Public Document Pack

Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 17 March 2020	Committee Room 3B - 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 HaveringResidents' Group(1)

Martin Goode (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

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.

YES → Declare Interest and Leave

NO ↓

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** → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

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 → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

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 10 December 2019 and authorise the Chairman to sign them.

5 ADMISSION OF CATERLINK (LIFE EDUCATION TRUST) TO THE LBH PENSION FUND (Pages 5 - 10)

Report attached.

6 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the item 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.

7 PENSION FUND PERFORMANCE MONITORING - QUARTER ENDING DECEMBER 2019 (Pages 11 - 66)

Report and appendices attached.

8 INVESTMENT STRATEGY STATEMENT (Pages 67 - 96)

Report and appendices attached.

9 EXCLUSION OF THE PUBLIC

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

10 FUND MANAGER REVIEW - VOTING AND ENGAGEMENT (Pages 97 - 118)

Report and appendices attached.

Andrew Beesley
Head of Democratic Services

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 2 - Town Hall
10 December 2019 (7.00 - 9.00 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman) and Osman Dervish
Residents' Group	Stephanie Nunn
Labour Group	Keith Darvill
North Havering Residents' Group	Marting Goode
Upminster & Cranham Residents' Group	Ron Ower

All decisions were taken with no votes against.

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

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

Apologies were received for the absence of Councillors Jason Frost

142 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

143 **MINUTES OF THE MEETING**

The minutes of the Pensions Committee held on the 12th November were signed as a correct record by the Chair.

144 **ADMISSION OF ESSEX CARES LTD TO THE LBH PENSION FUND**

The report presented to the Committee requested that Essex Cares Ltd be admitted into the London Borough of Havering Pension Fund on a 'closed agreement'.

Essex Cares Ltd, a Local Authority Trading Company provided by Essex County Council, won the contract to provide re-ablement services to Havering. The agreed contract commenced on the 1st April 2019, is for a minimum of three years and will include an indemnity of £435,000 with Essex County Council acting as the guarantor to protect the pension fund. Members noted that 26 employees were members of the Local Government Pension Scheme (LGPS) on the transfer date and that Essex Cares Ltd will be required to pay a contribution which had been determined by the Fund Actuary; this was initially set at 38.4% of pensionable pay.

The Committee agreed:

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.

145 **ADMISSION OF LEWIS & GRAVES TO THE LBH PENSION FUND**

The report presented to the Committee requested that Lewis & Graves Partnership be admitted into the London Borough of Havering Pension Fund on an 'open agreement'.

Lewis & Graves Partnership secured a contract to provide cleaning services to Hornchurch High School. The agreed contract commenced on the 1st August 2018. The Committee noted that 5 employees were members of the LGPS at the date of transfer of the contract and that Lewis and Graves Partnership will be required to make contributions of 32.8% of pensionable pay as determined by the Fund Actuary with an indemnity of £10,000, with Lewis & Graves Partnership to secure a bond to protect the Pension Fund.

The Committee agreed:

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

146 **FUNDING STRATEGY STATEMENT**

The report put before the Committee outlines the amendments made to the Funding Strategy Statement.

The FSS applies to all employers within the Fund and focuses on a number of aspects; how employer liabilities are measured, the pace at which liabilities are funded and how employers pay for their own liabilities. Members of the Committee noted multiple changes to the draft strategy and it would be in effect from the 1st April 2020. The Committee also noted that there had been no responses from employers regarding the consultation at the time of the meeting.

The Committee:

a) **Agreed** the assumptions used by the Actuary to calculate employer contribution rates (Appendix E within Appendix 1), and

b) **Agreed** the draft Funding Strategy Statement (Appendix 1) (subject to the outcome of consultation with employers).

c) **Agreed** that 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. The Committee were notified that if no changes are required then the draft version as reported will be accepted as the final version.

147 **INVESTMENT BELIEF UPDATE**

The report presented to the Committee gave an update on the development of the Statement of Investment Beliefs.

The Pensions Committee held on the 19th March 2019 agreed a set of Investment beliefs which have been set out in the paper from Hymans. The revised wording would be incorporated into the ISS which will be presented at a later Committee meeting.

