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PENSIONS COMMITTEE AGENDA

7.00 pm	**Tuesday 18 September 2018**	**Committee Room 3a, Town Hall, Main Road, Romford**

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)

John Crowder (Chairman)
Melvin Wallace (Vice-Chair)
Matt Sutton

Residents' Group (1)

Stephanie Nunn

Upminster & Cranham Residents' Group (1)

Ron Ower

North Havering Residents' Group (1)

Martin Goode

Independent Residents' Group (0)

Vacancy

Trade Union Observers (No Voting Rights) (2)

John Giles, Unison
Andy Hampshire, GMB

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:-

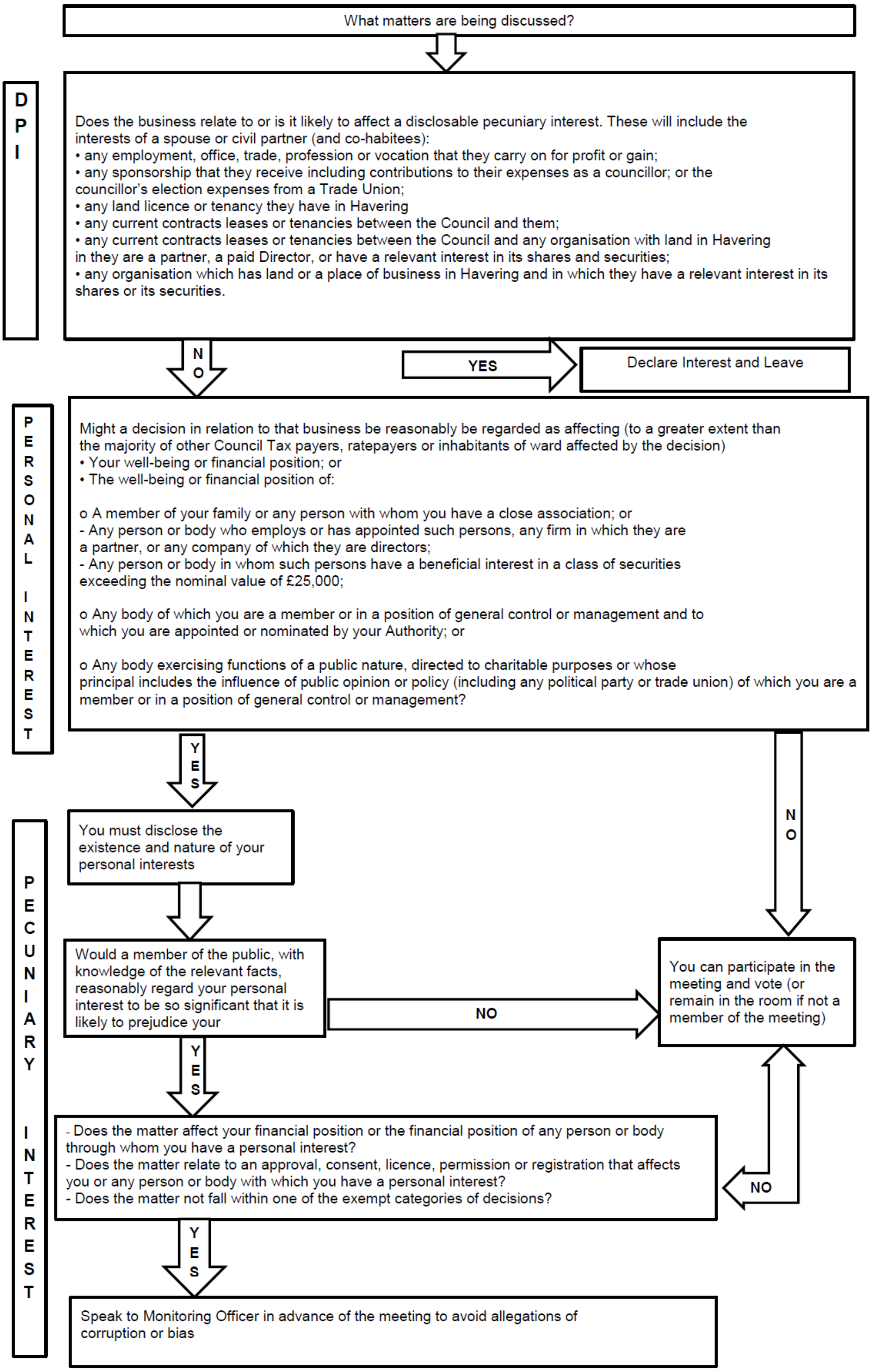
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, 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 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

2 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.

