

# **Pension Fund Committee AGENDA**

DATE: Wednesday 18 December 2019

TIME: 5.00 pm

**VENUE:** Committee Room 5, Harrow Civic Centre, Station

Road, Harrow, HA1 2XY

**MEMBERSHIP** (Quorum 3 Councillors)

**Chair:** Councillor Keith Ferry

Councillors:

Dean Gilligan 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. Kairul Kareema Marikar

1. Kanti Rabadia

2. Antonio Weiss

2. Amir Moshenson

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

### **Useful Information**

### Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at: <a href="http://www.harrow.gov.uk/site/scripts/location.php">http://www.harrow.gov.uk/site/scripts/location.php</a>.

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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.

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Agenda publication date: Tuesday 10 December 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 - 12)

That the minutes of the meeting held on 11 September 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, 13 December 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. PENSION FUND COMMITTEE - PERFORMANCE DASHBOARD AND UPDATE ON REGULAR ITEMS (Pages 13 - 38)

Report of the Director of Finance.

# 8. COMPETITION AND MARKETS AUTHORITY ORDER: SETTING INVESTMENT CONSULTANT OBJECTIVES (Pages 39 - 46)

Report of the Director of Finance.

#### 9. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

#### 10. 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
11.	Pension Fund Committee - Performance Dashboard and Update on Regular items – Appendix 4	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12.	Actuarial Valuation 2019 Update	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
13.	Investment Strategy Review Update	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

# **AGENDA - PART II**

# 11. PENSION FUND COMMITTEE - PERFORMANCE DASHBOARD AND UPDATE ON REGULAR ITEMS (Pages 47 - 54)

Appendix 4 to the report of the Director of Finance at item 7.

### **12. ACTUARIAL VALUATION 2019 UPDATE** (Pages 55 - 70)

Report of the Director of Finance.

## 13. INVESTMENT STRATEGY REVIEW UPDATE (Pages 71 - 80)

Report of the Director of Finance.

[Please note that Aon, 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**

# **11 SEPTEMBER 2019**

**Chair:** \* Councillor Keith Ferry

Councillors: Dean Gilligan \* Bharat Thakker

\* Norman Stevenson

Co-optee (Non-voting):

\* Howard Bluston

Trade Union Observers:

John Royle Pamela Belgrave

Independent Advisers:

\* Mr C Robertson Independent

Adviser

\* Honorary Alderman Independent R Romain Adviser

Others:

Denotes Member present

### 83. Attendance by Reserve Members

**RESOLVED:** To note that there were no Reserve Members in attendance.

#### 84. Declarations of Interest

**RESOLVED:** To note that the following interests were declared:

### All Agenda Items

Councillor Norman Stevenson, a 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, Council's Advisers to the Fund, and that he knew a number of Fund Managers, including BlackRock. He had also met with the asset management firm, CQS. He would remain in the room whilst all matters were considered and make contributions.

#### 85. Minutes

**RESOLVED:** That, subject to the following amendments, the minutes of the meeting held on 26 June 2019 be taken as read and signed as a correct record:

- (1) Minute 72, Declarations of Interest delete reference to interests declared by Colin Cartwright, Aon, and Colin Robertson, Independent Adviser;
- (2) Minute 78, Pension Fund Committee Performance Dashboard and Update on Regular Items penultimate paragraph in the preamble to read as follows: An adviser ...with the holding of illiquid assets ...'.

### 86. Public Questions/Petitions/Deputations

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

### **RESOLVED ITEMS**

# 87. Pension Fund Committee - Performance Dashboard and Update on Regular Items

Members received a report of the Director of Finance, together with appendices 1-5 of which appendix 4 was confidential, which set out

- the draft Work Programme inviting Members' comments and agreement;
- a new investment and management Performance Dashboard report summarising key fund performance and risk indicators, trigger monitoring report and PIRC Performance Indicators;
- the Fund's performance to 30 June 2019.

An officer introduced the report and referred the Committee to the revised Fund Valuation and Performance – March 2019 to August 2019 schedule which replaced page 37 of the agenda (appendix 5 referred). The revised schedule was tabled at the meeting in order to avail Members of the Pension Fund investment value up to 31 August 2019 as this information had not

been available at the time the agenda was published. He drew attention to the performance of Pantheon and La Salle Fund Managers. A representative of Aon, Council's Advisers to the Fund, explained the reasons behind the uncertainty in the equity market. However, of significance was the fall in gilt yields due to the Fed's monetary policy approach.

