

**Report for: Pension Fund  
Committee**

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| <b>Date of Meeting:</b>     | 23 November 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>              | Appendices 3 and 4 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>          | <p><b>Appendix 1</b> - Investment Dashboard as at 30 September 2022 (Aon)</p> <p><b>Appendix 2</b> - PIRC Local Authority Pension Performance Indicators to 30 September 2022</p> <p><b>Appendix 3</b> - Manager Monitoring Report - Executive Summary (Aon) (Exempt)</p> <p><b>Appendix 4</b> – Investment Manager Updates - Report from Independent Advisor (Exempt)</p> <p><b>Appendix 5</b> - Fund Valuation as at 30 September 2022</p> <p><b>Appendix 6</b> – October Fund Valuation</p> |

## **Section 1 – Summary and Recommendations**

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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 30 September 2022
- Update on Pension Board

### **Recommendations:**

The Committee is requested to:

1. Review and comment as necessary on the performance and investment dashboard report
2. Approve the draft work programme for the remainder of 2022-23.

## **Section 2 – Report**

### **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 30 September 2022 (Sub-section D and Appendix 5)
  - Issues raised by Pension Board (Sub-section E)
  - Other matters (Sub-Section F)

### **Draft Work Programme 2022-23**

- The date set for future meetings of the Committee in the 2022-23 municipal year have been provisionally set as Wednesday 29 March 2023
2. An outline work programme has been drafted – the following items are currently expected to be reported to that meeting:
  - Regular items update

- Draft work programme for 2023-24
  - Pension Board items
  - Performance Dashboard / Fund valuation
  - ESG dashboard
- External audit report on 2021-22 Pension Fund Accounts
  - Triennial Valuation Final Report
    - Approval of Funding Strategy Statement and related policies
  - Investment Strategy Review
3. The meeting is currently scheduled to start at 6.30pm. It is intended that a training session will be held before the meeting, beginning at 5.30pm. Detailed arrangements for this meeting will be confirmed nearer the date.
  4. 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.

### **Summary Performance Dashboard for Period Ended 30 September 2022**

5. 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.
6. The investment dashboard shows the Pension Fund's estimated Investment Funding Level of 116% as at 30 September 2022 and the fund assets (£911m) and liabilities (£786m). This estimate of liabilities is a rolled forward projection based on the 2022 actuarial valuation, the initial results of which were reported to the Committee at its last meeting.
7. The estimated funding level has improved since the 2022 valuation. This is driven by the fact that the expected return (discount rate) has increased materially since the valuation largely driven by increasing interest rate expectations. This has reduced the liabilities substantially. The assets have held up well over this period of turbulence in financial markets and have not dropped to the same extent as the liabilities – hence the increased funding level. This update is at a single point in time, during a period of volatility in markets. Further market movements will lead to further fluctuations in funding level.
8. It should be noted also that the 116% funding level relates only to “past service” benefits (i.e. service accrued to date). As a scheme which is “open” (i.e. both to future accrual of benefits for existing members and to new joiners), the Fund will also have to meet significant liabilities in respect of future service, which will in turn depend on pay levels and other factors. No de-risking actions are recommended at the current time.
9. The 2022 Triennial valuation is ongoing - initial “whole fund” results were reported to the Committee's last meeting. A further report on the Triennial Valuation, including the draft Funding Strategy Statement appears later on the agenda for this meeting.

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 (81%) 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 82.5%.
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. The performance in all of these timeframes was below the fund benchmark. This is in part due to the poor performance of the two equity managers which the Fund has replaced in the period since March 2021.
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. **These appendices (3 and 4) are exempt, so any discussion of the detail therein will need to be undertaken in Part II of the meeting.**

