



**REPORT FOR: Pension Fund
Committee**

Date of Meeting:	19 September 2023
Subject:	Investments & Managers Performance Review
Responsible Officer:	Sharon Daniels – Acting Director of Finance and Assurance
Exempt:	No - except for Appendix 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)
Wards affected:	List Ward(s) affected by decision. None
Enclosures:	Appendix 1: Investment Dashboard as at 30 June 2023 (Aon) Appendix 2: PIRC Local Authority Pension Performance Indicators to 30 June 2023 (Exempt) Appendix 3 - Executive Summary of Manager Monitoring Report (Aon) (Exempt) Appendix 4 - Report from Independent Advisor Appendix 5a & 5b – Fund Valuation as at 30 June 2023 & 31 August 2023

Section 1 – Summary and Recommendations

This report updates the Committee on regular items as follows:

- Draft work programme for the remainder of 2023-24 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 June 2023 and 31st August 2023
- Update on Audit of Annual Report and Accounts for 2021-22

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 the remainder of 2023-24.

Section 2 – Report

A. Introduction

1. This report updates the Committee on regular items as follows:
 - Draft work programme for 2023-24 (Sub-section B)
 - Investment and Manager Performance Dashboard (Sub-section C) and Appendix 1-4
 - Fund Performance and actions for periods ended 30 June 2023 (Sub-section D and Appendix 5)
 - Issues raised by Pension Board (Sub-section E)
 - Audit of 2021-22 Annual Report and Accounts (Sub-section F)
 - Other matters

B. Draft Work Programme 2023-24

2. The dates set for future meetings of the Committee in the 2023-24 were approved by the Council on 18 May 2023.
3. The outline work programme reported to the Committee in March 2023 has been updated – the following items are currently expected to be reported to the Committee's quarterly meetings

Meeting	Item
All Meetings	Regular Items update <ul style="list-style-type: none">- Work Programme- Pension Board Items- Performance- Fund valuation / Dashboard- Manager Monitoring
19 September 2023	Draft PF Annual report 2022-23

	Review of Internal Controls at Investment Managers
	LCIV and Investment Pooling Update
	Investment Strategy Review
21 November 2023	Outcome of Audit of Accounts for 2021-22
	Actuarial Services Contract – outcome of tender process
	External Audit Plan for 2022-23
	Review of Pension Fund Risk Register
	Investment Strategy Review
12 March 2024	Investment Strategy Review
	LCIV and Investment Pooling Update
	Investment Consultancy Services Contract – outcome of tender process
	Climate Change Reporting Update
Items to be scheduled when information is available	
	Consultation on Investment Pooling
	Outcome of TCFD Consultation
	External Audit Report on 2022-23 Accounts

4. All 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 the training sessions and meetings will be confirmed nearer the date.
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.
6. In addition to the “regular” quarterly meetings, the Committee may wish to schedule other (informal) sessions for specific reasons – e.g., in 2022 the Committee had sessions covering Responsible Investment and to identify a replacement Emerging Markets Equity Manager, and in Investment strategy session was held in May 2023. The Committee may also wish to consider whether it wishes to have a “manager review day” this year.

C. Summary Performance Dashboard for Period Ended 30 June 2023

7. 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.
8. The investment dashboard shows the Pension Fund’s estimated Investment Funding Level of 122.5% as at 30 June 2023 and the fund assets (£975m) and liabilities (£796m). This estimate of liabilities is a rolled forward projection based on the 2022 actuarial valuation, the final results of which were reported to the Committee at its meeting on 29 March 2023.

9. 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 what has been a volatile period in financial markets and their values 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 – the recent additional increases in interest rates are likely to have increased the funding level further.
10. It should be noted that the 122.5% 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.
11. 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 (78%) and a summary of manager performance and manager rating. The Strategic Benchmark allocation to assets pooled or counted as being pooled is 82.5%. The commitments which are yet to be drawn down in respect of the LCIV Infrastructure and LCIV Renewables Infrastructure Funds account for most of the gap.
12. 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 Fund has underperformed against its benchmark in the second quarter of 2023, and for all longer timeframes performance was also below the fund benchmark.
13. **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.**

D. Fund Performance and Valuation for Period Ended 30 June 2023 and subsequent activity

14. **Appendix 5a** sets out the change in the market value of the Fund’s investments from 30th June 2022 to 30th June 2023. 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 30th June 2023 rose to £978m in the quarter from £969m (at 31st March 2023).

