

# **Pension Fund Committee** TABLED **DOCUMENTS**

**DATE:** **Monday 18 September 2017**

## **AGENDA - PART I**

- 7. PERFORMANCE MEASUREMENT SERVICES** (Pages 3 - 14)

Appendix to the Report of the Director of Finance.

- 13. URGENT BUSINESS** (Pages 15 - 18)

Variation of Permissions

## **AGENDA - PART II**

- 18. ACTUARIAL CONTRACT APPOINTMENT** (Pages 19 - 26)

Report of the Director of Finance.

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**LOCAL AUTHORITY  
PENSION PERFORMANCE  
ANALYTICS**

**PIRC**

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**HARROW PENSION FUND**

*Performance Review to June 2017  
18<sup>th</sup> September 2017*

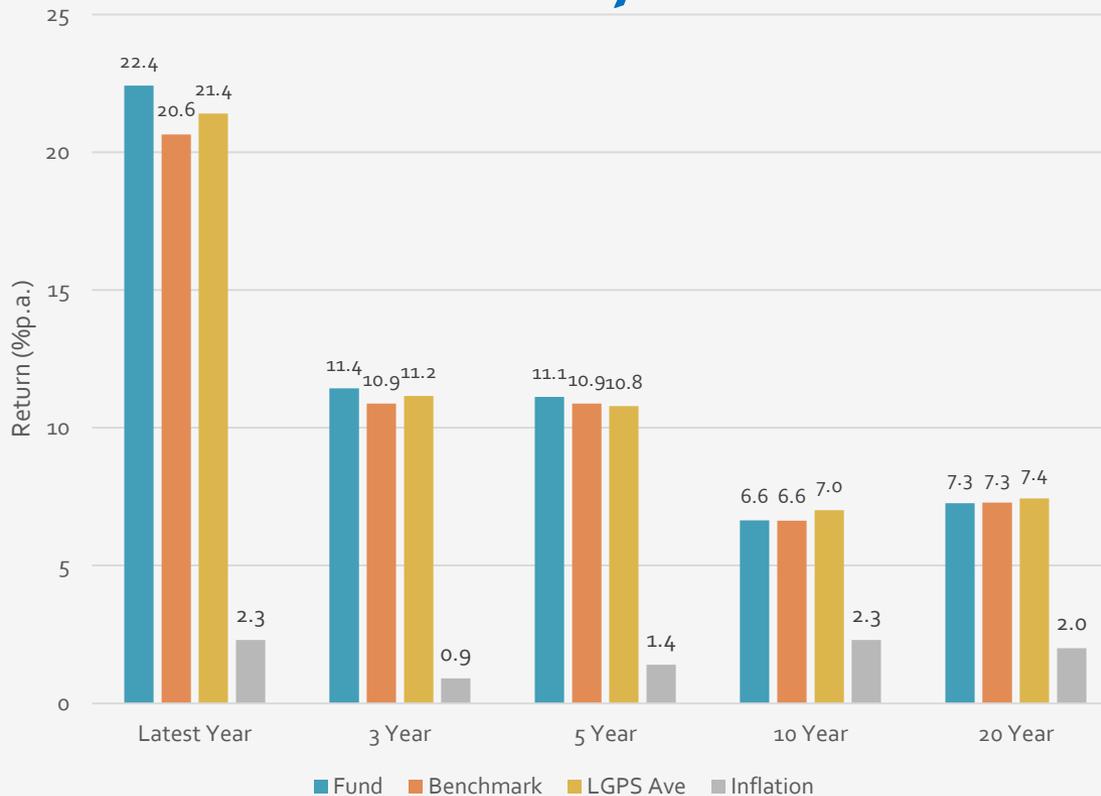
Agenda Item 7  
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# *Harrow Fund Structure – Latest Fiscal Year*

	31/03/2016		31/03/2017	
	Fund	BM	Fund	BM
<b>Equity</b>	<b>65</b>	<b>62</b>	<b>66</b>	<b>62</b>
Longview	11		11	
State Street	33		33	
GMO	11		12	
Oldfields	11		10	
<b>Private Equity</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>5</b>
Pantheon	3		2	
<b>Property</b>	<b>8</b>	<b>10</b>	<b>8</b>	<b>10</b>
Aviva	8		8	
<b>Bonds</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
Blackrock	13		13	
<b>Diversified Growth</b>	<b>8</b>	<b>10</b>	<b>7</b>	<b>10</b>
Insight	4		4	
Standard Life	4		4	
<b>Cash</b>	<b>2</b>		<b>4</b>	

- Fund invested close to Benchmark
- Little change over the year
- Asset drift has resulted in the equity allocation rising to 66%.

