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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	**Tuesday 10 December 2019**	**Committee Room 2 - Town Hall**

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	**Residents' Group (1)**	**Upminster & Cranham Residents' Group (1)**	**Labour Group (1)**
John Crowder (Chairman) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower	Keith Darvill

North Havering Residents' Group (1)

Martin Goode (Vice-Chair)

Trade Union Observers	**Admitted/Scheduled Bodies Representative**
(No Voting Rights) (2)	**(Voting Rights) (1)**
Andy Hampshire, GMB	

For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@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

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
• any employment, office, trade, profession or vocation that they carry on for profit or gain;
• any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
• any land licence or tenancy they have in Havering
• any current contracts leases or tenancies between the Council and them;
• any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
• any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

NO

YES → Declare Interest and Leave

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
• Your well-being or financial position; or
• The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

YES

NO

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO

YES

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

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 - 4)

To approve as correct the minutes of the meeting held on 12 November 2019.

5 MINUTES OF THE LOCAL PENSION BOARD (Pages 5 - 8)

To receive the minutes of the Local Pension Board held on 1 October 2019.

6 ADMISSION OF ESSEX CARES LTD TO THE LBH PENSION FUND (Pages 9 - 14)

Report attached.

7 ADMISSION OF LEWIS & GRAVES TO THE LBH PENSION FUND (Pages 15 - 20)

Report attached.

8 FUNDING STRATEGY STATEMENT (Pages 21 - 70)

Report and appendix attached.

9 INVESTMENT BELIEF UPDATE (Pages 71 - 84)

Report and appendix attached.

10 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.

11 PENSION FUND PERFORMANCE MONITORING (Pages 85 - 150)

Report and appendices attached.

Andrew Beesley
Head of Democratic Services

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Town Hall, Main Road, Romford
12 November 2019 (7.00 - 7.25 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Osman Dervish and Jason Frost
Residents' Group	Stephanie Nunn
Labour Group	Keith Darvill
North Havering Residents' Group	Martin Goode

All decisions were taken with no votes against.

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

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

No apologies were received.

133 **DISCLOSURE OF INTERESTS**

There were no declarations of interest.

134 **MINUTES OF THE MEETING**

The minutes of the previous Pensions Committee meeting held on 17th September 2019 were agreed and signed by the Chair.

135 **MINUTES OF THE LOCAL PENSION BOARD**

The minutes of the previous Local Pension Board meeting held on 1st October 2019 were agreed and signed by the Chair.

136 **ACTUARIAL PERFORMANCE REVIEW**

The report presented to the committee reviews the performance of the Funds Actuary

The Committee noted the report of officers on the performance of the Actuary during the period 1 October 2018 and 30 September 2019.

137 **INVESTMENT CONSULTANCY PERFORMANCE REVIEW**

The report asks the committee to agree the strategic objectives set for the Fund's Investment Consultant and to review the performance of the Investment Consultant against those objectives for the period 1 October 2018 to 30 September 2019.

The Competition and Markets Authority issued a new order ("The Investment Consultancy and Fiduciary Management Market Investigation Order 2019") and it requires al trustees to set strategic objectives for their investment consultants. This order takes effect from 10th December 2019.

Members were advised that paragraph 2.5 in the report should have a 6th objective which is the 'Relationships and Service Standards'.

The Committee **agreed** the objectives set out in Appendix A and noted the views of officers.

138 **REVIEW OF GOVERNANCE COMPLIANCE STATEMENT**

The Committee noted that the annual review of the governance compliant statement had taken place in line with the Pensions Scheme Regulations. Members of the Committee noted that Havering is still not fully compliant with Principle B in respect of appointing an independent observer for the Fund. Officers advised the Committee that we may need to revisit the Governance Statement when the Good Governance report recommendations have been agreed.

The Committee **considered and agreed** any issues that need to be amended in the Governance Compliance Statement.

139 **REVIEW OF PENSIONS FUND CUSTODIAN**

The Committee was presented with a report that reviewed the performance of the Funds custodian for the period 1 October 2018 to 30 September 2019.

The Committee noted the report and the views of officers.

140 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT

The annual report was presented before the Committee. Members noted that there had been no changes to the Act and no breaches had been reported.

The Committee noted the report.

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Chairman

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MINUTES OF THE MEETING OF THE
LOCAL PENSION BOARD
Town Hall, Main Road, Romford
1 October 2019 (4.10 - 5.50 pm)

Present:

Anne Giles (Scheme Member Representative)

Denise Broom (Employer Representative)

Mark Holder (Scheme Member Representative)

There were no apologies for absence.

All decisions were taken with no votes against.

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

3 **DISCLOSURE OF INTEREST**

There were no declarations of interest.

4 **MINUTES OF THE MEETING**

The Board members questioned whether the Terms of Reference had been updated.

Action: Luke Phimister to check Terms of Reference and circulate amended version to Caroline Berry for uploading to the website.

The minutes of the meetings held on the 20 August 2019 were agreed as a correct record and signed by the Chairman.

5 **MONTHLY LPP PERFORMANCE REPORT**

The members noted that there had not been enough time since the previous LPP Performance Report for any meaningful changes to have occurred however most case types were at 100% on time. The Board noted 2 complaints received by Pensions however these were the first complaints for some time and the number of complaints should reduce as cases on hold are completed. The Board agreed to discuss the quarterly LPP report with a case by case of those at the next Board meeting.

Members were advised that the increase of on hold cases may be due to being on hold in the wrong category, there may be duplicate cases where an employee has transferred from another service and has left before their case is complete or Pensions are waiting on an action from the previous employer. The Board was advised that data may differ due to the monthly reports and the quarterly reports being compiled by different teams within LPP so in turn on different days of the month however, Caroline will endeavour to have these run as close as possible for the best comparison at the next Board meeting.

Board members expressed the view that for the LPP monthly performance report, they would prefer to have only Cases Completed Summary included in the forthcoming meeting agendas with the full report still available should they wish to review it. The Board also expressed that they would like LPP to be invited to attend every other meeting/ every 6 months with LPP being invited to the next meeting to be questioned over the quarterly report.

Action: Caroline Berry to reduce the LPP monthly report to the singular page stated above and to invite LPP to the next Board meeting.

6 **COMPLIANCE CHECKLIST**

The Board noted that there are no longer any red sections in the compliance checklist. The members noted that B12 is ongoing and the deadline has been pushed back to 31/12/19. The members also noted that C7 and D2 are complete and F9 has a draft data improvement plan in place but it still needs to be formalised. It was advised to the Board that I4 had not changed as they are still to liaise with employers and an update will be provided at the next meeting as it is to be presented Pensions Committee in December.

7 **PENSION REGULATOR REVIEW**

The Board noted the high level of transparency offered by Havering when assisting with the Pensions Regulator Review. The Pensions Regulator Review stated havering could easily evidence their data improvement plan even though it isn’t in place yet. Members noted that the Pensions Committee is keen for the Local Pensions Board to set up a data log or similar to follow up on the review. The members were advised that there were still areas Havering could improve however overall the Pensions Regulator Review was impressed with Havering. Members were also advised that Pensions Regulator may come back to Havering in the future to see if havering has adopted best practise in line with this review.

Action: Caroline Berry to bring action plan to next Local Pension Board meeting

8 **COMMUNICATION CAMPAIGN**

The Board was advised that Pensions need advice on how to communicate effectively with external staff, for example, School Business Managers. The members put forward ideas for posters, leaflets for teacher’s annual budget packs, flyers in pigeon holes, email to the generic office email for schools to be distributed, and posts on the resources section in the HES portal. Other suggestions were roadshows on inset days in schools, face to face sessions, for example, “Lunch and natter” events where staff can discuss at lunchtime.. The Board noted that more guidance needs to be given to managers whose team members are taking a flexible retirement.

Action: Caroline Berry to give update and the next Board meeting

9 **RISK REGISTER (STANDING ITEM)**

The Summary of Further Actions for discussion and a hand out of details of 2 amendments to the Risk Register were circulated.

- The first item outlines the risk of LCIV staff turnover, how this undermines investor confidence and how the MTFS prediction may fail to reach the target, meaning that annual development charges may not decrease as expected. The Board noted that to mitigate this risk, development costs are reported by the LCIV at the General Shareholder meetings and monitoring meetings that are held quarterly between Havering officer and the LCIV client relations team. The Board agreed to add this risk to the register and for the LCIV development costs to be monitored as an action.

- The second risk details the non-compliance of Fund managers to the Code of Transparency. The consequence is that Havering may not be able to disclose full costs in the Pensions Fund Annual report, so to mitigate this, Fund managers are encouraged to complete the compliance template annually at the end of the financial year and the Board agreed to include this on the risk register with the scrutiny of compliance to be an action.

10 **CODE OF TRANSPARENCY**

The report presented to the Board details which Fund managers have voluntarily opted to be compliant with the Code of Transparency. The table on page 107 shows which fund managers are or are not yet compliant with the Code.. Members asked for basic training to be delivered at the next Board meeting to aid their understanding of the pooled accounts, the returns for each fund manager and the fees Havering pays for each fund manager.

Action: Debbie Ford to create a spreadsheet breaking down the returns and fees for each Fund manager for the next Board meeting.

11 **WORKPLAN**

The Board noted that point 3 was in relation to Item 7 and that point 6 was to be discussed if there were any changes or amendments made to the rules. The Board also noted that the future LPB meeting dates had not been circulated to the members so they asked the clerk to circulate them.

Action: Luke Phimister to circulate dates of next meetings.

12 **TO RECEIVE FEEDBACK FROM RECENT MEETINGS OF THE PENSIONS COMMITTEE**

There was no update of the previous Pensions Committee presented to the Board. The minutes of the previous Pensions Committee held on the 17th September 2019 and the minutes for the Special Pensions Committee meeting due to be held on 12th November 2019 will be included on the agenda for the next meeting.

Chairman

Agenda Item 6

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	The Admission of Essex Cares Ltd to the London Borough of Havering Pension Fund
SLT Lead:	Jane West
Report Author and contact details:	Caroline Berry 01708 432185 caroline.berry@onesource.co.uk
Policy context:	Local Government Pension Scheme Regulations 2013. Schedule 2 part 3
Financial summary:	The Fund's actuary has determined a guarantee, bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Essex Cares Ltd by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £435,000. Essex County Council will act as guarantors

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 purpose of this report is to request the London Borough of Havering Pension Fund Committee agree to the proposed "closed agreement" admission of Essex Cares Ltd into the London Borough of Havering Pension Fund under the provisions of The Local Government Pension Scheme Regulations 2013, Schedule 2, Part 3 and follows Best Value Authorities Staff Transfer (Pensions) Direction 2007. This follows the re-tendering of the Havering Re-ablement service and the TUPE of the staff originally employed by the London Borough of Havering.

RECOMMENDATIONS

That the admission of Essex Cares Ltd into the London Borough of Havering Pension Fund as an admitted body to enable 26 members of staff who were part of the original Havering Re-ablement service to continue their membership of the Local Government Pension Scheme (LGPS) be agreed, subject to:

(a) The Council and Essex Cares Limited signing up to an Admission agreement, and
(b) An Indemnity of £435,000 by way of Essex Cares Ltd securing a guarantee in an approved form, duly executed from Essex County Council to protect the pension fund.

REPORT DETAIL

1. Essex Cares Ltd succeeded in winning the contract to provide Re-ablement services to the London Borough of Havering. The contract is for a minimum of three years and commenced on 1 April 2019.

2. The contracts of employment of affected staff transferred when the London Borough of Havering Re-ablement Service transferred from the current contractor North East London Foundation Trust to Essex Cares Ltd on 1 April 2019. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 ("TUPE") protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under Best Value Authorities Staff Transfer (Pensions) Direction 2007. 26 employees were members of the LGPS on the transfer date.

3. The Pension Regulations require the Local Government Pension Scheme (LGPS) Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the

exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.

4. Following guidance from MHCLG, where a transferee admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the transferee admission body. The terms on which the admission is permitted are noted in the admission agreement for the purposes of these Regulations.

5. Essex Cares Ltd falls within the definition contained in Schedule 2, Part 3 of the Local Government Pension Scheme Regulations 2013 and as such is eligible to become a transferee admission body. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the transferee admission body, provided the transferee admission body and the scheme employer undertakes to meet the relevant requirements of the regulations through an admission agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.

6. The London Borough of Havering will seek to sign appropriate transferee admission agreements to allow Essex Cares Ltd to be admitted to the London Borough of Havering Pension Fund. When the admission agreement is formed Essex Cares Ltd will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 38.4% of pensionable pay.

IMPLICATIONS AND RISKS

Financial implications and risks:

As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund’s Actuary. Essex Cares Ltd employer contribution rate has been set at 38.4%.

The Fund’s actuary has determined a guarantee, bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Essex Cares Ltd by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £435,000.

Essex Cares Ltd is a Local Authority Trading Company and has sought to opt for a guarantor which will be provided by Essex County Council.

There are risks to the letting authority if the bond levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for bond reviews and ensure this is included in the admission agreement. Bond renewals are to be carried out by the Fund's actuary.

