



Haverling

L O N D O N B O R O U G H

PENSIONS COMMITTEE AGENDA

7.00 pm

**Tuesday
12 December 2017**

**Committee Room 3A -
Town Hall**

Members 7: Quorum 3

COUNCILLORS:

**Conservative
(3)**

**Residents'
(1)**

**East Haverling
Residents'
(1)**

**UKIP
(1)**

John Crowder
(Chairman)
Melvin Wallace
Joshua Chapman

Stephanie Nunn

Clarence Barrett

David Johnson (Vice-
Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

For information about the meeting please contact:

**Victoria Freeman 01708 433862
victoria.freeman@onesource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

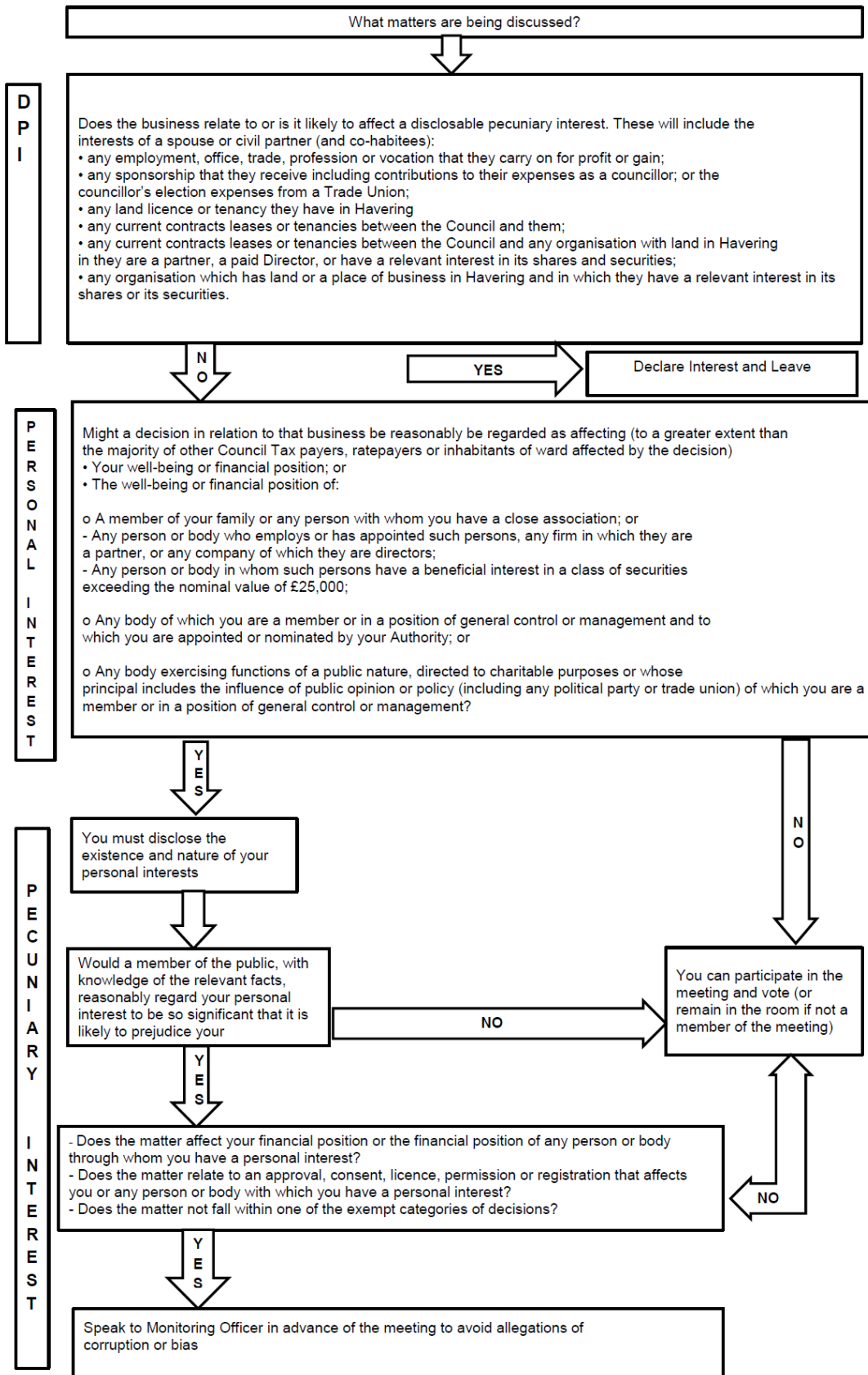
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 21 November, 2011 and authorise the Chairman to sign them.

5 PENSION BOARD COMMITTEE MINUTES (26 SEPTEMBER 2017) (Pages 9 - 14)

6 PENSION FUND VALUATION FUNDING FROM 31 MARCH 2016 TO 30 SEPTEMBER 2017 (Pages 15 - 28)

7 RESPONSIBLE INVESTMENT REVIEW (Pages 29 - 40)

8 LOCAL PENSION BOARD ANNUAL REPORT- YEAR ENDED 31 MARCH 2017 (Pages 41 - 56)

9 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

10 PERFORMANCE MONITORING REPORT TO END OF SEPTEMBER 2017 (Pages 57 - 158)

11 MAY GURNEY CESSATION INTO HAVERING PENSION FUND (Pages 159 - 164)

12 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Andrew Beesley
Head of Democratic Services

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**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
21 November 2017 (7.00 - 8.30 pm)**

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Melvin Wallace and Joshua Chapman

Residents' Group Stephanie Nunn and Nic Dodin

East Havering Residents' Group Clarence Barrett

UKIP Group David Johnson (Vice-Chair)

**Admitted/Scheduled Bodies
Representatives:**

Trade Union Observers: John Giles

Apologies were received for the absence of Councillor Viddy Persaud.

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

18 DECLARATIONS OF INTEREST

There were no declarations of interest.

19 MINUTES OF THE MEETING

The minutes of the meeting held on 19th September, 2017 were agreed as a correct record and signed by the Chairman.

20 ANNUAL REVIEW OF THE CUSTODIAN

The report before members reviewed the performance of the custodian, State Street, for the period October, 2016 to September, 2017.

The Global Custodian, State Street operated a wide range of functions during this time period. These fell into two main categories; safe keeping

and custody together with Investment Accounting and reporting, all detailed within the report.

The services provided were reviewed to ensure best value for money and confirm that the fund is benefiting from all of the services the custodian could offer. The performance was assessed against specific criteria detailed in the table at paragraph 2.3 of the report.

In conclusion, officers were satisfied with the safe keeping and custody functions provided by State Street custodians. They were pleased with the overall investment accounting and reporting functions but will continue to work with them to drive improvements in the level of service.

Estimated costs for the service over the relevant period are estimated at £24,365 which represents a reduction compared to the previous year. This is due to the Fund's use of pooled funds which reduced the custody and transaction charges. Consideration will be given to changing the use of a custodial service once the Fund knows which assets will be held outside the London CIV.

The Pensions Committee:

- **NOTED** the views of Officers in respect of the performance of the custodian.

21 **ANNUAL REVIEW OF THE ACTUARY**

The report before members reviewed the performance of the Actuary, Hymans Robertson for the period between 1st October, 2016 to 30th September, 2017, and recommended that the Committee note the views of officers on this performance.

Hymans Robertson has been the Fund's actuary since April, 2010 and the current contract will expire on 31st March, 2018 which will necessitate the procurement of future Actuarial, Benefits and Governance provision.

During the relevant time period the Actuary has undertaken many activities including:

- the 2016 formal valuation,
- advice, assistance and support to employers, including the final cessation valuations for Family Mosaic and contribution rate assessments for academies;
- Training for both officers and the Pension Board.
- Accounting and;
- General tasks including the production of the TUPE Manual and Admission Policy.

Officers concluded that services supplied were delivered in a timely matter and were good/excellent quality and were very satisfied with the services provided by Hymans Robertson.

The Pensions Committee:

- **NOTED** the views of officers on the performance of the Actuary from 1st October, 2016 to 30th September, 2017.

22 **ANNUAL REVIEW OF THE ADVISOR**

The report before members reviewed the performance of the Investment Advisor, Hymans Robertson for the period September, 2016 to September, 2017 and recommended that the Committee note the views of officers in respect of this performance.

The law states that the Fund must seek proper advice regarding investments and in relation to the appointment of investment managers. In accordance with Myners principles number 2, the Committee in setting out the overall objectives of the Fund, should take proper advice and appoint advisors in open competition.

Members undertake an annual assessment of the Investment Adviser performance. Hymans has been the Fund's Advisor since 2006 and was appointed to provide Investment Advisory services in April, 2012. The contract was extended for one year and expires on 31st March, 2018.

The services provided included production of the quarterly monitoring performance reports, attendance at Pensions Committee meetings providing questions for officer meetings with Fund Managers, investment advice and performance monitoring of the Fund's investment managers. They have also been involved in discussions with the London CIV on progression of the Fund's investment strategy.

The table set out in paragraph 2.6 of the report details the performance assessment against the established criteria and was discussed with the adviser.

Feedback in respect of this was very positive and officers concluded that Hymans delivered a good service and had confidence in the advice being given.

It was observed that costs had increased on the previous year by £26,140. This increase was mainly attributable to the preparation and production of the Investment Strategy Statement and progression of the investment strategy.

The Pensions Committee:

- **NOTED** the views of officers in relation to the performance of the investment Advisor.

23 **REVIEW OF GOVERNANCE POLICY**

The report before Members was presented as part of the statutory duty to prepare and publish a report for consideration, outlining the extent of compliance against the best practice principles published by the Department of Communities and Local Government (DCLG).

The report set out the pension fund's draft Governance Compliance Statement for November, 2017 and indicated where changes may be required.

Members considered the statement and following discussion noted the appropriate changes.

- The membership of the meeting changed following the AGM of Council, (Paragraph 2.1 of the Statement depicted in the table).
- A new update was given at Paragraph 5.2 of the Statement regarding the development of a Joint Training Strategy which had been developed and adopted by the Pensions Committee and the Board. There was no requirement to consult on this issue because the changes were very minor.
- Members noted that the London Borough of Havering were compliant save in section B (iii) of the table regarding independent professional observers. Following discussion, Members agreed that this would not change. The Pension Fund is very small in comparison to other Local Authorities and therefore it was agreed that no change would be made at this stage.

As detailed above, **The Pensions Committee:**

- **Considered and agreed** the changes within the Governance Compliance Statement.

24 **REVIEW OF INVESTMENT STRATEGY STATEMENT**

The report before members was presented in line with the Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 which requires an administrating authority to formulate an Investment Strategy Statement (ISS) which must be produced in accordance with guidance issued by the Secretary of State.

The Financial Reporting Council (FRC) Stewardship Code gives guidance and states that the ISS must include the Authority's policy on the exercise of the rights attaching to investments. In order to comply with the Code the ISS includes the statement "At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code"

Members gave consideration to issuing a separate statement of compliance with the Stewardship code, and agreed they would do so. In so deciding,

Members indicated they would like to see another report setting out the full seven Myner's Investment Principles.

Members considered the ISS and noted the changes within it:

- On page 53 of the Agenda pack a new paragraph 3 had been inserted
- Table 1 on Page 53 had a new column inserted "Long-term Target Investment Strategy"

Members also gave consideration to the Environmental, social and governance (ESG) risks and agreed that further information would be most welcome to ensure fully informed decisions are made in this regard.

Pensions Committee:

1. Agreed the proposed changes to the ISS
2. Noted that no revisions were made in respect of reporting compliance against the Myner's investment principles so that the document will remain the same as the version published in March 2017.
3. Agreed that a further report regarding the seven Myner's Investment principles be brought to the next meeting.
4. Agreed that a separate statement of compliance with the Stewardship Code would be produced.

25 PROCUREMENT OF ACTUARIAL SERVICES AND INVESTMENT MANAGEMENT CONSULTANCY

The report before Members sought authorisation to procure Actuarial Services and Investment Management Consultancy Services to the Pension Fund using the National Local Government Pension Scheme (LGPS) Frameworks.

An amendment was made to the report to delete paragraph 1.5 and it was noted that Appendix A was added in error.

