

# Pension Fund Committee

## SUPPLEMENTAL AGENDA

**DATE: Monday 18 September 2017**

### AGENDA - PART I

10. **INFORMATION REPORT - QUARTERLY TRIGGER MONITORING** (Pages 3 - 10)

Report of the Director of Finance.

12. **PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS** (Pages 11 - 16)

Report of the Director of Finance.

### AGENDA - PART II

15. **INVESTMENT STRATEGY REVIEW** (Pages 17 - 32)

Report of the Director of Finance.

*Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda items have been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-*

Agenda item

10/12/15. Information report –  
Quarterly Trigger Monitoring/  
Pension Fund Committee  
– Update on Regular Items/  
Investment Strategy Review  
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Special Circumstances/Grounds for Urgency

The reports were not available at the time the agenda was printed and circulated, as they were being consulted on. Members are requested to consider these items, as a matter of urgency, to allow them to make decisions on these matters earlier rather than wait until

the next meeting.

**REPORT FOR: Pension Fund Committee**

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**Date of Meeting:** 18 September 2017

**Subject:** Quarterly Trigger Monitoring Q2 2017

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Quarterly Trigger Monitoring Q2 2017  
(Aon Hewitt)

**Section 1 – Summary and Recommendation**

**Summary**

The Committee is requested to receive and consider a report from the Fund's investment advisers Aon Hewitt on Quarterly Trigger Monitoring in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

**Recommendation**

The Committee is recommended to consider the attached report from Aon Hewitt and agree that no de-risking actions are taken at this stage.

## **Section 2 – Report**

1. At their meeting on 8 September 2015 the Committee considered a report entitled “Options for Liability Driven Investments (LDI) Strategy. After discussion they resolved:

*That the status quo, a 13% Bond allocation invested in a combination of corporate bonds and index-linked gilts, be retained in relation to the Fund’s Bond portfolio and that Aon Hewitt be requested to provide guidance on the catalysts that would trigger a move to an LDI Strategy with Option 2 being the preferred Option.*

2. On 25 November 2015 the Committee considered a further report from Aon Hewitt which set out options for taking forward the consideration of an LDI Strategy. They resolved:

*That they should receive a short report on funding levels at the next meeting of the Committee and thereafter on a quarterly basis.*

3. Attached is the report for the period up to 31 June 2017. The Committee are invited to receive this report and presentation from Aon Hewitt and to accept the conclusion that “No de-risking actions are recommended at the current time.”

### **Financial Implications**

4. The consideration of strategy changes is an important part of the management of the Pension Fund investments and the performance of the Fund’s investments plays an extremely important part in the financial standing of the Fund. The only financial implications arising from this report are those associated with not making any strategic changes and continuing to accept the current levels of risk.

### **Risk Management Implications**

5. The risks arising from investment performance are included in the Pension Fund risk register.

### **Equalities implications**

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

### **Council Priorities**

7. Investment performance has a direct impact on the financial health of the Pension Fund which 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**

Name: Dawn Calvert  Director of Finance

Date: 6 September 2017

Name: Noopur Talwar  on behalf of the  
Monitoring Officer

Date: 7 September 2017

**Ward Councillors notified: NO**

### **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208  
424 1432

**Background Papers – None**

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

Date: 18 September 2017  
 Prepared for: Pension Fund Committee ('the Committee')  
 Prepared by: Colin Cartwright  
 Joseph Peach