3 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 24 July 2018 and of the Special meeting held on 20 August 2018 and authorise the Chairman to sign them.

4 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.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 18 (Pages 9 - 72)

6 HAVERING COLLEGES PROPOSED MERGER - LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSIDERATIONS (Pages 73 - 94)

7 GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION WORK (Pages 95 - 100)

Andrew Beesley
Head of Democratic Services

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 2 - Town Hall
24 July 2018 (7.00 - 8.49 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace (Vice-Chair) and Matt Sutton
Residents' Group	Stephanie Nunn
Upminster & Cranham Residents' Group	Ron Ower
North Havering Residents Group	Martin Goode

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

52 **APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

An apology for absence was received from Councillor Stephanie Nunn. Councillor Ray Morgan substituted for Councillor Stephanie Nunn.

53 **DISCLOSURE OF INTERESTS**

There were no declarations made at the meeting.

54 **MINUTES OF THE MEETING**

The minutes of the meeting held on the 13 March 2018, were agreed as a correct record and signed by the Chairman.

55 **LOCAL PENSION BOARD ANNUAL REPORT- YEAR ENDED 31 MARCH 2018**

The Committee received the Local Pension Board Annual Report 2017/18, which was presented by Mark Holder, Chairman of the Local Pension Board.

The report had been produced in line with the guidance issued by the Scheme Advisory Board and detailed activities for the past year and focussed on the planning and development of a robust action plan for the Board with relevant training and development for the coming/future year.

The Committee thanked Mark Holder for his report.

Resolved:

That the 2017/18 Local Pension Board Annual Report, be noted.

56 **PENSION FUND ACCOUNTS 2017-18**

The report before Members provided an extract of the Council‟s Statement of Accounts for the year to 31st March 2018, showing the unaudited accounts of the Havering Pension Fund as at that date.

Key movements as noted in the report from the 2016/17 accounts were:

- The Net Assets of the Fund have increased to £707m for 2017/18 from £671m in 2016/17, a net increase of £36m.
- The net increase of £36m is compiled of a change in the market value of assets of £27m, investment income of £7m and net additions of cash of £4m and offset by management expenses of (£4m).
- Passive equity mandates held with State Street Global Assets (SSGA) were transferred to Legal and General Investment Management (LGIM).

Resolved:

That the Havering Pension Fund unaudited Accounts as at 31st March 2018, be noted.

57 **PENSION FUND ANNUAL REPORT- YEAR ENDED 31 MARCH 2018**

The report detailed the Pension Fund Annual Report 2017/18 (attached as an appendix to the report) which had been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013, and which applied for reporting periods beginning 1 April 2014. This superseded Regulation 34 of the Local Government Pension Scheme(Administration) Regulations 2008.

Resolved: That

1. **The 2017-2018 Pension Fund Annual Report, be agreed.**
2. **The Pension Fund Annual Report be published electronically.**
3. **The Chairman and the Statutory Section 151 officer be authorised to conclude and sign so far as necessary, the annual report.**

58 **PROPOSED WORK PROGRAMME FOR THE PENSIONS COMMITTEE**

The Committee received a summary of the expected agenda items at each of the next five planned Pension Committee meetings.

Resolved:

That the forward plan, be approved.

59 **EXCLUSION OF THE PUBLIC**

It was **RESOLVED** that members of the public be excluded from the meeting as there would likely be disclosure to them of exempt information within the meaning of paragraph 3 of the Local Government Act 1972 as it referred to the financial or business affairs of the organisation.

60 **PENSION FUND PERFORMANCE - MONITORING FOR THE QUARTER ENDED MARCH 18**

The report provided the Committee with an overview of the performance of the Havering Pension Fund investments for the first quarter to 31 March 2018. The performance information was 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.

It was noted that the net return on the Fund‟s investments for the quarter to 31 March 2018 was -1.1% (a reduction of £8.3m to £707m). This represented an under performance of 0.3% against the combined tactical benchmark and under performance of 1.6% against the strategic benchmark.

It was noted that the overall net return of the Fund‟s investments for the year to 31 March 2018 was 4.9%. This represented an outperformance of 2.3% against the combined tactical benchmark and an outperformance of 2.5% against the annual strategic benchmark.