The Framework for procurement was as a result of collaboration between a number of founding LGPS funds. It will remove the need to run a best practice OJEU (Official Journal of the European Union) equivalent full tender exercise when procuring a longer term, single supplier relationship thereby reducing the duration of the procurement process and ensuring value for money. The Framework would be sent out to Members.

It is split into four lots and commenced in July 2016, open for four years and contracts awarded may be for a period up to seven years.

Four service providers cover all four lots. Officers will undertake any procurement by assessing the most appropriate lots to procure the length of contract. There is a cost to join the framework which is capped at £5000 for all lots. The procurement process itself will be undertaken in accordance

with the Contract Procedure Rules and will be published if necessary on the Council's Forward Plan of key decisions.

The Pension's Committee:

Agreed:

- To join the National Framework for Actuarial, Benefits and Governance Consultancy Services.
- To join the National Framework for Investment Management Consultancy Services
- To hold the service provider interviews before the Pension Committee as part of the further competition process.

Delegated:

- To officers as appropriate to undertake the procurement of the Actuarial service provider
- To the s151 Officer to award the Actuarial Services Contract at the completion of the procurement exercise.

26 EMPLOYER OUTSOURCING GUIDE FOR HAVERING LGPS SCHEME EMPLOYERS

The report before Members introduced the Pensions – Employer Outsourcing Guide.

Members had the benefit of a full training session in relation to this before the Committee Meeting commenced.

The report provided an overview of the LGPS implications and procedures detailed in the Guide.

There were no employer responses received.

The Pensions Committee:

- Noted the Pensions – Employer Outsourcing Guide.

27 HAVERING PENSION FUND ADMISSION POLICY

The report before members presented the London Borough of Havering's Pension Fund Admissions Policy.

There were no responses to the consultation process.

Members agreed to an amendment that the policy replaces all previous policies on admission bodies and bulk transfers and is effective from 22nd November, 2017.

The Pensions Committee:

- **Noted** the London Borough of Havering's Pension Fund Admissions Policy.

28 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT

The report presented to members detailed the Whistleblowing requirements of the Pensions Act, 2004. These provisions came into place on 6 April, 2015.

The basic requirement is that nearly all persons who are involved with a pension scheme have a duty to report to the Pensions Regulator where they have reasonable cause to believe that there has been a breach in the law, relevant to the administration of the scheme which is likely to be of material significance to the Regulator. The pensions Regulator has issued a Code of Practice which sets out the guidance for compliance.

Members noted that along with a number of other Funds, Havering did not manage to deliver the annual benefits statements to deferred members by the statutory deadline of 31 August, 2016. This was due to a lack of resources at this time. The statements were however distributed by 18 October, 2016.

The non-compliance was reported to the Pensions Regulator and was informed of future processes to mitigate the risk of this happening again. There has been no further action or correspondence received from the Pensions Regulator.

A robust plan has been put into place to mitigate the risk of not meeting the deadline going forward and the deadline for 2017 was met.

Members agreed to delete the third paragraph on page 163 of the agenda and noted that there were no background papers for the report.

The Pensions Committee:

- **Noted** the results of the annual review and the fact that no breaches have been reported.

29 THE ADMISSION OF HARRISON CATERING TO THE LONDON BOROUGH OF HAVERING PENSION FUND

The report considered by members informed the LB Havering Pensions Committee of the proposed "closed agreement" admission of Harrison Catering services Ltd into the LB Havering Pension Fund. This is due to the TUPE of catering staff from Abbs Cross Academy to Harrison Catering Services Ltd to make provision of catering services to the academy.

The Pensions Committee:

- **Noted** the admission of Harrison Catering Services Ltd into the LB Havering Pension Fund as an admitted body to enable 4 members of staff who transferred from Abbs Cross Academy to continue membership of the LGPS subject to:
 - a) All parties signing up to an admission agreement and;
 - b) An indemnity of £69,000 by way of Harrison Catering Services Ltd securing a guarantee in an approved form from the Loxford School Trust – Abbs Cross Site to protect the pension fund.

Chairman

Public Document Pack Agenda Item 5

**MINUTES OF THE MEETING OF THE
LOCAL PENSION BOARD
Committee Room 2 - Town Hall
26 September 2017 (4.00 – 5.05 pm)**

Present:

Mark Holder, Scheme Member Representative (Chairman)
Anne Giles, Scheme Member Representative
David Holmes, Employer Representative
Virpi Raivio, Employer Representative

Officer attendance: James Ahlberg, Caroline Berry, Sarah Bryant, James Curtis, Debbie Ford, Lillian Thomas.

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

10 APOLOGIES FOR ABSENCE

There were no apologies for absence.

11 DISCLOSURE OF INTERESTS

There were no disclosures of interest.

12 MINUTES OF THE MEETING

It was noted that David Holmes was present at the meeting. It was also that the new employee position on the Board was to be advertised rather than as stated. The minutes were otherwise agreed as a correct record and signed by the Chairman.

13 BOARD WORK PLAN

It was agreed that the head of the pensions team would be the lead officer for all items on the work plan. It was also agreed that feedback from the Board should be given to the Pensions Committee.

The workplan for the Board (as attached) was agreed.

14 LIABILITY INSURANCE

Officers recommended to the Board that the quote for liability insurance from a certain company should be taken up as this had been the cheapest

and also the quickest to be received. A final decision could not however be taken until all options had been considered by the insurance team and it had been established that procurement rules had been met.

Caroline Berry would take this matter forward and feed back to the Board on progress.

The Board agreed to take up the quotation recommended by officers, subject to the agreement of the Havering insurance team and to procurement rules being met.

15 TUPE MANUAL

A more abridged version of the manual had now been produced showing the pension implications if a service left or entered the fund. It was planned to take the manual, which had cost £6,500 to produce, to the Pensions Committee in November 2017 for approval.

There would be a training session on the manual once it had been approved to which Board members would be invited.

It was agreed that Board members should submit any comments on the manual to officers by 21 October 2017.

16 COMPLIANCE CHECKLIST

Officers advised that a completed compliance checklist would be available for the next meeting. It was agreed that the completed checklist would be circulated to Board members as soon as possible and the checklist should be considered at each Board meeting initially. An update would be given on when the completed checklist was ready for circulation.

17 LPFA UPDATE ON ADMIN CHANGES

The implementation of the agreed new arrangements had been delayed until 1 November 2017 due to issues with the property lease and liabilities. LPP will move staff into the Town Hall. Only two part-times roles had been required to transfer across from the Council under TUPE.

A service level agreement schedule (including performance indicators) was included in the contract between the Council and LPP and officers would share the contract and schedule with the Board. Contract costs themselves remained confidential however.

18 KEY PERFORMANCE INDICATORS

An updated version of the monthly breakdown report, applicable to Havering, would be brought to the Board. It was planned to implement the case management system in Havering by November 2017. It was uncertain at this stage how many outstanding Havering cases would need to be

entered onto the system. Additional staff would be brought in to clear the backlog which would be reported on separately.

Performance reports could be shared with the Board and Board members would inform officers if they wished to focus on different performance indicators each quarter. It was agreed the Board should see a full report until the backlog of cases had been cleared.

It was agreed that the first report would be circulated in time for the January 2018 meeting of the Board.

19 EXPENDITURE OUTTURN REPORT FOR LOCAL PENSION BOARD

The budget for the Board itself covered a four-year period and was met from the Havering Pension Fund. The budget, which had been underspent for the first two years, totalled £34,900. Budget figures would be included within the Board annual report. Whilst there was no statutory deadline for an annual report, it was suggested that this should be completed by December 2017. It was agreed that the Chair would draft an annual report to be agreed at the next meeting of the Board.

The expenditure outturn report was agreed by the Board.

20 TO RECEIVE FEEDBACK FROM RECENT MEETINGS OF THE PENSIONS COMMITTEE

It had been agreed that Havering would become a member of the Local Authority Pension Fund Forum, initially for one year.

As part of the Markets in Financial Instruments Derivative (MIFID) work was in progress to move Havering from retail back up to professional status by 3 January 2018. It was aimed to have the relevant paperwork sent to investment managers by the end of September 2017.

The pension fund accounts were due to go to Audit Committee on 28 September. The fund assets had grown by £98m and now totalled £671m. Two further funds had joined the London Collective Investment Vehicle (CIV). A final copy of the ISA260 form would be forwarded to the Board. No issues were raised concerning the annual report of the Pension Fund.

A new passive manager had been appointed that offered lower fees and had a business association with the CIV. A training session was being arranged on the new debt products that the Board would be invited to.

Chairman



LOCAL PENSION BOARD WORK PLAN 2017/18 AND 2018/19

Version 1: 7th September 2017

The role of the Local Pension Board is to assist the scheme manager in ensuring that the scheme complies with legislation relating to its governance and administration and helping to ensure that the scheme is well managed.

In order to achieve this goal the board will set a forward work plan and prioritise the areas that will be investigated over the next 18/24 months.

1. Finalise our review of fair deal and TUPE and have a report on how the current changes, i.e. introduction of multi academy trusts and college reorganisation would impact on the Pension Scheme.
2. To ensure that the pension regulator and scheme advisory board compliance checklist has been completed and is reviewed regularly.
3. To ensure that a process is in place to make any items that have been identified as being non-compliant or partially compliant from the pension regulator and scheme advisory board compliance checklist are made fully compliant within agreed and acceptable timescales.
4. To ask scheme manager to audit and provide evidence that we are meeting the pension regulators requirements in any areas that we require further assurance.
5. To review the key performance indicators relating to the administration of the scheme and ensure an action plan is in place for indicators that are not meeting the agreed target.
6. To ensure that any changes to scheme administration are well planned and documented and that there are processes in place to ensure that there is no detrimental performance in any area of scheme management.
7. To ensure that the scheme manager fully plans for any new legislation such as the General Data Protection Regulation (GDPR) which comes into force on the 25 May 2018 and we are compliant with all aspects of new legislation.
8. Report regularly to the pensions committee on the work of the pension board and ensure that there is good communication between the two boards.

The Work Plan will be a live document and subject to change as necessary with a formal review at least every two years.

Local Pension Board - Meeting protocols

In order for the board meeting to run as efficiently as possible the following protocols will be adhered to:

- Chair to ask board members for any agenda items three weeks before meeting.
- Agenda and all papers for board meeting to be issued two weeks in advance of the meeting for pre-reading.
- Email exchanges between board members and officers to clarify and resolve any issues before meeting.
- One page action plan list and draft minutes to be circulated one week after board meeting.
- Key performance indicators to be a standard item on all agendas.

PENSIONS COMMITTEE

12 DECEMBER 2017

Subject Heading:

**PENSION FUND VALUATION FUNDING
UPDATE FROM 31 MARCH 2016 TO 30
SEPTEMBER 2017**

CMT Lead:

Julie Oldale

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569

Policy context:

Debbie.ford@onesource.co.uk
Pension Fund Interim Valuation in line
with Funding Strategy Statement

Financial summary:

None directly as the report comments on
the Pension Fund interim valuations since
the last formal valuation in 31 March
2016.

**The subject matter of this report deals with the following Council
Objectives**

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides Members with a report from the Fund's Actuary Hymans Robertson to illustrate the estimated development of the Pension Fund's funding position from 31 March 2016 to 30 September 2017.

RECOMMENDATIONS

That the Committee note the following:

1. The Havering Pension Fund interim funding position update to 30 September 2017.
2. No action is required to change the funding plan.

REPORT DETAIL

1. Background

- 1.1 In line with Local Government Pension Scheme 2013, the Fund's actuary carried out a triennial valuation as at 31 March 2016. The main purpose of the valuation is to estimate on-going employer liabilities, evaluate this against the funds' assets and calculate the funding position within the fund. This is then used to set future employer contribution rates.
- 1.2 In line with the Funding Strategy Statement (FSS) the Administering Authority states that it will monitor the relative funding position, i.e. changes in the relationship between asset values and the liabilities and to report this to the Pensions Committee meetings. Hymans was asked to provide Members with a report to illustrate the estimated development of the Pension Fund's funding position from 31 March 2016 to 30 September 2017, which is the mid waypoint between the valuations.
- 1.3 Hymans report looks at the whole fund position only and does not allow for changes in individual members data since the last valuation.
- 1.4 The method and assumptions used to calculate the updated funding position are consistent with those used in the 2016 valuation, although the financial assumptions have been updated to reflect known changes in market conditions as at 30 September 2017.
- 1.5 Employer contributions will not be reviewed until the next valuation as at 31 March 2019. The purpose of the funding update was to assess whether the funding plan is on track and take actions where necessary.