## Quarterly Trigger Monitoring - Q2 2017

**Introduction**

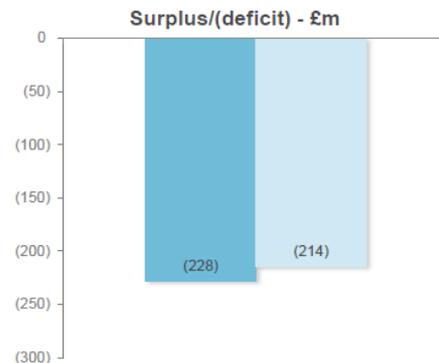
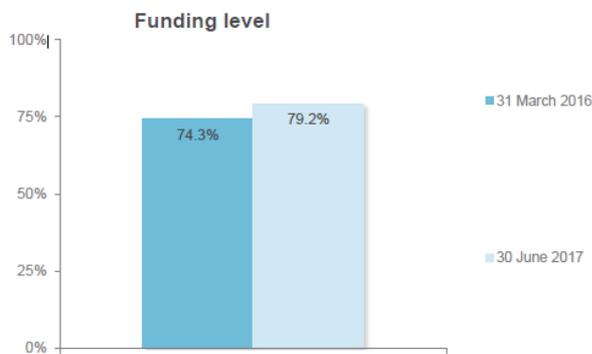
The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt'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 2016.

The funding level as at 30 June 2017 was 79.2%, compared to 74.3% as at 31 March 2016.



**Ongoing funding basis**

£m	31 Mar 2016	31 Mar 2017	30 Jun 2017
Assets	661	807	815
Liabilities	889	1,041	1,030
Surplus/(deficit)	(228)	(235)	(214)
Funding level	74.3%	77.5%	79.2%

Source: Hymans Robertson

Registered office:

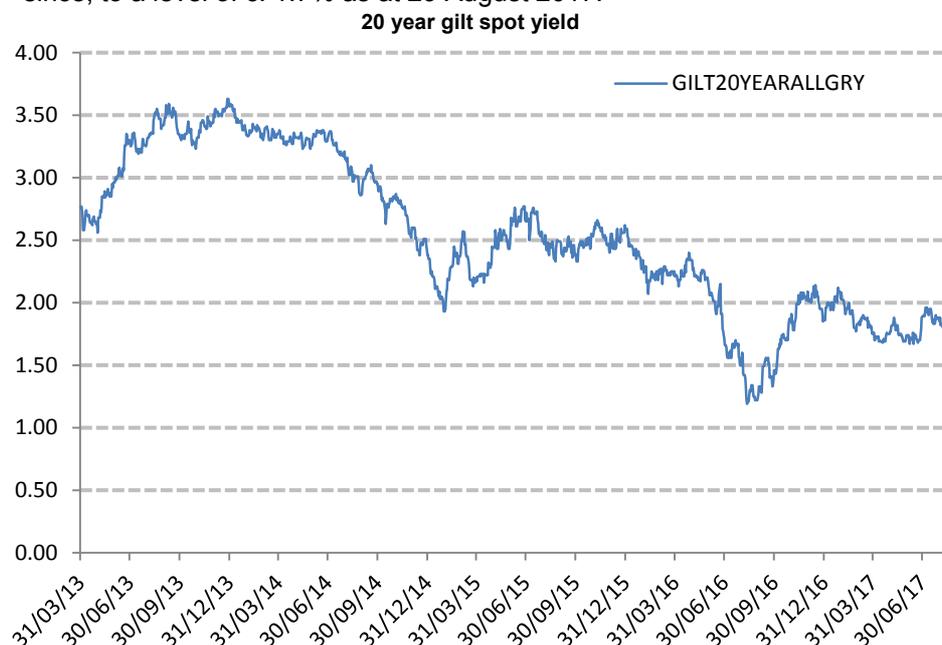
The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

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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 29 August 2017. Yields ended the second quarter of 2017 at c.1.9%, a rise from their c. 1.8% level at the end of Q1 2017. Yields rose marginally shortly after the end of Q2 2017, but have fallen again since, to a level of c. 1.7% as at 29 August 2017.



## Aon Hewitt views on bond yields

The table below sets out Aon Hewitt's views versus the market in terms of spot and forward rates as at 9 August 2017.

