years** | **In 5 years** |
|---|---|---|---|
| | 20 year Spot Rate | Market Pricing | Market Pricing |
| **Real** | -1.8% | N/A | -1.5% |
| **Nominal** | +1.7% | +1.9% | +2.0% |
| **Breakeven*** | +3.6% | N/A | +3.6% |

*Totals may not sum exactly due to rounding

**Conclusion**

The funding level fell over the quarter whilst long term bond yields remain at low levels.

No de-risking actions are recommended at the current time.

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# REPORT FOR: Pension Fund Committee

| | |
|---|---|
| **Date of Meeting:** | 12 March 2019 |
| **Subject:** | **Information Report** - Performance Measurement Services |
| **Responsible Officer:** | Dawn Calvert, Director of Finance |
| **Exempt:** | No |
| **Wards affected:** | All |
| **Enclosures:** | Appendix 1: PIRC Performance Report to 31 December 2018 |

## Section 1 – Summary and recommendation

### Summary

This report advises the Committee in respect of the performance measurement services being provided by Pension and Investment Consultants Limited (PIRC) to 31December 2018, as set out in the appendix. Committee are invited to comment on the format and presentation requirements for future reports.

### For Information

# Section 2 – Report

1. At their meeting on 7 March 2017 the Committee were provided with an update on the services then being provided by Pension and Investment Consultants Limited (PIRC). The contract with the Fund stipulates the services to be provided as:

    - Participation in the Local Authority Universe – fund and portfolio data reviewed, standardised and incorporated in the aggregate
    - Provision of quarterly and annual Universe results and analysis
    - Provision of annual league tables and analysis
    - Provision of Universe research

2. At their meeting on 28 June 2017 the Committee approved that PIRC would be contracted to provide additional important bespoke services for the Harrow Fund and agreed that the Committee would review the format of the performance reports produced.

3. PIRC presented the first of their quarterly reports to the Committee on 18 September 2017. Benchmarked performance to 31 December 2019 is set out in Appendix 1.The Committee is invited to comment on format and presentation requirements going forward.

4. Performance has been negative below benchmark over the last quarter and over the last year DGF fund under- performance is noted for both Aberdeen Standard Life and Insight

## Financial Implications

5. The expenditure approved is £12,500 in 2017-18 and £8,500 (subject to inflation increases) in subsequent years is a charge on the Pension Fund.

## Risk Management Implications

6. The risks arising from investment performance are included in the Pension Fund risk register.

## Equalities implications

7. There are no direct equalities implications arising from this report.

## Council Priorities

9 Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

## Section 3 - Statutory Officer Clearance

| | | | |
|---|---|---|---|
| Name: Dawn Calvert | ✓ | Director of Finance |
| Date: 27 February 2019 | | |

| | |
|---|---|
| **Ward Councillors notified:** | **NO** |

## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager
0208 424 1432

## Background Papers - None

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PIRC

# LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS

## Harrow Pension Fund



## Quarterly Performance Summary

Periods to end December 2018

# Performance Overview

## Fund Performance

| | Quarter | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|---|---|---|---|---|
| Fund | -4.7 | -3.6 | 9.0 | 7.8 |
| Benchmark | -4.6 | -0.8 | 9.8 | 8.2 |
| Relative | -0.1 | -2.9 | -0.8 | -0.4 |

Marked falls in global equity markets meant that the Fund delivered a negative return in the latest quarter and over the latest year.

The Fund suffered further from manager underperformance, particularly from the Diversified Growth portfolios (SLIM and Insight) who are now having a large drag on both the short and medium term results.



## Manager Performance

| | Latest Quarter | | | 1 Year | | | 3 Years (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Portfolio | BM | *Relative* | Portfolio | BM | *Relative* | Portfolio | BM | *Relative* |
| Longview | -8.0 | -11.4 | *3.8* | 4.3 | -3.0 | 7.6 | 10.3 | 6.9 | 3.2 |
| SSGA | -10.6 | -10.7 | *0.1* | -3.9 | -3.6 | -0.3 | 12.2 | 12.4 | -0.1 |
| GMO | -3.7 | -5.3 | *1.7* | -15.0 | -9.3 | -6.3 | 9.8 | 14.7 | -4.2 |
| Oldfield | -7.2 | -11.4 | *4.7* | -4.0 | -3.0 | -1.0 | 14.6 | 11.8 | 2.5 |
| Pantheon* | 5.8 | -10.7 | *18.5* | 5.0 | -3.6 | 9.0 | 15.1 | 12.4 | 2.5 |
| Aviva** | 1.4 | 1.5 | *-0.1* | 6.0 | 7.2 | -1.1 | 5.9 | 7.0 | -1.1 |
| BlackRock | 0.2 | 0.4 | *-0.2* | -2.8 | -2.3 | -0.5 | 6.7 | 6.5 | 0.2 |
| Insight | -4.1 | 1.2 | -5.3 | -5.0 | 4.7 | -9.2 | 3.2 | 4.5 | -1.3 |
| SLIM | -1.9 | 1.4 | -3.1 | -5.4 | 5.6 | -10.6 | -1.5 | 5.4 | -6.5 |

*The Pantheon performance uses the previous quarter value adjusted for cash flows in the month. As a long term investment the longer term results are the key indicators for this portfolio.