Resolved: That

1. **The summary of the performance of the Pension Fund within the report, be noted.**
2. **Hymans performance monitoring report and presentation, be noted**
3. **A presentation from the Fund’s Property Manager (UBS), be received**
5. **The quarterly reports provided by each investment manager, be noted**
6. **The analysis of the cash balances, be noted.**

61 **INVESTMENT STRATEGY - UPDATE - REAL ASSETS IMPLEMENTATION**

The Committee received a report which provided an update on the progress of the implementation of the Investment Strategy, which focused on setting out a process for implementing the Fund's longer term strategic allocation to Real Assets.

Resolved: That

1. **The new Real Assets mandate would be funded from cash and the Multi-asset mandate, initially through disinvestment from GMO, with further disinvestments from the Ruffer Absolute Return Fund.**

2. **A disinvestment of £65m be made from the GMO mandate to be split between:**

   a. **JP Morgan (£30m)**
   b. **LGIM Emerging Market Equity Fund (£17.5m) replacing the lost exposure from the GMO mandate, and**
   c. **Cash (£17.5m), providing a temporary buffer to fund further capital calls.**

3. **The cash allocation be invested in a suitable vehicle either with Legal and General Investment Management (LGIM) or with the Fund's custodian (State Street) or placed with the Council's Treasury.**

4. **Further consideration be given to the overall structure of the Fund's equity allocation, including consideration of the LGIM Future World Fund, at the September Committee meeting.**

5. **Further consideration be given to the management of currency risk associated with the Real Asset mandates at the September Committee meeting.**

6. **State Street should undertake the necessary foreign exchange transactions to convert the required capital payments from Sterling to either US Dollars or Euros, as required.**

7. **Further consideration be given to the currency hedged version of the mandate held with JP Morgan – subject to analysis of costs and the decision to be delegated to the S.151 officer.**

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Chairman

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MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 1 - Town Hall
20 August 2018 (10.00 am - 1.20 pm)

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Melvin Wallace (Vice-Chair) and Matt Sutton

All decisions were taken with no votes against.

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

62 **APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

An apology for absence was received from Councillor Martin Goode.

63 **DISCLOSURE OF INTERESTS**

There were no declarations of interest.

64 **EXCLUSION OF THE PUBLIC**

The Committee resolved to exclude the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

There were no members of the public or press present for the duration of the meeting.

65 **APPOINTMENT OF INVESTMENT MANAGER - PRIVATE DEBT MANDATES**

At its meeting on the 19 September 2017, members agreed to undertake the search for a Private Debt Manager in collaboration with other London boroughs.

Members received a paper produced by bFinance, the Fund's Investment advisor, which outlined the offers made by the shortlisted managers.

The Committee received presentations from two shortlisted Private Debt Managers as recommended by bFinance and officers as part of the Private Debt Manager search.

RESOLVED: That

i) **The Committee received presentations from the managers as recommended by bFinance and officers as part of the Private Debt Manager search.**
ii) **The Committee considered and agreed to appoint a manager/s to implement the Private Debt mandate.**
iii) **The Committee noted the London Collective Investment Vehicle (LCIV) offering from Ares Global (Appendix B – exempt).**
iv) **The Committee agreed the next steps as set out in Hymans report (Appendix A – exempt).**

Chairman

Havering LONDON BOROUGH

PENSIONS COMMITTEE 18 SEPTEMBER 2018

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 18**
CLT Lead:	**Jane West**
Report Author and contact details:	***Christine Sampson*** ***Pension Fund Accountant*** ***01708431745*** ***Christine.Sampson@onesource.co.uk***
Policy context:	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 30th June 2018

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 quarter to 30 June 2018. 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 **quarter** to 30 June 2018 was **1.9% (or £19.9m to £726m).** This quarter the fund performance matched the combined tactical benchmark and out performed against the strategic benchmark by 2.5%

Baillie Gifford Global Equity Fund was the best performer on a relative basis over the quarter, with the largest underperformance against benchmark coming from GMO.

The overall net return of the Fund's investments for the **year** to 30 June 2018 was **5.6%.** This represents an outperformance of **1.3%** against the combined tactical benchmark and an outperformance of **1.9%** 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 1.3 below.