### Summary of market spot and forward rates versus Aon Hewitt's views

	9 August 2017	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
<b>Real</b>	-1.7%	-1.5%	-0.9%	+0.6%	-1.5%	-0.7%	+0.8%
<b>Nominal</b>	+1.8%	+2.1%	+2.5%	+0.4%	+2.2%	+2.8%	+0.6%
<b>Breakeven*</b>	+3.6%	+3.7%	+3.4%	-0.3%	+3.8%	+3.5%	-0.3%

\* AH view on breakeven inflation includes an allowance for an inflation risk premium above expected inflation  
Totals may not sum exactly due to rounding

As shown by these figures, we believe that rates will rise faster than the market is indicating. We also believe that the market is overstating breakeven inflation expectations.

## Conclusion

Whilst there has been an improvement in funding level, long term bond yields remain at low levels. Aon Hewitt believe that yields will rise faster than indicated by the market over the next three and five year period.

No de-risking actions are recommended at the current time, whilst the Fund's revised investment strategy is implemented.

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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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**REPORT FOR: Pension Fund Committee**

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<b>Date of Meeting:</b>	18 September 2017
<b>Subject:</b>	Pension Fund Committee - Update on Regular Items
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No.
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Fund Valuation and Performance

**Section 1 – Summary and recommendation**

**Summary**

This report updates the Committee on regular items as follows:

- Draft work programme on which the Committee's comments and agreement are requested.
- Performance of fund managers for previous periods
- 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 2018 be agreed.

## **Section 2 – Report**

### **A Introduction**

1. This report updates the Committee on regular items as follows:
  - Draft work programme for 2017-18 (Sub-section B)
  - Performance of fund managers for periods ended 30 June 2017 (Sub-section C)
  - Issues raised by Pension Board (Sub-section D)

### **B Draft Work Programme 2017-18**

2. Below is a draft for the Committee to consider as its programme of work for 2017-18.

#### **11 October 2017 – “Meet the Managers”**

**(manager list to be confirmed)**

#### **21 November 2017**

Update on regular items:

- Draft work programme for 2017-18 and 2018-19
- Performance of fund managers for periods ended 30 September 2017
- Issues raised by Pension Board
- Pooling and London Collective Investment Vehicle

Review of investment manager contract

Investment Strategy Review

Investment manager monitoring

Quarterly trigger monitoring

Environmental, social and governance Issues

Annual Report and Financial Statements

Training session at 5.30 – tbc

#### **7 March 2018**

Update on regular items:

- Draft work programme for 2018-19
- Performance of fund managers for periods ended 31 December 2017
- Issues raised by Pension Board

Investment manager monitoring

Pooling and London Collective Investment Vehicle

Monitoring of operational controls at managers

External Audit plan

Training programme 2018-19

Quarterly trigger monitoring  
Environmental, social and governance Issues  
Training session at 5.30 – tbc

3. 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.
4. In addition to the Committee's work programme training opportunities will be offered for an hour prior to each meeting.

### **C Performance of Fund Managers for Period Ended 30 June 2017 and 31 July 2017**

5. Attached is a table summarising the Fund valuation at 30 June 2017 and 31 July 2017 and movement in the fund valuation for the year to date.
6. The Committee are aware that for periods up to 31 March 2016 performance data was provided by State Street Global Services but that this service is no longer available to the Fund. The Fund now subscribes to the service provided by Pension and Investment Consultants Limited (PIRC) but they do not yet have full coverage of the LGPS and the value of the service will need to be assessed over coming months. It is understood that PIRC now have 61 pension schemes within their universe which is sufficient for comparative data to be of value. Elsewhere on the agenda is a performance report from PIRC and the information arising therefrom will be available at all subsequent committee meetings.
7. The value of the Fund at the end of March 2017 had increased over the year from £661m to £807m (22%). This increase has been due mainly to the large increases in the values of the equities portfolios with their global bias and substantial valuations in dollars, euros and yen all of which have appreciated in value against sterling. There has also been a substantial "value" increase and significant percentage increase in the bonds portfolio. The Fund's hedging strategy has, of course, mitigated some of the gains. At the end of June 2017 the value of the Fund had increased further to £828m.
8. On 28<sup>th</sup> June the Committee agreed revisions to the investment strategy which included reducing the strategic asset allocation to global equities to 42% and to emerging market equities on a pro rata basis. The re-allocations are being made on a phased basis.