** Final figures not yet received

# Asset Allocation

## Asset Allocation

| | Start Quarter | | | End Quarter | | | |
|---|---|---|---|---|---|---|---|
| | GBP'000s | % | | GBP'000s | % | | % BM |
| **Equity** | **471,108** | **56** | | **431,514** | **54** | | **50** |
| Longview | 106,376 | 13 | | 97,896 | 12 | | 10 |
| Passive* | 221,144 | 26 | | 197,822 | 25 | | 24 |
| GMO | 71,606 | 8 | | 68,970 | 9 | | 8 |
| Oldfield | 71,982 | 8 | | 66,826 | 8 | | 8 |
| | **13,419** | **2** | | **13,260** | **2** | | **5** |
| Pantheon | 13,419 | 2 | | 13,260 | 2 | | 5 |
| **Property** | **68,793** | **8** | | **68,793** | **9** | | **10** |
| Aviva | 68,793 | 8 | | 69,000 | 9 | | 10 |
| **Bonds** | **101,120** | **12** | | **101,002** | **13** | | **13** |
| BlackRock | 101,120 | 12 | | 101,002 | 13 | | 13 |
| **Diversified Growth** | **189,292** | **22** | | **183,206** | **23** | | **22** |
| Insight | 95,738 | 11 | | 91,669 | 11 | | 11 |
| SLIM | 93,554 | 11 | | 91,537 | 11 | | 11 |
| **Cash** | **3,212** | **0** | | **6,950** | **1** | | **0** |
| **Total Fund** | **846,943** | **100** | | **799,750** | **100** | | **100** |

The equity allocation fell over the quarter as the result of the negative market returns .

*The passive equity assets were moved from SSGA to Blackrock on September 7th.

# Performance Attribution by Manager

| | Longview | Passive | GMO | Oldfield | Pantheon | Aviva | BlackRock | Insight | SLIM | Cash | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| End Dec 2018 (£'000s) | 106,375 | 221,144 | 71,616 | 71,982 | 13,419 | 68,793 | 101,120 | 95,738 | 93,554 | 7,722 | **843,876** |
| **Latest Quarter** | | | | | | | | | | | |
| Fund | -8.0 | -10.6 | -3.7 | -7.2 | 5.8 | 1.4 | 0.2 | -4.1 | -1.9 | | -4.7 |
| BM | -11.4 | -10.7 | -5.3 | -11.4 | -10.7 | 1.5 | 0.4 | 1.2 | 1.4 | | -4.6 |
| Relative | 3.8 | 0.1 | 1.7 | 4.7 | 18.5 | -0.1 | -0.2 | -5.3 | -3.3 | | -0.1 |
| *Manager Impact* | *0.5* | *0.0* | *0.1* | *0.4* | *0.3* | *0.0* | *0.0* | *-0.6* | *-0.4* | | *0.3* |
| *Allocation Impact* | *-0.1* | *-0.1* | *0.0* | *-0.1* | *0.2* | *-0.1* | *-0.1* | *0.0* | *0.0* | *0.0* | *-0.3* |
| **One Year** | | | | | | | | | | | |
| Fund | 4.3 | -3.9 | -15.0 | -4.0 | 5.0 | 6.0 | -2.8 | -5.0 | -5.4 | | -3.6 |
| BM | -3.0 | -3.6 | -9.3 | -3.0 | -3.6 | 7.2 | -2.3 | 4.7 | 5.7 | | -0.8 |
| Relative | 7.6 | -0.3 | -6.3 | -1.0 | 9.0 | -1.1 | -0.5 | -9.2 | -10.6 | | -2.9 |
| *Manager Impact* | *0.9* | *-0.1* | *-0.6* | *-0.1* | *0.1* | *-0.1* | *-0.1* | *-1.1* | *-1.3* | | *-2.2* |
| *Allocation Impact* | *-0.1* | *-0.2* | *-0.1* | *-0.1* | *0.2* | *-0.2* | *0.0* | *0.0* | *0.0* | *0.0* | *-0.5* |
| **Three Years (% p.a.)** | | | | | | | | | | | |
| Fund | 10.3 | 12.2 | 9.8 | 14.6 | 15.1 | 5.9 | 6.7 | 3.2 | -1.5 | | 9.0 |
| BM | 6.9 | 12.4 | 14.7 | 11.8 | 12.4 | 7.0 | 6.5 | 4.5 | 5.4 | | 9.8 |
| Relative | 3.2 | -0.1 | -4.2 | 2.5 | 2.4 | -1.1 | 0.2 | -1.3 | -6.6 | | -0.8 |
| *Manager Impact* | *0.4* | *0.0* | *-0.4* | *0.3* | *0.1* | *-0.1* | *0.0* | *-0.3* | *-0.6* | | *-0.6* |
| *Allocation Impact* | *-0.1* | *0.0* | *0.1* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *-0.2* | *-0.1* |
| **Five Years (% p.a.)** | | | | | | | | | | | |
| Fund | 9.4 | 7.9 | | | 17.4 | 9.1 | 7.4 | | | | 7.8 |
| BM | 6.5 | 8.0 | | | 10.4 | 10.1 | 7.4 | | | | 8.2 |
| Relative | 2.7 | -0.1 | | | 6.4 | -0.9 | 0.1 | | | | -0.4 |

Insight was appointed in January 2015 therefore do not yet have 5 year performance available
GMO and Oldfields were appointed November 2014 and SLIM appointed June 2013 therefore no 5 year results available.