In response to a question from an Independent Adviser in respect of Minute 58 (resolution 1, rebalance to the Strategic Benchmark Allocation by redeeming 5% across all equity holdings and the cash holding to be held within Blackrock to sit within the London CIV) and the further discussion at Minute 78, and whether resolution 1 had been actioned, the officer stated that it had been actioned in part only. A sum of £25m circa 3% of the value of the Fund had been moved into cash. Discussions with the London CIV (Collective Investment Vehicle) were continuing with a view to transferring the Longview Funds held if other London Boroughs wished to invest and planned investment in the infrastructure sub-fund once it was opened for new investment. An Independent Adviser stressed the importance of not delaying the reduction in the equity holding.

The Committee discussed the Investment Dashboard at appendix 1 to the report, including the reasons behind why the value of liabilities might have changed. The Committee also discussed the costs associated with currency hedging.

Members were also briefed on the Harrow Pension Fund Annual Report and Financial Statements which had been audited by the Council's external auditor, Mazars, and that no recommendations had been made. A final audit sign-off was awaited and the Committee was of the view that the attendance of the external auditor at the November 2019 meeting of the Committee was not necessary.

In relation to the pension performance analytics provided by PIRC, appendix 3 to the report referred, an Independent Adviser questioned whether Infrastructure should be included in the benchmark for performance measurement purposes at this stage when no investment had been made and the Fund was not yet open to investment. It was suggested that PIRC might present to the Committee at the next meeting but it was agreed that an Independent Adviser and an officer might present PIRC's findings to the Committee in the first instance.

Discussions in respect of confidential appendix 4 to the report also ensued and related to the London CIV's action in relation to a Fund Manager and an opinion of Aon, Council's Adviser to the Fund. An Independent Adviser agreed with Aon's opinion/advice.

Members were of the view that they would benefit from extending an invitation to London CIV's new Chief Investment Officer (CIO) to attend the next premeeting session of the Committee in November 2019 in order to better understand the operations of the London CIV. Members agreed to receive various documents – an overview of the CIV from officers – prior to the November meeting and an Independent Adviser offered to help frame questions for the London CIV CIO.

**RESOLVED:** That, subject to comments set out in the preamble above, the Work Programme for the period up to March 2020 be agreed.

[See also Minute 91]

#### 88. 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 items for the reasons set out below:

Agenda Item No	<u>Title</u>	Description of Exempt Information			
10.		contains information relating to the financial or business affairs of any			
11.	Actuarial Valuation 2019	Information under paragraph 3 contains information relating to the financial or business affairs of any particular person (including the authority holding that information)			
12.	Investment Strategy Review Outline	Information under paragraph 3 contains information relating to the financial or business affairs of any particular person (including the authority holding that information)			

# 89. Pension Fund Committee - Performance Dashboard and Update on Regular Items

[See Minute 87]

### 90. Actuarial Valuation 2019

The Committee received a confidential report of the Director of Finance and the Council's Actuary, Hymans Robertson LLP, setting out the following:

- progress on the triennial valuation to date;
- the valuation assumptions underlying the funding strategy and the proposal to maintain the current stabilisation contribution strategy for the next three years.

The Director of Finance undertook to share the 2019 valuation update with the Council's external auditor, Mazars.

A representative of Aon, Council's Advisers to the Fund, commented on the revised discount rate used and the difference it had made to the value of the liabilities. He advised that assets had performed well and explained the funding level at page 59 of the agenda. An Independent Adviser pointed out that on the previous methodology the discount rate would have reduced to a figure around 3.3% rather than increasing to 4.3%.

The Chair referred to the Investment Dashboard at agenda item 7 and was of the view that contribution rates ought not to be reduced until the Pension Fund was fully funded.

**RESOLVED:** That the progress to date on the 2019 Actuarial Valuation be noted.

### 91. Investment Strategy Review Outline

The Committee received a confidential report of the Director of Finance and Aon, Council's Advisers to the Fund, requesting consideration of the proposed investment strategy review outline proposed for the Fund and the level of target return within the investment strategy.

It was noted that Members had received training on the Investment Strategy at an informal session held prior to the meeting.

Members referred to an earlier discussion (Minute 87 refers) and agreed that the pre-meeting session with London CIV ought to start at 5.00 pm on 26 November 2019. An officer undertook to set up access for all members of the Committee to the CIV (Collective Investment Vehicle) Member Website.

Members noted that they would need to meet the new managers of the Property Fund and dates would be circulated by officers for agreement.

**RESOLVED:** That the report be noted, including the investment strategy review outline set out at appendix 1 to the report.

[See also Minute 87]

(Note: The meeting, having commenced at 6.36 pm, closed at 7.52 pm).