### **D Meeting of Pension Board on 12 September 2017**

9. The Pension Board meets at 2.00 on 12 September with the following agenda:
  - Information Report - Annual Review of Internal Controls at Insight Investments
  - Information Report - Knowledge and Understanding of Local Government Pension Scheme

- Information Report - London Borough of Harrow Pension Board: Draft Annual Report to Council
- London Collective Investment Vehicle Update
- Environmental, Social and Governance Issues - Approach of the London Collective Investment Vehicle
- Information Report - Pension Fund Committee Meeting on 28 June 2017
- 

10. Any matters raised by the Board will be reported verbally

### **Financial Implications**

11. There are several matters mentioned in this report, particularly asset allocation and manager performance which have 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**

12. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund.

### **Equalities implications**

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

### **Council Priorities**

14. 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	<input checked="" type="checkbox"/>	Director of Finance
Date: 6 September 2017		
Name: Noopur Talwar	<input checked="" type="checkbox"/>	On Behalf of Monitoring Officer
Date: 7 September 2017		

**Ward Councillors notified:**

**Not applicable**

## **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208  
424 1432

**Background Papers - None**

## Fund Valuation and Performance

30 June 2017 and 31 July 2017

Asset Class	Value 31.03.2017 £'000	Value 30.06.2017 £'000	Value 31.07.2017 £'000	Movement YTD (Mar to Jul17)	Allocation 31.07.2017 %	Strategic Allocation %	Strategic Range %
<b>Global Equities</b>							
Longview (Hedged)	86,214	89,140	89,384	3.68%	11		
State Street	267,791	269,022	272,387	1.72%	33		
GMO	94,156	96,292	98,298	4.40%	12		
Oldfields	83,455	81,258	81,723	-2.08%	10		
<b>Total Global Equities</b>	<u>531,616</u>	<u>535,711</u>	<u>541,791</u>				
<b>Total Equities</b>	<u>531,616</u>	<u>535,711</u>	<u>541,791</u>	1.91%	<u>66</u>	<u>50</u>	<u>TBC</u>
<b>Private Equity</b>							
Pantheon	19,341	17,902	17,902	-7.44%			
<b>Total Private Equity</b>	<u>19,341</u>	<u>17,902</u>	<u>17,902</u>		<u>2</u>	<u>5</u>	<u>4-6</u>
<b>Property</b>							
Aviva	64,409	65,150	65,155	1.16%			
<b>Total - property</b>	<u>64,409</u>	<u>65,150</u>	<u>65,155</u>		<u>8</u>	<u>10</u>	<u>8-12</u>
<b>Bonds</b>							
Blackrock - FI	80,804	80,703	80,812	0.01%	10	10	10
Blackrock - IL	20,079	20,261	20,001	-0.39%	2	3	3
<b>Total Bonds</b>	<u>100,883</u>	<u>100,964</u>	<u>100,813</u>	-0.07%	<u>12</u>	<u>13</u>	<u>11-15</u>
<b>Alternatives</b>							
Insight	29,096	29,533	29,820	2.49%	4		
Standard Life	29,324	29,623	29,781	1.56%	4		
<b>Total Alternatives</b>	<u>58,420</u>	<u>59,156</u>	<u>59,602</u>	2.02%	<u>8</u>	<u>22</u>	<u>TBC</u>
<b>Cash &amp; NCA</b>							
Cash Managers	52	52	781				
Cash NatWest	30,901	33,341	34,172				
Record passive currency hedge	-241	3,632	2,238				
Cash Custodian (JP Morgan)	12	6	1,645				
Debtors and Creditors	1,033	1,880	1,880				
CIV Investment	150	150	150				
<b>Total Net Current Assets</b>	<u>31,907</u>	<u>39,060</u>	<u>40,865</u>		<u>5</u>	<u>0</u>	
<b>Total Assets</b>	<u>806,576</u>	<u>817,944</u>	<u>826,128</u>	2.42%	<u>100</u>	<u>100</u>	

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