# Fund Performance – Fiscal Years



- The Fund has outperformed its benchmark and the peer group over the medium term
- Longer term, the Fund has performed in line with benchmark but modestly behind the Universe average
- Returns have consistently outpaced the important measure of inflation – and by a substantial margin

# Performance Relative to Benchmark – 2016/17

31/03/2016		31/03/2017		Asset All.	Manager		
Fund	BM	Fund	BM	Impact	Impact	TWR	BM
11	11	11	11	<b>0.0</b> Longview	<b>-0.3</b>	14.2	17.2
33	31	33	31	<b>0.3</b> State Street	<b>0.0</b>	33.0	33.0
11	10	12	10	<b>0.1</b> GMO	<b>-0.3</b>	31.8	34.7
11	10	10	10	<b>0.1</b> Oldfields	<b>1.6</b>	49.9	32.0
3	5	2	5	<b>-0.2</b> Pantheon	<b>-0.3</b>	19.9	33.0
8	10	8	10	<b>0.3</b> Aviva	<b>-0.1</b>	3.7	4.7
13	13	13	13	<b>0.0</b> Blackrock	<b>0.1</b>	15.7	15.1
4	5	4	5	<b>0.2</b> Insight	<b>0.2</b>	8.0	3.3
4	5	4	5	<b>0.1</b> Standard Life	<b>-0.1</b>	1.1	3.3
2	0	4		<b>-0.3</b> Cash		0.0	0.0
100	100	100	100	<b>0.6</b>	<b>0.8</b>	22.4	20.6

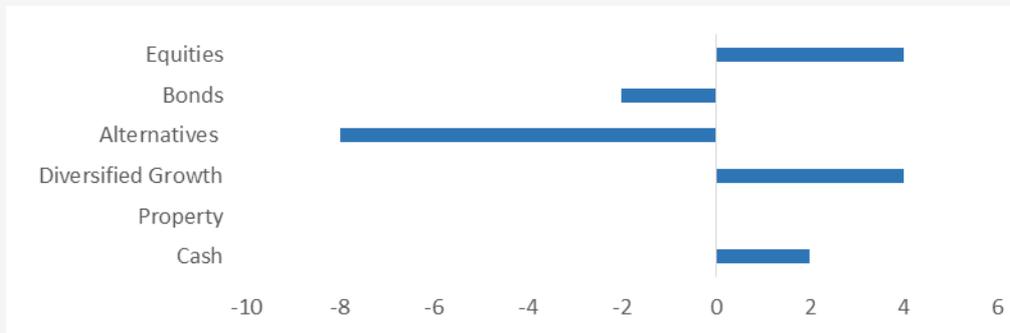
- In the latest year the Fund outperformed by 1.5%
- Strong performance from Oldfields more than offset underperformance from the other active equity managers.
- Being overweight equity and underweight property and 'DG' was beneficial

# Performance Relative to Peers – 2016/17

	Fund	Universe	Relative
Equities	32.3	28.9	2.6
Bonds	15.7	11.3	4.0
Alternatives	19.9	16	3.4
DG	4.6	7.2	-2.4
Property	3.7	6.2	-2.4
<b>Total</b>	<b>22.4</b>	<b>21.4</b>	<b>0.8</b>