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

Funding Performance over the quarter is expected to improve the funding position, with estimated funding level increasing from 65% at 31 March 2018 to 71% at 30 June 2018

RECOMMENDATIONS

That the Committee:

1) Note the summary of the performance of the Pension Fund within this report.
2) Consider Hymans performance monitoring report and presentation (Appendix A - Exempt).
3) Receive a presentation from the Fund's Passive Equity Manager Legal & General Investment Management (LGIM) (Appendix B- Exempt).
4) Consider the quarterly reports provided by each investment manager.
5) Note the analysis of the cash balances (paragraphs 3.2 refers).
6) Note the Letter received from the London CIV (Appendix C – Exempt) regarding the signing of the Pension Cost Recharge and Pension Guarantee Agreements and progress made with signing the documents (paragraph 5.9 (c) 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 has arisen largely as a consequence of the historically low level of real interest rates which have driven up the value of index linked gilts (and consequently the level of the funds liabilities). However, over the last 12-18 months, with real interest rates largely static, the Fund's assets have outpaced the growth in liability values.

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 over this period, but given the long term nature of the fund, the Funds investment advisors believe that the objective of pursuing a stable investment return remains appropriate. The investment strategy has therefore been evolved to provide exposure to diverse sources of investment return consistent with this objective and the Committee is in the process of implementing this strategy

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 Nov 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% (gross)
	7.5%	Legal & General Investment Management (SSgA until Nov 17)	Pooled	Passive	FTSE All World Equity Index
	7.5%	Legal & General Investment Management (SSgA until Nov 17)	Pooled	Passive	FTSE RAFI All World 3000 Index
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	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%	Stafford	Pooled	Active	CPI plus 5% (net of fees)

*0.75% prior to 1 November 2015

1.5 UBS, LGIM 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).

2. Reporting Arrangements

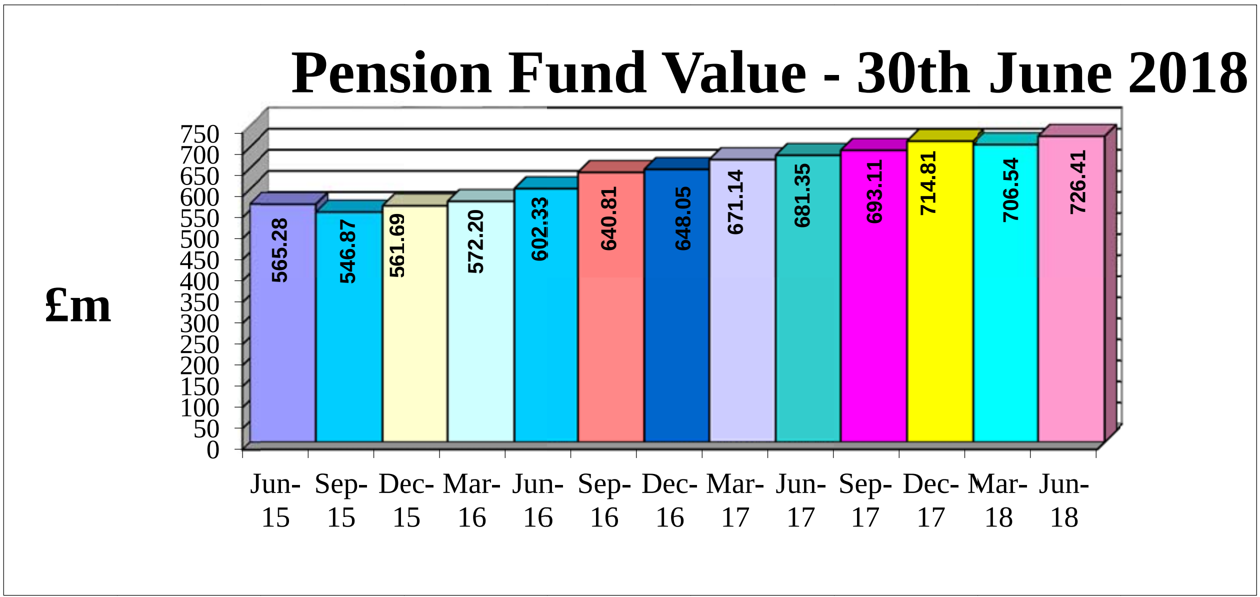
2.1 After reviewing the current reporting arrangements at the Pensions Committee held on the 5 June 2017 it was agreed that only one fund manager will attend each committee meeting, unless performance concerns override this.