2. Key items form the report

2.1 The funding level at the last formal valuation was 66.8%. As at 30 September 2017 the funding level has increased to 69.4%. This is largely as a result of higher investment returns. See following table:

Ongoing funding basis	31 Mar 2013	31 Mar 2016	30 Sep 2017
	£m	£m	£m
Assets	461	573	687
Liabilities	752	857	990
Surplus/(deficit)	(291)	(284)	(303)
Funding level	61.2%	66.8%	69.4%

IMPLICATIONS AND RISKS

Financial implications and risks:

Volatility in the investment performance can have an immediate effect on the funding level and is a key risk of ensuring solvency of the fund going forward. The Pension Fund is seeking to achieve an improvement in the funding ratio over the longer term, typically twenty years as reflected in the actuarial valuation report. Short term volatility in investment performance may shift the Committees attention from time to time but it will be important to remain focussed on the longer term objectives and strategy.

The Administering Authority has an active risk management programme in place, as mentioned in the risk section of the FSS. Inter - valuation updates are carried out as a control mechanism to identify and provide early warnings if fund assets are failing to deliver returns in line with those anticipated or there is a fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities, and pay and price inflation significantly more than anticipated.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

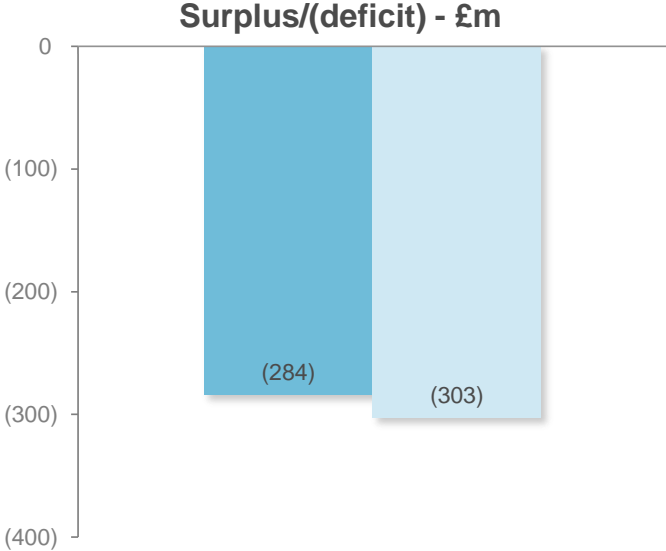
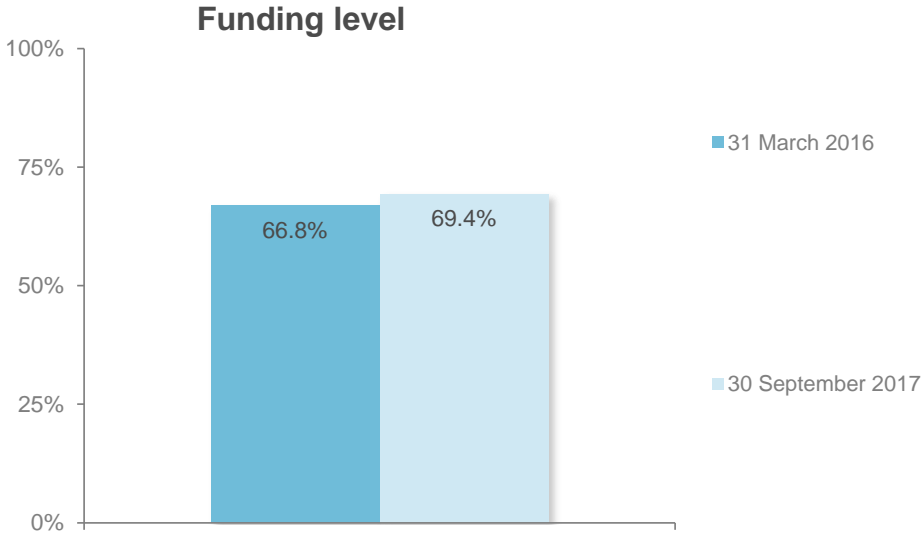
BACKGROUND PAPERS

Background Papers List
As attached Appendix A

London Borough of Havering Pension Fund

Funding update as at 30 September 2017

Page 19



Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 30 September 2017, for the London Borough of Havering Pension Fund ("the Fund"). It is addressed to London Borough of Havering in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

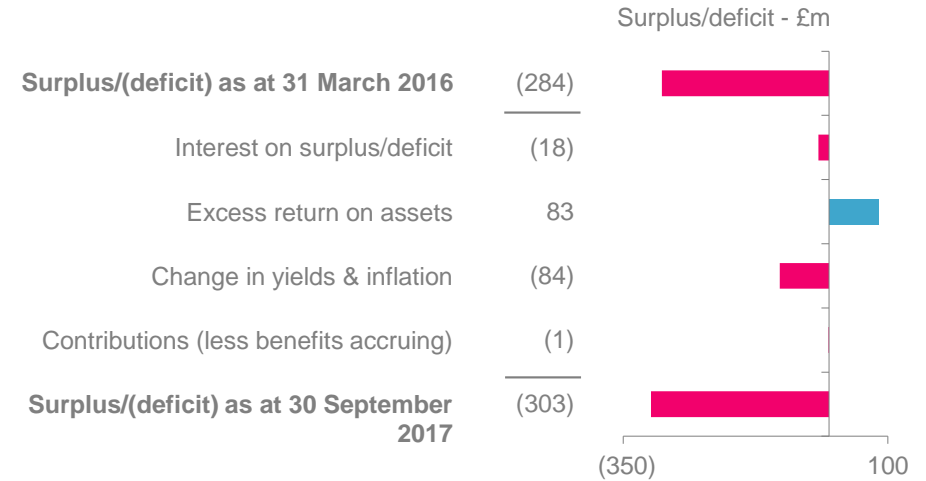
The funding level at the latest formal valuation was 66.8%. As at 30 September 2017 the funding level has increased to 69.4%. Due to the increase in both the value of liabilities and assets, this represents a deficit of £284m at 31 March 2016 increasing to a deficit of £303m at 30 September 2017. A breakdown of this can be found in the graph on page 5 of this report.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

Should you have any queries please contact me.

Steven Law FFA

What's happened since the last update – Ongoing funding basis



Differences between this funding update and a full actuarial valuation

The accuracy of this type of funding update calculation is expected to decline over time as the period since the last valuation increases. This is because this funding update does not allow for changes in individual members' data since the last valuation.

Details of the approach used in this funding update are given in the appendix.

The figures in tables throughout this document may not add up due to rounding.

Estimated financial position at 30 September 2017

Ongoing funding basis

£m	31 Mar 2016	30 Sep 2017
Assets	573	687
Liabilities	857	990
Surplus/(deficit)	(284)	(303)
Funding level	66.8%	69.4%

Investment return

Quarter Ending	%
30/06/2016	4.5%
30/09/2016	6.7%
31/12/2016	1.3%
31/03/2017	3.7%
30/06/2017	1.3%

Market indicators

	31 Mar 2016	30 Sep 2017
Market yields (p.a.)		
Fixed interest gilts	2.18%	1.85%
Index linked gilts	-0.96%	-1.48%
Implied inflation (RPI)	3.20%	3.40%
Implied inflation (CPI)	2.10%	2.40%
AA corporate bonds	3.36%	2.64%
AOA	1.80%	1.80%
Price indices		
FTSE All Share	3,395	4,050
FTSE 100	6,175	7,373

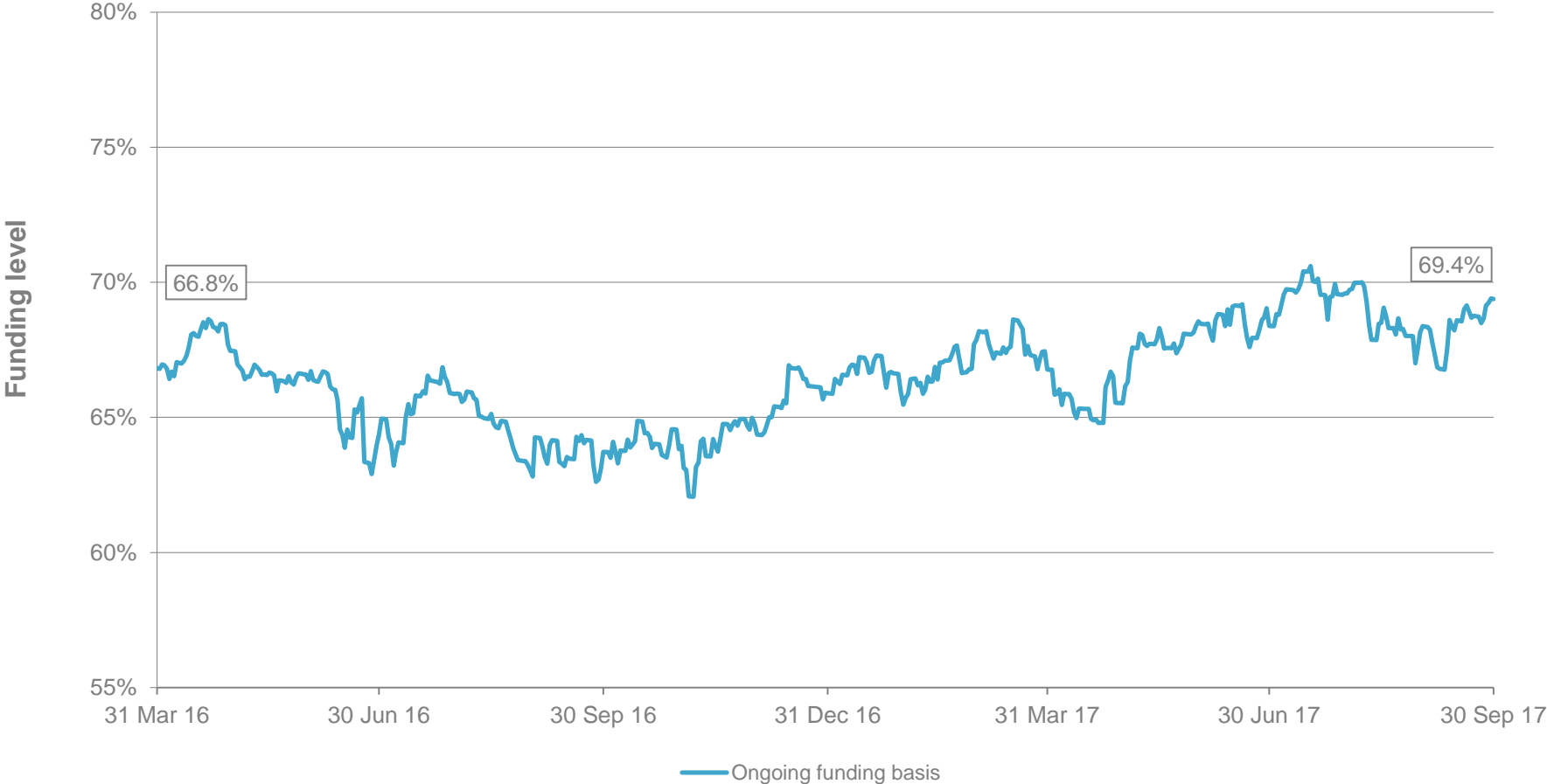
Basis summary

	31 Mar 2016	30 Sep 2017
Pre retirement discount rate		
Nominal	4.0%	3.7%
Real	0.8%	0.3%
Post retirement discount rate		
Nominal	4.0%	3.7%
Real	0.8%	0.3%
Salary increase rate	2.4%	2.7%

The assumptions underlying the funding basis is set out in the Funding Strategy Statement. They are those set for the 2016 valuation of the Fund updated for market conditions as at the calculation date.

