

**Report for: Pension Fund  
Committee**

---

<b>Date of Meeting:</b>	9 March 2022
<b>Subject:</b>	Performance Dashboard and Update on Regular Items
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	No - except for Appendices 3,4 and 7 which are 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)
<b>Wards affected:</b>	None
<b>Enclosures:</b>	Appendix 1: Investment Dashboard as at 30 December 2021 (Aon) Appendix 2: PIRC Local Authority Pension Performance Indicators to 31 December 2021 <b>(Exempt)</b> Appendix 3 Manager Monitoring Report - Executive Summary (Aon) <b>(Exempt)</b> Appendix 4 - Report from Independent Advisor <b>TO FOLLOW</b> Appendix 5 – Fund Value as at 31 December 2021 Appendix 6 - Audit Completion Report November 2021 (Mazars) <b>(Exempt)</b> Appendix 7 – ESG Dashboard (Aon) – <b>TO FOLLOW</b>

## 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 the investment and management performance dashboard report summarising key fund performance and risk indicators and PIRC Performance Indicators
- Fund performance to 31<sup>st</sup> December 2021
- Update on Pension Board

### Recommendations:

The Committee is requested to review and to comment as necessary on the performance and investment dashboard report and approve the draft work programme for 2022-23.

## Section 2 – Report

### A. Introduction

1. This report updates the Committee on regular items as follows:
  - Draft work programme for 2022-23 (Sub-section B)
  - Investment and Manager Performance Dashboard (Sub-section C) and Appendix 1-4
  - Fund Performance and actions for periods ended 31 December 2021 (Sub-section D and Appendix 5)
  - Issues raised by Pension Board (Sub-section E)
  - Other matters (Sub-Section F)

### B Draft Work Programme 2022-23

2. The dates set for future meetings of the Committee in the 2022-23 municipal year have been provisionally set as follows:
  - Thursday 23 June 2022
  - Tuesday 20 September 2022
  - Tuesday 15 November 2022
  - Wednesday 22 March 2023
3. An outline work programme has been drafted as follows:

Meeting	Item
All Meetings	Regular Items update <ul style="list-style-type: none"><li>- Work Programme</li><li>- Pension Board Items</li><li>- Performance</li><li>- Fund valuation / Dashboard</li><li>- ESG Dashboard</li></ul>

<b>23 June 2022</b>	Training Programme for 2022-23
	External Audit Plan for 2021-22
	Review of Internal Controls at Investment Managers
	Representations Policy
	Review of Governance Compliance Statement
	Triennial Valuation Update
<b>20 September 2022</b>	Draft PF Annual report 2021-22
	Review of Funding Strategy Statement
	Triennial Valuation Update
	Investment Pooling Update
<b>15 November 2022</b>	External Audit Report on 2021-22 Accounts
	Triennial Valuation – Initial results
	Review of Risk Register
<b>22 March 2023</b>	Triennial Valuation – Final report
	Investment Strategy – Next Steps

4. The meetings are currently scheduled to start at 6.30pm. It is intended that a training session will be held before each meeting, beginning at 5.30pm. Detailed arrangements for each meeting will be confirmed nearer the date. It should be noted that depending upon the membership of the Committee following the local elections in May 2022, it may be necessary to allocate a significant proportion of the June meeting for training purposes.
5. The Committee will have the opportunity to update this programme but are invited to comment on the draft above and agree it at this stage. The list will be augmented as necessary during the year.

### **C Summary Performance Dashboard for Period Ended 31 December 2021**

6. Attached as Appendix 1 is a summary investment performance dashboard produced by Aon. It is designed to provide summary reporting and to streamline the performance reports presented to committee.
7. The investment dashboard shows the Pension Fund's estimated Investment Funding Level of 107% as at 31 December 2021 and the fund assets (£1,057m) and liabilities (£989m). This estimate of liabilities is a rolled forward projection based on the 2019 actuarial valuation, the results of which were reported to the Committee in December 2019.
8. The estimated funding level has improved since triennial valuation, despite the increase in the value of the Fund's liabilities (which is partly linked to the forecast yields on investments), because returns on investments have exceeded expectations in that period. The improvement in the most recent quarter is due to the increase in value of investments during that period.