2.2 The Fund Manager attending this meeting is the Fund's Passive Equity Manager Legal & General Investment Management.

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 June 2018 was **£726.41m**. 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 £706.54m at the 31 March 2018; an **increase** of **£19.87m**. Movement in the fund value is attributable to a increase in assets of £13.55m and an increase in cash of £6.32m. The internally managed cash level stands at **£23.57m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£23.57m** follows:

Table 2: Cash Analysis

CASH ANALYSIS	**2016/17 31 Mar 17**	**2017/18 31 Mar 18**	**2017/18 31 Mar 18 *Revised**	**2018/19 Jun 18**
	£000's	£000's	£000's	£000
Balance B/F	**-12,924**	**-12,770**	**-12,770**	**-17,658**
Benefits Paid	36,490	36,490	36,532	9,399
Management costs	1,358	1,246	1,221	174
Net Transfer Values	2,151	1,586	1,108	865
Employee/Employer Contributions	-40,337	-42,909	-42,851	-16,317
Cash from/to Managers/Other Adj.	586	-785	-785	0
Internal Interest	-94	-109	-113	-36
Movement in Year	**154**	**-4,481**	**-4,888**	**-5,915**
Balance C/F	**-12,770**	**-17,251**	**-17,658**	**-23,573**

* 31 March figures derived from March 18 WM return which is completed before final closedown adjustments are made. Revised figures are in line with the final outturn position

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 incorporates a threshold for the maximum amount of cash that the fund should hold but introduced a discretion that allows the Chief Executive (now the Chief Operating Officer/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.

3.5 Following the appointment of Stafford Capital in March 2018 the first instalment (£6.75mil) was paid on the 27th June 2018. This withdrawal is not reflected in the above cash position as the accounting entries went through in July. The pension fund also received the planned deficit payment from the council during the quarter which has attributed to the increase but the cash position will revert to c£17m once the Stafford payment has been accounted for.

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 31.06.18	**12 Months to 31.06.18**	**3 Years to 31.06.18**	**5 years to 31.06.18**
	%	%	%	%
Fund	1.9	5.6	8.2	8.5
Benchmark	1.9	4.3	6.8	7.2
*Difference in return	0.0	1.3	1.3	1.2

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 31.06.18	**12 Months to 31.06.18**	**3 Years to 31.06.18**	**5 years to 31.06.18**
	%	%	%	%
Fund	1.9	5.6	8.2	8.5
Benchmark	-0.6	3.6	9.5	10.0
*Difference in return	2.5	1.9	-1.2	-1.3

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.

Table 5: QUARTERLY PERFORMANCE (AS AT 30 JUNE 2018)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	-0.60	-0.81	**0.21**	-0.50	**-0.10**
UBS	2.69	1.96	**0.73**	n/a	**n/a**
GMO	-3.09	0.63	**-3.72**	n/a	**n/a**
LGIM Global Equity	6.82	6.82	**0.00**	n/a	**n/a**
LGIM Fundamental Index	5.49	5.56	**-0.07**	n/a	**n/a**
LCIV/Ruffer*	2.30	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	-1.08	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	7.26	7.13	**0.13**	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

Table 6: ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	2.75	1.67	**1.08**	2.92	**-0.17**
UBS	10.31	9.67	**0.64**	n/a	**n/a**
GMO	0.65	2.24	**-1.59**	n/a	**n/a**
LGIM Global Equity	n/a	n/a	**0.00**	n/a	**n/a**
LGIM Fundamental Index	n/a	n/a	**0.00**	n/a	**n/a**
LCIV/Ruffer*	1.60	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	1.85	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	15.99	9.74	**6.25**	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 unless there are performance concerns for individual managers. 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 13 March 2018 which reviewed performance as at 31 December 17 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.

b) The value of the fund as at 31 June 2018 has decreased by £-0.8m since the March quarter.

c) Royal London delivered a net return of -0.6% over the quarter, outperforming the benchmark by 0.21%. The mandate is ahead of the benchmark over the year by 1.08% and 0.62% since inception.

d) Royal London Asset Allocation

i.	Credit Bonds (corporate)	53.0
ii.	Index Linked Bonds	28.3
iii.	Sterling Government Bonds	9.9
iv.	RL Sterling Extra Yield Bond	5.7
v.	Overseas Bonds	0.0
vi.	Cash	3.1

(Figures subject to Rounding

e) The main driver of relative performance over the quarter was the Fund's security selection, in particular within the allocations to secured and structured debt and to index linked gilts.