Change in funding level since last valuation

Page 22

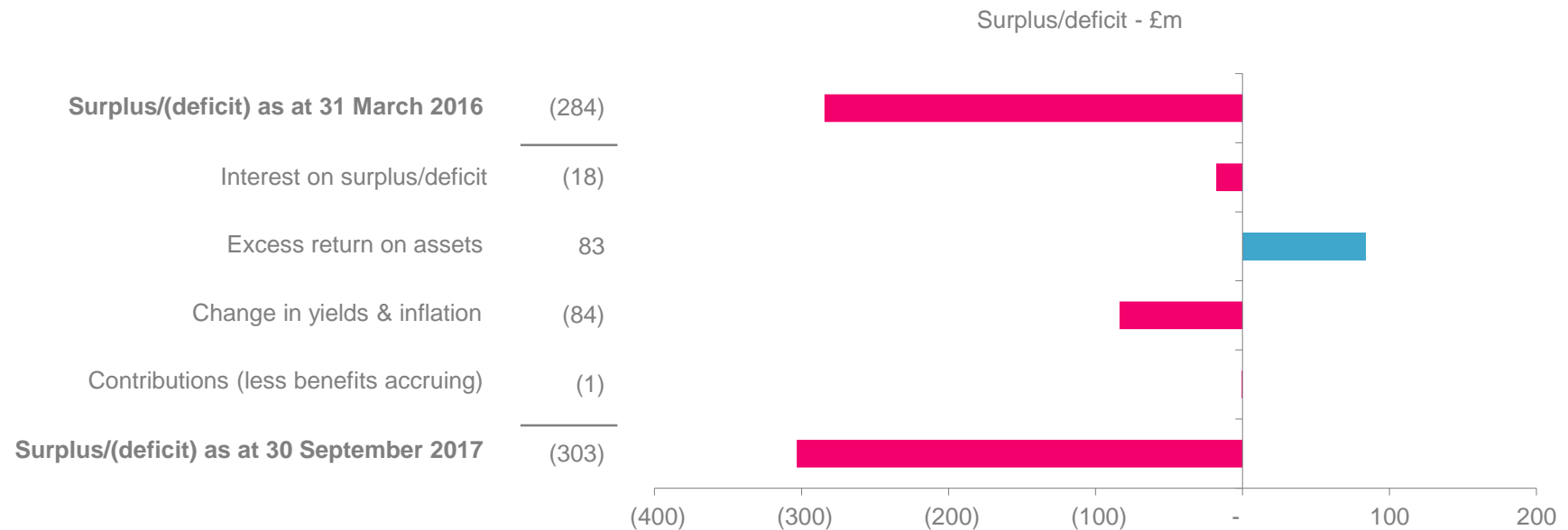


What's happened since last valuation? – Ongoing funding basis

Assets	£m
Asset value as at 31 March 2016	573
Contributions paid in:	51
Benefit payments:	(54)
Expected return on assets:	34
Excess return on assets:	83
Asset value as at 30 September 2017	687

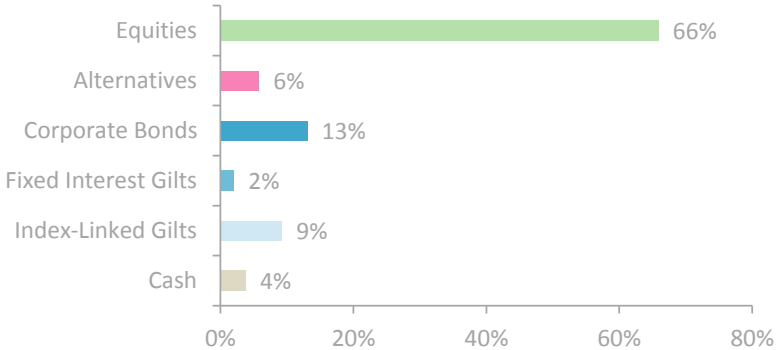
Liabilities	£m
Liability value as at 31 March 2016	857
Cost of benefits accruing:	52
Interest on liabilities:	52
Change in yields & inflation:	84
Benefit payments:	(54)
Liability value as at 30 September 2017	990

Overall effect

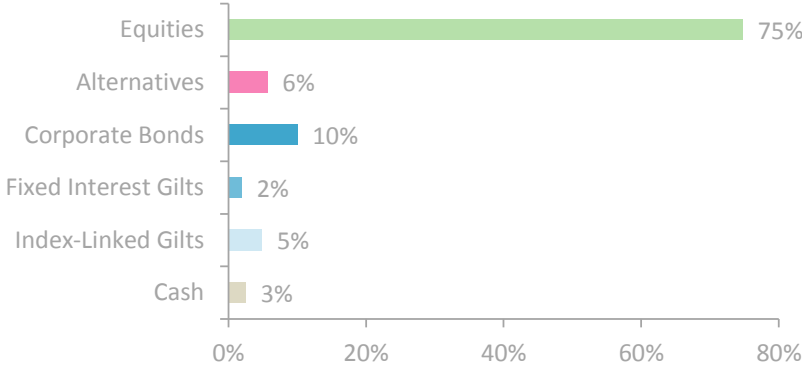


What caused your assets to change?

Allocation at valuation date



Allocation at 30 September 2017



Sterling total returns of major asset classes



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Sensitivity matrix – Ongoing funding basis

		Better outcomes →						
Bond yields (% p.a.)	2.45	56.8% (386)	63.0% (331)	69.2% (276)	75.4% (221)	81.5% (165)	87.7% (110)	93.9% (55)
	2.25	55.4% (412)	61.4% (357)	67.4% (302)	73.3% (247)	79.3% (191)	85.3% (136)	91.3% (81)
	2.05	54.0% (440)	59.8% (385)	65.6% (329)	71.4% (274)	77.1% (219)	82.9% (163)	88.7% (108)
	1.85	52.6% (469)	58.2% (414)	63.8% (358)	69.4% (303)	75.0% (248)	80.6% (193)	86.1% (137)
	1.65	51.3% (500)	56.7% (445)	62.0% (389)	67.4% (334)	72.8% (279)	78.2% (223)	83.6% (168)
	1.45	49.9% (533)	55.1% (477)	60.3% (422)	65.5% (367)	70.7% (311)	75.9% (256)	81.1% (201)
	1.24	48.6% (567)	53.6% (512)	58.6% (457)	63.6% (401)	68.6% (346)	73.6% (291)	78.7% (235)
			5,161	5,898	6,635	7,373	8,110	8,847
		Equity level (using FTSE 100 Price Index as a proxy)						

Better outcomes ↑

69.4%	Funding level
(303)	Surplus/(deficit) – £m

Appendix: Scope, methodology, reliances, limitations and market data

Scope

This funding update is provided to London Borough of Havering as the Administering Authority of the London Borough of Havering Pension Fund to illustrate the funding position as at 30 September 2017. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP's prior written consent, in which case it is to be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing.

Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation, as set out in the:

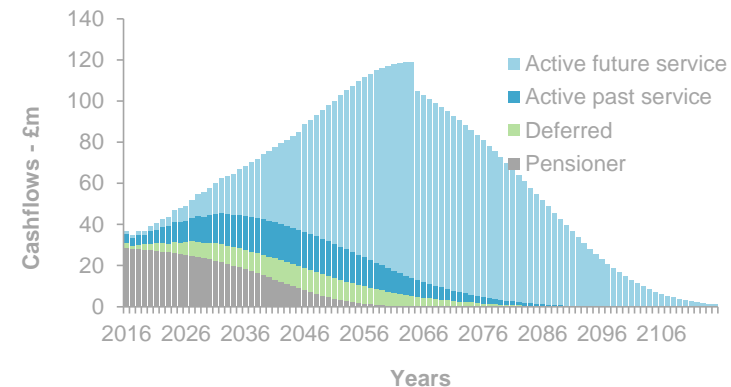
- Valuation Assumptions Briefing Note
- Funding Strategy Statement
- Valuation Report
- Rates and Adjustments Certificate

This update complies with the following Technical Actuarial Standards:

- TAS 100: Principles for Technical Actuarial Work

How liabilities are calculated

- The future benefits that are payable from the Fund ("cash-flows") were calculated on a specific set of assumptions at the last valuation date.
- These cash-flows (on the Ongoing funding basis) are shown below.
- These cash-flows were adjusted using available financial and Fund information to produce estimated cash-flows at post valuation dates.
- The specific information used for this update is set out on the next page.
- Market information is used to produce discount rates at these dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.



How assets are calculated

Assets are projected from the valuation date allowing for actual or estimated Fund cash-flows, actual quarterly returns (where available) and daily benchmark indices

The update allows for:

- 1 Movements in the value of the assets as measured by index returns and data from the administering authority where available.
- 2 Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.
- 3 Estimated cash-flows (contributions and benefit payments).
- 4 Expected accrual of benefits for employee members accrued since the last valuation (based on projected salary roll).
- 5 Demographic experience in line with assumptions.
- 6 Variations in liabilities arising from the changes in RPI since the valuation date differing relative to assumptions.
- 7 Benefit accrual in line with the 2014 scheme.

The update does not allow for:

- 1 Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).
- 2 The asset values as at the date of this report have not been based on audited Fund accounts.
- 3 Variations in liabilities arising from salary rises differing relative to assumptions.
- 4 Differences between estimated and actual salary roll of employees.
- 5 Variation between actual and expected demographic experience (e.g. early retirement or mortality).

Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report.

Limitations of this model

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Fund.

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant; particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller schemes). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Interpolation is used for other dates shown in graphs. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

Indices used to update projected asset values

Some of the following indices have been used to update projected asset values in this funding update.

- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- IPC Property
- Cash Indices LIBOR 1 Month

The indices are a standard list and are not necessarily the same indices that managers have been asked to track or beat. All indices used to estimate projected asset values are total return indices. However, the market indicators quoted in this report are price indices, as these are more widely recognised.

Market information used to update liability values

Some of the following market information has been used to update liabilities values in this funding update.

- Nominal gilt yield curves derived from Bank of England data
- RPI gilt inflation curve derived from Bank of England data
- Nominal swap curves derived from Bloomberg data
- Real swap curves derived from Bloomberg data
- Inflation volatilities derived from the swap market
- FTSE Actuaries UK Fixed Interest Gilts Yields (Over 15 Years)
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yields (Over 15 Years)
- iBoxx AA rated UK Corporate Bond Yields (Over 15 Years)

Note: Market yields displayed in the market indicators table are on an annual basis.

PENSIONS COMMITTEE

12 DECEMBER 2017

Subject Heading:

**RESPONSIBLE INVESTMENT:
MANAGER REVIEW**

CMT Lead:

Julie Oldale

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569

Policy context:

Debbie.ford@onesource.co.uk

Responsible investment issues as set out in the Statement of investment Principles

Financial summary:

No financial implications

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement. The review focused on the period for the year to **30 June 2017**.

RECOMMENDATIONS

That the committee:

1. Note Hymans summary review of fund manager voting and engagement activity (Appendix A).
2. Note the potential development of the monitoring and review process as outlined in Hymans report Appendix A).

REPORT DETAIL

1. **Background**

1. The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement (ISS).
2. Hymans report also includes an Appendix which sets out the Fund's current policy with regard to the responsible investment issues of which I have included extracts as below:
 - a. It is recognised that a range of factors, including Environmental, Social and Governance (ESG) factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.
 - b. The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

- c. The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.
 - d. Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.
 - e. The Committee recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Committee is a member of the Local Authority Pension Fund Forum (“LAPFF”) and participates in this to promote its views.
 - f. The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.
3. As mentioned in the policy shown above the engagement and voting activity is largely delegated to the Fund’s investment managers with the Fund reviewing their approach on an annual basis. Hymans carried out a review of the activity undertaken by the managers. The review focused on the period for the year to **30 June 2017**.
4. Officers are in discussion with Hymans regarding the potential development of responsible investment monitoring, as outlined in the summary of Hymans report, and to explore the possibility of arranging a training session in the New Year that would also cover the broader developments of the investment strategy, incorporating responsible investments and the impact this may have on the Fund.

IMPLICATIONS AND RISKS

Financial implications and risks:

Incorporated within the background of the report but would highlight the Pensions Committee view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund and Investment Managers have been given full discretion over day to day decision making.