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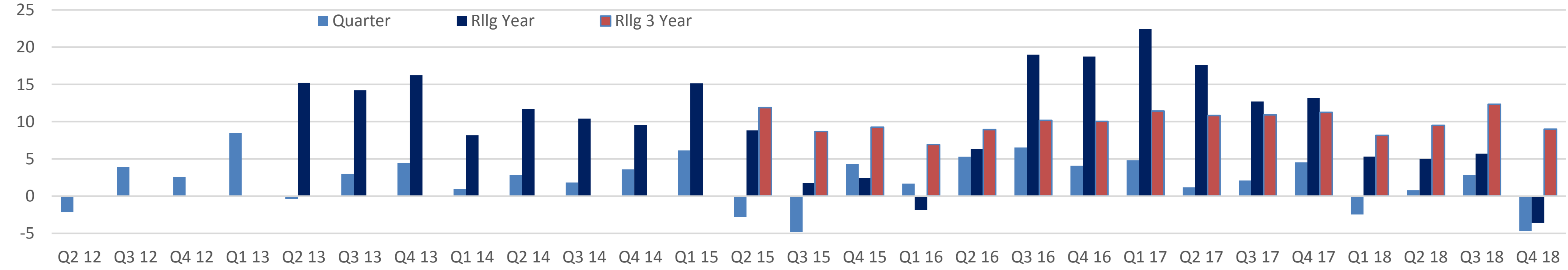
PENSION PERFORMANCE ANALYTICS

# Longer Term Performance

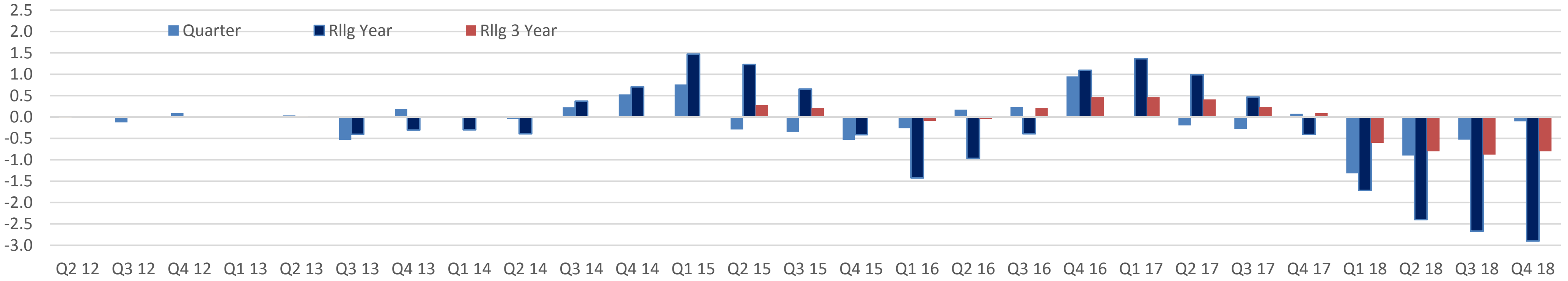
## Absolute Returns






The Fund has produced a positive return in almost every quarter of the last five years and most rolling one and three year periods.

## Relative Returns




The Fund has performed within a tight range of its Benchmark - within +/- 2% quarterly and longer term.

After a period ahead of Benchmark the Fund is now trailing outwith that band as the recent underperformance continues to feed in to the longer term.

PIRC
LOCAL AUTHORITY
PENSION PERFORMANCE ANALYTICS

# Benchmark Allocation

The Fund restructured in late 2017 and the Benchmark was altered from the start of 2018 to reflect the changes:

| % | To 31/12/2017 | | From 1/1/2018 | | |
|---|---|---|---|---|---|
| Equity | 62 | | 50 | | |
| | | 31 | | 24 | MSCI AC World NDR (50% Hedged)* |
| | | 21 | | 18 | MSCI World NDR (50% Hedged) |
| | | 10 | | 8 | MSCI Emerging Markets |
| Bonds | 13 | | 13 | | |
| | | 10.4 | | 10 | BAML Eurosterling > 10 years |
| | | 2.6 | | 3 | FTSE Index Linked Gilts > 5 years |
| Property | 10 | | 10 | | IPD All Balanced Funds |
| Diversified Growth | 10 | | 22 | | 3 Month LIBOR +4% |
| Private Equity | 5 | | 5 | | FTSE All World ** |

* from Q4 2018, previously FTSE AW 50% Hedged until Q2 2016, prior to that MSCI AW 50% Hedged
**from Q2 2014, previously LIBID

# REPORT FOR: Pension Fund Committee

| | |
|---|---|
| **Date of Meeting:** | 12 March 2019 |
| **Subject:** | **Information Report** - External Audit Plans 2018/19 |
| **Responsible Officer:** | Dawn Calvert, Director of Finance |
| **Exempt:** | No |
| **Wards affected:** | All |
| **Enclosures:** | Pension Fund Audit Strategy Memorandum for year ending 31 March 2019 |

## Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the External Audit Plans 2018/19 from the Council's external auditors

### Recommendation

The Committee is asked to note the External Audit Plans (Audit Strategy Memoranda for the Pension Fund).



