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**REPORT FOR: Pension Fund  
Committee**

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<b>Date of Meeting:</b>	20 December 2023
<b>Subject:</b>	Investments & Managers Performance Review
<b>Responsible Officer:</b>	Sharon Daniels – Acting Director of Finance and Assurance
<b>Exempt:</b>	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)
<b>Wards affected:</b>	None
<b>Enclosures:</b>	Appendix 1: Investment Dashboard as at 30 September 2023 (Aon) Appendix 2: PIRC Local Authority Pension Performance Indicators to 30 September 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 September 2023 & 31 October 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 September 2023 and 31<sup>st</sup> October 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 remaining meeting

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>- Manager Monitoring</li></ul>

<b>12 March 2024</b>	Investment Strategy Review
	LCIV and Investment Pooling Update
	Investment Consultancy Services Contract – outcome of tender process
	Climate Change Reporting Update
	Review of PF Risk register
<b>Items to be scheduled when information is available</b>	
	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 2023 the Committee had sessions covering the Investment Strategy in May 2023 and a “manager review day” in October 2023.

### **C. Summary Performance Dashboard for Period Ended 30 September 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 125.3% as at 30 September 2023 and the fund assets (£970m) and liabilities (£774m). 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 – for example, the value of investments fell by £18m (1.8%) in October 2023, and further changes in interest rates will affect the value of liabilities.

10. It should also be noted that the 125.3% funding level relates only to “past service” benefits (i.e. service accrued to date). As a scheme which is “open” 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 in passively managed investments under fee arrangements negotiated by the CIV (79.7%) 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 again underperformed against its benchmark in the third quarter of 2023, and for all longer time frames 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 September 2023 and subsequent activity**

14. **Appendix 5a** sets out the change in the market value of the Fund’s investments from 31<sup>st</sup> March 2023 to 30<sup>th</sup> September 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 30<sup>th</sup> September 2023 fell by £16.4m in the quarter from £968.7m (at 30<sup>th</sup> June 2023). The value of equities fell during the quarter by approximately £15m while the value of the fixed income investments remained broadly stable.
15. During the quarter there were 2 drawdowns against the Fund’s commitments to the LCIV Infrastructure Fund (£2m in total) and 1 drawdown against the commitment to the LCIV Renewables Infrastructure Fund £0.2m.
16. **Appendix 5b** shows the valuation of the Fund’s investments at 31 October 2023. The value fell by £18m (1.9%) in the month of October – the majority of this being equities (£12m) as markets fell by 2.3%, while the fixed income investments fell by £2m (1.1%). The Fund’s cash holdings fell by £4m as a

result of specific cash flow requirements, including drawdowns for the LCIV private market investments as detailed below.

17. There have been further drawdowns in the current quarter to date (7<sup>th</sup> December 2023)
  - LCIV Infrastructure Fund (2 drawdowns, total £2.9m) – £53.2m (78.2%) of the Fund's commitment of £68m to this Fund has now been drawn down. The first income distribution from this Fund is due in December it is expected to be between £0.9m and £1m.
  - LCIV Renewables Infrastructure Fund (2 drawdowns £0.4m total) - £21.6m (43.1%) of the Fund's commitment of £68m to this Fund has now been drawn down.

It is expected that there will be further drawdowns either in December or early January.
18. Two withdrawals have been made from the Insight DGF totalling £10m to meet actual and expected cash flow requirements (mainly the drawdowns from the LCIV funds as described above).
19. At its last meeting, the Committee approved changes to its investment strategy – progress in respect of those is set out in a separate report elsewhere on this agenda.

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

20. At each meeting, the Board considers reports on
  - Pensions Administration Performance,
  - LGPS Update, which includes legislation updates and the work of the Scheme Advisory Board,
  - Matters considered by this Committee,
  - Its future work programme.
21. In addition, at its meeting on 30 October 2023 the Board considered reports on the following subjects
  - LAPFF report on Engagement and Voting
  - Draft LBH PF Annual Report and Accounts 2022-23
  - LCIV / Investment Pooling Update.
22. The dates of the Board's meetings for the remainder of 2023-24 are as follows
  - January 2024 (date tbc) – the scheduled meeting on 11 December 2023 has had to be moved because of staffing changes.
  - 19 March 2024.

## **Legal Implications**

23. There are no direct legal implications arising from this report.
24. 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**

25. 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**

26. Risks included on corporate or directorate risk register? **No**  
Separate risk register in place? **Yes**
27. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The most recent was reported to the Committee in July 2023.
28. 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**

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

## **Council Priorities**

30. 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: 11 December 2023**

**Statutory Officer: Sharon Clarke**

Signed on behalf of the Monitoring Officer

**Date: 7 December 2023**

**Chief Officer: Sharon Daniels**

Signed on behalf of the Managing Director

**Date: 11 December 2023**

## **Mandatory Checks**

**Ward Councillors notified: Not Applicable**

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

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

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**Background Papers:** None