Legal implications and risks:

“In a recent case decided in June 2017, R. (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Communities and Local Government, the High Court considered the guidance issued by the Secretary of State on investment strategy for local government pension schemes. The Judge held that the secretary of state had been wrong to provide, in the statutory guidance governing the investment strategy for the local government pension scheme, that administering authorities should not use pension policies to pursue boycotts, divestment and sanctions against foreign nations. That guidance had been issued for non-pensions purposes and so was outside the secretary of state's powers. The particular issue related to the boycott of Israeli investments as a protest against the occupation of the West Bank and Gaza Strip. However, this may have wider implications. At present the decision is subject to appeal. Otherwise there are no apparent legal implications in noting the content of the Report.” .None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Background Papers List

Responsible investment: Review for year to 30 June 2017

This paper is addressed to the Pension Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”). The purpose of this paper is to provide a summary of responsible investment activities, focusing primarily on reported voting and engagement activity, of the Fund’s investment managers in support of the Committee’s ongoing monitoring requirement.

The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Background

The Fund’s current policy with regard to the responsible investment issues is set out in the Investment Strategy Statement (“ISS”) and reproduced as an Appendix to this note. Recognising the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies, the Committee has recently also agreed to join the Local Authority Pension Fund Forum (“LAPFF”).

Engagement and voting activity is delegated to the Fund’s investment managers. This approach is consistent with an investment strategy that is predominantly implemented through investment in pooled funds. In relation to funds accessed via the London Common Investment Vehicle (LCIV), the LCIV operator has responsibility for engaging directly with investment managers although Committee should ensure that it engages with LCIV on the development of policy.

Shareholder voting rights are typically only available to the Fund’s investment managers that have equity holdings: this includes the Fund’s investments with Baillie Gifford and SSGA together with the multi-asset mandates managed by Ruffer, GMO and Baillie Gifford, all of which incorporate some level of equity investment.

Managers can also be assessed in respect of their compliance with industry standards. We have provided some comment on this and, for completeness, we have also included comment on the Fund’s bond investment managed by RLAM and the investment in the UBS Triton Property Fund, although different considerations are relevant in each case.

Summary

This paper summarises the voting and engagement activities of the Fund’s investment managers over the 12 month period to 30 June 2017.

The responsibility for voting shares is delegated to the investment managers. In the case of funds accessed via the LCIV, the LCIV operator has responsibility for engaging directly with investment managers. Currently, c.42.5% of the Fund’s assets are invested in funds accessed via LCIV. We have provided an outline below of potential future developments for the monitoring of responsible investment activities:

- Develop a formal policy on voting and engagement and consider sharing with the investment managers LGIM, GMO and LCIV;
- Continue to address voting and engagement activities as part of meetings with the above parties;
- Further to the above, consider testing examples of voting and engagement activities by managers against the Committee’s own policies, with the findings used to feed into further engagement;
- Consider including details of engagements undertaken by LAPFF.

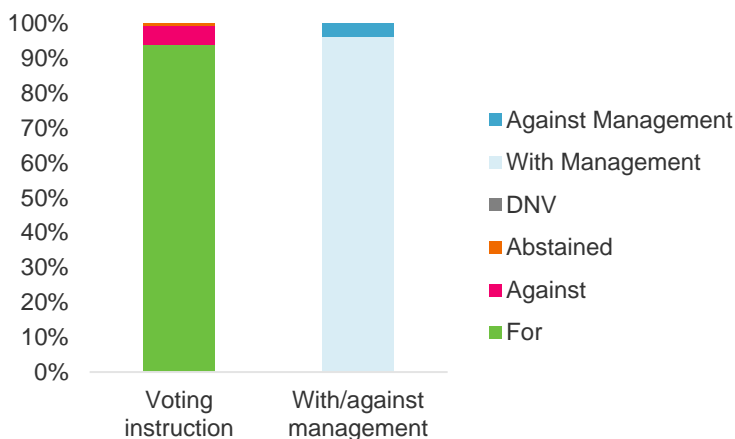
More broadly, the following could also be considered:

- Developing a set of investment beliefs, including beliefs on responsible investment matters for the Committee to frame its long-term approach to investment;
- Identifying particular engagement issues, for example, board diversity, executive remuneration, modern slavery, that could form the basis of future engagement by LAPFF and communicate these issues to LAPFF;
- Monitoring of a broader range of ESG risks, for example, carbon risk.

Baillie Gifford: Global Alpha Fund (accessed via LCIV)

The voting and engagement policy relating to this investment is determined by the CIV.

Baillie Gifford is a long-term investor with a process that is focused on understanding long-term company fundamentals. The firm monitors all companies in which they invest, votes at company meetings on a global basis and engage with companies where they have significant holdings, have experienced poor ESG practices, have a lack of disclosure or which are considered to be high-impact sectors.

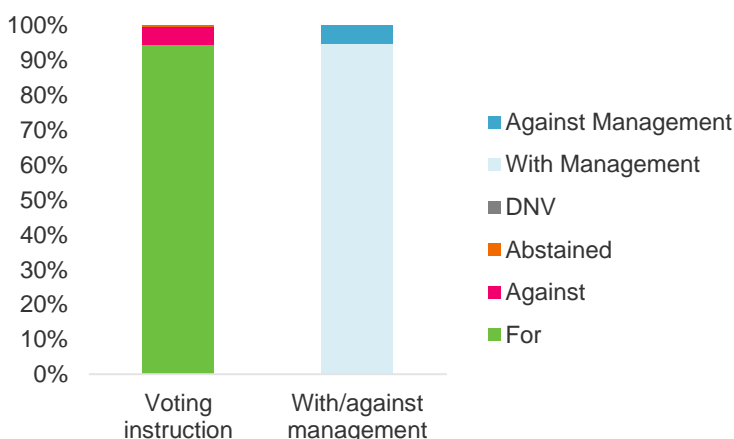


Baillie Gifford incorporates details of its voting and engagement activity within its quarterly reporting. During the 12 month period to 30 June 2017, the firm voted on 1,275 separate resolutions of which 68 (5%) were votes against the resolution. We have requested details of votes for and against management proposals but this was not provided at the time of writing.

Baillie Gifford voted shares for the Global Alpha Fund against management proposals on 51 (4%) of occasions.

Baillie Gifford: Diversified Growth Fund (accessed via LCIV)

Investment in the Baillie Gifford DGF is achieved via the London CIV. Accordingly, the voting and engagement policy relating to this investment is determined by the CIV. The DGF includes both a number of direct holdings together with investments in a number of Baillie Gifford pooled funds. Reporting reflects the direct investments made within the DGF rather than on a look through basis.



Baillie Gifford incorporates details of its voting and engagement activity within its quarterly reporting. During the 12 month period to 30 June 2017, the firm voted on 1,008 separate resolutions of which 51 (5%) were votes against the resolution. We have requested details of votes for and against management proposals but this was not provided at the time of writing.

Baillie Gifford voted shares for the Diversified Growth Fund against management proposals on 52 (5%) of occasions.

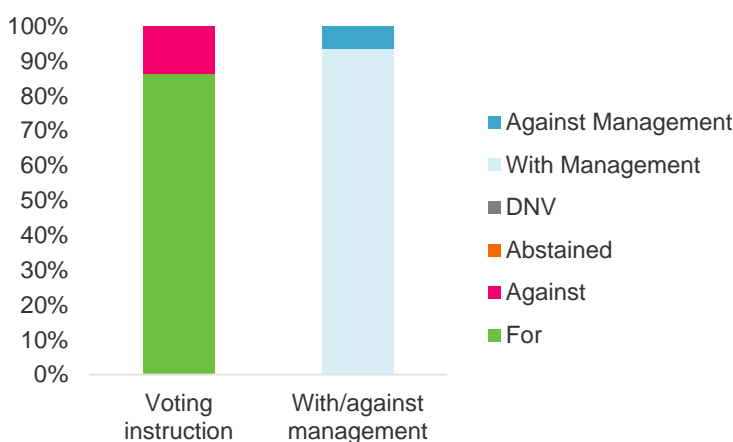
Baillie Gifford: Engagement themes

Baillie Gifford have provided details of their engagement activity for the 12 month period ending 30 June 2017. Over the period, corporate governance appeared to be a key theme of Baillie Gifford’s engagement, including notable engagements with Amazon (corporate culture, data privacy and working conditions), Rolls-Royce (Board re-structuring) and Tesla (Board de-classification, strategic acquisitions).

State Street Global Advisors (“SSGA”)

The Fund has two global equity mandates with SSGA. These are due to transfer to Legal & General Investment Management following a competitive tender exercise. The investments are in index tracking funds and, as such, the manager holds positions in a far greater number of investee companies than any of the Fund’s other managers and has significantly more votes to exercise.

We have been provided with statistics relating to SSGA’s global voting activities.



During the year to 30 June 2017, SSGA was eligible to vote on 174,586 resolutions of which they voted against proposals on 23,834 (14%) of occasions. In addition, SSGA voted against management proposals on 11,409 (7%) of occasions.

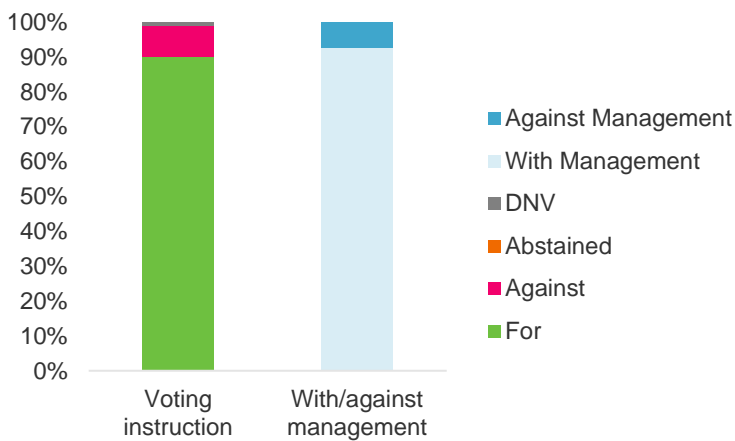
SSGA launched its Fearless Girl campaign in Q1 2017 to encourage companies to improve Board quality by enhancing diversity. In the first half of 2017 SSGA voted against Director Appointments where they believed Boards were not sufficiently diverse.

SSGA provides summary reporting on its voting and engagement activities on a global basis through its website.

GMO

GMO manage a multi-asset mandate for the Fund through investment in a pooled fund which is invested principally across equity and bond markets with the objective of delivering superior risk adjusted returns. GMO maintains a statement regarding the inclusion of ESG principles within its investment process, noting that ESG considerations are not an integral element of their philosophy or process. GMO do however note that certain measures of good governance and sustainable business correlate with their own evaluation of a company’s “quality” and that ESG issues will be included where they are believed to have a material impact on potential risk or return.

GMO does vote on the equity investment that it manages within pooled funds and has engaged Institutional Shareholder Services (ISS) to act as its proxy voting agent. GMO does not, as a matter of practice, engage or intervene with investee companies.



GMO have provided details of their voting activity for the 12 month period to 30 June 2017.

GMO was eligible to vote shares on 10,479 resolutions of which they voted against on 931 (9%) of occasions.

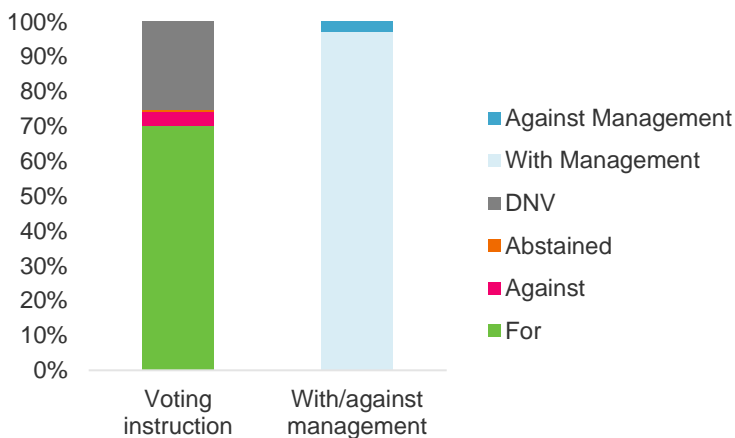
GMO voted against management proposals on 775 (7%) resolutions. The majority of these votes were in relation to Corporate Governance matters and Remuneration Policy.

Ruffer (accessed via LCIV)

Ruffer manage a multi-asset mandate for the Fund which is invested primarily across equity and bond markets with the objective of delivering positive absolute returns. Through this mandate, the Fund has share ownership rights which Ruffer exercise through a process of monitoring and engagement to the extent that issues will impact the economic interest of their clients. Ruffer maintain a responsible investment policy detailing this process.