Harrow COUNCIL LONDON

# Section 2 – Report

## Background

External Audit Plans (Audit Strategy Memoranda) for 2018/19

1. The Council has received the External Audit Plan 2018/19 as prepared by Mazars and presented to Governance, Audit, Risk Management and Standards Committee on 29 January 2019. The Plan, which includes the audit of the Pension Fund, is attached as the appendix to this report.

2. Broadly, the Plan covers:

   - Engagement and responsibilities
   - Audit Scope approach and timelines
   - Significant risks and key judgement areas
   - Fees
   - Materiality and misstatement

3. In addition to the overall audit of the Pension Fund the auditors have made the following specific points:

   - Materiality and misstatements – the overall materiality levels are set at 1% of Gross Revenue Expenditure. This gives a level of £8.2m for the Pension Fund. The materiality levels for misstatements (the level of triviality) is set at £245k for the Pension Fund
   - Significant and other audit risk - Management override of controls<br>- Valuation of unquoted investments

### Financial Implications

4. Whilst, clearly, the annual audit concentrates largely on the financial state of the Pension Fund there are no financial implications arising directly from this report. Projected audit fees for the pension fund are £16,170 for the 2018-19 external audit compared to £21,000 for the 2017-18 audits.

### Risk Management Implications

5. The Pension Fund has its own risk register which includes all the risks identified. The annual audit assists in the management of the risks but no implications arise directly from this report.

### Equalities implications

6. There are no direct equalities implications arising from this report.

### Council Priorities

7. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Dawn Calvert<br><br>Date: 27 February 2019 | ✓ | Chief Financial Officer |

| | |
|---|---|
| **Ward Councillors notified:** | **n/a** |

## Section 4 - Contact Details and Background Papers

**Contact:** Iain Millar, Treasury and Pensions Manager 0208 424 1432
Email: iain.millar @harrow.gov.uk

**Background Papers: None**

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# Audit Strategy Memorandum

## London Borough of Harrow Pension Fund

### Year ending 31 March 2019

# CONTENTS

Mazars LLP
Tower Bridge House
St Katherine’s Way
London
E1W 1DD

Governance, Audit, Risk Management and Standards Committee
Civic Centre
Station Road
Harrow
HA1 2XY

29 January 2019

Dear Members,

**Audit Strategy Memorandum – Year ending 31 March 2019**

We are pleased to present our Audit Strategy Memorandum for the London Borough of Harrow Pension Fund for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Harrow Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 020 7063 4634.

Yours faithfully,

Lucy Nutley

Lucy Nutley
Mazars LLP

# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

**Overview of engagement**

We are appointed to perform the external audit of Harrow Pension Fund (the Fund) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/

**Our responsibilities**

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

**Audit opinion**

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

**Consistency report**

We are required to form and express an opinion on the consistency of the financial statements within the Fund's annual report and the Fund's financial statements included in the Statement of Accounts of the London Borough of Harrow.

**Electors' rights**

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the London Borough of Harrow and consider any objection made to the accounts. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit, Risk Management and Standards Committee as those charged with governance.

# 2. YOUR AUDIT ENGAGEMENT TEAM

- **Lucy Nutley, Director and Engagement Lead**
- Lucy.Nutley@mazars.co.uk
- 020 7063 4634

- **Michael Yeats, Engagement Manager**
- Michael.Yeats@mazars.co.uk
- 020 7063 4403

# 3. AUDIT SCOPE, APPROACH AND TIMELINE

**Audit scope**

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

**Audit approach**

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

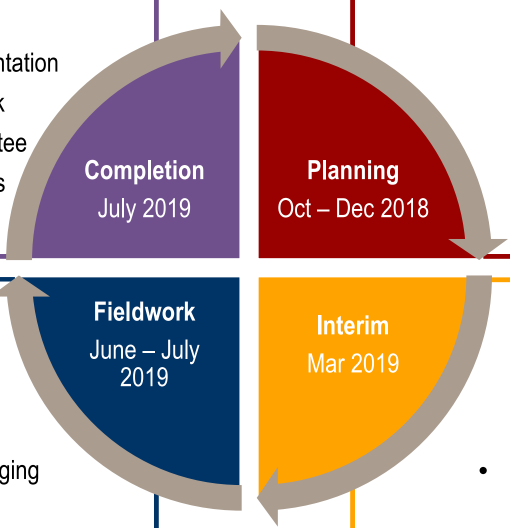
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final Director review
- Agreeing content of letter of representation
- Reporting to Governance, Audit, Risk Management and Standards committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Fund
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures




- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

# 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

**Reliance on internal audit**

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

**Management's and our experts**

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Items of account | Management's expert | Our expert |
|---|---|---|
| Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits. | Hymans Robertson | We will review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements. |

**Service organisations**

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

| Items of account | Service organisation | Audit approach |
|---|---|---|
| The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data. | Harrow Council | We will contact the Council, and their auditors, to seek appropriate confirmation that the controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information they provide to the London Borough of Harrow Pension Fund. |
| Investment valuations and income and all related disclosures | Fund managers | Substantive testing of transactions occurring in the year and the values applied to investments at the year end. |
| Investment valuations and income and all related disclosures | Custodians | Confirmation of transactions occurring in the year, reconciling income received and agreement of valuations applied to investments at the year end. |