The letting authority also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in place regular reviews of Essex Cares Ltd's employer rates. Any deficit not met by Essex Cares Ltd at the end of the contract will be met by the guarantor.

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.

There are no immediate financial implications to the Fund.

Legal implications and risks:

When the Council lets a contract for the provision of services, the contractor is eligible to apply to become an admission body, subject to the completion of an admission body agreement and the provision of a guarantee, bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Public sector bodies required to have regard to Best Value Authorities Staff Transfer (Pensions) Direction 2007 and have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) from the public sector to an independent provider of public services those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS) or a right to a suitable broadly comparable scheme.

In the case of the Re-ablement Service, this is a third generation transfer to Essex Cares Ltd. The service was originally outsourced to Family Mosaic in 2012, moved to NELFT in 2017 and Essex Cares from 1April 2019. Continued membership of the Havering LGPS can be achieved by means of an admission body agreement, between Havering (the administering and lettings authority) and Essex Cares Ltd (the contractor). The contractor has applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the bond value.

The admittance of Essex Cares Ltd into the Havering Pension Fund will ensure that the staff that originally worked for the Havering Re-ablement Service enjoy their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure pension protection for its employees on transfer.

The admission to the Havering Pension fund is subject to an appropriate guarantee being given by Essex County Council accepting the level of risk as outlined by the Actuary.

The recommendations in this report are in keeping with the constitutional delegation.

Human Resources implications and risks:

Admitted body status will allow transferring staff continued membership eligibility of the LGPS. Essex Cares Ltd held consultations with affected staff and the recognised trade unions from the London Borough of Havering and HR representatives from both Essex Cares Ltd and NELFT in line with TUPE requirements.

Equalities implications and risks:

The proposed admission of Essex Cares Ltd into the London Borough of Havering Pension Fund will not only ensure that appropriate direction has been followed but will also enable the former Havering re-ablement staff who will be compulsorily transferred to Essex Cares Ltd to continue to enjoy pension protection when transferred to their new employer.

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.

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. We will ensure that disabled people with sensory impairments are able to access the strategy.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	The Admission of Lewis & Graves Partnership Limited to the London Borough of Havering Pension Fund
SLT Lead:	Jane West
Report Author and contact details:	Caroline Berry 01708 432185 Caroline.berry@onesource.co.uk
Policy context:	Local Government Pension Scheme Regulations 2013. Schedule 2 part 3
Financial summary:	The Fund's actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Lewis and Graves Partnership Limited by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £10,000

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 purpose of this report is to request the London Borough of Havering Pension Fund Committee agree to the proposed "open agreement" admission of Lewis & Graves Partnership into the London Borough of Havering Pension Fund under the provisions of The Local Government Pension Scheme Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of cleaning staff from Hornchurch High School to Lewis & Graves Partnership for the provision of cleaning services to the Academy.

RECOMMENDATIONS

That the admission of Lewis & Graves Partnership into the London Borough of Havering Pension Fund as an admitted body to enable 5 members of staff who transferred from Hornchurch High School to continue membership of the Local Government Pension Scheme (LGPS) be agreed, subject to:

(a) The Council, the Academy and Lewis & Graves Partnership signing up to an Admission agreement, and
(b) An Indemnity of £10,000 by way of Lewis & Graves Partnership Limited securing a Bond to protect the pension fund

REPORT DETAIL

1. Lewis & Graves Partnership succeeded in winning the contract to provide cleaning services to Hornchurch High School. The contract is for a minimum of three years and commenced on 01 August 2018.

2. The contracts of employment of affected staff transferred when the Hornchurch High School cleaning services transferred from the Academy to Lewis & Graves Partnership on 1 August 2018. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 ("TUPE") protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal guidance 2013. 5 employees were members of the LGPS on the transfer date.

3. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.

4. The Pension Regulations require the Local Government Pension Scheme (LGPS) Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.

5. Following guidance from MHCLG, where a transferee admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the transferee admission body. The terms on which the admission is permitted are noted in the admission agreement for the purposes of these Regulations.

6. Lewis & Graves Partnership falls within the definition contained in Schedule 2, Part 3 of the Local Government Pension Scheme Regulations 2013 and as such is eligible to become a transferee admission body. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the transferee admission body, provided the transferee admission body and the scheme employer undertakes to meet the relevant requirements of the regulations through an admission agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.

7. The London Borough of Havering will seek to sign appropriate transferee admission agreements to allow Lewis & Graves Partnership to be admitted to the London Borough of Havering Pension Fund. When the admission agreement is formed Lewis & Graves Partnership will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 32.8% of pensionable pay.

IMPLICATIONS AND RISKS

Financial implications and risks:

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund's Actuary. Lewis & Graves Partnership Limited employer contribution rate has been set at 32.8%. This will be reviewed based on the 2019 Financial Strategy Statement when the Rates and Adjustments Certificates are set following the 2019 Fund Valuation.

The Fund's actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Lewis & Graves Partnership Ltd by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £10,000.

There are risks to the letting authority (Hornchurch High School) if the bond levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for bond reviews and ensure this is included in the admission agreement. Bond renewals are to be carried out by the Fund's actuary.

The letting authority (Hornchurch High School) also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in place regular reviews of Lewis & Graves Partnership Limited employer rates. Any deficit not met by Lewis & Graves Partnership Limited at the end of the contract will be met by the letting authority (Hornchurch High School).

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.

The LPP have carried out a risk assessment for Lewis & Graves Partnership Limited which shows as a Covenant Grade 2 (tending to strong) - Good trading, cash generation and asset position relative to the size of the scheme and deficits. Operates in a market with a reasonably positive outlook. The employer's financial outlook is generally positive but medium-term risk of the employer not being able to support the scheme and manage its risks. This will be reviewed on an annual basis.

There are no immediate financial implications to the Fund arising from the Fair Deal arrangements

Legal implications and risks:

Academies are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Academies are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) to an independent provider of public services (Lewis & Graves Partnership Limited) those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS) where they are classified as non teaching staff.

In the case of the Academy employees transferring to their new cleaning contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (the Academy) and the employing/admission body (the contractor) allowing the transferring employees to remain members of the Local Government Pension Scheme. The Academy and the contractor have applied for admission on an open basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the bond value.

The admittance of Lewis & Graves Partnership Limited into the Havering Pension Fund will ensure that the Academy's current employees enjoy their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employees on transfer.

The recommendations in this report are in keeping with the constitutional delegation

Human Resources implications and risks:

Admitted body status will allow transferring staff continued membership eligibility of the LGPS. Where the service transfer relates to employees of the London Borough of Havering full consultation is undertaken with affected staff and the recognised trade unions in line with TUPE requirements. In respect of other service transfers the current employing body is responsible for undertaking the equivalent consultation

Equalities implications and risks:

The proposed admission of Lewis & Graves Partnership Limited into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the Hornchurch High School staff who will be compulsorily transferred to Lewis & Graves Partnership Limited to continue to enjoy pension protection when transferred to their new employer.

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.

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. We will ensure that disabled people with sensory impairments are able to access the strategy.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 10 DECEMBER 2019

Subject Heading:	**FUNDING STRATEGY STATEMENT**
CLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Administration Authority must prepare, maintain & publish a statement setting out their Funding Strategy in accordance with regulations
Financial summary:	None directly

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 Funding Strategy Statement (FSS) is a Statement of the Funds approach to funding its liabilities, focusing on how employer liabilities are measured, the pace at which these liabilities are funded and how employers pay for their own liabilities.

The FSS applies to **all** employers participating in the Fund.

RECOMMENDATIONS

That the Committee:

1. Agree the assumptions used by the Actuary to calculate employer contribution rates (Appendix E within Appendix 1), and

2. Agree the draft Funding Strategy Statement (Appendix 1) (subject to the outcome of consultation with employers).

3. In the event that there are any responses to the consultation by employers that the Chair and the Statutory Section 151 officer be authorised to consider these and approve the final version of the Funding Strategy Statement, making amendments if required.

REPORT DETAIL

1. Background

1.1 The Local Government Pension Schemes Regulations 2013, paragraph 58 states that:

(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to —

(a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012,

(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension

Scheme (Management and Investment of Funds) Regulations 2016.

2. Funding Strategy Statement

2.1 The **DRAFT Funding Strategy Statement** is attached as **Appendix 1** and will be effective from **1 April 2020.**

2.2. The Funding Strategy Statement (FSS) has been prepared:

a) in conjunction with Fund's Actuary Hymans Robertson,

b) in accordance with Regulation 58 (4) (a) of the Local Government Pension Scheme (LGPS) Regulations 2013,

c) with regard to guidance published by CIPFA, "Preparing and Maintaining a funding strategy statement", 2016 version (updated from 2012), and

d) with regard to the Investment Strategy Statement

2.3 The FSS is reviewed in detail at least every three years as part of the triennial valuation process, unless there are any regulatory or general changes required.

2.4 Since the FSS was produced for the 2016 valuation and later updated in November 2018 (to reflect a change in legislation in respect of exit credits), the main changes to the current version have been set out below:

a. approach the fund has taken with regard to the McCloud court case (section 2.7 and 3.3 refers),
b. how each employers asset share has been calculated – this section now includes expanded details on the methods used to apportion the asset share (Appendix D, Section D5 refers)
c. actuarial assumptions used to calculate employers contribution rates– this section has been expanded to include more detail (Appendix E refers).

3 .Consultation and publication

3.1 In line with regulations the administering authority will consult with all its participating employers in the Fund. The DRAFT version of the Funding Strategy Statement was distributed to all participating employers in the fund on the 19 November 2019 for comments. Deadline for responses is 20 December 2019.

3.2 All responses will be considered but ultimately, responsibility for finalisation and publication of the FSS lies with the administering authority. If after consideration of responses and no changes are made, then the draft as submitted with this report will be accepted as the final version and published accordingly.

3.3 If as a result of the consultation changes are required, the Committee is asked to delegate to the Chair and the Statutory Section 151 officer to approve the final version of the Funding Strategy Statement.

3.4 Once the FSS has been approved it will be published on the administering authority websites and employers will be notified of where to access the FSS online. It will also be included in the Pension Fund Annual report.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly, however the objective of the Fund's strategy is to ensure the long term solvency of the Fund. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment.

Legal implications and risks:

The requirements of a fair consultation include that the consultation proceeds at a formative stage before final decisions have been taken, that consultees are given sufficient time and information in order to comment meaningfully, and that any responses are conscientiously taken into consideration before a final decision is made.

These principles appear to have been applied so long as the final decision makers take the consultation responses into account before finalising the Funding Strategy Statement.

Human Resources implications and risks:

None arise directly from this report.

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.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

Background Papers List
None

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HYMANS ROBERTSON

London Borough of Havering Pension Fund

DRAFT Funding Strategy Statement

September 2019

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Havering Pension Fund ("the Fund"), which is administered by London Borough of Havering, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from [DATE POST CONSULTATION].

1.2 What is the London Borough of Havering Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Havering Fund, in effect the LGPS for the London Borough of Havering area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Debbie Ford in the first instance at e-mail address Debbie.Ford@oneSource.co.uk or on telephone number 01708 432 569.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has a predetermined minimum likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

The New Fair Deal gives any council staff providing services under contract to certain maintained schools (including Foundation schools), who are TUPE'd to another contractor, the right to remain in the LGPS. This would be through an admission agreement and are referred to as transferee admission bodies as set out below.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. Please note, the terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

The extension of TABs, particularly for low value contracts, can expose both the scheme employers and the other employers in the Fund to risk. The risk from Academies is partly offset by the Secretary of State guarantee.

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or surplus is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits/surpluses are short term, high level risk measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, covenant assessment, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make no allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

The Fund has taken the following action:

- Reserved additional prudence within the discount rate. As at 31 March 2019, the Fund's investment strategy had a greater than 80% likelihood of delivering 3.3% p.a. Had there not been any risks associated with McCloud, the Fund would have considered a lower likelihood of success; and
- Increased the pace of funding. When setting the funding plans for scheduled bodies, the Fund has determined contributions allowing for a higher probability of employer's meeting their funding targets over their respective time horizons. For instance, the Council rate has been set such that there is at least a 67% likelihood of being fully funded (as opposed to 60% previously). Academies have target 75% (as opposed to the 70% which was the proposed target before McCloud risks were introduced).

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Administering Authority, with advice from the actuary, may adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies*	
Sub-type	**Local Authorities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**Open to New Entrants**	**Closed to New Entrants**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilts exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)	
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No				
Maximum time horizon – Note (c)	20 years	20 years	Future working lifetime subject to a maximum of 15 years		Outstanding contract term subject to a maximum of 15 years	
Secondary rate – Note (d)	Monetary Amount or percentage of pay as appropriate					
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term	
Likelihood of achieving target – Note (e)	60%***	70%***	75%**		75%	75%**
Phasing of contribution changes	Covered by stabilisation arrangement	3 years, subject to the Administering Authority being satisfied as to the strength of the employer's covenant.			None	
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract	
New employer	n/a	Note (g)	Note (h)		Notes (h) & (i)	
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Exit debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the gilts exit basis would apply. The letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.	