With specific regard to voting, Ruffer vote on resolutions where a materiality test is met; this being defined as clients having a material interest in the company or where the value of the holding is material to clients.

Ruffer can provide voting information on a quarterly basis along with a summary annual report detailing their ESG activity. The most recent report has been provided for the year ending 31 December 2016.



During the 12 month period ending 30 June 2017, Ruffer voted on 875 resolutions of which they voted against 47 (5%) of occasions.

Ruffer did not vote on 285 of ballot items in total (25% of votable ballots). Ruffer voted against management on 25 (3%) of occasions.

In their Environmental, Social and Governance Report for the year ended 31 December 2016 Ruffer noted that remuneration was their main theme over the year. In particular, the link between performance and pay was a key area of focus.

Royal London Asset Management

RLAM manage a bond mandate, investing across government bonds and corporate credit issues. As such there are no voting rights attached to these investments.

RLAM has however developed a responsible investment policy that includes reference to bond investments, noting that ESG issues have historically been overlooked by markets. RLAM note that their aim is to deliver ESG analysis and a programme of engagement that is useful to pricing risk in fixed interest investments, particularly as issues relate to covenant strength.

RLAM include a generic comment on their policies within their quarterly reporting.

UBS Triton Property Fund

The Fund invests in the UBS Triton Property Fund. This vehicle invests directly in real estate and accordingly, there are no attaching voting issues. UBS maintain a global responsible investment policy covering investment in all asset classes, with issues specific to real estate being reflected in a separate Responsible Property Investment (RPI) policy. Within its RPI policy, UBS has quantitative goals to reduce energy consumption by 10%; reduce GHG emissions by 20% and increase recycling by 50% over a five-year period from 2015.

UBS have include a report on sustainability within their annual report (year ending 31 December 2016) incorporating details on key environmental figures relating to energy, water and waste usage within properties held by the Fund. These figures are detailed below:

	2014	2015	2016
Total energy consumed (kWh)	9,626,026	8,197,425	9,048,368
Total waste produced (tonnes)	361	399	502
Total water usage (m ³)	41,962	37,692	34,015
Number of properties	28	29	30

The Triton Property Fund also participates in the Global Real Estate Sustainability benchmark (GRESB) survey. This is an annual assessment of the sustainability performance of both property companies and funds, including indicators such as energy use, as well as broader sustainability topics such as engagement with tenants and suppliers. UBS Triton ranked fourth (2014: first, 2015: third) out of 18 balanced funds within the AREF/IPD UK Quarterly Property Fund Index, retaining “Green Star” status and achieving a four-star rating.

Compliance with industry governance codes

Managers can demonstrate their commitment to responsible investment through their adherence to industry standards. Whilst such standards can be viewed to some degree as “box ticking” exercises, reporting and assessment of managers against these standards is increasing. There are to standards directly relevant to the Fund’s investment managers; the Principles for Responsible Investment and the FRC UK Stewardship Code. We set out comments on each below and the position of each of the Fund’s managers with regard to these standards.

Principles for Responsible Investment

The six Principles for Responsible Investment are a voluntary set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The principles were established in 2006 and are now supported by 1700 signatories. Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles and the table below sets out each of the Fund’s investment managers’ signatory status and most recent assessment rating.

Manager	Signatory	Strategy & Governance	Listed Equity Incorporation	Listed Equity Active Ownership
LGIM*	Yes	A+	A+	A
Baillie Gifford	Yes	A+	A	A
Ruffer	Yes	A	A+	A
GMO	Yes	n/a	n/a	n/a
RLAM	Yes	A+	n/a	n/a

Manager	Signatory	Strategy & Governance	Listed Equity Incorporation	Listed Equity Active Ownership
UBS	Yes	A	n/a	n/a

**We have shown the rating for LGIM given their ongoing appointment to the Fund.*

All managers are signatories to the PRI with GMO having only become a signatory during 2017 and therefore not yet subject to assessment. Ratings of A indicate a score of over 75% in the assessment process; A+ indicates a score of over 95% with the fund's dedicated equity managers both achieving ratings of A or A+.

UK Stewardship Code

In July 2010, the Financial Reporting Council ("FRC") published its UK Stewardship Code (the "Code"), with an update released in October 2012. The Code aims to encourage good governance and increased engagement between investors and investee companies.

During 2016, the FRC undertook an assessment of the disclosures made by all signatories in order to improve the quality of reporting against the Code, encourage transparency and maintain credibility in the Code. Signatories have been tiered between those who report well and display their commitment to stewardship and those where reporting improvements are necessary. LGIM, Ruffer and Baillie Gifford are all Tier One signatories. GMO is not a signatory to the Code.

Prepared by:-

Simon Jones, Senior Investment Consultant
Callum Stewart, Associate Investment Consultant

November 2017

For and on behalf of Hymans Robertson LLP

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix: Current fund policy

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that a range of factors, including Environmental, Social and Governance (ESG) factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Committee recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Committee is a member of the Local Authority Pension Fund Forum ("LAPFF") and participates in this to promote its views.

The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund.

The exercise of rights (including voting rights) attaching to investments

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In respect of the Fund's investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.

At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

PENSIONS COMMITTEE

12 DECEMBER 2017

Subject Heading:

**LOCAL PENSION BOARD ANNUAL
REPORT- YEAR ENDED 31 MARCH
2017**

CMT Lead:

Sarah Bryant

Report Author and contact details:

Mark Holder
Chairman Local Pension Board
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Policy context:

Financial summary:

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report includes the Local Pension Board Annual Report 2016/17.

RECOMMENDATIONS

1. The committee to note the 2016-2017 Local Pension Board Annual Report.

REPORT DETAIL

Background

1. The Local Pension Board Annual report 2016/17 has been produced in line with the guidance issued by the Scheme Advisory Board section 8.6.
2. The report details activities for the past year and focusses on the planning and development of a robust action plan for the board with relevant training and development for the coming/future year.

IMPLICATIONS AND RISKS

Financial implications and risks:

None

Legal implications and risks:

There is no statutory requirement for the Pension Board to provide an annual report although guidance recommends this. There are no apparent legal implications from noting the content of the report.

Human Resources implications and risks:

There are no HR implications arising directly as a result of this report.

Equalities implications and risks:

None

BACKGROUND PAPERS

None

**LONDON BOROUGH OF HAVERING
LOCAL PENSION BOARD**

ANNUAL REPORT

2016/17



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Chairman's opening remarks.

It is my pleasure, as the new Chairman of Havering Local Pension Board, to introduce the Board's second Annual Report. The Local Pension Board was established in 2015 following changes in the Public Service Pensions Act 2013. The Board's task is to assist the council by making sure it is administering the Local Government Pension Scheme (LGPS) effectively and efficiently and is compliant with the law.

I took over as Chairman of the Board on the 27th June 2017 from Justin Barrett and I would like to thank Justin for all his hard work during his term as chairman.

The Board met five times from April 2016 to March 2017 and discussed a wide range of topics. These include training, tendering process for fund managers, pooled investments, work plan, terms of reference, fair deal and TUPE transfer, support for the Board, pensions administration strategy, online information and the budget for the Board.

I would like to thank officers for their support in preparing all this information for the discussions.

There have been some changes to the Board membership, training and development will be a key issue moving forward. A new work plan has just been agreed where the Board will start to look in more detail around the schemes administration and compliance with the pension regulator and scheme advisory Board compliance checklist.

I would also like to thank my fellow Board members for their commitment and hard work during the year and look forward to assisting the council in maintaining the high standards of the administration of the Fund.

Mark Holder
Chair of the Local Pensions Board

Introduction

1. Local Pension Boards are constituted entirely under the Public Service Pensions Act 2013 and are not local authority committees.
2. The role of each Board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.
3. Pension Boards need to have an equal number of employer and member representatives. They may also have other members, such as independent experts. All Pension Board members have a duty to act in accordance with scheme regulations and other governing documents.
4. Scheme regulations (or scheme-specific guidance) may provide further detail on the scope of the Pension Board and how it should operate, for example how many Pension Board members need to attend a meeting to be quorate and how often it should meet.
5. This Annual Report has been established to ensure Pensions Committee are aware of work undertaken and what is planned for the future.

Role of the Local Pension Board

1. The role of the Local Pension Board, as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to: -
 - Assist the London Borough of Havering Administering Authority as Scheme Manager:-
 - To secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
 - To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
 - In such other matters as the LGPS regulations may specify;
 - Secure the effective and efficient governance and administration of the LGPS for the London Borough of Havering Pension Fund;
 - Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
2. The Pension Board will ensure it effectively and efficiently complies with the code of practice of the governance and administration of public service pension schemes issued by the Pension Regulator;
3. The Pension Board will also help ensure that the London Borough of Havering pension Fund is managed and administered effectively and complies with the

code of practice on governance and administration of public service pensions schemes issued by the Pension Regulator;

4. The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively;
5. In support of its core functions the Board may make a request for information to the Pensions Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing;
6. In support of its core functions the Board may make recommendations to the Pensions Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Membership of the Board

The Board consists of 4 voting members, two representing employers and two representing scheme members.

Board members were appointed for a fixed term of 4 years, which could be extended for further periods subject to re-nomination.

Substitute members are not allowed.

Each Board member should endeavour to attend all Board meetings during the year and are required to attend at least 4 meetings each year, one of which must be the Annual Meeting.

In the event a Board member failed to attend three consecutive meetings, that individual would automatically be disqualified, unless failure was due to some reason approved by the Board before the date of the third consecutive meeting.

Justin Barrett and David Holmes were appointed as Employer representatives and Mark Holder and Marsha Jane Thompson as Scheme Member representatives. Marsha Jane Thompson resigned part way through the year and we were joined by Anne Giles.

Board Meetings

The Board met on five occasions up to the end of the financial year including an annual general meeting.

Meetings took place on 14 April 2016, 6 June 2016 (Annual Meeting), 12 July 2016, 10 January 2017, and 30 March 2017.

Matters discussed by the Board

The following matters have been discussed by the Board:

- Pension training needs
- Tendering process for fund managers
- Pooled investments
- Annual report 2015/16
- Review of work plan
- Review of Terms of Reference
- Fair Deal and TUPE Transfer
- Support for the board
- Pensions administration strategy
- Online information
- Details of the Board's budget
- Pensions Committee meeting updates
- Proposals for transfer of Pensions Administrative Service to an external service provider

There have been no conflicts of interest involving any of the work undertaken by the board or during any agenda items.

Training

The board members are committed to the legal requirement to acquire the appropriate knowledge and skills and to demonstrate and evidence these legal requirements. To do this the Committee and the Board jointly adopted the CIPFA Knowledge and Skills Framework (KSF) in 2015, it has adopted a register that shows that the training and development being undertaken during the year. The register can be found in Appendix 1.

To summarise:

Members have also attended an LGPS Board Seminar that was delivered by the Pensions and Lifetime Savings Association.

Individuals have also completed on-line learning from the Pensions Regulator as well as other self-directed learning which includes reading and e-learning.

All members have undertaken a training needs analysis.

Training has been planned for the future which is detailed in Appendix 2. The shaded areas are for dates following the publication of the annual report.

Financial Position

(LGPS Regulations 2015 section 106(9) states that the expenses of a Local Pension Board (LPB) are to be regarded as part of the costs of administration of the fund held by the administering authority.

LGPS Guidance issued in January 2015 suggested that it was appropriate for the LPB to be given adequate resources to fulfil its task and the details of any expenses and other costs incurred by the LPB and anticipated expenses for the forthcoming financial year are reported in the LPB Annual report.

Terms of reference adopted by Governance Committee on the 11 March 2015 and then the Council meeting on the 25 March 2015 also states that the LPB is to be provided with adequate resources to fulfil its role.