# 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

**Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

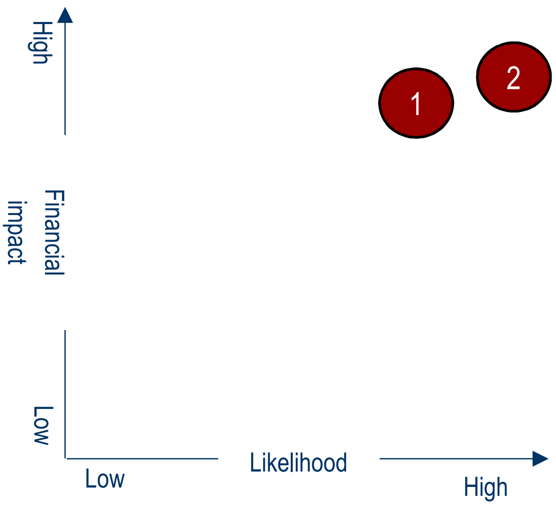
**Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

**Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

In assessing the significant risks and key judgement areas we have reviewed key documents and spoken to key members of management. At this point, we have not performed a detailed review of systems. Should further significant risks arise from this work, we will update the Committee accordingly.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.




| | Risk |
|---|---|
| 1 | Management override of control |
| 2 | Valuation of unquoted investments |

# 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance, Audit, Risk Management and Standards Committee.

**Significant risks**

| | Description of risk | Planned response |
|---|---|---|
| 1 | **Management override of controls**<br><br>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. | We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):<br><br>• accounting estimates included in the financial statements for evidence of management bias;<br>• any significant transactions outside the normal course of business; and<br>• journals and other adjustments recorded in the general ledger in preparing the financial statements. |
| 2 | **Valuation of unquoted investments**<br><br>As at 30 September 2018 the Pension Fund held investments which were not quoted on an active market with a fair value of £89.5million, accounting for 10.5% of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.<br><br>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement. | We plan to address this risk by completing the following additional procedures:<br><br>• agree holdings from fund managers reports to the respective custodian's reports;<br>• agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;<br>• agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and<br>• where audited accounts are available, check that they are supported by a clear opinion. |

**Revenue recognition**

We have considered the presumed risk in relation to revenue recognition, and have assessed that due to the low inherent risk associated with revenue in the pension fund, we can rebut the presumed risk.

# 5. FEES FOR AUDIT AND OTHER SERVICES

**Fees for work as the Fund's appointed auditor**

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

| Service | 2017/18 fee | 2018/19 fee |
|---|---|---|
| Code audit work | £21,000 | £16,170 |

The prior year audit was performed by KPMG LLP.

**Fees for non-PSAA work**

We confirm that we have not been separately engaged by the Fund to carry out additional work for the London Borough of Harrow Pension Fund. Further information about our responsibilities in relation to independence is provided in section 7.

# 6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 7. MATERIALITY AND MISSTATEMENTS

**Summary of initial materiality thresholds**

| Threshold | Initial threshold (£m) |
|---|---|
| Overall materiality | £8.2m |
| Trivial threshold for errors to be reported to the Governance, Audit, Risk Management and Standards Committee | £0.245m |

**Materiality**
Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Governance Committee.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1% of Net Assets.

Based on Net Assets we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £8.2million (£10milion in the prior year).

# 7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

**Misstatements**

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to those charged with governance that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £245,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.

**Reporting to the Governance, Audit, Risk Management and Standards Committee**

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance, Audit, Risk Management and Standards Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

| Required communication | Audit Strategy Memorandum | Audit Completion Report |
|---|---|---|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓ | |
| Planned scope and timing of the audit | ✓ | |
| Significant audit risks and areas of management judgement | ✓ | |
| Our commitment to independence | ✓ | ✓ |
| Responsibilities for preventing and detecting errors | ✓ | |
| Materiality and misstatements | ✓ | ✓ |
| Fees for audit and other services | ✓ | |
| Significant deficiencies in internal control | | ✓ |
| Significant findings from the audit | | ✓ |
| Significant matters discussed with management | | ✓ |
| Our conclusions on the significant audit risks and areas of management judgement | | ✓ |
| Summary of misstatements | | ✓ |
| Management representation letter | | ✓ |
| Our proposed draft audit report | | ✓ |

# APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

**Changes relevant to 2018/19**

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the [financial instruments, particularly financial assets.