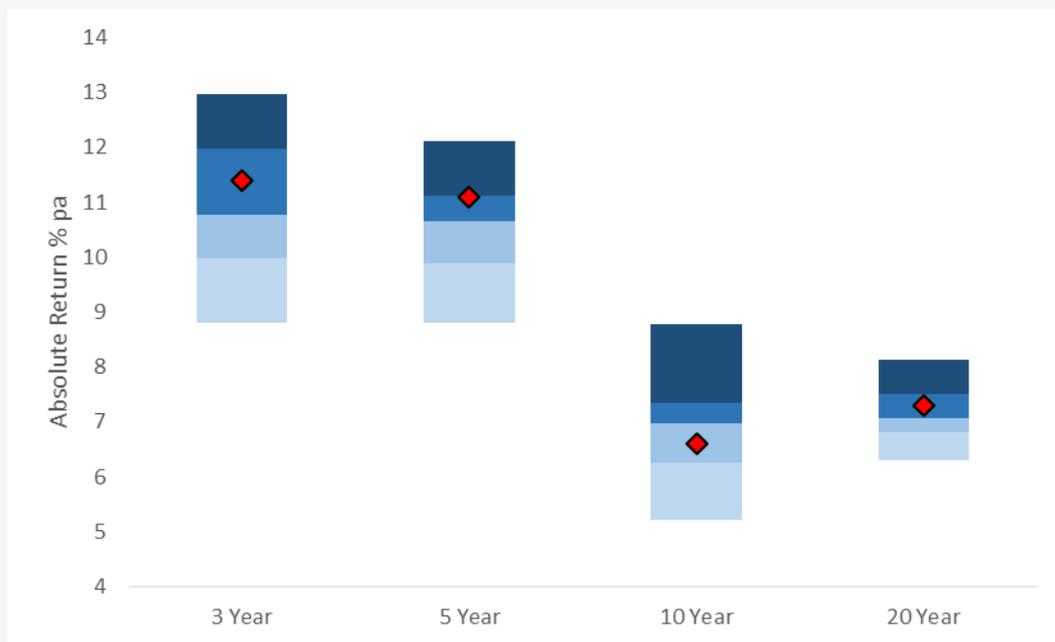
- The Fund held less than the average in alternatives and more in equities – both beneficial
- The Fund outperformed the average in equities and bonds
- In alternatives the Fund's PE investments performed strongly whilst DG lagged