Budgets have been set to cover a four year period to reflect the period of term that the LPB appointees will serve. The budget for the LPB will be met from the Havering Pension Fund and was approved by the then Section 151 Officer for the period 2015/16 – 2018/19

The actual spend during 2016/17 and the estimated budget from April 2017 to March 2019, as agreed by the Administering Authority's section 151 officer, are shown in the following table:

Description	2015/16 Actual £	2016/17 Estimate £	2016/17 Actual £	2017/18 Estimate £	2018/19 Estimate £
Members Allowance & Travelling	1,346	3,000	1,189	3,000	3,000
Support Services – Internal Recharge	880	8,000	920	8,000	8,000
Printing, Stationary & Office Expenses	3,348	3,400	0	3,400	3,400
Communication & Computing	0	500	0	500	500
Professional Advice	0	10,000	0	10,000	10,000
*Training & Development	6,038	10,000	5,550	10,000	10,000
Total	11,612	34,900	7,659	34,900	34,900

*Training costs of £10,000 is to be shared with the Pensions Committee to keep officer time and training costs to a minimum. The amounts shown above represent the LPB share of the costs.

2016/2017 is the second operational year of the LPB and it may be that members decide to review budgets in order to reflect spend patterns. The LPB is accountable to the Administering Authority and prior approval will need to be sought from the Section 151 officer to amend budgets.

The Future

A new 18/24 month work plan has been agreed for 2017/18 and 2018/19.

This will cover the following areas:

1. Finalise the review of fair deal and TUPE policies and have a report on how the current changes, i.e. introduction of multi academy trusts and college reorganisation would impact on the Pension Scheme.
2. Ensure the pension regulator and scheme advisory board compliance checklist has been completed and is reviewed regularly.
3. Ensure a process is in place to make any items that have been identified as being non-compliant or partially compliant from the pension regulator and scheme advisory board compliance checklist are made fully compliant within agreed and acceptable timescales.
4. Request that the scheme manager provide evidence that the Administering Authority is meeting the pension regulators requirements in any areas that we require further assurance.
5. Review key performance indicators relating to the administration of the scheme and ensure an action plan is in place for indicators that are not meeting the agreed target.
6. Monitor progress of service transition of Pensions Administration to Local Pensions Partnership (LPP) and ensure that any changes to scheme administration are well planned and documented and that there are processes in place to ensure that there is no detrimental performance in any area of scheme management.
7. Ensure the scheme manager fully plans for any new legislation such as the General Data Protection Regulation (GDPR) which comes into force on the 25 May 2018 and we are compliant with all aspects of new legislation.
8. Report regularly to the pensions committee on the work of the pension board..
9. Ensure good communication and engagement between Pensions Board and Pensions Committee.

The Work Plan will be a live document and subject to change as necessary with a formal review at least every two years.

Appendix 1 – Training Record to 31st March 2017

Date	Topic	Location	KSF	Cost	Attendee
29 June 2015	Hymans – Fund Actuary delivered training: Why we are here Roles & Responsibilities Knowledge & Skills Brief overview of LGPS	Hyman’s Office – One London Wall	KSF 1	£3,500 (shared equally between LBH and Redbridge)	Justin Barrett – Employer rep Mark Holder - Member rep Marshajane Thompson – Member rep David Holmes – Employer Rep
12 Aug 2015	Officers - Local Pension Board Induction covered: <ul style="list-style-type: none"> ○ Brief overview of the hivering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation ○ LPB reporting requirements 	Town Hall – Prior to Local Pension Board meeting	KSF 1,2,4,5 & 6	Officer Time	Mark Holder - Member rep Justin Barrett – Employer rep (chair)
6 Jan 2016	Hymans – Fund’s Actuary delivered TUPE Transfer Training, covered: <ul style="list-style-type: none"> ● What is TUPE ● Pension Protection & Regulations ● Admission bodies documents & securities ● Cessations 	Town Hall – prior to Local Pension Board meeting	KSF 6	£3,500	Mark Holder - Member rep Justin Barrett – Employer rep (chair)

25 April 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> • Governance Structure of LGPS • The Pension Regulator approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£450.00 + VAT	Mark Holder
15 June 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£900.00 + VAT	Marshajane Thompson Justin Barrett
7 October 2016	Eversheds – LGPS: New Challenges, covered: <ul style="list-style-type: none"> • Update on LGPS Pooling • New Fair Deal update • 2016 Valuations • Legal, Investment & Brexit update 	Eversheds, one Wood Street, London	KSF 1 & 6		David Holmes
Various	Pensions Regulator Toolkit <ul style="list-style-type: none"> • Conflicts of interest • Maintaining accurate member data • Managing Risks and internal controls • Maintaining member contributions 	online	KSF 1 KSF 2 KSF 1 KSF 2		Mark Holder Anne Giles Mark Holder Mark Holder Mark Holder

3 Nov 2016	Association of Colleges	Webinar	?		David Holmes
28 Nov 2016	Pensions & Lifetime Savings Academy (PLSA) covered: Governance Structure of LGPS <ul style="list-style-type: none"> • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£450.00 + VAT	David Holmes

Appendix 2 – Training Planned from 1st April 2017

Date	Topic	Location	KSF	Cost	Attendee
28 June 2017	CIPFA & Barnett Waddingham – Local Pension Boards Two years on	Cheapside House, 138 Cheapside, London EC2V		£175	David Holmes Mark Holder Anne Giles
3 Nov 2017	Association of Colleges	Webinar	KSF 1	Officer Time	David Holmes
6 Nov 2017	LGPS Members Autumn Seminar - CIPFA & Barnett Waddingham	Cheapside House, 138 Cheapside, London EC2V			Ann Giles Virpi Raivio
12 Dec 2017	Officers - Local Pension Board Induction covered: <ul style="list-style-type: none"> ○ Brief overview of the Havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation LPB reporting requirements	TBC	KSF 1,2,4,5 & 6	Officer Time	Ann Giles (TBC) Virpi Raivio (TBC)

Date	Topic	Location	KSF	Cost	Attendee
TBA	Joint Training with Pensions committee – Investment Strategy /Explaining Fixed Income products				

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PENSIONS COMMITTEE

12 DECEMBER 2017

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED SEPTEMBER 2017**

CLT Lead:

Julie Oldale

Report Author and contact details:

Debbie Ford
Pension Fund Manager
01708432569

Policy context:

Debbie.ford@onesource.co.uk
Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.

Financial summary:

This report comments upon the performance of the Fund for the period ended 30 September 2017

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the first quarter to 30 September 2017. The performance information is taken from the quarterly performance reports supplied by each Investment Manager, State Street Global Services Performance Services PLC (formerly known as WM Company) quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the first **quarter** to 30 September 2017 was **1.4% (or £11m to £693m)**. This represents an outperformance of **0.5%** against the combined tactical benchmark and outperformance of **1.6%** against the strategic benchmark. The Baillie Gifford (BG) Global Equity Fund was the best performer over the quarter. The BG Diversified Growth Fund (DGF) and GMO Global Real Return Fund both outperformed their respective benchmarks over the quarter whilst the Ruffer

Fund underperformed. The RLAM Fund made a small gain against the benchmark reflecting a fall in the value of bond markets over the quarter.

The overall net return of the Fund's investments for the **year** to 30 September 2017 was **7.9%**. This represents an outperformance of **3.0%** against the combined tactical benchmark and an outperformance of **10.2%** against the annual strategic benchmark - this is a measure of the Fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this are set out in paragraphs 1.1 and 1.2 below.

We measure the individual managers' annual return for the new combined tactical benchmark and these results are shown later in the report.

RECOMMENDATIONS

That the Committee:

- 1) Notes the summary of the performance of the Pension Fund within this report.
- 2) Considers Hymans performance monitoring report and presentation (Appendix A - Exempt).
- 3) Receive a presentation from the London CIV for the Funds investment in both Baillie Gifford Global Alpha fund and the Diversified Growth Fund (Appendix B - Exempt).
- 4) Considers the latest quarterly update from the Chair of the Investment Advisory Committee, LCIV (Appendix C - Exempt)
- 5) Considers the quarterly reports provided by each investment manager.
- 6) Notes the analysis of the cash balances (paragraphs 3.2 refers).

REPORT DETAIL

1. **Background**

- 1.1 **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. The current shortfall is driven by the historically low level of real interest

rates which drive up the value of index linked gilts (and consequently the level of the fund liabilities).

- 1.2 **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.
- 1.3 The objective of the Fund's investment strategy is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities. Whilst mechanisms such as hedging could have served to protect the fund against falling interest rates in the short-term, such strategies are not commonly employed within the LGPS. The Fund has retained investments with Royal London which have offered some resilience to the fluctuations in interest rates, but given the long term nature of the fund, the Fund's investment advisers believe that the objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, lower realised inflation over recent years means that the actual benefit cash flows expected to be paid from the fund will be lower than previously expected although the fund's liabilities remain subject to changes in future inflation expectations.
- 1.4 Following the results of the 2016 Valuation and in line with regulations the Committee developed a new Investment Strategy Statement (ISS) which replaced the Statement of Investment Principles (SIP). The revised asset allocation targets are shown in the following table and reflect the asset allocation split and targets against their individual fund manager benchmarks:

Table 1: Asset Allocation

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	15.0%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.5%	State Street Global Asset (see paragraph 1.7)	Pooled	Passive	FTSE All World Equity Index
	7.5%	State Street Global Asset (see paragraph 1.7)	Pooled	Passive	FTSE RAFI All World 3000 Index

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
Multi Asset Strategy	12.5%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5% over a complete market cycle
Absolute Return	15%	LCIV Ruffer	Pooled	Active	Absolute Return
Property	6%	UBS	Pooled	Active	AREF/IPD All balanced property Index Weighted Average
Gilt/ Investment Bonds	19%	Royal London	Segregated	Active	<ul style="list-style-type: none"> • 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index- linked over 5 years. Plus 1.25%*
Infrastructure	2.5%	No allocation			

*0.75% prior to 1 November 2015

- 1.5 UBS, SSgA and GMO manage the assets on a pooled basis. Royal London manages the assets on a segregated basis. Both the Baillie Gifford mandates and the Ruffer mandates are managed on a pooled basis and operated via the London Collective Investment Vehicle (LCIV). Performance is monitored by reference to the benchmark and out performance target as shown in the above table. Each manager's individual performance is shown later in this report with a summary of any key information relevant to their performance.
- 1.6 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously

used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

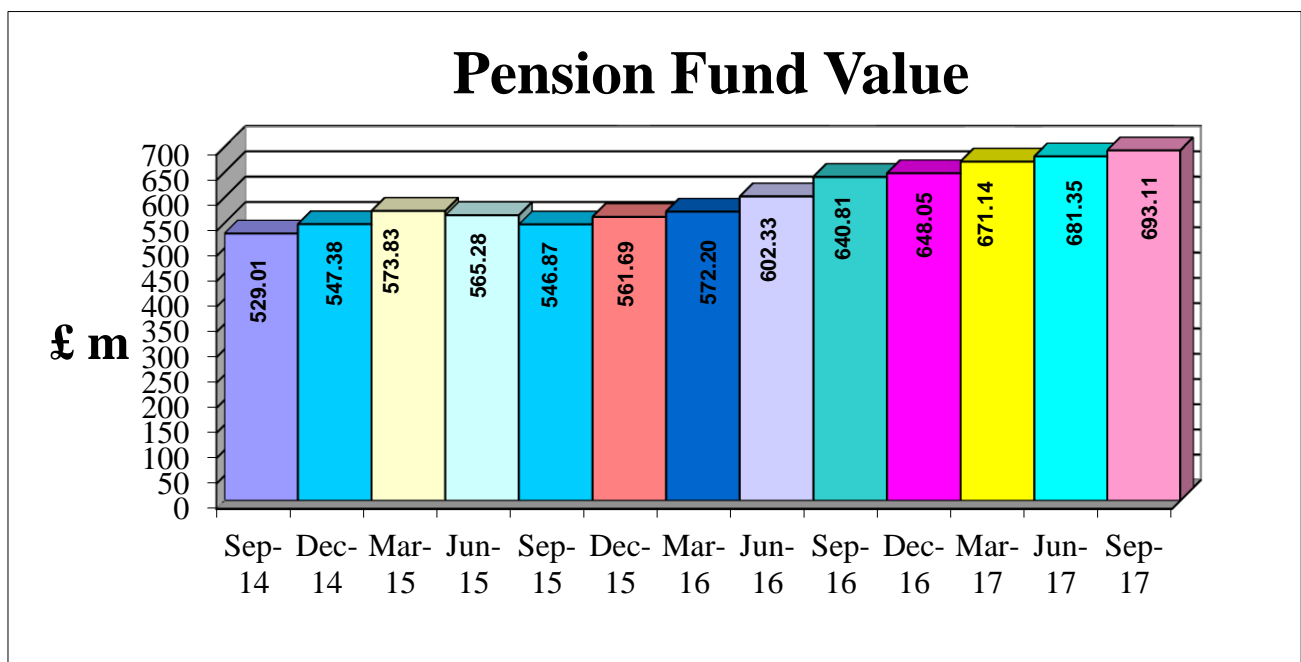
- 1.7 Following a competitive tender exercise, at a Special Pensions Committee meeting held on the 6 September the Committee appointed Legal & General Investment Management (LGIM) as the Fund's new passive equities manager, in order to benefit from reduced fee charges negotiated by the London CIV. Assets will be transitioned across on the 9 November 2017.