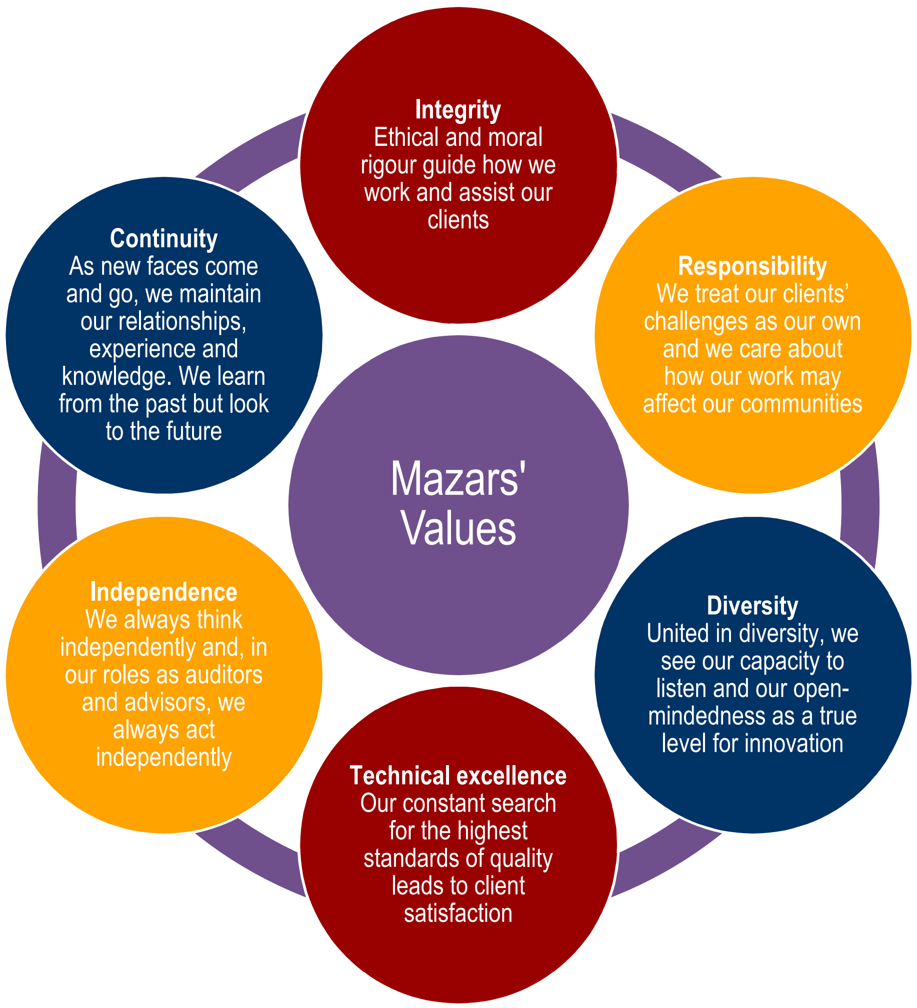
Although the accounting changes may be complex and may require the reclassification of some instruments, it is unlikely that this will have a significant implications for most local government pension funds as most material financial instruments are already carried at fair value through profit and loss, and this is expected to continue under the new standard.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local government pension funds.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

# APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.



**REPORT FOR:** **Pension Fund Committee**

| | |
|---|---|
| **Date of Meeting:** | 12 March 2019 |
| **Subject:** | Statutory Guidance on Asset Pooling |
| **Responsible Officer:** | Dawn Calvert , Director of Finance |
| **Exempt:** | No |
| **Wards affected:** | All |
| **Enclosures:** | Appendix 1: MHCLG guidance on asset pooling in the Local Government Pension Scheme. |

## Section 1 – Summary and Recommendations

This report presents the recently published MHCLG draft statutory guidance on asset pooling and outlines key points raised by the guidance for consideration by the Committee.

### Recommendations

The Committee is recommended to note the report: In regards to the MHCLG guidance document to provide any feedback on the draft guidance to officers before the 28 March consultation deadline and to delegate to officers to provide a response to the consultation.

## Section 2 – Report

**MHCLG CONSULTATION**

1. In January 2019 the Ministry for Housing Communities and Local Government (MHCLG0 published its draft statutory guidance on LGPS asset pooling, inviting views through an informal consultation with interested parties until 28 March 2019.

2. The draft guidance is attached at Appendix 1 for Members' consideration.

3. The main points to highlight from the guidance are as follows

- Pool members should transition assets into the pool as quickly and cost effectively as possible (5.1);

- Inter-authority payments may be desirable to share transition costs equitably between pool members (5.2);

- In exceptional cases, some existing investments may be retained by pool members on a temporary basis to maturity if the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so (5.4);

- Pool members should normally make all new investments through the pool company to maximise benefits of scale. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances (6.1);

- A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member. These assets should not normally exceed an aggregate 5% of the pool member's assets at the point of investment (6.2);

- Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation can deliver improved net returns. (6.3);

- There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area (7.2);

- All residential property is included in the official CIPFA definition of infrastructure assets (7.5);

- New extensive reporting requirements for pool members come into force with effect from the 2018/19 annual report, with a requirement to report on the costs and performance of pooled assets, the progress of any transition plans and a rationale for all assets that continue to be held outside the pool, including a planned transition date and a comparison of costs to any comparable pool vehicle (8.1 onwards);

- The definition of pooled assets excludes passive investment in life policies held directly by pool members, or any asset where a pool member retains the day to day management or responsibly for selecting or reappointing an external manager (8.4).

Consultation Response

4 Members are recommended to consider the guidance attached and provide any feedback to officers ahead of the 28 March deadline; officers will coordinate responses and respond to MHCLG on behalf of the Committee.

**Financial Implications**

5. There are no direct financial implications arising from this report. The statutory guidance requires the revision of investment strategies to ensure that new investments are made in the pool from 2020.To date Harrow has over 37% of fund assets managed through the London CIV and its preferred providers.

.