(Signed) COUNCILLOR KEITH FERRY





# REPORT FOR: PENSION FUND COMMITTEE

Date of Meeting: 18 December 2019

**Subject:** Pension Fund Committee – Performance

Dashboard and Update on Regular Items

**Responsible Officer:** 

Dawn Calvert, Director of Finance

**Exempt:** No - except for Appendix 4 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:

**Enclosures:** Appendix 1:Investment Dashboard as at 30

September 2019

Appendix 2: Trigger Monitoring Report
Appendix 3: PIRC Local Authority Pension
Performance Indicators to 30 September

2019

(Exempt ) Appendix 4 Manager Monitoring

**Report - Executive Summary** 

Appendix 5 Fund Value as at 30 September

2019

# **Section 1 – Summary and Recommendations**

This report updates the Committee on regular items as follows:

- Draft work programme on which the Committee's comments and agreement are requested.
- It includes a new investment and management performance dashboard

report summarising key fund performance and risk indicators and trigger monitoring report and PIRC Performance Indicators

- Fund performance to 30<sup>th</sup> September 2019
- · 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.

Committee are invited to comment on the performance and investment dashboard report and the preferred format and presentation for future reports.

# **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)
  - Investment and Manager Performance Dashboard (Sub-section C) and Appendix 1-4
  - Fund Performance and actions for periods ended 30 September
     2019 (Sub-section D) and Appendix 5)
  - Issues raised by Pension Board (Sub-section E)

### **B Draft Work Programme 2019-20**

Deferred – "Meet the Managers"
Date to be confirmed January/February

### **Investment Strategy Review Training dates to be confirmed**

#### 25 March 2020

Update on regular items:

- Draft work programme for 2020-21
- Performance Dashboard 31 December 2019
- Issues raised by Pension Board
- Emerging risks

Actuarial Valuation 2019 Final Report

Pooling and London Collective Investment Vehicle

Monitoring of operational controls at managers

External Audit plan 2020-21

Training programme 2021-22

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 Summary Performance Dashboard for Period Ended 30 September 2019

- 4. Attached as Appendix 1 is a summary investment performance dashboard which is a new performance report developed by Aon following consultation with officers, the previous Chair of Pension Fund Committee and the independent advisers. It is designed to provide summary reporting and to streamline the performance reports presented to committee.
- 5. The investment dashboard shows the Pension Funds estimated Investment Funding Level of 91.3% as at 30 September 2019 and the fund assets (£882m) and liabilities (£997m). This estimate is a rolled forward projection based on the March 2019 actuarial valuation when the funding level was 94.2%.
- 6. The estimated funding level has decreased by circa 3% since the valuation date. No de-risking actions are recommended at the current time. See Appendix 2 Trigger Monitoring Report.
- 7. The Fund subscribes to the performance data service provided by Pension and Investment Consultants Limited (PIRC) The PIRC performance report is attached as Appendix 3 to this report. The dashboard summarises quarter, year and 3 year performance all of which are below the fund benchmark.
- 8. The Dashboard includes a summary of asset allocation relative to the strategic benchmark .It also show the current allocation made to the London CIV (46.9%). and a summary of manager performance and manager rating.
- 9. Appendix 4 Executive Manager Monitoring Report Executive Summary reports on managers who have received the Aon qualified or in review rating. This is summarised on the dashboard 'Manager in Focus' section.

### D Fund Performance and Valuation for Period Ended 30 September 2019

10. Appendix 5 sets out the change in the fund market value from 31st March 2019 to 30th September 2019. The value of the Fund had increased over the quarter from £871.67m as at 30<sup>th</sup> June 2019 to £891.77m as at 30 September 2019. The value of the Fund to 31 October 2019 is also shown (£891.19m).

- 11. On 30 April 2019, the Fund divested in full from Aberdeen Standard Investments (£95.7m and invested £95m in the London CIV Multi Asset Credit Fund, as agreed by Committee on 12<sup>th</sup> March 2019.
- 12. £25m has been disinvested from Blackrock passive equities and invested in the cash account also held by Blackrock, to reduce the overweight position in equities to rebalance the strategic benchmark as previously agreed by Pension Fund Committee.

### **E Meetings of Pension Board**

13. Pension Board met on 11 July 2019 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 June 2019 and reviewed the audited Pension Fund Annual Report for 2019/20. They also reviewed the membership terms of reference of the Pension Board and requested that the recruitment process for the two vacant post on Pension Board be completed.

## **Legal Implications**

- 14 The Pension Fund Committees' Terms of Reference sets out the Committee's power and duties which include:
- 15. To administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- 16 To establish a strategy for the disposition of the pension investment portfolio; and
- 17. To appoint to appoint and determine the investment managers' delegation of powers of management of the fund

# **Financial Implications**

18. 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**

19. 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 / Public Sector Equality Duty**

20. Was an Equality Impact Assessment carried out? No. There are no direct equalities implications arising from this report.