15. The value of equities increased during the quarter by some £6.3m and the value of bonds reduced during the quarter by some £3.4m. Global equities performed well again this quarter. The MSCI Index gained 3.9% in Sterling terms during the period, boosting the gain over 6 months to 8.9%, and the one year return to 13.2%.
16. Artificial Intelligence (“AI”) was the dominant theme in the equity markets. Leadership here was concentrated in a small number of companies which are expected to be big winners as the use of AI applications expands. This left most of the rest of the market grappling with slower growth, higher funding costs and the implications of the rapid slowdown in China on demand for everything from luxury goods to industrial commodities. Returns from equities have varied in a wide range across investing styles, sectors and geographies.
17. Emerging markets companies have not joined the party, in large part because the Chinese economy has stuttered. The MSCI Emerging Markets Index has lost 2.8% over one year and is lagging the MSCI World Index by more than 15%.
18. Fears of un-anchored UK inflation have pushed up expectations for further rate hikes. However, there could become a point where higher interest rates could reach a level where they shift from being supportive for the British pound (GBP) to a negative.

E. Meetings of Pension Board

19. At each meeting, the Board considers reports on
 - Pensions Administration Performance, which include legislation updates and the work of the Scheme Advisory Board,
 - Matters considered by this Committee,
 - Its future work programme.
20. In addition, at its meeting on 12 July 2023 the Board considered reports on the following subjects
 - Review of the Pension Fund Risk Register
 - Pension Fund Governance Compliance Statement

These items appear elsewhere on the agenda for this meeting – the Board’s comments on these items will be circulated as late material.

The Board also approved the annual report on its work for the 2022-23 municipal year to be submitted to the Council in September 2023.
21. The dates of the Board’s meetings for the remainder of 2023-24 are as follows
 - 30 October 2023
 - 11 December 2023
 - 19 March 2024.

F. Annual Report and Accounts 2021-22 – Update on Progress of Audit

22. At its October 2022 meeting the Committee reviewed the Fund's draft Annual Report and Accounts for 2021-22. The audit of these is being carried out by Mazars. This audit is largely complete – there have been no material changes to the draft accounts presented to the Committee in October 2022, and only a small number of presentational and disclosure changes to some of the Notes to the accounts. However, as previously reported, the audit cannot be completed until the audit of the Council's own accounts is finalised – the reason for this is that the auditor is required to confirm that the Pension Fund Annual Report and Accounts align with the Council's main accounts, and there are some technical issues involving valuation of certain types of assets being worked through in respect of the Council's accounts.
23. A further consequence of the delay, is that for the 2021-22 draft accounts, as would normally be expected, the calculations of pension liabilities (IAS26 for the Pension Fund, IAS19 for the position of LBH as an employer in the Council's main accounts) were made using a "roll forward" from the 2019 triennial valuation data. The delay in the audit process means that the 2022 Triennial Valuation results have been published before the 2021-22 accounts are signed off, hence the IAS26 and IAS19 calculations at 31 March 2022 have been updated to use the 2022 triennial valuation data. The size of the total liability is such that any variation, even a small one, will breach the accounting materiality threshold, hence the auditors are obtaining assurance regarding the data submitted by LBH to be used in those calculations. This is creating a further delay in the process. However, the Committee should be aware that this is a national issue, and a significant number of other LGPS funds and administering authorities are experiencing similar issues. The Auditors reported to the Governance, Audit, Risk Management and Standards Committee at their July 2023 meeting confirming expectations of committee members that they need more time to complete the audit work.
24. The auditors, Mazars, are aware that this Committee wishes them to present their report on the outcome of the audit – this is scheduled for the Committee's next meeting on 21 November 2023.

G. Other Matters – Government Consultations affecting the LGPS

25. At the annual Mansion House dinner, during his speech the chancellor announced reforms for the LGPS in England and Wales, covering asset pooling, levelling up and opportunities in private equity. Following this, the next day, the Department for Levelling Up Housing and Communities (DLUHC), published a consultation on the areas the chancellor highlighted in his speech. Please see the link below for the consultation:
[Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)
26. Primarily the consultation covers five areas:
- i. Acceleration and expansion of pooling - all assets into the pools by 2025 and each investment pool to be £50bn+ which could mean pool consolidation.
 - ii. Expectation for funds to invest up to 5% of assets, supporting UK levelling up

- iii. Increase investments in unlisted equity - looking for a 10% allocation to private equity
- iv. Amendments to LGPS regulations around the use of investment consultants - Officially implementing CMA requirements on investment consultants
- v. Technical changes to definition of investments within LGPS regulations

27. This consultation closes at 11:59pm on 2 October 2023.

Legal Implications

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

29. 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.

Financial Implications

30. 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

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

32. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The latest review appears elsewhere on this agenda.

33. 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

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

Council Priorities

35. 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: Sharon Daniels

Signed by the Chief Financial Officer

Date: 7th September 2023

Statutory Officer: Sharon Clarke

Signed on behalf of the Monitoring Officer

Date: 7th September 2023

Chief Officer: Sharon Daniels

Signed on behalf of the Chief Executive

Date: 7th September 2023

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Bola Tobun – Treasury and Pensions Manager

Email: Bola.Tobun@harrow.gov.uk

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Background Papers: None