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

** The Administering Authority may reduce the required likelihood where a cessation is imminent.

*** Please see section 2.7

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority; and
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the Administering Authority has agreed a stabilisation mechanism with the Fund Actuary taking into account a number of factors.

The stabilisation criteria and limits will be reviewed at the 31 March 2022 valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll),
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion. Therefore, new academies may start with a deficit, depending on market conditions, which will be recovered over the same period as the ceding council;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above; and

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active deferred and pensioner members of the academy will transfer to the new MAT. The Fund Actuary may need to reassess the contributions of both the former and new MAT in which the academy participates.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and Department for Education (DfE) guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies and will be reflected in a subsequent version of this FSS. In particular, policy iii above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will normally be reassessed on a triennial basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor. In particular there are three different routes that such employers may wish to consider:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to the side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (please note, recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. Where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will:

- Where another employer in the Fund is the ultimate guarantor to the ceasing employer, there will be no adjustment for McCloud; and
- Where no other employer in the Fund is the ultimate guarantor to the ceasing employer (such as a single academy trust), the liabilities associated with the will have a loading applied. The loadings are 3% of any active liabilities transferring to another employer, 1% of any deferred liabilities and 0% of any pensioner liabilities.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a “gilts exit basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing basis. Secondary contributions would be derived from this exit debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the gilts exit basis and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- smaller CABs (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service);
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools; and
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

The intention of any pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out (for instance by pooling across a number of employers).

On the other hand, it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Fund Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply. This would mean potentially very different (and in particular possibly much higher) contribution would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at each formal valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's covenant and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014. Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirements over any interv-aluation period exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health risk management

Each employer may elect to use external insurance which has been made available by the Fund. If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members and an exit debt to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the 'cash equivalent transfer values' of transferring members calculated using Government Actuary's Department guidance and factors in force at the point of transfer;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund Actuary, the current funding policy is consistent with the current investment strategy of the Fund. The assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying the ongoing basis include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset valued. However, the Fund Actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the investment performance quarterly and reports this to the regular Pensions Committee meetings. In addition, the Administering Authority carries out an inter-valuation period assessment of the Fund's relative funding position, i.e. changes in the relationship between asset and liability values.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustments certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The MHCLG has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on [DATE] for comment;

b) Comments were requested within [NUMBER] days;

c) Following the end of the consultation period the FSS was updated where required and then published, on [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [URL];
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at every formal valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-

Risk	Summary of Control Mechanisms
	serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Academy school ceases due to failure.	The Fund seeks a cessation valuation and makes a claim to the Secretary of State for Education under the Academies guarantee.
Admission Bodies failure.	The Fund will seek to have in place a bond/indemnity and/or 'pass-through' arrangement with scheme employer or a tripartite admission agreement.
Effect of possible asset underperformance as a result of climate change	Explicitly consider ESG issues when setting the overall funding and investment strategies. Carry out scenario testing on potential Government policy changes when evaluating funding and investment strategies.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored,

Risk	Summary of Control Mechanisms
	and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on any settlement as a result of the McCloud ruling and will consider an interim valuation or other appropriate action once more information is known. Explicit allowance has been made in Employer funding plans to help manage the potential effects of McCLoud. The Government's long term preferred solution to GMP indexation and equalisation – conversion of GMPs to scheme benefits – was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a

Risk	Summary of Control Mechanisms
	guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable.	The Administering Authority regularly monitors admission bodies coming up to cessation and adjusts funding plans to reduce the risk of any deficit or surpluses at exit. The Administering Authority invests in liquid assets which can be realised to meet any exit credits as and when required.

Appendix D – The calculation of Employer contributions

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

4. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

5. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

6. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
2. at the end of the determined time horizon (see 3.3 Note (c) for further details);
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details); and
4. allowing for any adjustments that may be required to keep contributions as stable as possible.

The projections are carried out using the Economic Scenario Service. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1) A technique known as “analysis of surplus” in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer’s liability value to calculate the employer’s asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A ‘cashflow approach’ in which an employer’s assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer’s assets.

Until 31 March 2016 the Administering Authority used the ‘analysis of surplus’ approach to apportion the Fund’s assets between individual employers. Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

Using the cashflow approach, the Fund Actuary tracks employer assets on an annual basis. Starting with each employer’s assets from the previous year end, the Fund Actuary allows for cashflows paid in/out and investment returns achieved on the Fund’s assets over the course of the year to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers’ asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer’s asset share to the receiving employer’s asset share. This sum is equal to the member’s Cash Equivalent Transfer Value (CETV) which has been derived by the Fund Actuary.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

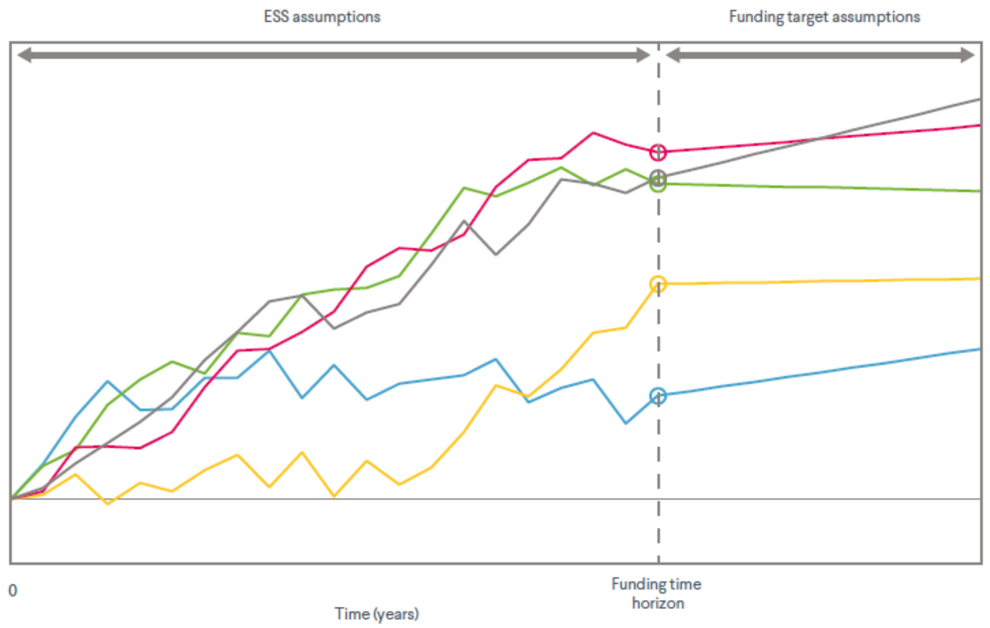
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases (described in E3 below).



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding targer?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

7. Benefit increases and CARE revaluation
8. Salary growth
9. Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing basis	Contractor exit basis	Gilts exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, cashflows and in the funding target:

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by
2. The retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.3%. This is a change from the previous valuation, which assumed a blended assumption of RPI less 0.7%. This change has led to an increase in the funding target (all other things being equal) when compared to the 2016 valuation.

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government and is not under the control of the Fund or any employers. At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI (please note, the reduction is applied on a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time hoizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.

Administering Authority The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

Bond Indemnity To cover early termination of a contract due to, but not limited to,

- funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant;
- any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and
- a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation.

This bond does not cover any final cessation payments at the end of a contract.

Cessation Valuation At the natural end of a contract or when the last active member of an employer retires, a cessation valuation is carried out to determine the final contribution due from the employer or exit credit due to the employer. The final contribution or exit credit due may be subject to a 'pass-through' arrangement with the scheme employer.

Covenant The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Designating Employer Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

Employer An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each

	employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s **covenant** to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Pass-through	A risk sharing agreement between the letting employer and the contractor.
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer’s membership or liability reflects various measurements of that employer’s **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each

	category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. .
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 10 DECEMBER 2019

Subject Heading:	**STATEMENT OF INVESTMENT BELIEFS UPDATE**
SLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager(Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	**Investment Strategy Statement**
Financial summary:	**No immediate cost 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

This report provides members with an update on the development of an evolving Statement of Investment Beliefs

RECOMMENDATIONS

That the Committee:

1. Consider the proposed updated draft wording to the responsible investment policy as set out in **Appendix A** (Appendix 2).

2. Directly consider Environmental, Social and Governance (ESG) and climate risk considerations as part of its forthcoming equity review, and

3. Agree to more direct scrutiny of its equity investment managers on their stewardship and, where appropriate, challenge managers on the action they have taken

REPORT DETAIL

This reports follows on from previous discussions and decisions made by the Pensions Committee in the ongoing evolution and development of its approach to responsible investment and how those investment beliefs may impact on the Investment Strategy and the investment process.

Hymans have produced a paper for the committee to consider (Appendix A refers), which as a starting point sets out what actions the Committee could pursue in its approach to responsible investment

At the Pensions Committee meeting on the 19th March 2019 members agreed a set of investment beliefs as set out in Hymans report (Appendix A, see Appendix 1 within their report).

They also agreed at that meeting the next steps in finalising a formal Statement of Investment Beliefs for inclusion in the Fund's Investment Strategy Statement (ISS). Hymans has now drafted some additional wording for inclusion into the ISS. This is set out in the tracked changes version of Hymans report (Appendix A, see Appendix 2 within their report).

If the revised wording is agreed then these will be incorporated into the review of the ISS which is expected to be presented to the committee later in the year.

Having a clear set of investment beliefs can improve governance by providing a framework for all investment decisions and will form part of the overall investment process.

IMPLICATIONS AND RISKS

Financial implications and risks:

It is recognised that a range of ESG factors could influence return from investments and in adopting a statement of beliefs but it will mitigate the risk of scrutiny of the committee's investment decisions as having a statement of investment beliefs in place will provide rationale for the decision making process.

Legal implications and risks:

There is no statutory obligation to produce a Statement of Investment Beliefs but as mentioned in the report it can help achieve good governance as establishing a Statement of Investment Beliefs will underpin the investment decisions that the Committee take in driving forward and setting objectives within the ISS.

Currently the Council has a broad discretion to take non-financial considerations into account in its investment strategy. The Secretary of State has issued guidance to Local Authorities on the exercise of their discretion on non-financial considerations which has been subject to challenge in the Courts. The Court of Appeal has ruled in favour of the Secretary of State but that Court's decision is subject to an appeal to the Supreme Court and therefore Members will need to be aware that this area is potentially subject to change.. (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Communities and Local Government [2018] EWCA Civ 1284.

Human Resources implications and risks:

There are no immediate HR implications.

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

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

Background Papers List

None

Development of responsible investment policy

Introduction

This note is addressed to the Officers and Pensions Committee of the London Borough of Havering Pension Fund ("the Fund"). It sets out our thoughts on the evolution of the Fund's responsible investment policy in light of evolving market practice and the development of the committee's investment beliefs, including updated wording. This paper should not be released or otherwise disclosed to any third party without our prior written consent except as required by law or regulatory obligation. We accept no liability to any other party unless we have especially accepted such liability in writing.

Responsible Investment Principles: implication of investment beliefs for Fund policy

Earlier this year, the Committee undertook an exercise to frame its investment beliefs. These beliefs (reproduced as Appendix 1 of this note) cover various elements of the investment strategy and decision-making process. It is important to interpret these beliefs and consider how they affect the approach to responsible investment to be adopted by the Committee – not all beliefs are relevant in this context.

We set out below our interpretation of these beliefs in the form of a set of guiding principles along with the actions that the Committee could pursue. It is important to note that this represents a potential starting point for the Committee in the evolution of its approach to responsible investment for further discussion.

1. The Fund is a long-term investor – the strategies employed should recognise the importance of long-term decision making. Ensuring that assets deliver sustainable returns is more important than short-term profit seeking. In considering long-term risks, climate change is both a growing regulatory consideration and presents a long-term risk to financial outcomes and should be considered in decision making. We consider how the Committee could address this issue in the next section.
2. Index benchmarks dictate the manner in which passive assets are deployed and, in the case of market cap indices, includes an implicit assumption that all risks, including ESG risks, are priced. The Committee should regularly review the ongoing appropriateness of its index-tracking benchmarks to ensure that they remain appropriate for the Fund over the long-term. As the final step in the implementation of strategy, the forthcoming equity review should directly consider the appropriateness of the current benchmarks and the merit of alternative index benchmarks for the Fund.
3. Stewardship through the voting of shares and engagement with companies is a means of influencing the future direction of companies in order to preserve and potentially add value. Divestment simply transfers ownership of assets and, to some degree, does not automatically create change. Therefore, to the extent that stewardship does not achieve its objectives then divestment is the final step open to investors. Active management allows this step whereas passive investment strategies do not. Consideration could be given to the manner in which passive managers are mandated to allow such action – this can also be considered within the equity review.
4. Expanding the notion of stewardship, it is viewed that collaborative action is more likely to be effective than the Fund acting alone. To ensure that the Fund's voice is heard, the Committee should consider the issues it deems are more important to be vocal on, and to ensure that managers (including the London CIV) are held to account for related decisions. Recognising another of the Committee's beliefs, one such approach could be ensuring and vocalising the need for high standards of disclosure.