#### **Fund Performance and Valuation for Period Ended 30 September 2022 and subsequent activity**

13. Appendix 5 sets out the change in the market value of the Fund’s investments from 31 March 2022 to 30 September 2022. 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 30 September 2022 had fallen over the quarter to £898.8m (from £928.9m as at 30 June 2022). However, the Committee should note that withdrawals totalling £12m from global equities (£6m each from LCIV Global Equity Focus Fund and Blackrock Passive) to meet the cash settlements required for currency hedging in early October had been processed in the equities valuation, but the cash settlement was not received in the Fund’s bank account until 3 October 2022. This arises because of the normal delay between the transaction date and the settlement date (3 business days)/
14. The values of most asset classes fell slightly during the quarter – this was due to the continuing inflationary pressures on the global economy and expectations of rises in interest rates. As previously reported, the fall in the value of the £ relative to the US dollar impacted negatively on the Fund’s currency hedging positions. This was exacerbated by the political challenges in the UK at that end of September, which meant that £19.6m of hedging cash settlements was required. As this hedging loss offset some gains in equities during the quarter, redemptions were made from the Fund’s overweight equity holdings to meet the cash calls.
15. During the quarter there were several drawdowns against the Fund’s commitments to the LCIV Infrastructure Fund (£6.6m approx.) and the LCIV

Renewables Infrastructure Fund (£3.0m approx.). A further drawdown of £4.3m for the LCIV Infrastructure Fund was paid in October. That fund is has now drawn down 64.8% of commitments, and the LCIV Renewables Infrastructure Fund has drawn down 30.2% of commitments. As previously approved by the Committee, these drawdowns are being mainly funded by withdrawals from the Insight DGF, with the remainder from cash balances.

16. Following the decision of the Committee at its last meeting, some rebalancing has been carried out – following recommendations from Aon, the transactions have been as follows

- Withdraw £15m from LCIV Global equity Focus Fund
- Withdraw £15m from Blackrock passive equity
- Invest £12m in Blackrock Sterling Corporate Bonds
- Invest £12m in Blackrock Passive Index Linked Gilts
- Invest £50 in Blackrock Sterling Liquidity (cash) fund
- Retain £1m in Nat West for cash flow purposes.

These transactions have been completed during November 2022, will bring the Fund back closer to its strategic benchmark allocations.

17. LaSalle Property Fund – further to the report at the last meeting, an oral update on progress will be given in Part 2 of this meeting.

### **Meetings of Pension Board**

18. At its meeting on 6 October 2022 the Board:

- Considered a report on the Pensions Administration performance, including updates on McCloud, the Public Sector £95k cap on “special severance payments” and progress with the Triennial Valuation.
- The Draft Pension Fund Annual Report and Accounts for 2021-22
- Reviewed the Pension Fund Risk Register
- Considered a report on the TCFD Consultation
- And approved a draft work programme for the remainder of 2022-23.

19. The Board’s meetings in the remainder of the 2022-23 municipal year are:

- 1 December 2022
- 2 March 2023

### **Annual Report and Accounts 2021-22 – Update on Progress of Audit**

20. At its last meeting the Committee reviewed the Fund’s draft Annual Report and accounts for 2021-22. The Pension Fund audit is nearing completion, and no significant issues have been identified. However, before the audit can be signed off, the auditor is required to and issue a “Certificate of Consistency” (which confirms that the Pension Fund Annual Report and accounts align with the Council’s main accounts). This cannot be issued until Mazars complete the audit of the Council’s “main” accounts.

21. A report will be made to the GARMS Committee on 30 November 2022, and Mazars will present the Pension Fund Audit Findings report to this Committee once the audit has been completed.

## **Legal Implications**

22. There are no direct legal implications arising from this report.
23. The Pension Fund Committee has the following powers and duties:
- i. to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;
  - ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
  - iii. to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
  - iv. to establish a strategy for the disposition of the pension investment portfolio; and
  - v. to appoint and determine the investment managers' delegation of powers of management of the fund;
  - vi. to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulations 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;
  - vii. to apply the arrangements set out in (vi) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups.

## **Financial Implications**

24. 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**

25. Risks included on corporate or directorate risk register? **No**  
Separate risk register in place? **Yes**
26. 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.
27. 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**

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

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Dawn Calvert**  
Signed by the Chief Financial Officer  
**Date: 10/11/2022**

**Statutory Officer: Sharon Clarke**  
Signed on behalf of the Monitoring Officer  
**Date: 10/11/2022**

**Chief Officer: Dawn Calvert**  
Signed on behalf of the Chief Executive  
**Date: 10/11/2022**

## **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