**Risk Management Implications**

6. Pension Fund investment risks are set out in the Pension Fund Risk Register.

## Equalities implications

9. Was an Equality Impact Assessment carried out? - No

There are no direct equality implications arising from this report

## Council Priorities

10. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which in turn affects the resources available for the Council’s priorities.

## Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Dawn Calvert<br><br>Date: 27 February 2019 | ✓ | Director of Finance |
| Name: David Hodge<br><br>Date: 26 February 2019 | ✓ | on behalf of the Monitoring Officer |

| | |
|---|---|
| **Ward Councillors notified:** | **NO** |

## Section 4 - Contact Details and Background Papers

## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager
0208 424 1432

## Background Papers - None

# Local Government Pension Scheme

## Statutory guidance on asset pooling

## Contents

**Foreword**

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

## 1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

## 2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

**'Pool'** the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
**'Pool member'** an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
**'Pool governance body'** the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
**'Pool company'** the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
**'Pool fund'** a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
**'Pool vehicle'** an investment vehicle (including pool funds) made available to pool members by a regulated pool company
**'Pooled asset'** an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
**'Retained asset'** an existing investment retained by a pool member during the transition period
**'Local asset'** a new investment by a pool member which is not a pooled asset

## 3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

*Regular review of services and procurement*
3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

*Regular review of active and passive management*
3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

## 4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

*Strategic and tactical asset allocation*

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

## 5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

*Temporary retention of existing assets*

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

*Regular review of retained assets*

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

## 6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

## 7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

*Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:*

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

*Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.*

*Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.*

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

## 8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

*For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.*

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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# REPORT FOR: Pension Fund Committee

**Date of Meeting:** 12 March 2019

**Subject:** **Information Report** – Annual Review of Internal Controls at Investment Managers

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No, except for appendix 1 which is exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

**Wards affected:** All

**Enclosures:** Exempt Appendix1 – Review of Internal Controls at Investment Managers

## Section 1 – Summary

The report sets out in summary the contents of the latest internal controls reports for eight of the Fund's ten investment managers. The reports have been reviewed and show that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

**FOR INFORMATION**

## Section 2 – Report

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence is carried out on the strength of the operational controls at investment managers both through a review of internal controls reports and visits to key investment managers. At the November 2010 meeting of the, then, Pension Fund Investment Panel a template was introduced as a basis for measuring the level of assurance provided by the operational structure supporting each mandate.

2. Operational controls of investment managers relate to the procedures in place to safeguard the Fund's assets against loss through error or fraud and to ensure that client reporting is accurate. Poor operational controls can also hamper the management of the assets leading to reduced returns or increased costs. Should there be a lack of evidence that controls operated by investment managers are robust the continued appointment of the manager would be questionable.

3. Each of The Fund's investment managers prepares an annual report having regard to the International Standard on Assurance Engagements 3402 (ISAE 3402), issued by the International Auditing and Assurance Standards Board, the Technical Release AAF 01/06 (AAF 01/06), issued by the Institute of Chartered Accounts in England and Wales and the control objectives for their services and information technology.

4. Under these protocols the directors/partners of each manager prepare a report focussing on key environmental, business and process issues and make commitments along the following lines:

    - the report describes fairly the control procedures that relate to their stated control objectives;
    - the control procedures are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
    - The control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the period specified.

5. Each of the managers has engaged a leading firm of auditors to report on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives.

6. A summary of the findings from the most recent reviews is provided in the Appendix. The key points from the findings in respect of the Fund's managers are as follows:

    **Aviva Investors**

    The audit, carried out by PricewaterhouseCoopers LLP, showed that. During the year two of the manually monitored mandate compliance controls, did not operate effectively. However the majority of mandate rules are automated and as a result the impacted population of investment guidelines is extremely low. Mitigating controls exist outside this report through reliance on fund managers for low risk rules that cannot be automated. Aviva have confirmed that there have been no breaches of investment guidelines during the period under review and will be strengthening the controls in this area as a priority.

**BlackRock Inc.**

The audit, carried out by Deloitte and Touche LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

**GMO**

The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

**Insight Investment**

The “audit year” ended on 31 December 2017, the results of which will be reported to the Committee at their meeting on 27 June 2018.

**Longview Partners LLP**

The “audit year” ended on 31 December 2017, the results of which will be reported to the Committee at their meeting on 27 June 2018.

**Oldfield Partners LLP**

The audit, carried out by Deloitte LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

**Pantheon**

The audit, carried out by KPMG LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

**Record Currency Management Ltd**

The audit, carried out by Grant Thornton UK LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response

**Standard Life Investments Inc.**

The audit carried out by KPMG LLP indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

## Financial Implications

7. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no financial implications arising from this report.

## Risk Management Implications

8. The risks arising from investment performance are included in the Pension Fund risk register.

## Equalities implications

9. There are no direct equalities implications arising from this report.

## Council Priorities

10. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

# Section 3 - Statutory Officer Clearance

| | | | |
|---|---|---|---|
| Name | Dawn Calvert | ✓ | Director of Finance |
| Date: | 27 February 2019 | | |

**Ward Councillors notified:** **NO**

# Section 4 - Contact Details

**Contact:** Iain MIllar, Treasury and Pension Fund Manager
0208 424 1432

## Background Papers - None

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|---|---|
| **REPORT FOR:** | **Pension Fund Committee** |
| **Date of Meeting:** | 12 March 2019 |
| **Subject:** | **Information Report** - Investment Consultancy Services Procurement |
| **Responsible Officer:** | Dawn Calvert, Director of Finance |
| **Exempt:** | No, except for appendix 1 which is exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| **Wards affected:** | All |
| **Enclosures:** | Appendix 1 - Scoring Evaluation |

## Section 1 – Summary

**Summary**

This report updates the Committee on the - re- procurement of Investment Consultancy Services using the National LGPS framework as previously agreed by Committee and requests the Committee to note the appointment of Aon Hewitt as the Investment Consultant to the Pension Fund.