Climate risk considerations

There is a growing regulatory requirement for long-term investors to consider the extent to which climate change could impact on financial outcomes. For example, the PRA has required insurers and banks to take steps and, following the recent change to legislation for occupational pension schemes, the Pensions Regulator has set up a working party to consider guidance for pension schemes which will be published early in 2020. The Scheme Advisory Board is also expected to incorporate climate change considerations into its guidance for LGPS funds during 2020.

In its investment beliefs (set out in Appendix 1) the Committee recorded a belief that climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes. Whilst the Committee could wait for further guidance on this issue, we expect that the guidance will broadly follow the framework proposed by the Taskforce for Climate-related Financial Disclosures (TCFD). Accordingly, we believe the Committee should begin taking steps to consider this risk.

Following this framework, the Committee could consider actions including:

- Receiving training on climate risk to improve identification and assessment of climate-related risks across the investment portfolio
- Measuring exposure to and receiving reporting on climate risk considerations and using this to set targets;
- Escalating engagement with investee companies on climate-related topics.

In addressing climate risk, many pension funds have begun by focusing on their equity portfolios, seeking to understand (1) exposure to companies involved in the extraction and generation of power from fossil fuels and (2) exposure to companies with high levels of carbon emissions. Whilst carbon risk is not climate risk, this would be a sensible first step for the Committee and can be considered within the forthcoming equity review.

Next steps

Taking the Committee's investment beliefs and building on developing market practice, we believe that the Committee can take steps to better state its approach to responsible investment and more directly embed the consideration of responsible investment issues into investment processes. Drawing on the points above, we have drafted additional wording for the Committee's policy statement which we set out in Appendix 2. Committee is asked to consider this draft wording.

We also recommend that the Committee:

- Directly consider ESG and climate risk considerations as part of its forthcoming equity strategy review, and
- Agree to more direct scrutiny of its equity investment managers on their stewardship and, where appropriate, challenge managers on the action they have taken.

We look forward to discussing this note with Committee.

Prepared by:-

Simon Jones, Partner & Head of Responsible Investment
Callum Stewart, Investment Consultant

For and on behalf of Hymans Robertson LLP

November 2019

Appendix 1: Investment beliefs

1 Clear and well-defined objectives are essential to reflect the Funds long-term strategic direction of travel and to help build a plan for achieving these objectives.

2 The Fund and its liabilities are long-term in nature and the Committee supports long term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.

3 Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.

4 Diversification between asset classes and regions is expected to provide greater stability to investment returns whilst diversification over many different managers needs to be balanced against the Committee's governance budget.

5 Returns net of fees and costs are more important than the absolute level of fees although investment managers' fees should be transparent and reviewed regularly.

6 Active management can add value although the performance of active managers should be measured over a sufficiently long investment horizon.

7 Benchmarks matter, particularly where they dictate the manner in which assets are invested.

8 Environmental, Social and Governance factors can pose financially material risks and it is incumbent on investment managers, where they have the discretion to do so, to ensure that such risks are reflected in decision making

9 Effective stewardship through informed voting and engagement can positively influence corporate behaviours although success is most likely to be achieved through greater collaboration

10 Climate change and the expected transition to a low carbon economy represents a long term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty.

11 Decision making can be improved through the greater disclosure of information and the Fund should both support and demonstrate high standards of disclosure.

12 Excluding assets from portfolios for non-financial reasons is unlikely to be appropriate in the majority of circumstances.

Appendix 2: Proposed update to responsible investment policy wording (draft with changes tracked)

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

Approach to responsible investment including climate change considerations

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 recognises that climate change is a systemic risk with the potential to directly impact economic, financial and social systems. Wherever possible, the Fund will directly consider the potential impact of climate risks on investment decision making within its investment portfolios.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, climate and ethical considerations, into the decision-making process for all fund investments. ~~It~~Within passive mandates where the choice of index dictates the assets held by the investment manager and the manager has minimal freedom to take account of factors that may be deemed to be financially material, the Fund will review the index benchmarks employed for the Scheme on at least a triennial basis.

The Fund 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. As a minimum, the Fund expects its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Fund will periodically review its managers' reporting against these standards, as well as other relevant industry standards, and will challenge its managers to improve their practices where the Fund deems it appropriate to do so.

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~~underlying investments with regard to ~~their~~the policies and practices on all issues which could present a material financial risk to the long-term performance of the ~~fund~~Fund such as corporate governance and environmental factors. The Fund ~~expects~~will engage with its ~~fund~~ managers to ~~integrate material ESG factors within its investment analysis and decision making.~~ understand what actions have been taken during regular review meetings.

Whilst the Fund expects that manager appointments in respect of new investments will be made through the London CIV, where the Fund makes its own appointments, responsible investment considerations will form a component of the manager selection decisions. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.

Effective monitoring and identification of ~~these~~ESG 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. Where appropriate, the Fund will work with the London CIV to promote collective engagement on behalf of all investors.

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

Consideration of non-financial factors and social investments

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 currently 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 explicit 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.

Stewardship of assets

~~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~~The Fund recognises that its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the managers of these vehicles:

- 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~~Fund 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~~

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~~The Committee will request its investment manager provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.

The Committee reviews voting activity by its investment manager on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure. The Fund will also 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 promote best practice by the CIV and enhance the level of engagement both with external managers and the underlying companies in which invests.

Consultations and review of policy

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 Committee will review this policy annually, or earlier if there is a material change in circumstances e.g. new regulations or legislation.

Appendix 3: Proposed update to responsible investment policy wording (draft clean version)

Approach to responsible investment including climate change considerations

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.

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The Fund 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. As a minimum, the Fund expects its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Fund will periodically review its managers' reporting against these standards, as well as other relevant industry standards, and will challenge its managers to improve their practices where the Fund deems it appropriate to do so.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of underlying investments with regard to the 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 will engage with its managers to understand what actions have been taken during regular review meetings.

Whilst the Fund expects that manager appointments in respect of new investments will be made through the London CIV, where the Fund makes its own appointments, responsible investment considerations will form a component of the manager selection decisions. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.

Effective monitoring and identification of ESG 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. Where appropriate, the Fund will work with the London CIV to promote collective engagement on behalf of all investors.

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

Consideration of non-financial factors and social investments

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 currently 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 explicit 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.

Stewardship of assets

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 recognises that its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the managers of these vehicles:

- 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 Fund 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.

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 Committee will request its investment manager provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.

The Committee reviews voting activity by its investment manager on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure. The Fund will also 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 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 promote best practice by the CIV and enhance the level of engagement both with external managers and the underlying companies in which invests.

Consultations and review of policy

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 Committee will review this policy annually, or earlier if there is a material change in circumstances e.g. new regulations or legislation.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 10 December 2019

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPT 2019**
CLT Lead:	**Jane West**
Report Author and contact details:	***Chrissie Sampson/Debbie Ford*** ***Pension Fund Accountant (Finance)*** ***01708432569*** ***Debbie.ford@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 30 Sept 2019

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, an overview of the Fund Manager Monitoring and an overview of any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending 30 Sept 2019.

This report is being presented in order that:

The general position of the Fund is considered plus other matters including any current 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:

Stafford Capital Partners Ltd

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

RECOMMENDATIONS

That the Committee:

1) Note Hymans Market Background and Outlook Report (Appendix A)
2) Note Hymans Strategic Overview Report (Appendix B).
3) Note Hymans Manager Performance Report (Appendix C).
4) Note Hymans Performance Report and views (Appendix D and E Exempt)
5) Receive presentations from the Fund's infrastructure manager Stafford Capital (Appendix F – Exempt)
6) Note the quarterly reports sent electronically, provided by each investment manager.
7) Note the analysis of the cash balances

REPORT DETAIL

1. After a review of the contents of the quarterly performance report, we acknowledged that there was an element of duplication within our report and our Funds Investment Advisor report from Hymans. Some of the elements from Hymans report which were deemed non confidential can now be seen in a separate appendices **(Appendix A, B and C refers**). Elements covering views on Fund manager performance will remain as exempt and will be shown in **Appendices D and E).**

2. When appropriate more topical LPGS news that may affect the Pension Fund will now be included.

3. We welcome any feedback as we continue to develop the new reporting format

4. BACKGROUND

a. The Committee adopted an Investment Strategy Statement (ISS) in November 2017.

b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities

c. The Fund's assets are monitored quarterly to ensure that the long term objective of the ISS is being delivered.

d. We measure returns against tactical and strategic benchmarks:

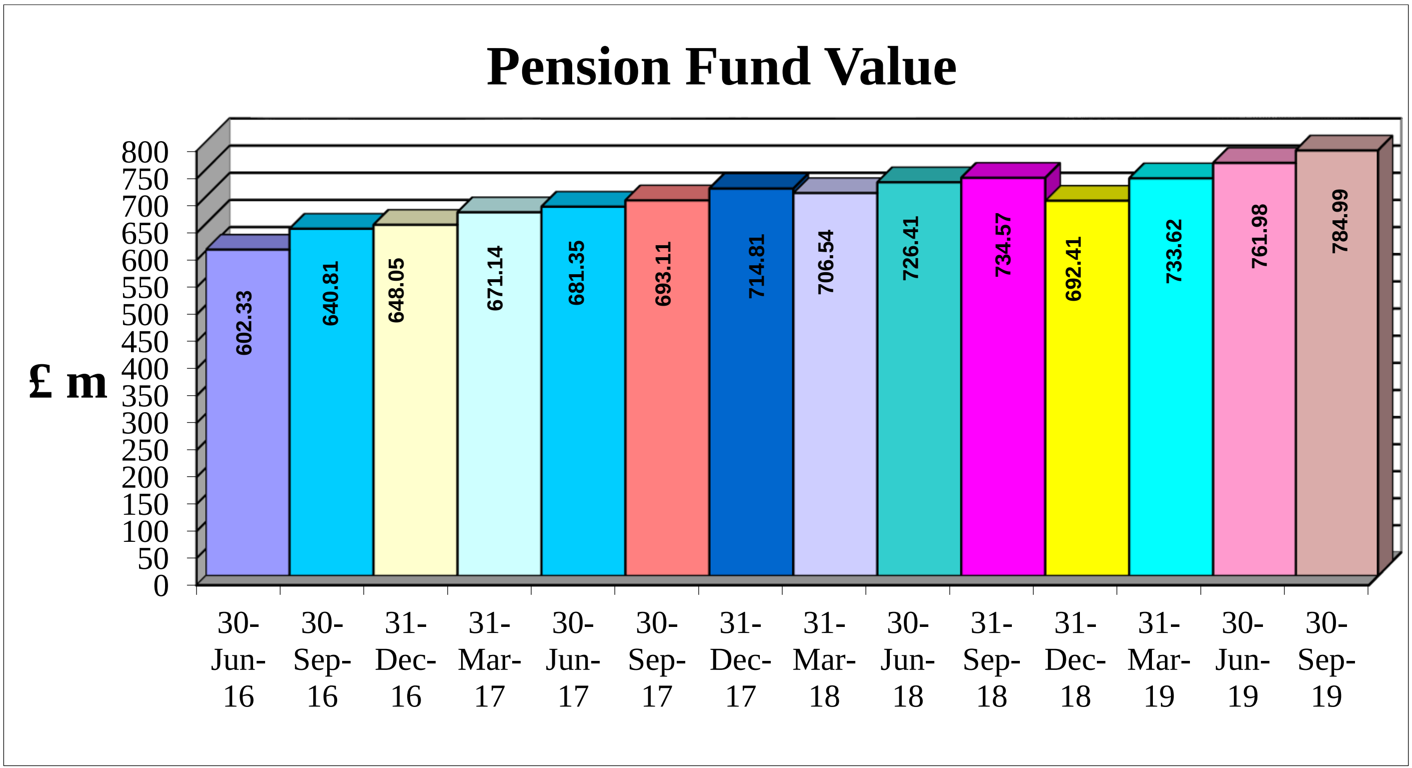
e. **Tactical Benchmark -** Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

f. **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 Fund's deficit.

5. PERFORMANCE

a. Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 Sept 2019 was **£784.99m** this valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor as it excludes accrued income. This compares with a Fund value of £761.98m at the 30 June 2019; an **increase** of **£23.00m**. Movement in the Fund value is attributable to an increase in assets of £20.97m and an increase in cash of £2.03m. Internally managed cash level stands at **£17.799m** of which an analysis follows in this report.