Asset Allocation Relative to Universe 31/3/2017



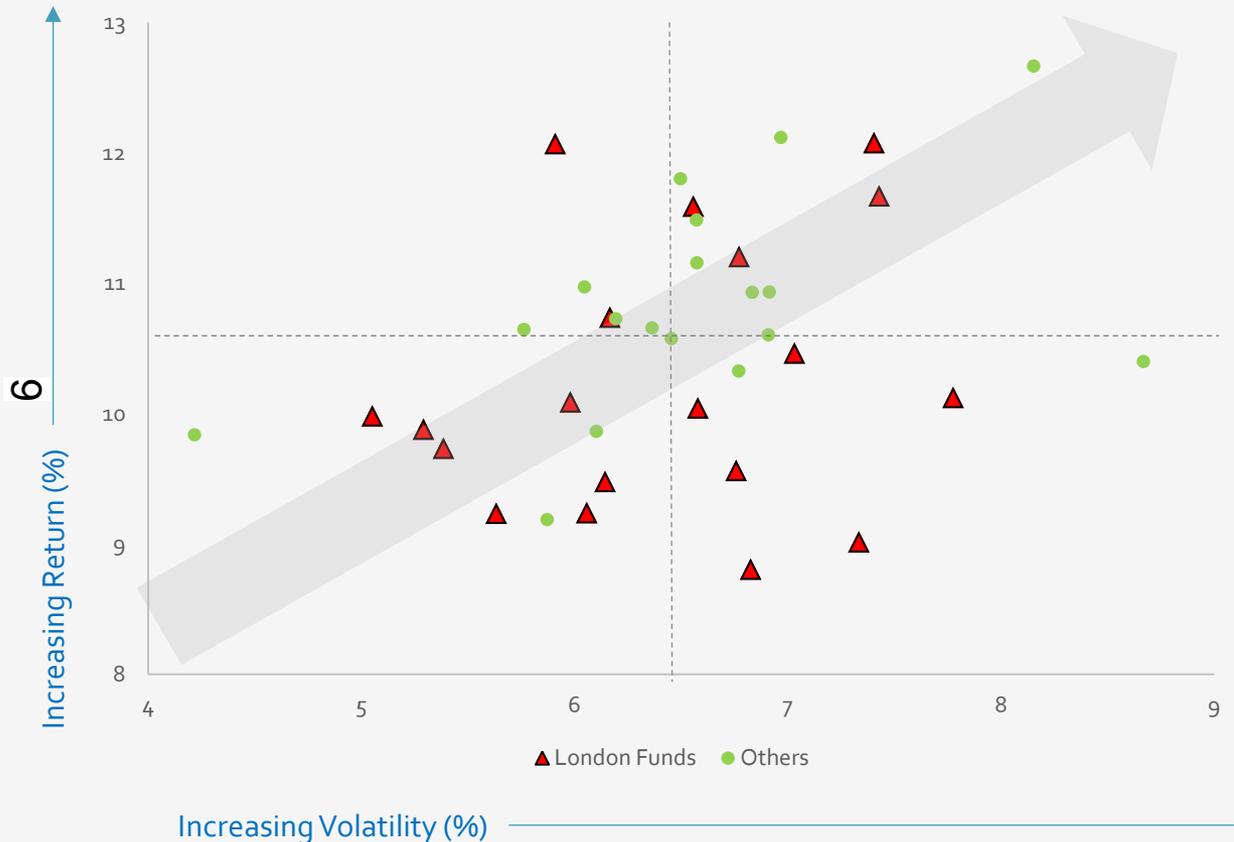
# Longer Term Performance – 2016/17

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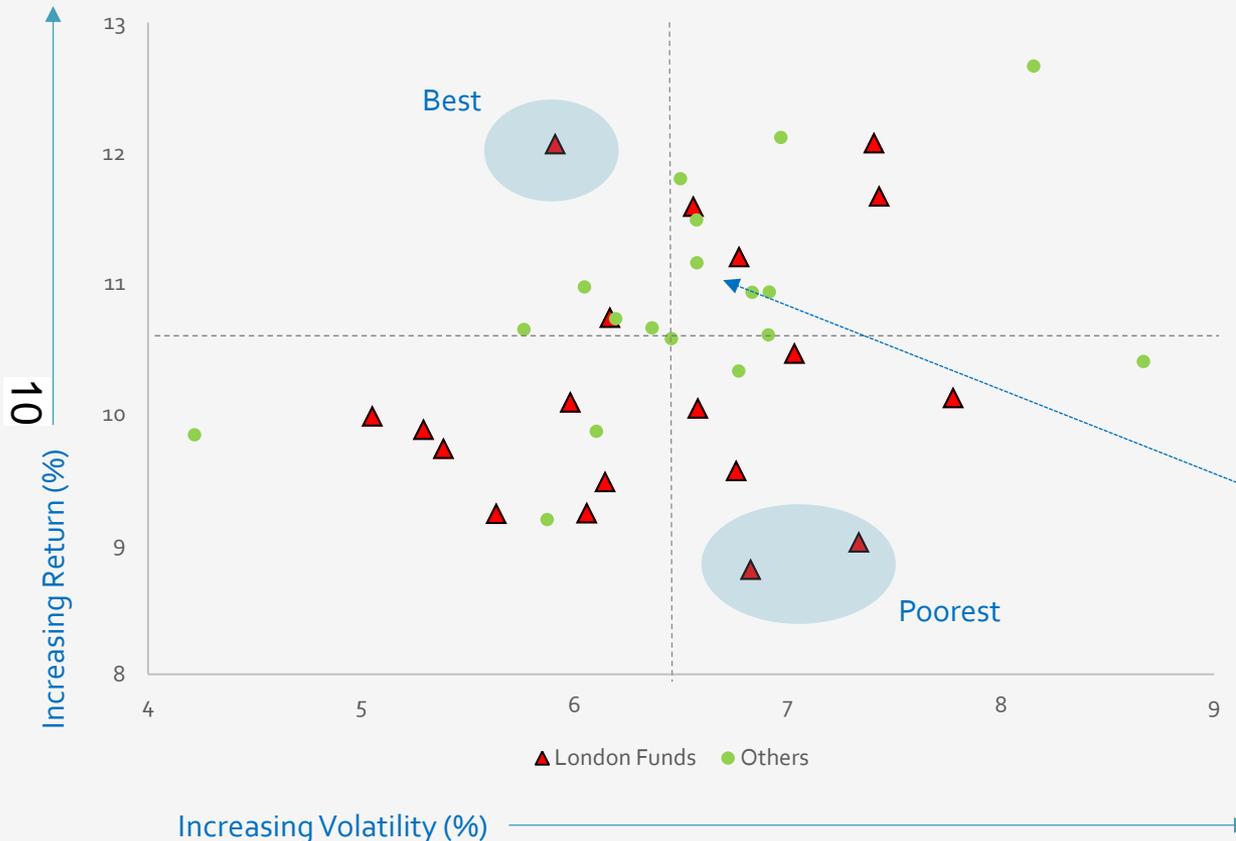
- The Fund has performed well over most periods
- Over the last three and five years it ranked 34th and 26th percentile respectively
- Over the ten years it ranked in the 61st percentile, and over the last 20 years 33rd