**For information**



Harrow COUNCIL LONDON

# Section 2 – Report

1. At their meeting on 21 November 2017 the Committee were advised that, taking into account a short term waiver under the Council's Procurement Regulations, the current contract for Investment Consultancy Services, awarded in 2011 to Aon Hewitt Ltd would terminate on 18 September 2017 (subsequently extended to 31 March 2018).

2. The Committee were further advised that an effective and efficient way to let a new contract could be via "the National LGPS framework" arrangements currently administered by Norfolk County Council. Officers felt that it would be most appropriate to investigate the procedure further and recommend an appropriate strategy to the Committee.

3. On 21 November 2017 Pension Fund Committee agreed to extend the current investment management contract and to use the new Norfolk administered framework to re-procure the investment consultant contract.

4 On 27 November 2018 Pension Fund Committee confirmed that officers be instructed in consultation with the Chair of the Pension Fund to shortlist potential investment managers for a Member interview panel, through an "Invitation to Further Competition". At that meeting the Committee also agreed that following interview and panel evaluation, the preferred supplier for the Investment Consultancy contract would be confirmed by the Director of Finance in consultation with the Chair of Pension Fund Committee and reported to the next meeting of Pension Fund Committee.

**Evaluation Process**

5 Officers finalised the competition arrangements and invited submissions on 19 November 2018 with a closing date of 3 December 2018.

4. The Council's ETendering portal was used for the Invitation for Further Competition process. Five companies on the framework submitted responses.

5. The five submissions were evaluated in accordance with the published evaluation criteria set out in the invitation to further competition.

6. The following price and quality weightings were used to determine the most economically advantageous tender as defined in the Framework agreement

| | |
|---|---|
| Quality | 40% |
| Service Fit | 30% |
| Price | 30% |

7. A two stage evaluation process was followed The three highest scoring provider were invited to make a presentation to the interview panel to outline their investment consultancy services proposals

8. Members of the Committee were provided with the confidential submissions and interviewed the three shortlisted suppliers who each made a presentation to the Member/Officer Panel to support their submissions on 11 December 2018.

9. The tenders were evaluated on the basis of the providers proposals for providing an efficient service aligned with the Council's needs.

10. The evaluation result for the successful tender is as follow:
**Investment Consultancy Contract**

| | **Bidder A** | **Bidder B** | **Bidder C** | **Bidder D** | **Aon Hewitt** |
|---|---|---|---|---|---|
| | **%** | **%** | **%** | **%** | **%** |
| Quality (40%) | 33.2 | 34.2 | 37 | 27.6 | 38.6 |
| Price (30%) | 3.14 | 15.75 | 25.51 | 12.54 | 19.01 |
| Shortlist Service Fit 30% | | 22 | 18 | | 30 |
| Total | **36.34** | **71.95** | **80.51** | **40.14** | **87.61** |

11. It was agreed that the preferred bidder Aon Hewitt, (Bidder E) be appointed to deliver the contract for investment consultancy services, as this bidder provided the most economically advantageous offer based on the evaluated combined scores for quality, service-fit and price.

12. The new contract is to be let for a period of 4 years from January 2019 for four years with an option to extend the contract for a further 12 months.

## Financial Implications

13 There are clearly significant financial implications arising from the appointment of professional advisers to the Committee and the advice they give. The cost of joining the framework is £5,000. All procurement related costs will be charged to the Pension Fund.

## Legal Implications

14 The purchase of investment consultancy services is categorised as a public services contract under the Public Contracts Regulations 2016 (the Regulations) and where the estimated value is over the threshold of £181,302, the Council is required to undertake a regulated EU procurement. However, where the purchase of such services are procured through a Framework Agreement established in compliance with the Regulations the Council is able to purchase services from the Framework Agreement by strictly following the rules set up under the Framework and in accordance the Regulations. The Investment Consultant Framework set up by Norfolk County Council is an EU Compliant Framework. The Director of Commercial Contracts and Procurement must approve access to the Framework and any subsequent call-off contracts from the Framework must follow the Contract Procedure Rules and be authorised in accordance with the Council's scheme of delegation contained within the Constitution.

### Risk Management Implications

15 The Pension Fund has its own risk register which includes the risks identified in connection with the appointment of, and the advice provided by, the Committee's professional advisers.

### Equalities implications

16 There are no direct equalities implications arising from this report.

### Council Priorities

17 Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Dawn Calvert | ✓ | Director of Finance |
| Date: 27 February 2019 | | |

**Ward Councillors notified:** **NO**

## Section 4 - Contact Details

**Contact:** Iain Millar Treasury and Pensions Manager
0208 424 1432

## Background Papers – None

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