Chart 1 – Pension Fund Values



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

Table 1: Quarterly Performance

	Quarter to 30.09.19	**12 Months to 30.09.19**	**3 Years to 30.09.19**	**5 years to 30.09.19**
	%	**%**	**%**	**%**
Fund	3.0	6.9	6.8	7.7
Benchmark	2.7	8.3	6.0	7.0
*Difference in return	0.3	-1.3	0.8	0.7

Source: Hymans Robertson
Totals may not sum due to geometric basis of calculation and rounding

c. 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 as follows

Table 2: Annual Performance

	Quarter to 30.06.19	12 Months to 30.06.19	3 Years to 30.06.19	5 years to 30.06.19
	%	%	%	%
Fund	3.0	6.9	6.8	7.7
Benchmark	8.1	20.3	6.7	11.4
*Difference in return	-4.7	-11.1	0.1	-3.3

Source: Hymans Robertson

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

d. Further detail on the Fund's investment performance is detailed in **Appendix C in** the performance report which will be covered by the Investment Adviser (Hymans).

6. CASH POSITION

a. An analysis of the internally managed cash balance of **£17.799m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2017/18 31 Mar 18**	**2018/19 31 Mar 19 Revised**	**2019/120 30 Sept 19**
	£000's	£000's	£000's
Balance B/F	**-12,770**	**-17,658**	**-13,698**
Benefits Paid	36,532	37,954	19611
Management costs	1,221	1,490	519
Net Transfer Values	1,108	1,543	-597
Employee/Employer Contributions	-42,851	-44,804	-24,886
Cash from/to Managers/Other Adj.	-785	7,925	1,322
Internal Interest	-113	-148	-70
Movement in Year	**-4,888**	**3,960**	**-4,101**
Balance C/F	**-17,658**	**-13,698**	**-17,799**

b. Members agreed the updated cash management policy at its meeting on the 17 September 2019. The policy sets out that the target cash level should be £6m but not fall below the de-minimus amount of £3m or exceed £8m. This policy includes drawing down income from the bond and property manager when required.

c. 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 Statutory S151 officer to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £8m is being considered as part of the investment strategy implementation (there is a possibility that we will use this cash to fund the close ended funds and/or the College mergers). The college mergers asset transfer values are in the process of being finalised and it is expected that the transfer of cash will be paid during 2020.

7. REPORTING ARRANGEMENTS

a. In line with the reporting cycle, the Committee will see one Fund Manager at each Committee meeting unless there are performance concerns for individual managers. Individual Fund Manager Reviews are attached in Hymans performance report at **Appendix C.**

b. The full version of all the fund manager's quarterly report are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each Investment Manager, detailing the voting history of the Investment Managers is also included in the Manager's Quarterly Report.

c. The Fund Manager attending this meeting is **Stafford Capital (the Funds Infrastructure Manager)** and their presentation can be found at **Appendix F (exempt)**

8. FUND UPDATES:

8.1 Changes made in previous quarter and forthcoming changes/events

a. The Fund has continued to fund capital draw down requests: £2.8m for Permira, c£2.3m for Churchill and c£0.8m for Stafford Capital during the last quarter.

b. Northern Trust who was appointed to provide Custodial and performance measurement services is now on boarded with a contract commencement date of the 1 October 2019.

c. The Fund appointed Russell investments to implement a currency hedge for the Fund. A number of legal and on-boarding documents have been processed and the contract will commence from 21

November 2019. On receipt of the contract they will now continue to finalise the on boarding process before trading can commence.

d. Following the Committee decision at its September meeting, Officers are in the process of changing the mandate with Royal London to include an allocation to its Multi Asset Credit product.

8.2 London Collective Investment Vehicle (LCIV) - LCIV is the mandatory asset pool for the Fund and updates will be covered here as follows:

8.2.1 LCIV meetings

a. The LCIV Q3 investment forum took place on 23 September 2019. The day comprised of an introductory presentation from the new LCIV Emerging Market Equity Fund manager who discussed their approach to investing in Emerging Markets. A panel discussion followed, giving an opportunity for Baillie Gifford (LCIV Diversified Growth Fund) and Newton (LCIV Real Return Fund) to discuss how Multi –Asset and Diversified Growth Funds fit into a pension portfolio

8.2.2 Pension Cost Recharge Agreement and Pension Guarantee

a. LCIV are seeking authorisation of the above agreements. There have been ongoing delays in resolving this issue due to concerns of escalating costs as staff numbers grow.

b. It was deemed by the Section 151 Officer that the Chief Executive Officer of the LCIV has set out sufficient checks and balances to ensure costs do not escalate. S151 consultation with other Society of London Treasurers (SLT) colleagues has also shown other London Authorities willingness to sign the agreements. These agreements have now been signed and sealed and sent to the LCIV.

c. Not all boroughs have signed the agreements (17 signed) so the current pension position remains until all boroughs have signed the agreements – this also applies to the proposed new remuneration policy.

8.2.3 Responsible Investment & Stewardship

a. At the April 2019 Shareholder Committee LCIV discussed “next steps” to make their Responsible Investment policy a reality.

b. It was anticipated that the new Chief Investment Officer who started on the 2 September 2019 would be leading LCIV’s Responsible Investment work. His subsequent surprise resignation announced on the 25 September 2019 has now left a void in this area. Whilst LCIV consider their next steps an interim resource, Dawn Turner, former CEO of the LPGS pool company Brunel has been commissioned to conduct an Environmental, Social and Governance (ESG) Stock Take of London CIV and shareholder funds.

c. The LCIV hosted an ESG focused event on 16 October 2019. Opportunity to discuss approach to pooling and (ESG), attended by Officers.

d. An ESG Stock take survey was issued on the 31 October 2019 to all the boroughs to seek and collate their views with the intention being to make recommendations to the LCIV Board in November and the Shareholders Committee in December/January. The Fund submitted its response to the survey within the prescribed deadline. This was distributed to members via email on the 6 November 2019

8.2.4 Governance Review Questionnaire

a. Shareholders approved a new corporate governance framework at the July 2018 AGM where it was agreed to review the framework after one year of operation. This is to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively and the focus for change to be on how the governance framework is used rather than a major change to a framework.

b. The LCIV issued a Governance Review Questionnaire on the 11 November requesting responses by the 30 November 2019.

c. Havering responded to the survey online within the deadline and a copy will be circulated when this is available.

d. LCIV expect to provide feedback from the survey to the Shareholder Committee meeting on the 16 December 2019

8.2.5 Service level Agreements

a. The LCIV is in the process of developing a Service Level Agreement with all the boroughs. Officers were sent a draft of this to which feedback was provided back in July 2019. LCIV will consider all the feedback and are planning on sending a revised draft out in due course. No further updates have been received as to the progress of this document.

8.2.6 Shareholder Agreement amendment

a. LCIV proposed a change to its operating and business model so that it can evolve with the expectations of the pool and introduce flexibility to provide for future potential changes and choices. This change is dependent on all 32 boroughs signing the agreement. Currently there is one borough yet to sign. Havering signed in February 2019.

b. A letter has been sent to Pension Committee chairs from the borough that has yet to sign, seeking consensus and support for their proposal that additional costs arising from the expanded business activities are charged directly, based on usage and not recharged to all shareholders. It is expected that this will be discussed at the London Finance Advisory Committee (LFAC) and /or (SLT) meeting in order to assess opinions from the other boroughs before responding.

8.2.7 LCIV Sub Fund Updates

a. LCIV consulted on two potential investment proposals:

- LCIV Global Equity Value Fund – LCIV consulted seeking potential demand for this product. Havering responded explaining that this product could be considered when the committee review equity exposure as part of the Investment Strategy Review. However it is likely to explore alternative strategies

- LCIV Sustainable Exclusion Investment Fund – LCIV consulted seeking potential demand for this product. Havering responded that given the stage of development of the Committee's Responsible Investment policy, current focus is on active stewardship as a first step to promote shareholder value and it is too soon to currently pursue an exclusionary approach for the Havering Fund.

b. Private Debt and Liquid Loans product - due to the limited commitments in terms of assets under management and the time it has taken to get to the launch – the Fund Manager has decided to withdraw this product and LCIV are currently looking at options to find a replacement manager.

c. LCIV Infrastructure fund – LCIV have partnered with StepStone to launch the Infrastructure fund. Six boroughs have invested with initial commitments of £399m.

8.2.8 Pooling progress

a. The Minster of Housing, Communities and Local Government (MHCLG) requested an indicative projection of shareholder member pooling intentions, costs and cost savings over the next four years

LCIV submitted their pooling update report to the (MHCLG) in assist them in establishing a picture of pooling progress across the LGPS.

8.3 LGPS GENERAL UPDATES:

8.3.1 LGPS GOVERNANCE

a. A 'Good Governance Report in the LGPS' was produced by Hymans in July at the request of the Scheme Advisory Board (SAB). The SAB has asked Hymans to assist with the next stage of the project, which involves setting up two working groups to look at the outcomes and options for independent assessment/measurement of the outcomes.

b. On 6 November the SAB will receive the report from the phase 2 working groups. They will make a number of proposals to form a framework. Any proposals agreed by SAB will be subject to consultation before being put to MHCLG

8.3.2 FRC UK Stewardship Code

a. The (FRC) has launched it updated UK Stewardship Code. The Code was last reviewed in 2012. It takes effect from 1 January 2020 and introduces new best practices standards.

b. Current guidance for LGPS funds suggests that Funds should become signatories to the Stewardship Code. Havering is currently not yet signed up but fully endorses the principles of the Stewardship Code.

8.3.3 Cost Transparency

a. The SAB has appointed Byhiras to develop and host the Compliance and Reporting system which is expected to be available from Quarter 1 2020. The system will enable managers to evidence compliance with the Code via a single online portal, upload template in LGPS format and allow data to link to CIPFA reporting formats.

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 and employers in the Fund

Legal implications and risks:

None arising directly

The Committee has been constituted by the Council to perform the role of administering authority to manage the Havering LGPS Fund and as such has legal authority to make the decisions sought by the recommendations.

Human Resources implications and risks:

There are no immediate HR implications.

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.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

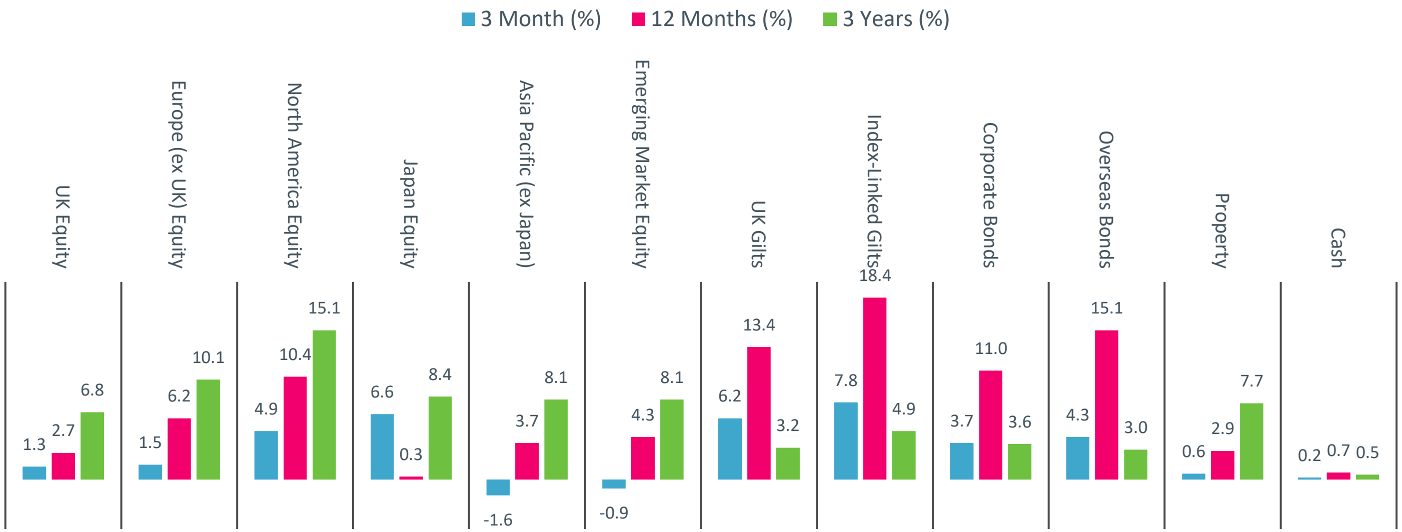
Appendix A: Market Background and Outlook

Market background for the quarter

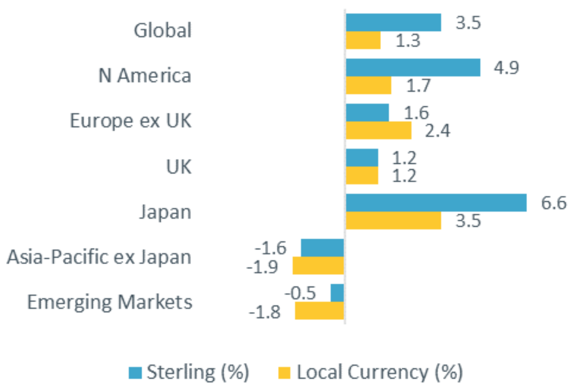
The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.
UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers but its manufacturing PMI fell to its lowest level since June 2009 in September.

Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields continued to drift lower over the quarter. UK Implied inflation fell at longer maturities but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation. Despite prices spiking significantly, following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

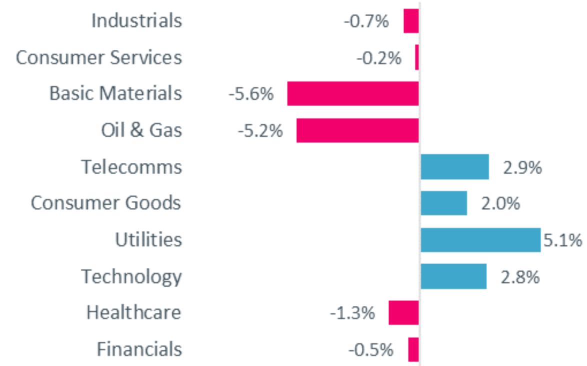
Historic returns for world markets



Regional equity returns



Global sector performance



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

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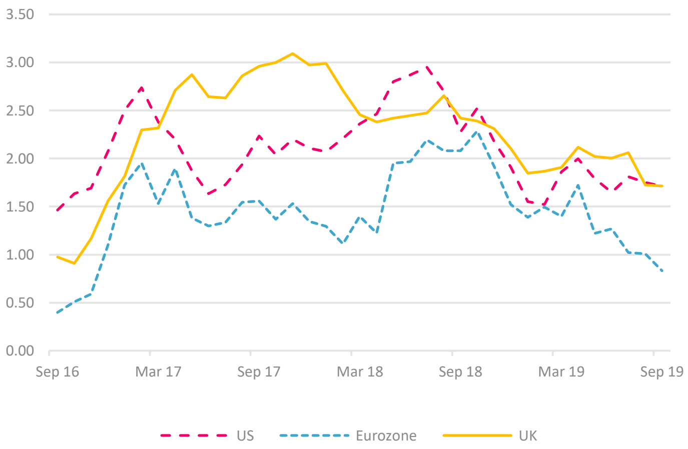
Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

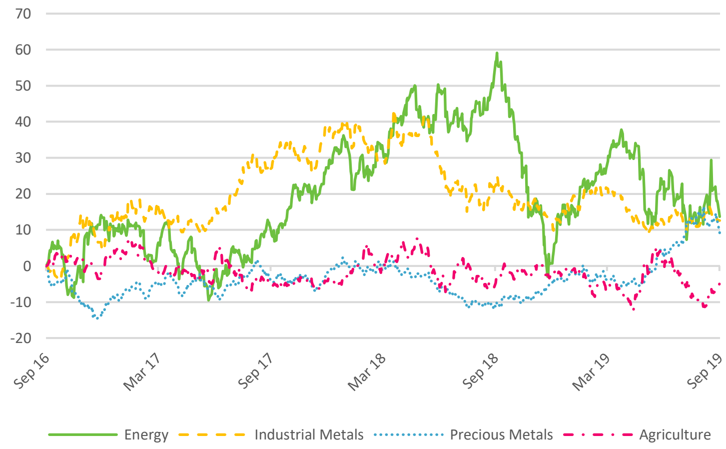
Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of the value style. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

In the two months and one year to the end of August, UK property produced total returns of 0.5% and 1.6%, respectively. Marginal positive rental growth and return from income compensated for capital declines.

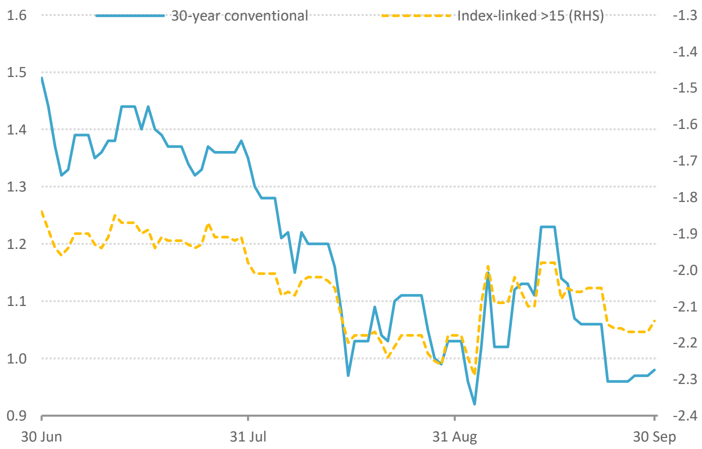
Annual CPI Inflation (% p.a.)



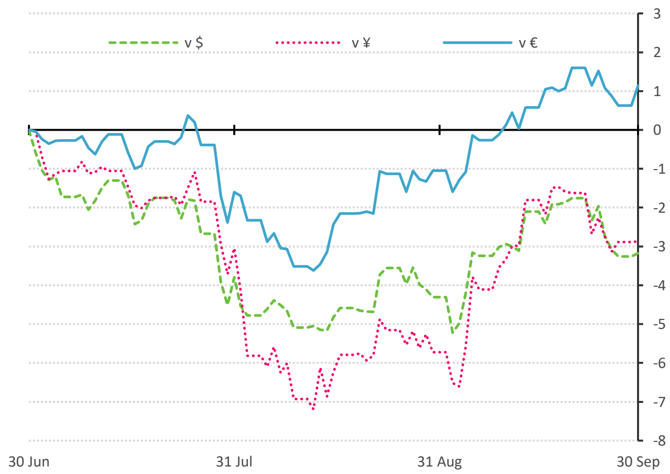
Commodity Prices



Gilt yields chart



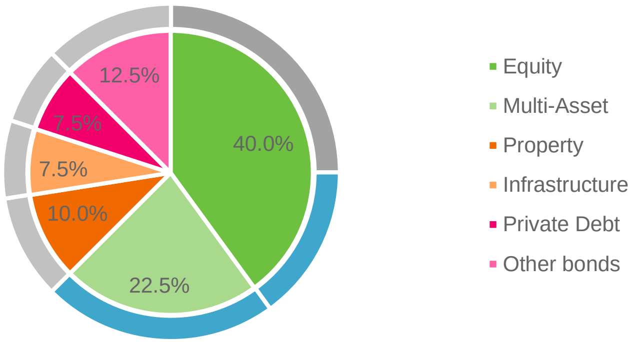
Sterling trend chart (% change)

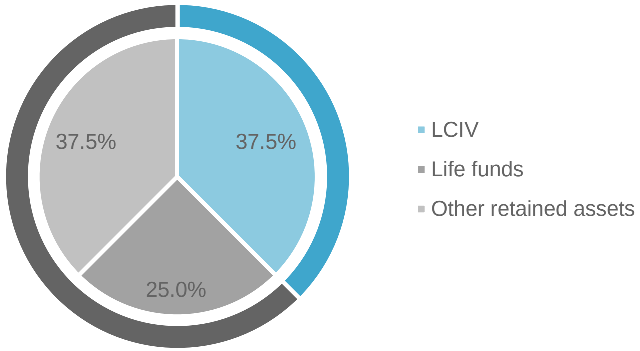


Appendix B: Strategic Overview

Strategic overview

The Fund's investment approach is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV). The following charts summarise the approach agreed for the implementation of the Fund's longer term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee:





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The following table summarises the Fund's longer term strategic target and expected implementation approach:

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40.0	Baillie Gifford	15.0	LGIM	25.0		
Multi-Asset	22.5	Baillie Gifford, Ruffer	22.5				
Property	10.0					UBS, CBRE	10.0
Infrastructure	7.5					JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds*	12.5					RLAM	12.5
Total	**100.0**	**-**	**37.5**	**-**	**25.0**	**-**	**37.5**

**The structure of the other bonds allocation is being finalised*

The longer term strategy is in the process of being implemented. It is envisaged that the long term strategy will be largely implemented during 2019 although drawdown into the private debt and Stafford mandates may extend into 2020/21. The target allocation to LCIV and life funds totals 75% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically

Current investment implementation

Manager	Implementation	Previous Quarter	Current Quarter	Actual Proportion	Target Proportion	Difference
Equity		**294.5**	**298.9**	**38.1%**	**35.0%**	***3.1%***
LGIM Global Equity	*LCIV aligned*	*58.1*	*60.1*	7.7%	*7.5%*	*0.2%*
LGIM Fundamental Equity	*LCIV aligned*	*55.6*	*57.2*	7.3%	*7.5%*	*-0.2%*
LGIM Emerging Markets	*LCIV aligned*	*32.2*	*31.9*	4.1%	*5.0%*	*-0.9%*
Baillie Gifford Global Equity	*LCIV*	*148.7*	*149.7*	19.1%	*15.0%*	*4.1%*
Multi-Asset		**198.5**	**203.4**	**25.8%**	**27.5%**	***-1.7%***
Ruffer Absolute Return	*LCIV*	*96.2*	*99.0*	12.6%	*15.0%*	*-2.4%*
Baillie Gifford DGF	*LCIV*	*88.7*	*90.6*	11.5%	*12.5%*	*-1.0%*
GMO Global Real Return	*Retained*	*13.7*	*12.9*	1.6%	*0.0%*	*1.6%*
Real-Assets		**109.3**	**110.9**	**14.8%**	**17.5%**	***-2.7%***
UBS Property	*Retained*	*42.1*	*42.1*	5.4%	*6.0%*	*-0.6%*
JP Morgan Infrastructure	*Retained*	*26.6*	*28.6*	3.6%	*4.0%*	*-0.4%*
CBRE Global Property	*Retained*	*27.8*	*28.2*	4.4%	*4.0%*	*0.4%*
Stafford Global Infrastructure	*Retained*	*11.3*	*12.0*	1.4%	*3.5%*	*-2.1%*
Bonds and Cash		**157.8**	**173**	**21.3%**	**20.0%**	***1.3%***
RLAM Bonds	*Retained*	*138.7*	*149.2*	18.6%	*12.5%*	*6.1%*
Churchill Private Debt	*Retained*	*3.1*	*5.7*	0.4%	*3.0%*	*-2.6%*
Permira Private Debt	*Retained*	*0.3*	*0.3*	0.0%	*4.5%*	*-4.5%*
Cash	*Retained*	*15.9*	*17.8*	2.3%	*0.0%*	*2.3%*
Total		**758.9**	**786.2**	**100.0%**	**100%**	**-**

Source: Investment Managers; LGIM Global Equity and Fundamental Equity mandates were managed by SSGA prior to November 2017. Figures may not tally due to rounding.

The total value of the Fund's assets increased by c. £27m over the quarter to c. £786m as at 30 September 2019 as global equities and other major asset classes all delivered positive returns although falling yields pushing up bond prices was a significant driver of growth. The target proportions listed represent the current implementation of the Fund's longer term strategic allocation, following the addition of Real Assets and Private Debt. Allocations to these new asset classes are due to be funded from existing cash balances, and from Multi-Asset funds (Real Assets) and the Royal London bond mandate (Private Debt). The Committee has agreed to implement an allocation to multi-asset credit, which is expected to be implemented via an amendment to the existing Royal London bond mandate.

Over the quarter the Fund paid a capital call of £0.8m to Stafford. Post quarter end, further capital calls were paid to Permira (£1.4m) and Churchill (£1.4m). These were all funded from existing cash and redemptions of the GMO mandate.

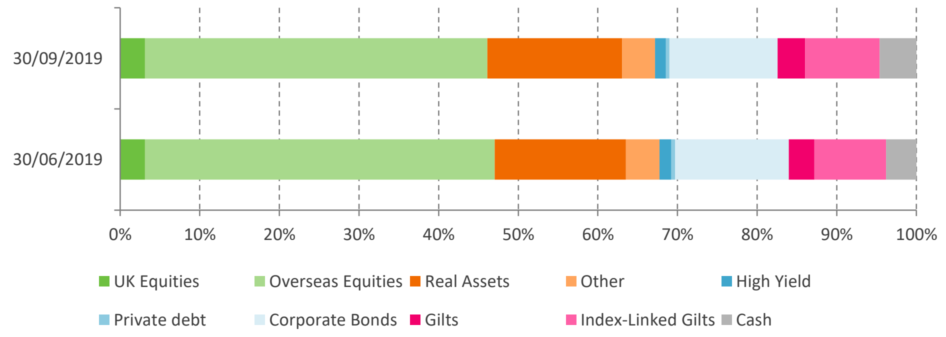
Asset Allocation

The chart illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the three multi-asset funds on a 'look through' basis.

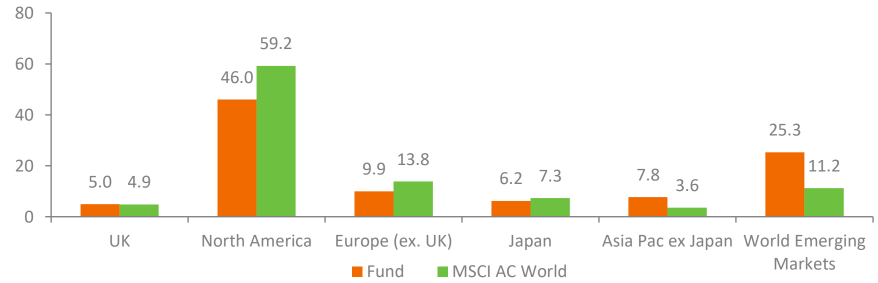
The Fund's allocation to equities decreased marginally over the quarter, decreasing to c.43% at 30 September 2019 (c. 44% at 30 June 2019). The allocation to real assets increased marginally over the quarter to c. 17% of Fund assets.