# Risk & Return – Five Years



- Over this relatively short period, funds with 'riskier' strategies have performed best
- London funds' risk profiles are broadly diversified
- London funds' returns have typically lagged the average

# Risk & Return – Five Years



- The best (higher return/lower risk) and poorest (lower return/higher risk) London funds' outcomes were determined both by asset class performance and their strategies
- Harrow, we suspect, will lie somewhere here i.e. higher return/moderately higher volatility – a very acceptable outcome

# Performance Relative to Benchmark – Latest Quarter

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IMV	BM IMV	FMV	BM FMV	Asset All. Impact		Selection Impact	TWR	BM
11	11	11	11	-0.0	Longview (Hedged)	0.1	3.4	2.7
33	31	33	31	-0.0	State Street	0.0	0.5	0.5
12	10	12	10	0.0	GMO	-0.0	2.3	2.3
10	10	10	10	-0.0	Oldfields	-0.3	-2.4	0.3
2	5	2	5	<b>0.0</b>	Pantheon	<b>0.0</b>	2.2	0.5
8	10	8	10	<b>-0.0</b>	Aviva	<b>-0.0</b>	2.0	2.4
13	13	12	13	<b>0.0</b>	Blackrock	<b>0.0</b>	0.1	
4	5	4	5	<b>0.0</b>	Insight	<b>0.1</b>	1.6	0.1
4	5	4	5	<b>0.0</b>	Standard Life	<b>0.0</b>	1.2	0.1
4		4		<b>-0.1</b>	Cash		0.0	
100	100	100	100	<b>-0.1</b>		<b>-0.1</b>	1.3	1.6

- Modest underperformance in the latest quarter
- Oldfields gave up some of the good near term performance

# Manager Performance – Longer term

	Start	End	Range		Qtr	1 Year	3 Year
<b>Total Global Equities</b>	<b>66%</b>	<b>62%</b>	<b>58-68%</b>				
Longview	11%	11%		Portfolio	3.4%	17.9%	10.7%
				Benchmark	2.7%	18.8%	7.8%
				Relative	0.7%	-1.0%	2.9%
State Street	33%	31%		Portfolio	0.5%	22.8%	
				Benchmark	0.5%	22.9%	
				Relative	0.0%	-0.0%	
GMO	12%	10%		Portfolio	2.3%	20.4%	
				Benchmark	2.3%	27.4%	
				Relative	-0.0%	-7.0%	
Oldfields	10%	10%		Portfolio US\$	1.1%	26.6%	3.6%
				Benchmark	4.3%	18.2%	5.2%
				Relative	n/a	8.4%	-1.6%
<b>Property</b>							
Aviva	8%	10%		Portfolio	2.0%	5.3%	8.8%
				Benchmark	2.4%	6.6%	9.7%
				Relative	-0.4%	-1.3%	-0.9%
<b>Bonds</b>							
Blackrock - FI	10%	10%		Portfolio	0.7%	7.7%	9.9%
				Benchmark	0.4%	6.5%	9.6%
				Relative	0.3%	1.2%	0.3%
Blackrock - IL	2%	3%		Portfolio	-2.3%	7.8%	13.6%
				Benchmark	-2.4%	7.1%	13.2%
				Relative	0.1%	0.6%	0.4%
<b>Alternatives</b>							
Insight	4%	5%		Portfolio	1.6%	7.6%	3.2%
				Benchmark	0.1%	0.3%	0.4%
				Relative	1.6%	7.3%	2.9%
Standard Life	4%	5%		Portfolio	1.2%	3.4%	2.3%
				Benchmark	0.1%	0.5%	0.7%
				Relative	1.1%	2.9%	1.6%