The committee:

a) **Considered and agreed** the proposed updated draft wording to the responsible investment policy as set out in **Appendix A** (Appendix 2).

b) **Agreed to directly consider** Environmental, Social and Governance (ESG) and climate risk considerations as part of its forthcoming equity review, and

c) **Agreed** to more direct scrutiny of its equity investment managers on their stewardship and, where appropriate, challenge managers on the action they have taken

148 **EXCLUSION OF THE PUBLIC**

149 **PENSION FUND PERFORMANCE MONITORING**

The report presented to the Committee gave an overview of the performance of Havering's Pension Fund investments, the Fund Manager Monitoring and any relevant LGPS updates for the quarter ending 30th September 2019.

The total combined fund value at the close of business on the 30th September 2019 was £784.99m which had increased by £23.00m since the 30th June 2019. The cash value that is internally managed stood at a value of £17.799m.

The Committee:

a) Noted Hymans Market Background and Outlook Report (Appendix A)

b) Noted Hymans Strategic Overview Report (Appendix B).

c) Noted Hymans Manager Performance Report (Appendix C).

d) Noted Hymans Performance Report and views (Appendix D and E Exempt)

e) Received presentations from the Fund's infrastructure manager Stafford Capital (Appendix F – Exempt)

f) Noted the quarterly reports sent electronically, provided by each investment manager.

g) Noted the analysis of the cash balances

Chairman

Agenda Item 5

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	The Admission of Caterlink Limited to the London Borough of Havering Pension Fund for the provision of services to LIFE Education Trust
SLT Lead:	Jane West
Report Author and contact details:	Caroline Berry 01708 432185 Caroline.berry@havering.gov.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 Caterlink Limited by reason of insolvency, winding up or liquidation. The level of bond set by the actuary is £55,000

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

1. The purpose of this report is to request the London Borough of Havering Pension Fund Committee agree to the proposed closed agreement admission of Caterlink Limited 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 catering staff from London Borough of Havering to Caterlink Limited for the provision of catering services to the Life Education Trust covering Frances Bardsley Academy and Dame Tipping Primary School.

RECOMMENDATIONS

2. That the admission of Caterlink Limited into the London Borough of Havering Pension Fund as an admitted body to enable 6 members of staff who transferred from Havering to continue membership of the Local Government Pension Scheme (LGPS) be agreed, subject to:

   (a) The Council and Caterlink Limited signing up to an Admission Agreement, and
   (b) An Indemnity of £55,000 by way of Caterlink Limited securing a Bond to protect the pension fund

REPORT DETAIL

3. Caterlink Limited succeeded in winning the contract to provide catering services to Life Education Trust, covering Frances Bardsley Academy and Dame Tipping Primary School. The contract is for a minimum of three years and commenced on 01 September 2019.

4. The contracts of employment of affected staff transferred when the catering services transferred from Havering to Caterlink Limited on 1 September 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 the New Fair Deal guidance 2013. 5 employees were members of the LGPS on the transfer date.

5. 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.

6. 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.

7. 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.

8. Caterlink Limited 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.

9. The London Borough of Havering will seek to sign appropriate transferee Admission Agreements to allow Caterlink Limited to be admitted to the London Borough of Havering Pension Fund. When the Admission Agreement is formed Caterlink Limited will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 40.8% of pensionable pay.

IMPLICATIONS AND RISKS

Financial implications and risks:

10. 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. Caterlink Limited's employer contribution rate has been set at 40.8%.

11. 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 Caterlink Limited by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £55,000.

12. There are risks to the letting authority (Life Education Trust) 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.

13. The letting authority (Life Education Trust) 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 Caterlink Limited's employer rates. Any deficit not met by Caterlink Limited at the end of the contract will be met by the letting authority (Life Education Trust).

14. 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

15. The LPP have carried out a risk assessment for Caterlink 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

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

Legal implications and risks

17. 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.

18. 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 (Caterlink 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

19. In the case of the Havering employees transferring to their new catering contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (the Trust) and the employing/admission body (the contractor) allowing the transferring employees to remain members of the Local Government Pension Scheme. The Trust and the contractor have 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.

20. The admittance of Caterlink Limited into the Havering Pension Fund will ensure that the 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.

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

Human Resources implications and risks:

22. The recommendations in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

    Admitted body status will allow the former LB Havering staff (who transferred to the new provider on 1 September 2019) continued membership eligibility of the LGPS. Full consultation took place with the former LB Havering staff affected and the recognised trade unions prior to the transfer in line with TUPE requirements.