The Fund's strategic asset allocation is due to be reviewed in early 2020, reflecting the results of the 2019 actuarial valuation.

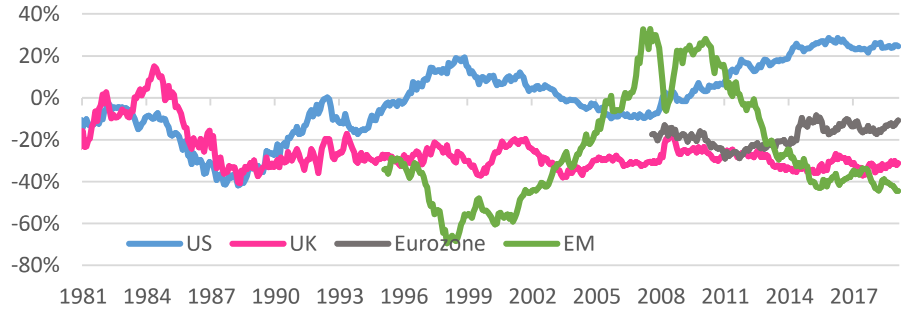
Look through asset allocation as at 30 September 2019



Regional Equity Allocation



Price-earnings ratios vs. MSCI World to 30 September 2019



Source: Datastream

The Committee is due to review the Fund's equity structure in early 2020.

Consistent with the recent deterioration in global economic momentum, corporate earnings have come under pressure this year. While year-on-year earnings growth remains positive, the quarterly earnings growth rate has turned negative this year. Despite this, equity markets have performed well, partly in recognition of the tough year-on-year comparators of 2018 and the fact that earnings have come in above consensus forecasts. However, these forecasts have been steadily revised lower throughout the year. Consensus earnings expectations for 2020 currently point to sharp rebound of around +10% for global equities. We believe these forecasts look optimistic against a backdrop of weakening economic data and the impact of ongoing global trade disputes.

The significant shift in monetary policy has so far offset the impact of the concerns over the global economic slowdown. However, equity markets could prove vulnerable in the event that central banks do not maintain the current policy easing stance.

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Appendix C: Manager Performance

Manager Performance Summary

The table below sets out the performance of each mandate against their respective benchmarks. The LGIM mandates tracked their respective benchmarks over the quarter, whilst the majority of the Fund's other mandates contributed positively to relative returns.

	Quarter			1 Year			3 Years			5 Years		
	Fund	B'Mark	Relative	Fund	B'Mark	Relative	Fund	B'Mark	Relative	Fund	B'Mark	Relative
EQUITY												
LGIM Global Equity	3.5	3.5	0.0	7.8	7.7	0.1	12.2	12.1	0.0	13.2	13.2	0.0
LGIM Fundamental Equity	2.9	2.8	0.0	4.4	4.6	-0.2	10.3	10.4	-0.1	-	-	-
LGIM Emerging Markets	-0.6	-0.6	0.0									
Baillie Gifford Global Equity (CIV)	0.7	3.4	-2.6	6.7	7.9	-1.1	14.2	12.3	1.7	15.5	13.3	2.0
MULTI-ASSET												
Ruffer Absolute Return (CIV)	2.9	1.2	1.7	2.0	4.9	-2.7	1.6	4.6	-3.0	3.8	4.8	-1.0
Baillie Gifford DGF (CIV)	2.2	1.0	1.2	4.5	4.2	0.4	4.4	4.0	0.4	4.0	5.0	-1.0
GMO Global Real Return	-1.7	0.2	-1.9	-0.9	1.4	-2.3	1.5	1.8	-0.3	-	-	-
REAL-ASSETS												
UBS Property	0.9	0.4	0.5	3.7	2.2	1.5	7.9	6.7	1.1	8.9	8.3	0.6
JP Morgan Global Infrastrcuture	n/a	n/a	n/a	-	-	-	-	-	-	-	-	-
CBRE Global Property	1.1	1.2	-0.1	-	-	-	-	-	-	-	-	-
Stafford Capital Global Infrastructure	n/a	n/a	n/a	-	-	-	-	-	-	-	-	-
BONDS AND CASH												
RLAM Bonds	7.4	8.0	-0.6	18.1	19.2	-0.9	7.2	5.2	1.9	9.2	8.8	0.4
Permira	n/a	n/a	n/a	-	-	-	-	-	-	-	-	-
Churchill Private Debt	n/a	n/a	n/a	-	-	-	-	-	-	-	-	-
Total	**3.0**	**2.7**	**0.3**	**6.9**	**8.3**	**-1.3**	**6.8**	**6.0**	**0.8**	**7.7**	**7.0**	**0.7**

Source: Investment Managers. Please note that benchmark performance for Baillie Gifford DGF, Ruffer Absolute Return and GMO Real Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer in to the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for the private market investments was not available at the time of preparation.

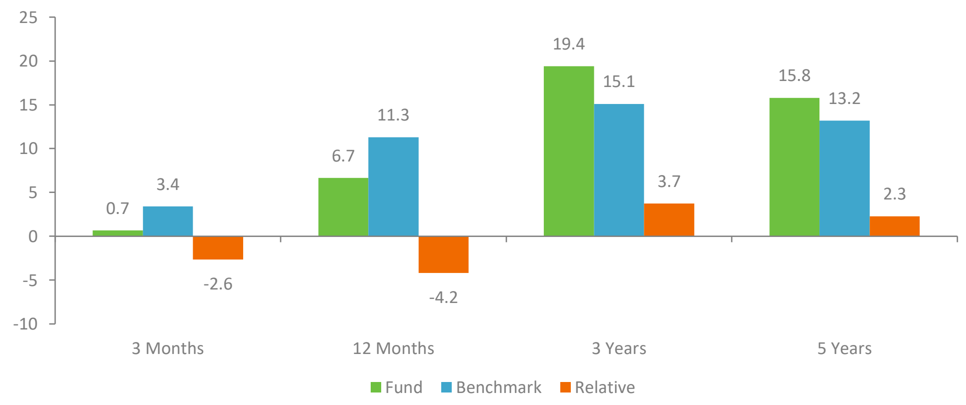
LCIV funds

The Fund accesses global equity and multi-asset sub-funds through LCIV. In this section we provide an overview of performance and positioning of the sub-funds in which the Fund invests. LCIV are responsible for the ongoing monitoring and governance of the underlying investment managers. For more information, please refer to ongoing reporting from LCIV.

LCIV Global Alpha Growth Fund

The sub-fund is managed by Baillie Gifford. The objective of the sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross of fees basis over rolling five year periods.

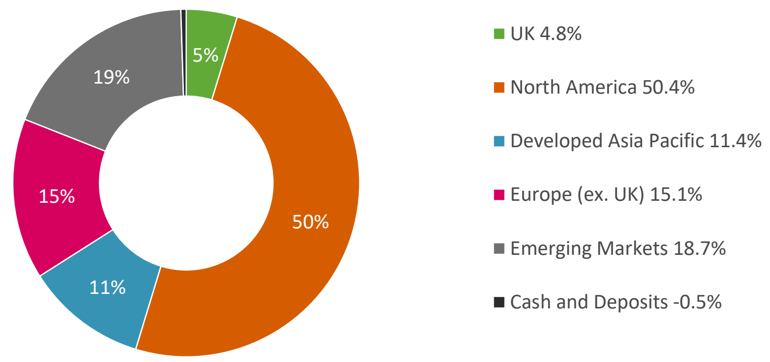
Performance to 30 September 2019



**Date of inception 25 April 2012*

Source: LCIV

Regional allocation as at 30 September 2019



Source: Baillie Gifford

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LCIV Diversified Growth Fund

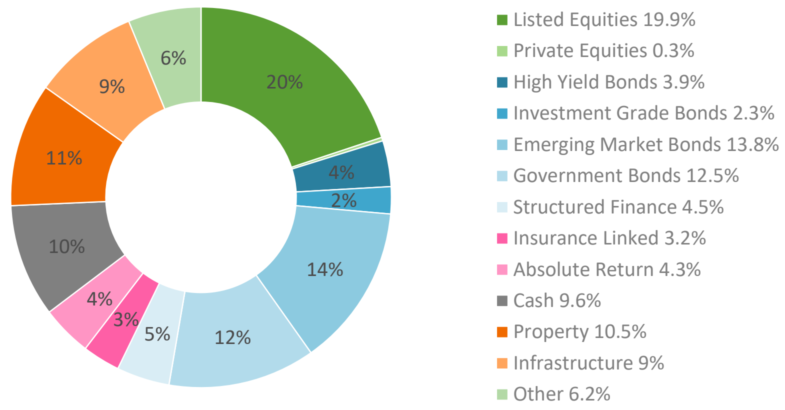
The sub-fund is managed by Baillie Gifford through their Diversified Growth strategy. The sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

Performance to 30 September 2019

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	2.2	4.5	4.4
Base Rate + 3.5% (net)	1.0	4.2	4.0
Relative (to Target)	1.2	0.4	0.4
Multi Asset Composite	*2.6*	*5.6*	*6.8*
Relative (to composite)	*-0.4*	*-1.0*	*-2.3*

Source: StateStreet (WM). Inception date: 26/11/2013.

Asset Allocation as at 30 September 2019



LCIV Absolute Return Fund

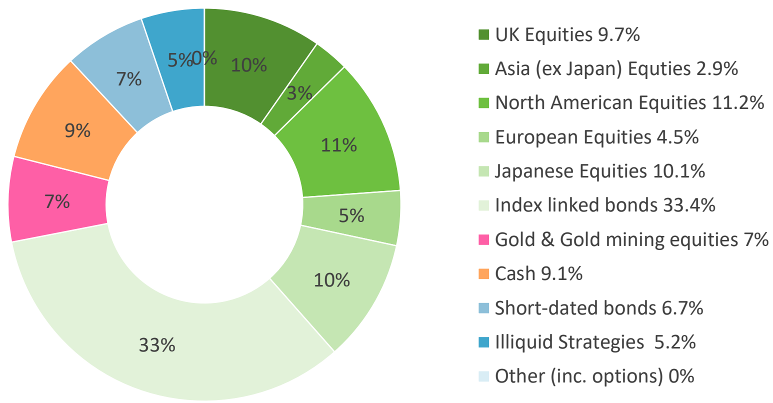
The sub-fund is managed by Ruffer. The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.

Performance to 30 September 2019

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	2.9	2.0	1.6
GBP 3 Month LIBOR +4%	1.2	4.9	4.6
Relative (to LIBOR +4%)	1.7	-2.7	-3.0
Multi Asset Composite	*2.6*	*5.6*	*6.8*
Relative (to composite)	*0.3*	*-3.4*	*-4.9*

Source: StateStreet (WM). Inception date: 13/09/201

Asset Allocation as at 30 September 2019



LGIM Global Equity

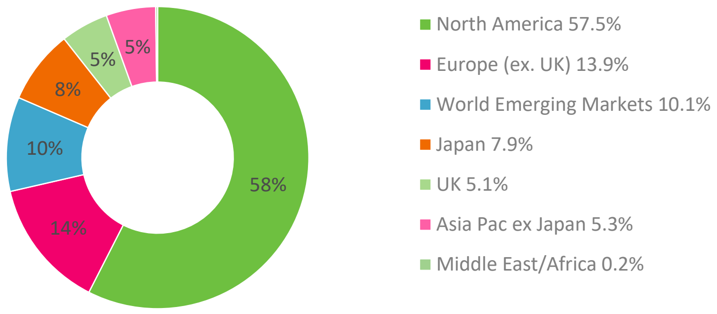
LGIM were appointed from November 2017 to manage the Fund's index tracking global equity portfolio, with the mandate being split equally between investment in a fund tracking a market cap weighted index and a fund tracking a fundamentally weighted index. The mandate was previously managed by SSGA. The objective of this mandate is to match the performance of the respective benchmark indices. As shown below, performance from the mandate has been broadly in line with underlying benchmarks over all periods considered.

All World Equity Index Fund: Performance to 30 September 2019

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	3.5	7.8	12.2	12.7
Benchmark	3.5	7.7	12.1	12.7
Relative	0.0	0.1	0.0	0.0

Source: LGIM. Inception date: 23/02/2011.