# **Council Priorities**

21. 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**

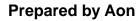
Name: Dawn Calvert  Date: 5 December 2019	✓ Chief Financial Officer
Name: David Hodge Date: 5 December 2019	On behalf of the  Monitoring Officer
Name: Dawn Calvert  Date: 5 December 2019	On behalf of the Corporate Director
Ward Councillors notified:	NO

# **Section 4 - Contact Details and Background Papers**

Contact: Iain Millar, Treasury and Pensions Manager 0208 424

1432

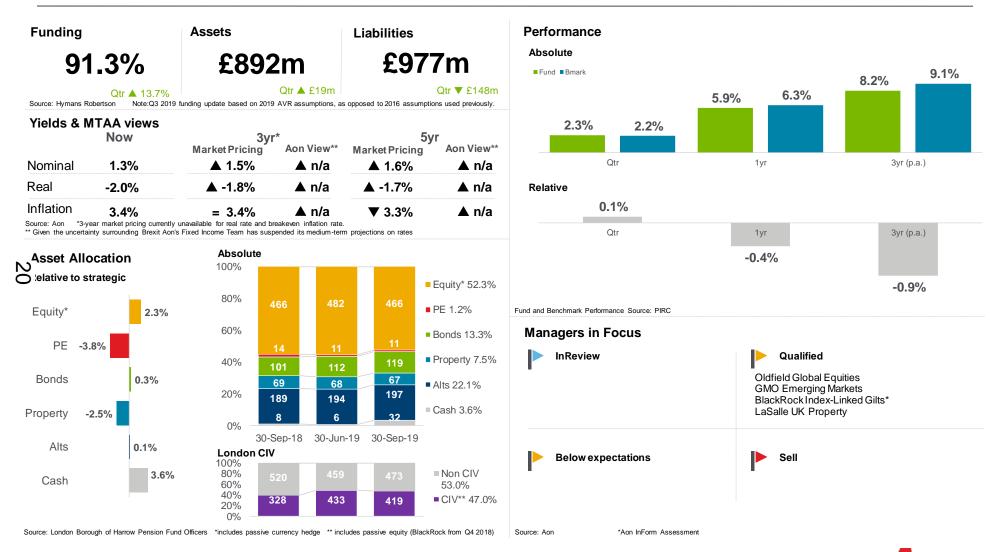
Background Papers: None



Presentation to the London Borough of Harrow Pension Fund Committee



# **Investment Dashboard**





# Manager Performance Dashboard

#### Quarterly **Fund Benchmark** Relative BlackRock BlackRock BlackRock Passive 3.4 Passive 3.3 Passive 0.1 (prev. SSgA)\* (prev. SSgA)\* (prev. SSgA)\* Longview 4.7 Longview 3.8 Longview 0.9 Oldfield Oldfield 3.8 Oldfield -2.5 1.3 GMO GMO -1.1 GMO 1.0 2.1 $\sim$ Blackrock Blackrock 6.8 Blackrock 0.0 6.8 Insight 0.6 Insight 1.2 Insight -0.6 Pantheon\*\* Pantheon\*\* 3.5 Pantheon\*\* -2.0 1.5 LaSalle LaSalle LaSalle 0.6 (prev. Aviva)\*\*\* (prev. Aviva)\*\*\* (prev. Aviva)\*\*\*

#### 12 months



3

Fund and Benchmark Performance Source: PIRC

<sup>\*\*</sup>Pantheon performance uses the previous quarter value adjusted for cash flow in the month \*\*\* Final figures not yet recieved



<sup>\*</sup>The passive equity assets were moved from SSGA to BlackRock on 7 September 2018

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

Date: 18 December 2019

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

Prepared by: Colin Cartwright

Joseph Peach

# Quarterly Trigger Monitoring – Q3 2019

#### 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

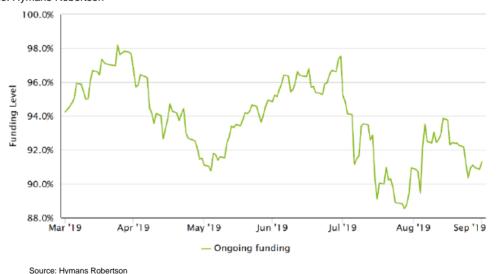
#### **Funding level**

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 2019.

The funding level as at 30 September 2019 was 91.3%, compared to 94.2% as at 31 March 2019.