2. Reporting Arrangements

- 2.1 After reviewing the current reporting arrangements at the last Pensions Committee held on the 15 June 2017 it was agreed that only one fund manager will attend each committee meeting.
- 2.2 The Fund Manager attending this meeting is the London CIV representing both the Baillie Gifford DGF and Global Alpha Fund mandates.
- 2.3 Hyman's performance monitoring report is attached at **Appendix A**.

3 Fund Size

- 3.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 September 2017 was **£693.11m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £681.35m at the 30 June 2017; an **increase of £11.76m**. The movement in the fund value is attributable to an increase in assets of £9.79m and an increase in cash of £1.97m. The internally managed cash level stands at **£16.59m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£16.59m** follows:

Table 2: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	<u>31 Mar 16</u>	<u>31 Mar 17</u>	<u>30 Sep 17</u>
	£000's	£000's	£000's
Balance B/F	-7,599	-12,924	-12,770
Benefits Paid	35,048	36,490	18,998
Management costs	1,754	1,358	529
Net Transfer Values	518	2,151	-414
Employee/Employer Contributions	-42,884	-40,337	-24,137
Cash from/to Managers/Other Adj.	306	586	1,256
Internal Interest	-67	-94	-51
Movement in Year	-5,325	154	-3,819
Balance C/F	-12,924	-12,770	-16,589

3.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

3.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and introduced a discretion that allows the Chief Executive (now the Statutory S151 officer) to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £6m is being considered as part of the investment strategy review.

4. Performance Figures against Benchmarks

4.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

Table 3: Quarterly Performance

	Quarter to 30.09.17	12 Months to 30.09.17	3 Years to 30.09.17	5 years to 30.09.17
	%	%	%	%
Fund	1.4	7.9	8.8	10.1
Benchmark	0.8	4.7	7.3	8.3
*Difference in return	0.5	3.0	1.4	1.7

Source: WM Company

Totals may not sum due to geometric basis of calculation and rounding.

- 4.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees) is shown below:

Table 4: Annual Performance

	Quarter to 30.09.17	12 Months to 30.09.17	3 Years to 30.09.17	5 years to 30.09.17
	%	%	%	%
Fund	1.4	7.9	8.8	10.1
Benchmark	-0.3	-2.1	11.5	10.5
*Difference in return	1.6	10.2	-2.4	-0.3

Source: WM Company

*Totals may not sum due to geometric basis of calculation and rounding.

- 4.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.
- 4.4 Since January 2017 the Havering Pension Fund uses the performance measurement services of Pensions & Investment Research Consultants Ltd (PIRC) to provide the universe comparisons against other LGPS funds. The PIRC Local Authority Universe comprised of 60 funds as at the end of September 2017 with a value of £162bn. Whilst the Fund does not measure performance against the Local Authority average, the average fund delivered a quarterly return of **1.6%** and an annual return of **9.4%**.

Table 5: QUARTERLY PERFORMANCE (AS AT 30 SEPTEMBER 2017)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	0.21	-0.35	0.56	-0.04	0.25
UBS	2.32	2.25	0.07	n/a	n/a
GMO	1.70	0.25	1.45	n/a	n/a
SSgA Global Equity	1.90	1.89	0.01	n/a	n/a
SSgA Fundamental Index	2.73	2.75	-0.02	n/a	n/a
LCIV/Ruffer*	-0.72	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (DGF)*	0.65	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (Global Alpha Fund)	4.12	2.27	1.85	n/a	n/a

Source: WM Company, Fund Managers and Hymans

Pensions Committee, 12 December 2017

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- *Not measured against a benchmark

Table 6: ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	-1.33	-3.38	2.05	-2.13	0.80
UBS	9.45	9.04	0.41	n/a	n/a
GMO	6.89	1.55	5.34	n/a	n/a
SSgA Global Equity	15.44	15.45	-0.01	n/a	n/a
SSgA Fundamental Index	16.98	17.08	-0.10	n/a	n/a
LCIV/Ruffer*	0.83	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (DGF)*	7.43	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (Global Alpha Fund)	21.80	15.5	6.30	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- *Not measured against a benchmark.

5. Fund Manager Reports

In line with the new reporting cycle, the Committee will only see one Fund Manager at each Committee meeting. Fund Managers brief overviews are included in this section. The full detailed versions of the fund managers' report are distributed electronically prior to this meeting.

5.1. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

- a) Royal London last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 16 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.
- b) The value of the fund as at 30 September 2017 has increased by £0.18m since the June quarter.

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- c) Royal London delivered a net return of 0.21% over the quarter, outperforming the benchmark by 0.56%. The mandate is ahead of the benchmark over the year by 2.05% and 0.63% since inception.
- d) Royal London Asset Allocation:
- | | % |
|----------------------------------|------|
| i. Credit Bonds (corporate) | 52.1 |
| ii. Index Linked Bonds | 28.9 |
| iii. Sterling Government Bonds | 9.8 |
| iv. RL Sterling Extra Yield Bond | 7.3 |
| v. Overseas Bonds | 0.3 |
| vi. Cash | 1.6 |
- e) Main source of outperformance over the quarter was the funds overweight allocation to credit versus government bonds, particularly within financials and secured and structured debt. Asset allocation and a short duration position also had a positive impact upon performance. The exposures to the Royal London Sterling Extra Yield Bond Fund and global index linked bonds were also beneficial.

5.2. Property (UBS)

- a) UBS last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 2016 and with officers on the 17 August 2016 which reviewed performance as at 30 June 2016.
- b) The value of the fund as at 30 September 2017 increased by £0.90m since the June quarter.
- c) UBS delivered a net return of 2.32% over the quarter, just slightly underperforming the benchmark by -0.05%. The mandate is ahead of the benchmark over the year by 0.19% and behind by 1.78% over 5 years. Return comprises of income attributing 0.8% and capital returns 1.5%.
- d) UBS Sector weighting:
- | | % |
|-------------------------------|------|
| i. Industrial | 38.0 |
| ii. Retail warehouse | 22.7 |
| iii. Office | 19.1 |
| iv. Other Commercial Property | 12.5 |
| v. Shopping Centres | 4.1 |
| vi. Unit Shops | 3.6 |
- e) Performance was primarily driven by the Fund's industrial properties with the active leasing programmes across the portfolio also contributing to performance.

5.3. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

- a) GMO last met with the Committee on 15 June 2017 which reviewed performance as at 31 March 17 and with officers on the 3 November 2016 which reviewed performance as at 30 September 2016.
- b) The value of the fund has increased by £2.17m since the June quarter.
- c) GMO have outperformed their benchmark over the 3 month, 12 month and since inception as follows:

Table 7:GMO performance

	3 Months	12 Months	Since inception (13 Jan 2015)
	%	%	%
Net Fund Return	1.70	6.89	2.12
Benchmark	0.25	1.55	1.35
Relative to Benchmark	1.49	5.34	0.78

➤ Totals may not sum due to geometric basis of calculation and rounding.

- d) GMO asset Allocation:
 - i. Equities 41.3%
 - ii. Alternative strategies 15.7%
 - iii. Fixed Income 16.5%
 - iv. Cash/Cash Plus 26.5%
- e) Top down allocation spread over equities, alternative strategies and bonds added 3.1% to performance whilst stock selection detracted -1.1% from performance .

5.4. Passive Equities Manager (SSgA)

- a) SSgA last met with the Committee on 13 December 2016 which reviewed performance as at 30 September 2016 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.
- b) The value of the fund has decreased by £2.24m since the June quarter.
- c) The SSgA mandate is split into two components, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund.
- d) As anticipated from an index-tracking mandate SSgA has performed in line with the benchmark over the latest quarter.

- e) The FTSE RAFI All World 3000 Index (the index) outperformed the FTSE All World Index by +0.57% during the Quarter.
- f) The Index's overweights in Energy and Materials and underweight in Consumer Discretionary were the top contributors. The Index's underweight in Information Technology was the main detractor, followed by its underweight in Health Care and overweight in Telecommunication Services.
- g) The Index's overweights in the UK, Germany, Italy, France and Brazil were the top contributors, while its relative exposures in the China, Korea and Sweden and underweight in the US were the main drags.

5.5. Multi Asset Manager – London CIV (Ruffer)

- a) This mandate transferred to the London CIV on 21 June 2016.
- b) The London CIV will now oversee the monitoring and review of performance for this mandate. However Ruffer has stated that they are happy to continue with the existing monitoring arrangements and meet the Committee to report on its own performance.
- c) Ruffer last met with officers on the 31 January 2017 which reviewed performance as at 31 December 2016 and last met with the Committee on 19 September 2017 which reviewed performance as at 30 June 2017.
- d) The value of the fund has decreased by -£0.68m since the June quarter.
- e) Since inception with the London CIV Ruffer returned -0.72% over the quarter, 0.83% over the year and 10.20% since inception. The mandate is an Absolute Return Fund (measures the gain/loss as percentage of invested capital) and therefore is not measured against a benchmark. Capital preservation is a fundamental philosophy of the Fund.
- f) Stock selections were factors that helped performance: A rising oil price produced a total return of 10% during the quarter for BP. Further strength in its music business meant a similar gain in Vivendi's share price, while there were helpful gains in the share prices of Sophos (+24%), Tesco (+11%), and Booker (+10%).
- g) Inflation-linked bonds was the main factor that hurt performance: Higher UK inflation readings sharpened the commentary from the Bank of England, driving UK nominal bond yields higher, but leaving inflation breakevens broadly unchanged; inflation-linked bonds therefore lost ground. Volatility hitting new multi-year lows and equity markets grinding higher meant the portfolio's unconventional protections declined in value.

5.6. UK Equities - London CIV (Baillie Gifford Global Alpha)

- a) This mandate transferred to the London CIV on the 11 April 2016.
- b) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV last met with the Committee on the 13 December 2016 which reviewed performance as at 30 September 2016. Representatives from the London CIV are due to make a presentation at this Committee, and a brief overview of their performance follows.
- c) The value of the Baillie Gifford Global Equities mandate fund increased by £4.83m since the June quarter.
- d) Since inception with the London CIV the Global Alpha Fund delivered a return of 4.12% over the quarter, outperforming the benchmark by 1.85%, delivered a return of 21.80% over the year, outperforming the benchmark by 6.30% and since inception with the London CIV the fund returned 47.05% outperforming the benchmark by 10.49%.

5.7. Multi Asset Manager – London CIV (Baillie Gifford Diversified Growth Fund)

- a) This mandate was transferred to the London CIV on the 15 February 2016.
- b) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV last met with the Committee on the 13 December 2016 which reviewed performance as at 30 September 2017. Representatives from the London CIV are due to make a presentation at this Committee, and a brief overview of their performance follows.
- c) The value of the Baillie Gifford Global Equities mandate fund increased by £0.55m since the June quarter.
- d) The Diversified Growth mandate delivered a return of 0.65% over the quarter, 7.43% over the last year and 17.53% since inception with the London CIV. The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets and therefore is not measured against a benchmark.

5.8 London CIV Update

- a) The latest quarterly update from the Chair of the Investment Advisory Committee, Ian Williams and the work of the Investment Advisory Committee is attached (Appendix C).

6. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which will be distributed to members electronically.
2. Receive quarterly information from the Investment Managers, detailing new Investments made.
 - Points 1 and 2 are contained in the Managers' reports.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The manager attending the meeting will be from:

London CIV presenting on the Baillie Gifford mandates

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund

Legal implications and risks:

None arising directly

Human Resources implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

None

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of the Local Government Act 1972.

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