Regional Allocation as at 30 September 2019



Source: LGIM

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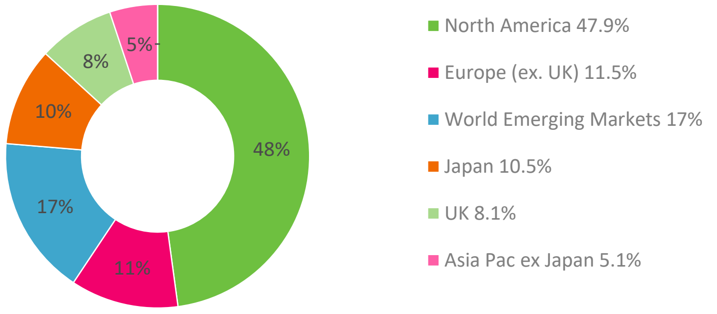
FTSE RAFI All World 3000 Equity Index Fund: Performance to 30 September 2019

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	2.9	4.4	10.3	12.7
Benchmark	2.8	4.6	10.4	12.8
Relative	0.0	-0.2	-0.1	-0.1

Source: LGIM. Inception date: 19/08/2015.

Regional Allocation as at 30 September 2019



Source: LGIM

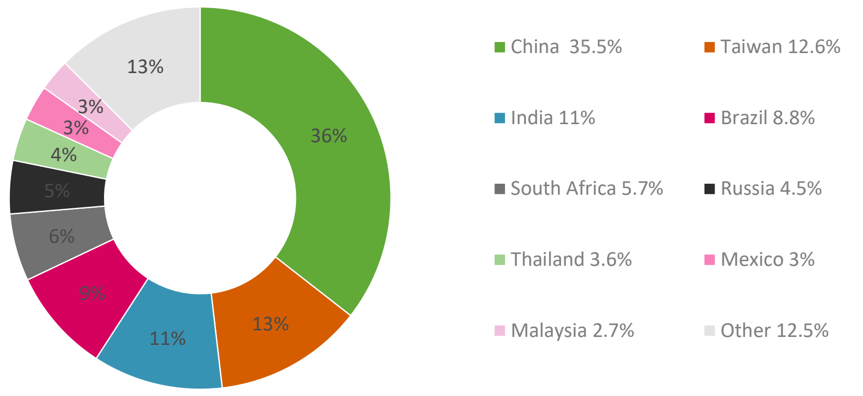
Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.

World Emerging Markets Equity Index Fund: Performance to 30 September 2019

	3 Months (%)	Since Inception (%)
Fund	-0.6	7.7
Benchmark	-0.6	7.7
Relative	0.0	-0.1

Source: LGIM. Inception date: 09/01/2019.

Regional Allocation as at 30 September 2019

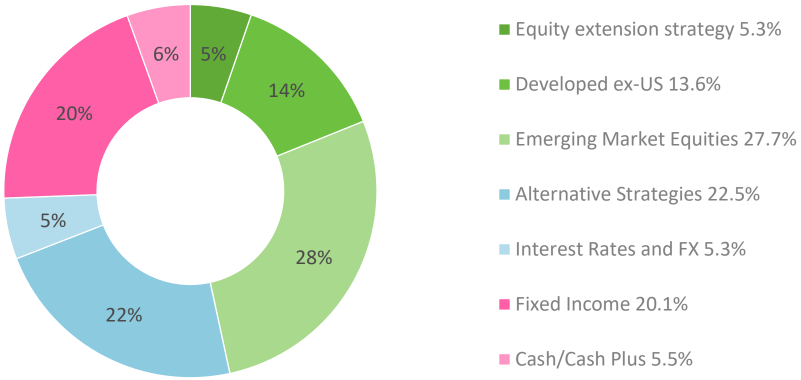


Source: LGIM

GMO Real Return Fund

GMO was appointed in January 2015 to manage a multi-asset mandate within their Real Return Fund. The Fund targets returns over the long-term of 5% p.a. in excess of CPI, after fees. GMO believe that by the application of their process, they will achieve this target whilst realising volatility in the range 5-10%. The fund seeks to achieve this through a value-based approach to investing across a range of asset classes. This mandate is in the process of being terminated, with redemptions funding capital calls to the Fund's real assets mandates.

Portfolio positioning at 30 September 2019

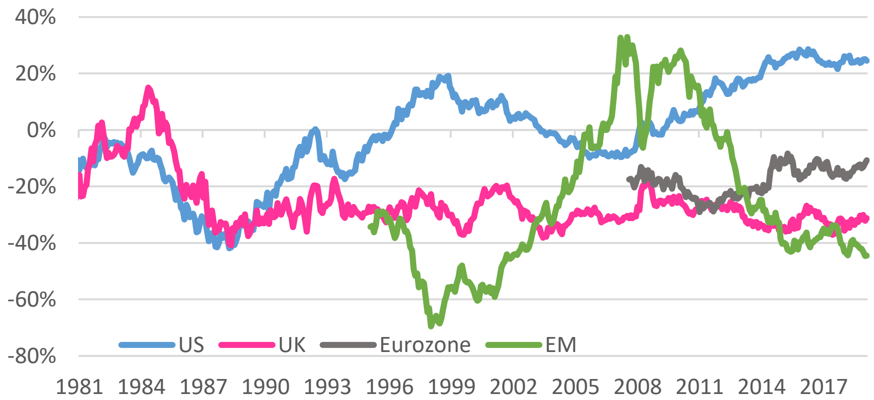


Performance to 30 September 2019

	3 Months (%)	12 Months (%)	Since inception
Fund	-1.7	-0.9	0.9
OECDG7 CPI	0.2	1.4	1.6
Relative (to benchmark)	-1.9	-2.3	-0.7
Multi Asset Composite	*2.6*	*5.6*	*8.2*
Relative (to composite)	*-4.2*	*-4.8*	*-6.8*

Source: StateStreet (WM).

Price-earnings ratios vs. MSCI World to 30 September 2019



Source: Datastream

Consistent with the recent deterioration in global economic momentum, corporate earnings have come under pressure this year. While year-on-year earnings growth remains positive, the quarterly earnings growth rate has turned negative this year. Despite this, equity markets have performed well, partly in recognition of the tough year-on-year comparators of 2018 and the fact that earnings have come in above consensus forecasts. However, these forecasts have been steadily revised lower throughout the year. Consensus earnings expectations for 2020 currently point to sharp rebound of around +10% for global equities. We believe these forecasts look optimistic against a backdrop of weakening economic data and the impact of ongoing global trade disputes.

The significant shift in monetary policy has so far offset the impact of the concerns over the global economic slowdown. However, equity markets could prove vulnerable in the event that central banks do not maintain the current policy easing stance.

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UBS Triton Property Fund

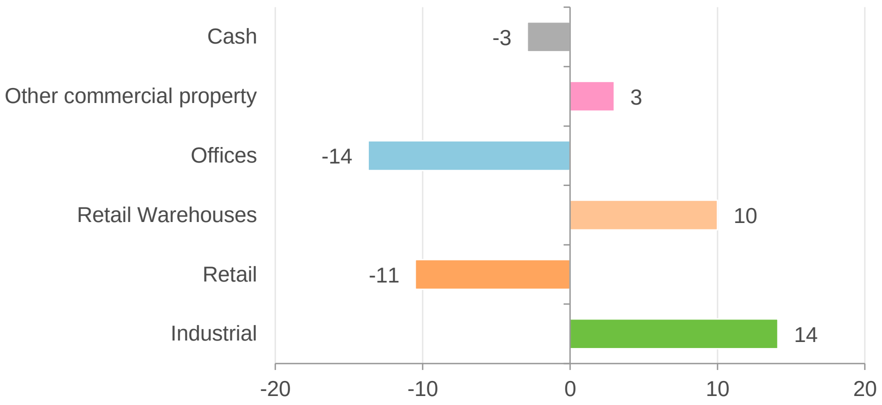
UBS were appointed in February 2005 to manage a UK property mandate within the Triton Property Fund. The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds. The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.

Performance to 30 September 2019

Source: StateStreet (WM)

The UBS property mandate has successfully outperformed the broader peer group of UK property funds over all time periods considered.

Relative sector allocation as at 30 September 2019

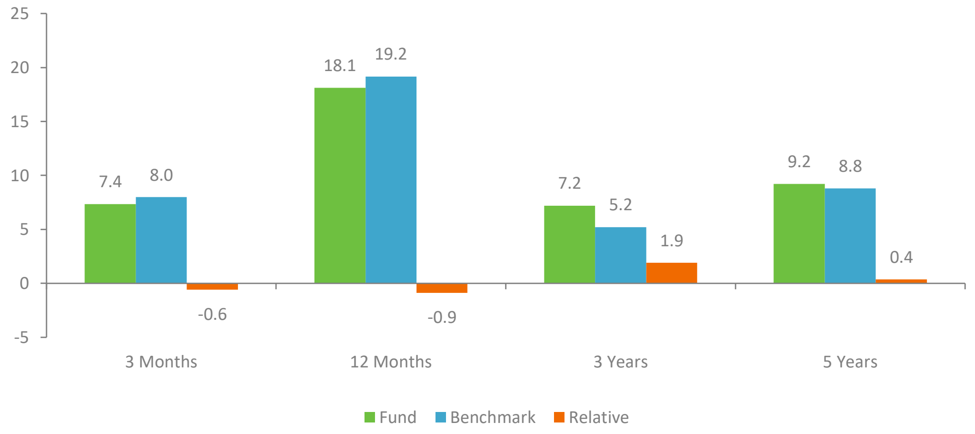


Source: UBS

Royal London Asset Management – Bonds

Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate. RLAM manage the portfolio against a composite benchmark consisting of investment grade corporate bonds, fixed interest and index linked gilts. With effect from 1 November 2015, the return objective was increased to 1.25% p.a. (previously 0.75% p.a.), and the investment universe broadened to allow exposure to high yield bonds.

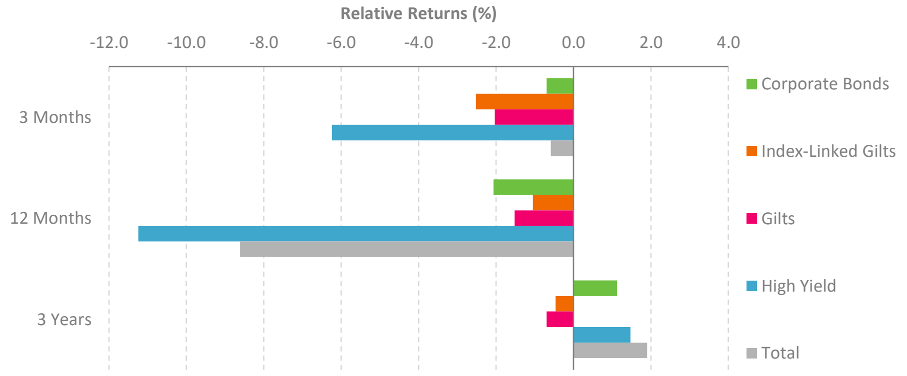
Performance to 30 September 2019



Source: StateStreet (WM)

The RLAM bond mandate has added value relative to the composite bond benchmark all time periods considered, outperforming the performance objective over 3 years.

Relative performance by sector as at 30 September 2019



Source: RLAM

Note:

Relative performance for the portfolio's allocation to High Yield assets has been determined by comparing performance from the Extra Yield fund against the composite benchmark for the overall portfolio.

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Private Markets investments

Since March 2018, the Fund has made commitments to five private markets funds as outlined below. The bulk of monies committed to these funds have not yet been drawn. The table below provides a summary of the commitments and drawdowns to 30 September 2019.

Mandate	Infrastructure		Global Property	Private Debt	
Vehicle	Stafford Infrastructure Secondaries Fund II	JP Morgan Infrastructure Investments Fund	CBRE Global Investment Partners Global Alpha Fund	Churchill Middle Market Senior Loan Fund II	Permira Credit Solutions IV Senior Fund
Commitment Date	25 April 2018	31 July 2018	30 September 2018	December 2018	December 2018
Fund currency	EUR	USD	USD	USD	EUR
Gross commitment	c. £26m (EUR 28.5m)	c. £26.1m (USD 34.0m)	c. £26.1 m (USD 34m)	c. £23.8 m (USD 31m)	c. £35 m
Net capital called during quarter (Payments less returned capital)	c. £2.9m (EUR 3.1m)	-	c. £13.1m (USD 17.0m)	c. £2.2m (USD 2.9m)	N/A
Net capital drawn to date (Payments less returned capital)	EUR 11.0m (c. £10.1m)	c. £26.1m (USD 34.0m)	c. £26.1m (USD 34.0m)	c. £5.3m (USD 6.9m)	N/A
Other distributions to date (Includes income and other gains)	EUR 0.9m** (c. £0.8m)	-	-	-	N/A
NAV at quarter end	EUR 10.5m (c. £9.5m)**	USD 25.7m (c. £20.8m)**	USD 34.3m (c. £26.2m)**	USD 6.9m (c. £5.3m)**	£0.3m**
Net IRR since inception (in fund currency)	7.3% p.a.* *(vs. 8-9% target)*	3.6%	4.0%**	N/A	N/A
Net yield since inception (in fund currency)	4.8% p.a.* *(vs. 5% target)*	6.1%	10.6%**	N/A	N/A
Number of holdings	6 funds, 128 underlying assets*	19 companies, 464 assets*	52 investments, 2,369 properties	N/A	N/A

*Source: Investment managers. *Based on information available as at the end of the previous quarter end. **Figures are as at 30 June 2019.*

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of the Local Government Act 1972.

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