f) The Fund's holding in the Royal London Sterling Extra Yield Bond Fund had a positive effect upon relative returns. It posted a gross return of 1.54% over the quarter outperforming sterling investment grade credit'

g) Yield curve positioning was supportive for performance, while duration positioning and credit sector selection did not have a material effect. Inflation positioning and asset allocations detracted from returns

5.2. Property (UBS)

a) UBS last met with the Committee on 24 July 2018 which reviewed performance as at 31 March 2018 and with officers on the 16 August 2017 which reviewed performance as at 30 June 2017.

b) The value of the fund as at 30 June 2018 increased by £1.15m since the March quarter.

c) UBS delivered a net return of 2.69% over the quarter, out performing the benchmark by 0.73%. The mandate is ahead of the benchmark over the year by 0.64% and 1.00% over 5 years

d) UBS Sector weighting:

		%
i.	Industrial	40.4
ii.	Retail warehouse	27.6
iii.	Office	19.6
iv.	Other Commercial Property	12.1
v.	Cash	0.3

e) Performance was primarily driven by the Fund's allocation to the industrial sector and ongoing asset management across the portfolio. Key lettings in the industrial/logistics sector also contributed 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 decreased by £3.36m since the March quarter.

c) GMO have underperformed their benchmark over the 3 month, 12 month and since inception.

d) GMO asset Allocation:

		%
i.	Equities	36.3
ii.	Alternative strategies	28.2
iii.	Fixed Income	17.3
iv.	Cash/Cash Plus	18.2

e) Main performance driver came predominantly down to the significant emerging markets exposure, the portfolio returned -7.7% for the quarter, underperforming the MCI ACWI return of 0.5%.

f) This fund will be used to fund the real asset mandate, a periodical disinvestment will occur as and when required. We now have new managers in place.

5.4 Passive Equities Manager - Legal & General Investment Management (LGIM)

a) The value of the fund as at the 31 June 2018 increased by £6.06m since the March quarter

b) Representatives from LGIM are due to make a presentation at this Committee and a brief overview of the performance follows

c) This mandate benefits from fee reductions as negotiated by the LCIV and is recognised as a mandate under the London CIV

d) The passive equity mandate is split between the FTSE RAFI All World 3000 index and the FTSE All World Index.

e) As anticipated from an index-tracking mandate LGIM has performed in line with the benchmark since inception, delivering a net return on the FTSE RAFI All World 300 index of 6.82% equalling the benchmark and a net return on the FTSE Rafi AW 3000 Equity Index of 5.49% under performing the benchmark by -0.07%

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 19 September 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 increased by £2.2m since the March quarter.

e) Since inception with the London CIV Ruffer returned 2.3% over the quarter, 1.6% over the year and 5.31% 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) The fund had a solid quarter, returning 2.3% and recouping the majority of the loss from the previous quarter. Equity positions were the main drivers of performance, with Tesco, Ocado and Oil stocks being the main contributors.

The performance had been more volatile in recent quarters but the LCIV team are comfortable that this is due to volatile markets, rather than a change in fundamentals for Ruffer.

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 12 December 2017 which reviewed performance as at 30 September 2017.

c) The value of the Baillie Gifford Global Equities mandate fund increased by £9.2m since the March quarter.

d) Since inception with the London CIV the Global Alpha Fund delivered a return of 7.26% over the quarter, outperforming the benchmark by 0.13%, delivered a return of 15.99% over the year, outperforming the benchmark by 6.25% and since inception with the London CIV the fund returned 24.88% outperforming the benchmark by 6.07%.

e) Again Amazon was the largest contributor to performance, supported by strong fundamental progress during the quarter. A number of emerging market domiciled or exposed companies were weak over the quarter, shares in TSMC (semiconductor manufacturer), Banco Bradesco (Brazilian bank), Sberbank (Russian bank) all saw price declines.

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 12 December 2017 which reviewed performance as at 30 September 2017.

c) The value of the Baillie Gifford Global Equities mandate fund decreased by £-0.96m since the March quarter.

d) The Diversified Growth mandate delivered a return of -1.08% over the quarter, 1.85% over the last year and 7.55% 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.

e) Over this quarter exposure to emerging markets has been the principle detractor from performance – within the emerging market bond allocations one of the largest allocations is to Argentina and this has been the largest detractor within the asset class. A number of asset classes performed well this quarter, particularly equities, property and infrastructure.