Equalities implications and risks:

23. The proposed admission of Caterlink 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 Havering staff who will be compulsorily transferred to Caterlink 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.

BACKGROUND PAPERS

None

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 17 March 2020

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2019**
CLT Lead:	**Jane West**
Report Author and contact details:	***Chrissie Sampson/Debbie Ford Pension Fund Accountant (Finance)/Pension Fund Manager (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 31 Dec 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 31 December 2019. Where relevant, significant events that occur after production of this report will be addressed verbally at the meeting.

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 manager will be invited to join the meeting and make their presentation.

The manager attending the meeting will be from:

J.P. Morgan Asset Management

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

RECOMMENDATIONS

That the Committee:

1) Consider Hymans Market Background and Outlook Report (Appendix A)
2) Consider Hymans Strategic Overview Report (Appendix B).
3) Consider Hymans Manager Performance Report (Appendix C).
4) Consider Hymans Performance Report and views (Appendix D and E Exempt)
5) Receive presentations from the Fund's infrastructure manager J.P. Morgan (Appendix F – Exempt)
6) Consider 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 Fund's 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:

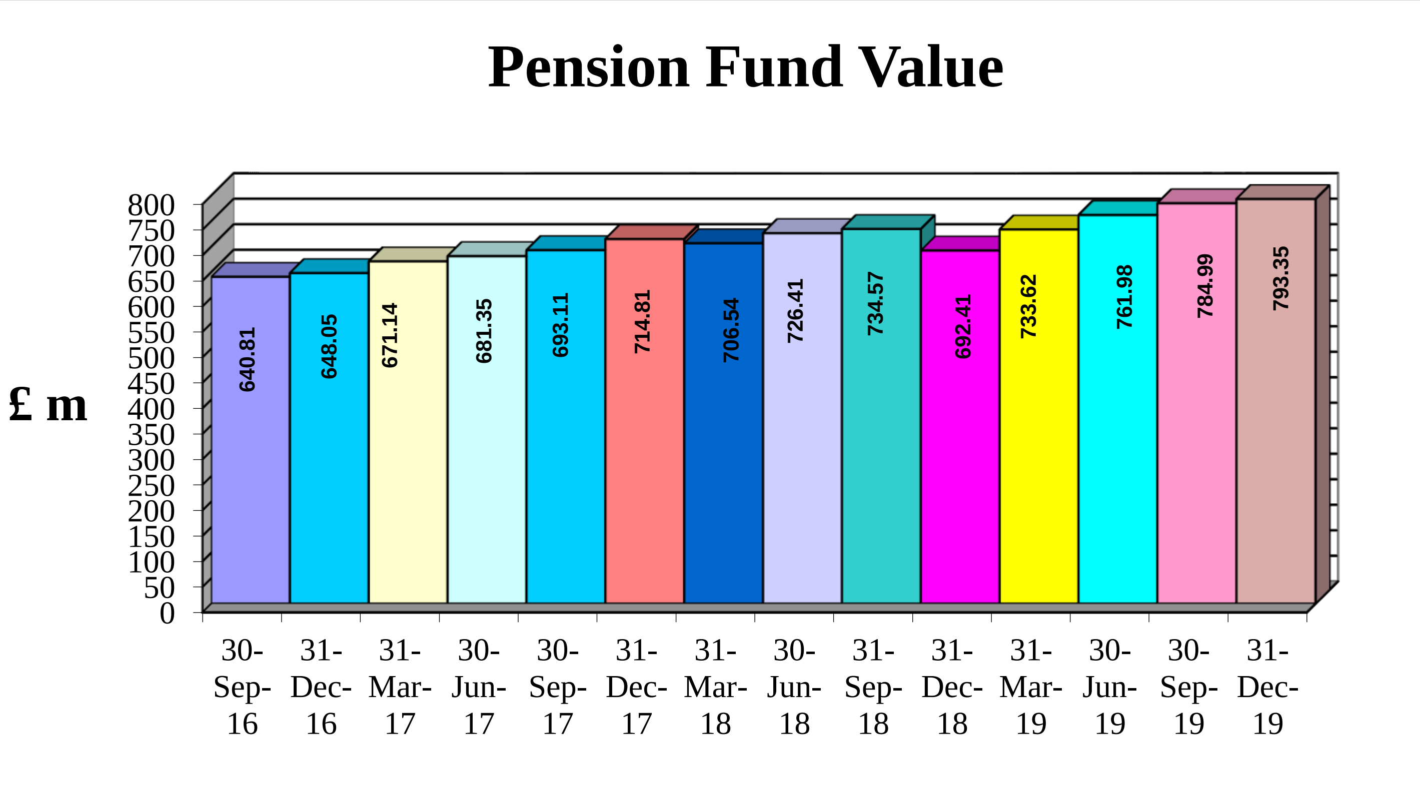
e. **Tactical Benchmark -** Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic 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 31 December 2019 was **£793.35m.** This is the first quarter where performance data has been provided by Northern Trust. This compares with a Fund value of £784.99m at the 30 Sept 2019; an **increase** of **£8.36m**. Movement in the Fund value is attributable to an increase in assets of £1.54m and an increase in cash of £6.82m. Internally managed cash level stands at **£22.067m** 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 31.12.19	12 Months to 31.12.19	3 Years to 31.12.19	5 years to 31.12.19
	%	%	%	%
Fund	0.54	13.99	6.51	7.16
Benchmark	0.40	11.20	5.63	6.40
*Difference in return	0.15	2.79	0.88	0.76