30 September 2019	Ongoing Basis*
Assets	£892m
Liabilities	£977m
Surplus (deficit)	(£85m)
Funding Level	91.3%

<sup>\*</sup>This funding update is provided to illustrate the estimated development of the funding position from 31 March 2019 to 30 September 2019. Source: Hymans Robertson



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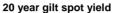
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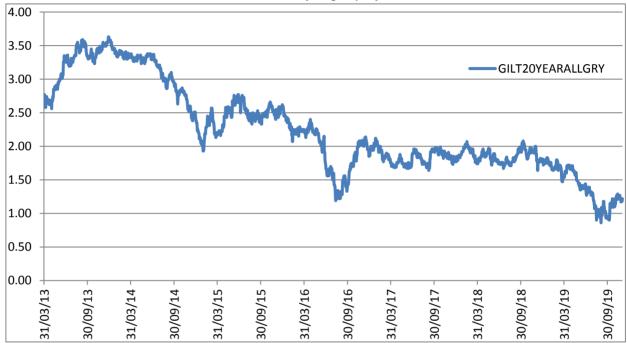




#### 20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 21 November 2019. Yields ended the third quarter of 2019 at 0.95%, a decrease from their 1.44% level at the end of Q2 2019. Yields initially fluctuated in July but ended the month lower. Yields continued to fall over the course of August and before starting to rise at the start September and falling again towards the end of the month. Since the end of the third quarter yields have started trending upward, reaching a peak of 1.29% on 12 November 2019.





# Aon views on bond yields

Given the uncertainty surrounding Brexit, Aon's 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 22 November 2019.

#### Summary of market spot and forward rates

	22 November 2019	In 3 years	In 5 years
	20 year Spot Rate	Market Pricing	Market Pricing
Real	-2.0%	-1.8%	-1.7%
Nominal	+1.3%	+1.5%	+1.6%
Breakeven Inflation*	+3.4%	+3.4%	+3.3%

<sup>\*</sup>Totals may not sum exactly due to rounding

#### Conclusion

The funding level decreased over the quarter whilst long term bond yields have continued to fall to even lower levels. Post quarter-end, bond yields have started to rise.

As the Fund is currently undertaking an Investment Strategy Review, no immediate de-risking actions are recommended at the current time.

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Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.





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# **Harrow Pension Fund**

# **Quarterly Performance Summary**

Periods to end September 2019

Produced November 5th 2019



# **Performance Overview**

### **Fund Performance**

			3 Years	5 Years
	Quarter	1 Year	(% p.a.)	(% p.a.)
Fund	2.3	5.9	8.2	8.9
Benchmark	2.2	6.3	9.1	9.4
Relative	0.1	-0.4	-0.9	-0.5

# **Manager Performance**

-30		Latest Quarter			1 Year		3 Years (% p.a.)			
	Portfolio	BM	Relative	Portfolio	BM	Relative	Portfolio	BM	Relative	
Longview	4.7	3.8	0.8	7.7	7.8	0.0	13.5	12.6	0.7	
Passive Equity	3.4	3.3	0.1	7.7	7.5	0.2	12.0	12.0	-0.1	
GMO	1.0	-1.1	2.1	9.0	3.7	5.1	5.7	7.8	-2.0	
Oldfield	1.3	3.8	-2.5	1.1	7.8	-6.2	10.0	12.4	-2.1	
Pantheon*	1.5	3.5	-1.9	6.7	8.0	-1.2	10.5	12.2	-1.5	
LaSalle#	-0.2	0.6	-0.8	0.2	2.2	-2.0	5.2	6.7	-1.4	
BlackRock	6.8	6.8	-0.1	17.9	17.6	0.2	5.1	4.7	0.4	
CQS	2.1	1.2	1.0							
Insight	0.6	1.2	-0.5	4.7	4.9	-0.2	1.9	4.7	-2.7	

<sup>#</sup> LaSalle data is unconfirmed

<sup>\*</sup>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.



# **Asset Allocation**

# **Asset Allocation**

	Start Qu	arter	End Qu	arter	
	GBP'000s	%	GBP'000s	%	% BM
Equity	467,263	55	473,554	53	50
Longview	105,031	12	114,515	13	10
BlackRock	217,821	26	208,211	23	24
GMO	73,784	9	78,048	9	8
Oldfield	70,627	8	72,781	8	8
Private Equity	11,522	1	10,021	1	2
Pantheon	11,522	1	10,021	1	2
l <mark>⇔</mark> erty	68,793	8	67,000	8	10
LaSalle	68,171	8	67,000	8	10
Bonds	101,002	12	118,968	13	13
BlackRock	108,159	13	118,968	13	13
Alternatives	191,260	22	196,815	22	25
Insight	95,800	11	100,781	11	6.5
CQS	95,460	11	96,034	11	11
Infrastructure**					7.5
Cash*	5,188	1	24,433	3	0
Total Fund	851,332	100	890,791	100	100