9. However, it should be noted that the 107% funding level relates only to “past service” benefits (i.e. service accrued to date). The Fund will also have to meet liabilities in respect of future service, which will in turn depend on pay levels and other factors. Taking into account the changes in the forecast growth in liabilities (linked to inflation and pay settlements), and the forecast future return on investments, the probability of the Fund being 100% funded at the end of the agreed deficit recovery period has increased, and the investment return required to achieve this outcome has fallen, both of which are “good news”. No de-risking actions are recommended at the current time.
10. The Dashboard includes a summary of asset allocation relative to the strategic benchmark. It also shows the current allocation made to the London CIV or under fee arrangements negotiated by the CIV (68.9%) and a summary of manager performance and manager rating. Once the commitments to the LCIV Infrastructure and LCIV Renewables Infrastructure Funds have been fully drawn down, this will rise to 74.5%.
11. The Fund subscribes to the performance data service provided by Pension and Investment Consultants Limited (PIRC) The PIRC performance report is attached as Appendix 2 to this report. The dashboard summarises the quarter, 1-year, 3-year and 5-year performance. Apart from the latest quarter, the performance in all of these timeframes was below the fund benchmark.
12. Appendix 3 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. Appendix 4 sets out the comments of one of the Fund’s Independent Advisors in respect of the various managers’ performance and other related information. Appendix 5 shows the first ESHG dashboard for the Fund following the Committee’s discussions at its last two meetings. **These appendices (3 , 4 and 7) are exempt, so any discussion of the detail therein will need to be undertaken in Part II of the meeting.**

#### **D Fund Performance and Valuation for Period Ended 31 December 2021**

13. Appendix 5 sets out the change in the market value of the Fund’s investments from 31<sup>st</sup> March 2021 to 31<sup>st</sup> December 2021. The table has been ordered to align the various investments with the three high-level “bucket” groupings approved under the Investment Strategy Review – Equities, Diversifying Return Assets and Risk Control Assets. The value of the Fund at the 31<sup>st</sup> December 2021 had increased over the quarter to £1,056.8m (from £1,019.9m as at 30<sup>th</sup> September 2021).
14. Equities were again the main driver of the increase in value. During the quarter, drawdowns in the region of £14m made against the commitments to the LCIV Infrastructure Fund (£5m approx.) and the LCIV Renewables Infrastructure Fund (£9m approx.) were funded partly by withdrawals from the Insight DGF (£9.75m) with the remainder from cash balances.

15. The realignment of the fixed income portfolio was finally completed in October, with the transfer of £30m from the Blackrock Sterling Corporate Bonds fund to the LCIV Global Bond Fund.

### **Progress Since the 24 November meeting**

16. LCIV MAC Fund – further to previous reports, the “single manager” LCIV Alternative Credit Fund has been completed, and the transition of Harrow’s investment from the LCIV MAC Fund was completed on 31 January 2022. The underlying manager for the LCIV Alternative Credit Fund continues to be CQS. At the point of transfer, Harrow’s holding was effectively “ex dividend” (dividends are payable on 28<sup>th</sup> February 2022). Therefore, on 28<sup>th</sup> February, Harrow’s dividend, £3.5m, will be reinvest into the LCIV Alternative Credit Fund. As previously advised, LCIV has agreed that this transition would be carried out at zero cost to LBH and the other funds which have been similarly affected by the restructuring of the LCIV MAC Fund.
17. LaSalle Property Fund – discussions are continuing, but there have been no developments to report since the last meeting. Should this position change Aon will update the Committee at the meeting.
18. At the time of writing this report, the January valuation of the Fund’s investments had not been completed. However, during the month, equities were more volatile and market valuations fell as a result of uncertainties linked to inflationary pressures and potential interest rate rises in developed economies, together with geopolitical tensions. The January valuation update will be circulated as late material for the Committee.

### **Emerging Market Equities Review 4 February 2022**

19. As part of the follow-up from the “manager day” held on 2 November 2021, as agreed at the last meeting, the Committee met a number of managers of Emerging Market Equities on 4 February 2022.
20. Following that meeting, Aon have worked with officers to recommend a way forward – this is set out in detail in a separate report in part 2 of this agenda.