5.8 Stafford Capital Partners Limited

Following the appointment of Stafford Capital in March 2018 the first instalment (drawdown) was paid on the 27th June 2018 of GBP of 6,750,602.36. This will be accounted and reported in our July statements and performance will be included in the next quarterly performance reports in September.

5.9 London CIV Update

a) Fee Savings - The London CIV have provided us with data detailing management fee savings in the region of £0.16m since inception with the London CIV. Officers have yet to substantiate these figures and they do not include the London CIV operating costs which the fund pays for the Annual Service and Development Fund charges. We will report an update when the reconciliation has been completed.

b) Signing of the Dissolution of the Pensions CIV Joint Committee (PCSJC) notice - The new governance framework was approved at the LCIV AGM on the 12 July 2018 and as part of the implementation changes all London Local Authorities are required to sign the written notice agreeing to the dissolution of the PCSJC. After some time the procedural arrangements for obtaining approval and signature was decided and the dissolution notice is currently awaiting signature under seal with our Legal department. We will provide a verbal update at the meeting.

c) Signing of the 'Pension Cost Recharge Agreement' and 'Pension Guarantee' - The procedural arrangements for obtaining approval and signature is still under considerable discussion with our Legal Department and at the time of writing this report has yet to be determined and therefore not yet signed.

d) The background to the requirement of the documents as set out in a letter from the London CIV is attached at **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:

  Legal and General Investment Management

- 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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

BACKGROUND PAPERS

None

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Agenda Item 6

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **18 SEPTEMBER 2018**

Subject Heading:	**Havering Colleges proposed merger**
CMT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Havering Colleges restructuring and merger and Local Government Pension Scheme (LGPS) considerations
Financial summary:	Potential cash transfer to London Pensions Fund Authority.

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

Havering Sixth Form College ("HSFC") and Havering College of Further & Higher Education ("HCFHE") are considering a merger with New City College ("NCC").

This report outlines the impact of the proposed college mergers on the Havering Local Government Pension Scheme.

RECOMMENDATIONS

That the Committee:

1. Notes the Funds Actuary report at Appendix A (exempt)

2. Note the comments from HCFHE on the rationale for the merger of HCFHE and HSFC with NCC at Appendix B (exempt)

3. Notes that a Report will be submitted for Cabinet to make a decision on the pension implications of the proposed merger.

REPORT DETAIL

Background

1. As a consequence of an increasing number of colleges experiencing financial challenges, the government commenced a national programme of area based reviews covering further education and sixth form colleges in 2016, the intention of which is to create fewer, more effective and more sustainable colleges

2. A number of financial economic challenges facing the colleges are the main driver for a proposed merger. An earlier attempt for HCFHE to merge with Barking and Dagenham did not go ahead. The current proposal is for both the HCFHE and HSFC to merge with NCC.

3. NCC was created by the merger of Hackney Community College and Tower Hamlets College in 2016, Redbridge College in 2017 and Epping Forest in August 2018. NCC Pensions Administering Authority is the London Pensions Fund Authority (LPFA).

4. In preparation for the merger the colleges have requested permission from the Administering Authority to transfer the pension arrangements for all staff of the colleges (current and former employees) from the Havering Pension Fund to the LPFA.

5. Both colleges have confirmed that given their existing and future economic financial pressures they would not be able to proceed with the merger unless all members transferred out to the LPFA.

6. Secretary of State Approval would be needed to transfer the pension rights of former employees from one LGPS Fund to another. The Secretary of State will consult with all parties (all three colleges and both Funds) before granting approval.

7. Havering would need to agree to transfer all of the pension assets and liabilities in relation to the colleges and LPFA would need to agree to take on all of the pensions assets and liabilities (including deficit) in relation to the colleges. However, if all parties are agreeable, Secretary of State Approval is likely to be granted.

8. No approval is required from the Secretary of State if only current employees transfer over.

9. Hymans paper attached as **Appendix A** sets out the potential implications of the proposed merger if the colleges members transfer out of the Havering Pension Fund to the LPFA.

IMPLICATIONS AND RISKS

Financial implications and risks:

Financial impact is indicative and based on market conditions as at June 18 and will be subject to final figures settled at transfer date and are as set out in Hymans report attached as **Appendix A**. The report proposes two scenarios and the financial implication for each are set out below:

Scenario A - where all members (actives, deferred and pensioners) transfer out to LPFA.