<sup>\*</sup> Includes Record Hedge

<sup>\*\*</sup> Not yet funded



# **Performance Attribution by Manager**

(£'000s)	Longview	Passive	GMO	Oldfield	Pantheon	LaSalle	BlackRock	Insight	Aberdeen	CQS	Infra	Cash	Total
End June 2019	109,400	228,352	77,320	71,870	10,833	67,516	111,594	98,809		95,390		402	871,616
End Sep 2019	114,515	208,211	78,041	72,781	10,021	67,000	118,968	100,781		96,034		24,433	890,784
Latest Quarter													
Fund	4.7	3.4	1.0	1.3	1.5	-0.2	6.8	2.1		0.6			2.3
BM	3.8	3.3	-1.1	3.8	3.5	0.4	6.8	1.2		1.2			2.2
Relative	0.8	0.1	2.1	-2.5	-1.9	-0.6	-0.1	1.0		-0.5			0.1
Manager Impact	0.1	0.0	0.2	-0.2	0.0	-0.1	0.0	0.1		-0.1			0.1
Allocation Impact	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.0	0.0	0.0
One Year													
Fund	7.7	7.8	9.0	1.1	6.7	0.2	17.9	5.8					5.9
BM	7.8	7.2	3.7	7.8	7.9	2.2	17.6	4.9					6.3
Relative	0.0	0.5	5.1	-6.2	-1.2	-2.0	0.2	0.9					-0.4
Manager Impact	0.0	0.1	0.4	-0.5	0.0	-0.2	0.2	0.1	-0.1	-0.1			-0.1
Allocation Impact	0.0	0.0	0.0	-0.1	0.1	0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.2
Three Years (% p.a.)													
Fund	13.5	12.0	5.7	10.0	10.5	5.2	5.1	4.9					8.2
BM	12.6	12.0	7.8	12.4	12.2	6.6	4.7	4.7					9.1
Relative	0.7	0.0	-2.0	-2.1	-1.5	-1.4	0.4	0.2					-0.9
Manager Impact	0.1	0.0	-0.2	-0.1	0.0	-0.2	0.1	-0.1	-0.3	0.0			-0.6
Allocation Impact	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	-0.2	-0.2
Five Years (% p.a.)													
Fund	11.7	11.9	7.9	10.1	13.8	6.3	8.7	3.3					8.9
BM	9.4	11.9	8.3	12.3	13.3	7.7	8.5	4.4					9.4
Relative	2.1	0.0			0.5	-1.3	0.2						-0.5

Insight was appointed in January 2015 therefore do not yet have 5 year performance available GMO and Oldfields were appointed November 2014 therefore no 5 year results available. Aberdeen Standard was replaced with CQS at end April 2021



# **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.

These returns are all well ahead of actuarial expectations.

### **Relative Returns**



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



# **Benchmark Allocation**

%	To 31/12/2017	From 1/1/20	From 1/1/2018		From 1/4/2019		
Equity	62	50		50			
Global Passive	31		24		24		
Developed Active	21		18		18		
Emerging Markets Active	10		8		8		
Bonds	13	13		13			
UK Bonds	10.4		10		10		
Index Linked Gilts	2.6		3		3		
Property	10	10		10			
Diversified Growth	10	22		6.5			
Multi Asset Credit				11			
Infrastructure				7.5			
Private Equity	5	5		2			



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#### **Fund Valuation and Performance**

#### March 2019 to October 2019

	March 2019 to October 2019										
Asset Class	Value 31.03.2019 £'000	Value 30.04.2019 £'000	Value 31.05.2019 £'000	Value 30.06.2019 £'000	Value 31.07.2019 £'000	Value 31.08.2019 £'000	Value 30.09.2019 £'000	Value 31.10.2019 £'000		Strategic Allocation %	Strategic Range %
Global Equities LCIV - Longview (Aug17) LCIV - Blackrock (Sep18) GMO Oldfields Record passive currency hedge Total Global Equities  Total Equities  Private Equity	105,031 217,821 73,784 70,627 756 468,019	106,504 225,177 75,497 70,830 576 478,583	102,914 219,198 73,085 68,269 -5,611 457,855	109,400 228,352 77,310 71,870 -5,131 481,802	113,551 238,123 80,670 72,352 -9,014 495,682	110,876 233,841 77,898 70,384 -10,105 482,893	114,515 208,211 78,048 72,781 -7,432 466,122	112,750 203,758 76,315 72,267 5,651 470,741	13 23 9 8 <b>N/A</b>	10 24 8 8 8 <b>N/A</b>	45-55
Pantheon Total Private Equity Property	11,522 11,522	11,522 11,522	11,522 11,522	10,833 10,833	10,833 10,833	10,833 10,833	11,000 11,000	11,000 11,000	1	2	0-3
LaSalle Total – property Bonds	68,171 68,171	68,076 68,076	68,017 68,017	67,516 67,516	67,363 67,363	67,262 67,262	67,000 67,000	66,924 66,924	8	10	8-12
Blackrock - Fl Blackrock - IL <b>Total Bonds</b>	86,080 22,079 108,159	85,271 21,591 106,862	86,600 23,061 109,661	89,088 22,506 111,594	90,661 22,827 113,488	94,332 24,832 119,164	94,651 24,318 118,968	93,123 22,473 115,596	10 3 13	10 3 13	11-15
Alternatives Insight Aberdeen (GARS) LCIV - MAC Fund LCIV - Infrastructure Total Alternatives	95,800 95,229 0 0 191,030	97,186 0 95,000 0 192,186	96,275 0 94,908 0 191,183	98,809 0 95,460 0 194,269	99,782 0 95,920 0 195,702	100,725 0 95,644 0 196,368	100,781 0 96,034 0 196,815	101,118 0 95,758 0 196,876	11 0 11 0 22	17.5 7.5 25.0	20-26
Cash & NCA  Cash Managers (Blackrock) Cash NatWest Cash Custodian (JP Morgan) Debtors and Creditors CIV Investment Total Net Current Assets  Total Assets	44 3,068 1 1,169 150 4,432 851,332	792 2,988 340 2,182 150 6,452	792 3,135 339 1,883 150 6,299	44 3,194 338 1,877 150 5,603	839 4,493 7 1,912 150 7,401	848 5,402 6 1,763 150 8,168	25,044 4,871 5 1,793 150 31,864	25,795 2,135 5 1,968 150 30,054	3 100	0 100	
	(SOA 18/19)										