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

21. At its meeting on 16<sup>th</sup> December 2021, the Pension Board
  - Considered a report on the Pensions Administration performance, including updates on McCloud and other matters.
  - Considered draft Conflicts of Interest and Breaches policies. The Board made suggestions which have been incorporated in the drafts for review and approval by the Committee elsewhere on this agenda.
  - Noted a report on the outcome of the audit of the Pension Fund Annual Report and Accounts for 2020-21 (see below). and Investment Pooling,
  - Reviewed the Fund’s Risk Register,
  - And agreed a work programme for the remainder of 2021-22.
22. At its meeting on 3 March 2022 the Board will

- Consider a report on the Pensions Administration performance, including updates on McCloud and other matters
  - Consider a draft Fund Administration Strategy and a Draft Fund Training policy. These are reported elsewhere on this agenda, and the Board's comments will be reported as late material.
  - Consider a report on the Government actuary's section 13 report on the 2019 triennial valuation. This is covered elsewhere on this agenda.
  - And be asked to approve a draft work programme for 2022-23.
23. At the time of writing this report, the 3 March meeting had not taken place. Any additional comments arising from that meeting will be reported to the Committee as late material.

## **F Other Matters**

24. The external audit of the Pension Fund Annual Report and Accounts for 2020-21 was completed and the audit certification (including the certificate of consistency between the PF accounts and the Council's own accounts) was issued on 26 January 2022. This meant that LBH was unable to meet the statutory deadline for publication of audited accounts (1 December 2021). This was reported to the Scheme Advisory Board, who were advised that the delay arose from Mazars' own internal procedures, and not because of any action or inaction by LBH or its officers. It should be noted that a number of LGPS Funds were in similar positions, and that these were not all being audited by Mazars.
25. The audit findings were reported to the GARMS Committee on 30 November 2021. Mazars' audit completion Report in respect of the pension fund audit is shown at appendix 6. This shows a successful outcome – in particular there were no matters of concern to report, and an unqualified opinion has been issued in respect of the accounts
26. The auditors made one “emphasis of matter” – the ongoing uncertainty regarding the valuations of property investments which is stated in the Royal Institute of Chartered Surveyors' (RICS guidance). This is a purely technical item, and one which will be common to most LGPS Funds, as the majority will hold some property investments. At 31 March 2021 the value of the fund's property investments was £61.561m – 6.3% of the fund's total assets (£967.984m).
27. There was only one change from the version submitted – to note 23: Additional Voluntary Contributions. As reported previously, there had been some delays in receiving information from one of the AVC providers, Prudential. That information was eventually received and the note updated accordingly. For ease of reference, rather than appending the entire Annual Report and Accounts document again, the updated note 23 is reproduced below. This is a stand alone note (AVC's are invested outside of the Pension Fund) and did not affect any other part of the accounts.

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31 March 2020		Market value 31 March 2021
£'000		£'000
2,268	Prudential Assurance	2,676
553	Clerical Medical	617
224	Utmost (Previously Equitable Life)	237
<b>3,045</b>		<b>3,530</b>

28. The Annual Report and accounts are now published on the Harrow Pensions website at <https://www.harrowpensionfund.org/resources/annual-report-and-pension-fund-final-accounts-2020-2021/>
29. Preparations are underway for the production and audit of the 2021-22 Annual Report and Accounts.

### Legal Implications

30. There are no direct legal implications arising from this report.

### Financial Implications

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

### Risk Management Implications

32. Risks included on corporate or directorate risk register? **No**  
Separate risk register in place? **Yes**
33. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The latest review is to be carried out at this meeting – see report elsewhere on the agenda.
34. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

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

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

### **Council Priorities**

36. The performance of the Pension Fund 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**

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 23/02/2022**

**Statutory Officer: Sharon Clarke**

Signed on behalf of the Monitoring Officer

**Date: 24/02/2022**

**Chief Officer: Charlie Stewart**

Signed by / on behalf of the Corporate Director

**Date: 25/02/2022**

## **Mandatory Checks**

**Ward Councillors notified: Not Applicable**

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

**Contact:** Jeremy Randall – Interim Pensions Manager

Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

Telephone 020 8736 6552

**Background Papers:** None