The Pension fund will have to transfer assets and liabilities over to the LPFA to fund the transfer move as calculated and agreed by both actuaries for the Havering scheme and the LPFA scheme.

This value of the transfer will be funded from a sell down of assets and this will have implications for the Investment Strategy. The Committee will be presented with a report at a later date once the data for the merger is confirmed, so that the committee can agree the most appropriate route to fund the transfer.

In addition to the Fund having to sell assets to pay the LPFA it will also lose the positive cash flow position from the colleges. This will put pressure on the cash flow over the longer term. The Fund currently reinvests investment income (i.e. dividends and interest) where possible but the fund can switch to draw down this income to maintain minimum cash thresholds, this could potentially impact investment growth.

The Investment Strategy will also need to give consideration over the longer term as to how to address any potential cash flow problems by utilising mandates that can provide the necessary cash flow. Over the next few years the Fund will receive income distribution from the Real Assets and Private Debt mandates that may mitigate the need to use dividend and interest income. The Committee will be asked to review the cash management policy once the value of cash top ups have been confirmed.

The value of the Assets and liabilities will be reduced and result in an overall reduction in the Funding level of c0.8%, down from 69.7% to 68.9%.

Scenario B – where only actives members transfer past service transfer out to LPFA.

If only Active members transfer out, as permitted under TUPE regulations, the deferred and pensioners would remain in the Fund.

The Actuary has calculated the share of assets assigned to the colleges and deducted from this share the amount the Fund would need to retain to cover the past service liabilities for the deferred and pensioners remaining in the Fund. The remaining amount of asset value would transfer to LPFA to fund the transferring active liabilities.

The size of the asset valuation required to pay the LPFA could be funded through current cash levels and would not require a sell down of asset.

The asset share is not enough to cover the liabilities of the transferring active members and would therefore require a significant 'top up' payment that the colleges would be required to pay over to the LPFA.

Given the size of the 'top up' payment both colleges have confirmed that given their existing and future economic financial pressures they would not be able to proceed with the merger under Scenario B.

Whilst any merger under Scenario B would not require a sell down of assets it would leave the fund with no contribution income to support pension benefits being paid out in the future. This would consequently increase pressure on the cash flow over the longer term and as with Scenario A, the Committee will be asked to review the cash management policy once the value of any cash top ups have been confirmed.

When the last active member leaves the Fund this triggers a cessation payment. In this instance no cessation payment from the colleges would be required to the fund due to their calculated asset share exceeding their liabilities.

There would be a slight improvement to the funding level post transfer increasing to 70.7% from 69.7%.

Whilst the Colleges are planning for a merger date of no later than April 2019 any monetary transfers are likely to take place during 2019/20. The Committee will be presented with a report at a later date once the merger progresses for confirmation as to how to fund the transfer.

Any costs associated with the transfer will be met by the Colleges.

Legal implications and risks:

In the scenarios mentioned, when two or more members transfer out to a different pension scheme then Bulk transfer arrangements are triggered.

The Bulk transfer arrangements and payment to the LPFA should adhere to the Local Government Pension Scheme Regulations 2013 Regulations 98 and 99.

Under Regulation 99 the amount of the transfer payment to be paid under regulation 98 (bulk transfers) is the amount determined by an actuary appointed by the members' appropriate administering authority to be equal to the value at the date those members join the new scheme, of the actual and potential liabilities payable from its fund which have then accrued in respect of the members and the persons who are or may become entitled to benefits under the Scheme through them.

The actuary may make such adjustments as are thought fit in calculating that amount and in particular as respects the period from that date to the date of actual payment of the transfer value.

The actuary must specify in the valuation the actuarial assumptions used in making it.

The Scheme employer shall bear the costs of determining the appropriate part of the fund and apportioning the fund.

But if there is more than one Scheme employer involved, each shall bear such part of the costs as the actuary determines to be appropriate.

Human Resources implications and risks:

Scenario A - where all members (actives, deferred and pensioners) transfer out to LPFA. – under this scenario existing access to the LGPS will be maintained for all existing members but there will a change to the pension arrangements and the Administrating Authority will change from Havering Council to the LPFA.

Scenario B – where only actives members transfer past service transfer out to LPFA.

If only Active members transfer out, as permitted under TUPE regulations, then TUPE protections will apply to ensure continued access to the LGPS. There would be a change to the Administering Authority as with under scenario A but for the deferred and pensioners remaining then membership would continue to be administered by Havering Council.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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Agenda Item 7

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