Source: Northern Trust
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), The strategic benchmark return reflects the historic funding approach; the value of the Fund's liabilities was expected to have fallen in Q4 2019 based on this measure, since the value of index-linked gilts fell (real yields rose). Since the strategic benchmark return relates to the expected change in the value of the Fund's liabilities, it is mainly driven by the assumed level of investment return used by the Actuary. It will be necessary to review this measure on the back of completion of the 2019 actuarial valuation, and we propose to address this alongside the strategy 'health check, current position is shown as follows:

Table 2: Annual Performance

	Quarter to 31.12.19	**12 Months to 31.12.19**	**3 Years to 31.12.19**	**5 years to 31.12.19**
	%	**%**	**%**	**%**
Fund	0.54	13.99	6.51	7.16
**Benchmark	-8.02	8.17	4.58	7.78
*Difference in return	8.56	5.81	1.94	-0.62

Source: Northern Trust

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

*** Negative to be addressed as per note 5c above.*

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 **£22.067m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2017/18 31 Mar 18**	**2018/19 31 Mar 19 Revised**	**2019/120 31 Dec 19**
	£000's	£000's	£000's
Balance B/F	**-12,770**	**-17,658**	**-13,698**
Benefits Paid	36,532	37,954	29,375
Management costs	1,221	1,490	831
Net Transfer Values	1,108	1,543	-1,257
Employee/Employer Contributions	-42,851	-44,804	-36,355
Cash from/to Managers/Other Adj.	-785	7,925	-845
Internal Interest	-113	-148	-118
Movement in Year	**-4,888**	**3,960**	**-8,369**
Balance C/F	**-17,658**	**-13,698**	**-22,067**

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).

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 **J.P. Morgan (the Funds Infrastructure Manager)** and their presentation can be found at **Appendix F (exempt)**

8. FUND UPDATES:

8.1 Changes made since previous quarter and forthcoming changes/events

a. The Fund has continued to fund capital draw down requests: £2.2m for Permira, c£6.5m for Churchill and c£3.7m 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. The contract commenced 11 December 2019.

d. Following the Committee decision at its September meeting, Officers have now changed the mandate with Royal London to include an allocation to its Multi Asset Credit (MAC) product. The MAC mandate commenced 21 January 2020. The Royal London Account has now been split with the Corporate Bonds in a separate account which will fund the capital call requests for the Private Debt mandates.