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REPORT FOR: PENSION FUND COMMITTEE

Date of Meeting: 18 December 2019

**Subject:** Competition and Markets Authority Order:

Setting Investment Consultant Objectives

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

**Enclosures:** Appendix 1: Aon Report: CMA Order -

Setting Investment Consultant Objectives

# **Section 1 – Summary and Recommendations**

The Committee are asked to consider the proposed objectives for the investment consultant to comply with the Competition and Markets Authority Order.

#### **Recommendations:**

The Committee is requested to note the report.

#### **Background**

1. At the end of 2018 the Competition and Markets Authority, ("CMA") reported on its review of the investment consultant and fiduciary management markets. Following this review, CMA issued an Order which requires Pension Fund Trustees, (including the Local Government Pension Scheme):

- to set objectives for their investment consultants closely linked to the pension scheme's strategic objectives.
- the objectives to be reviewed at least every three years and after a significant change to the investment strategy.
- the performance of the investment consultant should be reviewed annually.
- 2. The CMA Order took effect from 10 December 2019. The intention was for the objectives to be presented to Pension Fund Committee on 26 November 2019 before that meeting was postponed to 18 December 2019.
- 3. Pension Fund Committee appointed an investment consultant, Aon, to advise Harrow Pension Fund and Harrow Pensions Committee and Board on all matters concerning the Pension Fund's investments. The Committee has also appointed independent advisers.
- 4. Aon provide regulated investment consultancy services. The role of the independent advisers is to provide an independent perspective and to use their expert knowledge to inform the debate on the issues in front of the Committee.
- 5. The Committee are asked to consider the proposed objectives and review framework to comply with the Competition and Markets Authority Order' as set out in the Aon report in Appendix 1 and to comment as they see fit.
- 6. The Pension Scheme investments are managed in accordance with the Local Government Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and related statutory guidance on investments and asset pooling According to Part 3A of the Council's Constitution, Terms of Reference the Pension Fund Committee is under a duty to administer all matters concerning the Council's Pension investments in accordance with the law and Council Policy.

## **Financial Implications**

7. There are clearly significant financial implications arising from the appointment of professional advisers to the Committee and the advice they give. All investment consultancy related costs are charged to the Pension Fund.

## **Risk Management Implications**

8. The Pension Fund has its own risk register which includes risks arising from the investment strategy.

## **Equalities implications / Public Sector Equality Duty**

Was an Equality Impact Assessment carried out? No

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

#### **Council Priorities**

10. Whilst the financial health of the Pension Fund 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	✓ Chief Financial Officer
Date: 5 December 2019	
Name: Dawn Calvert	On behalf of Corporate Director
Date: 5 December 2019	

# **Section 4 - Contact Details and Background Papers**

Contact: Iain Millar, Treasury and Pensions Manager

0208 424 1432

Background Papers: None



#### **Investment Consultant Objectives**

25 November 2019 Date:

Prepared for: London Borough of Harrow Pension Fund Committee

Prepared by:

# CMA Order - Setting Investment Consultant Objectives

#### Introduction

This paper is addressed to the London Borough of Harrow Pension Fund Committee ("the Committee"), in relation to the London Borough of Harrow Pension Fund ("the Fund").