- Mixed outcomes
- We will continue to monitor/develop this analysis

# Summary

- Public sector pension funds have delivered excellent returns over all periods
- This is not widely appreciated (nor acknowledged)!
- Funds' commitment to growth assets has been extremely successful
  
- The Fund enjoyed an excellent 2016/17 both in absolute, and relative terms (vs benchmark and the peer group average)
- The Fund has outperformed its benchmark and the peers over the medium term
- Longer term, the Fund has performed in line with benchmark but a little behind the Universe average
- The fund underperformed in the period to June
- We will continue to develop the analysis in the coming quarters

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## Pensions CIV Sectoral Joint Committee      Item no: 11

### Variation of Permissions

**Report by:** Brian Lee                      **Job title:** COO

**Date:** 13 September 2017

**Contact Officer:**

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**Summary:** This report provides the Committee with advanced notification that a written resolution will be circulated to all Shareholder Representatives shortly to seek agreement to LCIV applying to the FCA for a 'Variation of Permissions' to enable the Company to expand its activities to include the operation of Unauthorised Alternative Investment Funds.

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**Recommendations:** The Committee is recommended to note the contents of this report and agree that LCIV:

- i. proceed to prepare a resolution for shareholder approval to extend the activity of the Company to manage both authorised and unauthorised Alternative Investment Funds (AIFs).

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## **Background**

1. The current regulatory permissions of LCIV, as detailed in the Shareholder Agreement, limit the Company's business activities to *"acting as the FCA authorised operator of an ACS to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments."*
2. This permission relates to the management of an authorised Alternative Investment Fund (AIF) which is essentially a highly liquid collective investment scheme. Consequently, the current FCA permission does not naturally fit with some other asset classes such as private debt, private equity, real estate or infrastructure which by their inherent nature represent limited liquidity.
3. This current limitation means that LCIV must expand its range of permissions in order to be able to offer illiquid asset classes which are generally held in different legal structures such as partnerships.
4. In order to resolve this situation and provide illiquid pooled solutions, LCIV needs to obtain shareholder approval to extend the activities of the business. This approval will permit LCIV to apply for a variation of permissions with the FCA to run both unauthorised, as well as authorised, AIFs.
5. It is important that the extension of the business activity is approved as soon as possible so that LCIV can deliver on LLAs' immediate requests for Direct Credit (part of the fixed income fund offerings) and Infrastructure.
6. This report is intended to give the Committee advance warning that a written shareholder resolution will be circulated in the next few weeks and the reasons why this resolution is necessary.

## **Requisition a variation of permissions**

7. The mechanics of the FCA variation of permissions (VoP) application process are straightforward and involve filling out an online form submission to the FCA. Eversheds has informed LCIV that the FCA typically takes 3 months to approve the variation of permissions although the FCA reserves the right to take 6 months. There is no FCA fee for this submission.
8. As this is a change to the business activities of the Company outlined in the Shareholder Agreement, this variation will need majority shareholder approval.
9. The Committee should note that there are no additional capital requirements for managing UAIFs and forms part of the normal capital adequacy calculations.
10. Prior to this report coming to the PSJC, this proposal has received LCIV Board approval.
11. It should be noted that other LGPS pools have already applied for this permission and been successfully approved.

## **Recommendation**

12. The Committee is recommended to note and agree that LCIV:
  - i. proceed to prepare a resolution for shareholder approval to extend the activity of the Company to manage unauthorised Alternative Investment Funds (AIFs);

**Financial Implications**

13. There are no financial implications for the Variation of Permission submission from the FCA. LCIV will request Eversheds to review the form prior to submission which will be charged on a time cost basis.

**Equalities implications**

14. There are no equalities implications for the committee.

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