It sets out potential Investment Consultant Objectives for the Committee to adopt for Aon, following new duties introduced by the Competition and Markets Authority ("CMA").

#### **CMA Order**

On 10 June 2019, the CMA introduced new duties for trustees via an Order which takes effect from 10 December 2019. This Order aims to address several problems that the CMA found as part of its Investment Consultancy and Fiduciary Management Market Investigation, including:

- 1. Low levels of engagement by trustees when choosing and monitoring their Investment Consultant.
- Difficulties for trustees in accessing and assessing the quality of their existing Investment Consultant.

This paper focuses on one of the newly introduced duties: for trustees to set objectives for its Investment Consultant ("IC"). This duty applies to all trustees of either DB or DC occupational pension schemes based in the UK.

Although the CMA Order refers to trustees, the Order is also applicable to the Local Government Pension Scheme ("LGPS").

#### **DWP** and tPR consultations

The CMA Order is expected to be passed into pension law by the Department for Work and Pensions ("DWP"). The DWP has run a consultation process on the planned regulations which concluded on 2 September (the results of which are yet to be confirmed).

Whilst the DWP regulations will not apply to LGPS, it is expected that similar regulations will be adopted by the Ministry for Housing, Communities and Local Government ("MHCLG") in due course.

Once passed into law, the Pensions Regulator ("tPR") will be able to oversee the new duties on trustees. It is currently expected that this will confirm the following requirements for trustees:

- Set objectives for their IC service.
- Review the performance of each IC provider at least every 12 months.

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 Review the objectives themselves at least every 3 years, and without delay following any significant change in investment policy.

There has also been a consultation by tPR regarding its guidance for trustees on "Setting objectives for providers of investment consultancy services". This consultation is finished on 11 September.

We have taken account of both sets of consultation (and draft tPR guidance) in our advice on setting IC objectives.

#### **Committee Objectives**

We have outlined below some example objectives which may be a useful starting point for discussion. These are based on the Committee's current investment strategy, objectives and governance framework and have been divided into broad categories to help identify the services which are provided.

These objectives should be tailored to ensure that they are appropriate for the IC services that are received or required.

# Reviewing the objectives and setting a framework

Once the objectives themselves have been agreed, consideration of how to assess them on an annual basis will be needed.

For example, the objectives could be set against a relatively simple assessment methodology ('yes/no' or a RAG (Red, Amber, Green) approach) or the Committee may wish to consider defining a different marking/scoring approach in due course.

We acknowledge that the Committee is currently undertaking a review of the Fund's investment strategy and this may influence some of the objectives in the future.

#### 1 Strategy

- The IC, Aon, will help the Committee formulate and understand their collective investment beliefs.
- The IC will support the Committee in determining the composition of the strategic asset allocation and will help the Committee build a suitably diversified portfolio to meet its investment objectives.
- The IC will support the Committee with respect Responsible Investment (RI) and Stewardship matters.

#### 2 Implementation

- The IC will work alongside Members, Officers and the London CIV to develop / provide suitable investment solutions for the Fund.
- The IC will assist the Members and Officers with understanding the offerings provided by the London CIV.
- Where required, the IC will support the Officers with any asset transitions and help to effectively plan for, and mitigate, the key risks associated with transitioning assets (e.g. out of market risk).

2

#### 3 Monitoring

- The IC will keep the Members and Officers updated, on a timely basis, of any material developments with any of the Fund's investment managers held outside the London CIV.
- The IC will provide sufficient, clear and accurate monitoring of the Fund's asset allocation vs. strategic target and provide advice on rebalancing where appropriate.

#### 4 Compliance and regulation

- The IC will provide advice on the appropriate changes to the Fund's Investment Strategy
   Statement following any changes to Investment Strategy (or at least once every three years).
- The IC will keep the Members and Officers informed of any changes to relevant legislation and meet the Committee's investment training requirements. This should include any best practice initiatives.

#### 5 Client servicing and relationship management

- The IC will produce investment reports, briefing papers and investment advice in good time ahead of Committee meetings.
- The IC will respond to email requests and voicemails on a timely basis.
- The IC will provide advice in a clear and concise manner, limiting the use of jargon and ensuring that the Members and Officers understand the key messages.

#### **Next Steps**

The intention was originally for the objectives to be discussed and agreed at the 26 November 2019 Committee meeting, in order to meet the 10 December 2019 deadline. However, as this meeting was postponed, discussions will now take place at the re-arranged Committee meeting on 18 December 2019.

We will confirm later in the year if there are any changes to the requirements following the completion of the various consultations.

The method for confirming compliance with the new duties will also be confirmed once the MHCLG has passed the duties into law.

We welcome the opportunity to discuss these objectives with the Committee at the 18 December 2019 meeting.

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