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. 30 January 2020 – Annual Shareholder meeting. Attended by Councillor Crowder. Some of the topics discussed at the meeting are already covered in the updates within the LCIV section. Not included in the updates that follow was the proposal to increase fees from 2020/21 for each borough by £20k from £90k to £110k. The Development Fund Charge (DFC) element of £85k will reduce if assets under management position improves materially in the second half of the year. Based on the 2018 budgets the DFC should have been £65k in 2020/21.

b. 05 February 2020 - ESG Opportunities Workshop – Focused on two potential investment opportunities, a 100% Renewable Fund and the London Fund. The London Fund is a partnership with LPP and LPFA, with a focus on investments in London and on its immediate surrounds, in assets such as residential property – specifically build-to-rent – and affordable housing, community regeneration projects and infrastructure. Attended by Officers.

c. 13 February 2020 – LCIV Q 1 Investment Forum – includes presentation from the LCIV Sustainable Equity Fund manager, followed by an Infrastructure panel discussion to ascertain manager's approach to Infrastructure.

d. 24 February 2020 – Governance workshop - to discuss the findings from the Governance Review and possible next steps. Officers to attend this meeting.

e. 5 March 2020 - Proxy Voting and Engagement Services - one of the recommendations following the RI/ESG Stocktake was to explore the option of procuring Proxy Voting and Engagement Services. Havering, amongst some other boroughs have been invited to receive presentations from service providers to understand what is available and to assess whether it would be of value.

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. Havering has signed both agreements. As some boroughs have yet to sign the agreements the current pension provision will remain until all boroughs have signed (at time of writing this report there are ten boroughs yet to sign).

8.2.3 Responsible Investment & Stewardship

a. Dawn Turner, former CEO of the LPGS pool company Brunel was commissioned by the LCIV to conduct an ESG Stock Take of London CIV and shareholder funds.

b. Upon completion of the stocktake a report was presented to the Board for consideration with 29 recommendations and they have broadly endorsed the way forward proposed. The Executive will be reporting back to the Board with an implementation plan which is expected to include feedback from the Shareholders meeting (held on the 30 January 2020) and Fund investors.

c. Dawn Turner has been asked by the LCIV to assist in the progression of some of those recommendations.

8.2.5 Service level Agreements (SLA)

a. The LCIV has now issued their updated version of the SLA for the Havering Fund. Officers have requested a few minor changes and once corrected can be considered for approval.

8.2.6 Shareholder Agreement amendment

a. LCIV proposed at the July 2019 GM 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 and another which is reconsidering its position?

b. It was proposed at the 30 January 2020 shareholder meeting to agree to progress with proposals to apply for additional regulatory permissions (once all 32 Change of business purpose letters are signed). It has also been confirmed that individual LLAs who opt not to take those additional services (once the business proposals are agreed) **will not be charged** the related costs which was a previous obstacle to those boroughs yet to sign.

c. It's not clear when and if the agreement will ever be signed and without it the LCIV can't change its operating model and this will not be able to deliver its new governance arrangements on investments potentially slowing down fund launches.

8.2.7 Sub Fund Updates

a. LCIV are currently seeking interest in two new funds – 100% Renewable Energy Fund and an Impact Fund (London Fund) in partnership with the LPFA and LPP. Havering will consider the appropriateness of these funds when more detail is available.

8.2.8 Staffing update

a. Appointed Kevin Corrigan as Interim Chief Investment Officer (CIO). Rob Hall appointed as Deputy CIO (post has already been advertised). Interim appointment made to the Investment Risk & Performance Manager and Fixed Income consultant posts. Two new Investment analysts appointed and one Investment Data analyst.

b. The Head of Fixed Income has resigned and the Director of Client Relations is retiring at the end of March 2020.

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.

c. The phase 2 working group reported to the November board meetings and they have accepted the recommendations and agreed to commence to phase 3, which will see the SAB:

- establish10 -15 key indicators
- consolidate and update all related Guidance

- ask the National Framework to begin work on establishing Independent Governance Review provider
- There will be training and a “peer challenge”

d. No changes to legislation is expected

8.3.2 Transparency Code

a. Cost Transparency Initiative (CTI) - Established November 2018, it is a partnership between the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the LGPS Advisory Board. As of 21st May 2019 a new framework of templates and guidance was released by the CTI. New signatories will be expected to complete the new templates.

b. 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.

8.3.3 Scheme Advisory Board (SAB) update

a. **Responsible Investment** - They are preparing guidance for consultation on Responsible Investment, which will be published on the SAB website in the autumn. They are working with MHCLG and special interest groups to agree an appropriate method for measuring the performance of LGPS fund authorities on ESG policy.

b. **McCloud** - Employment Tribunals underway (October to December). It is still not known when and what the remedy will be or how much it will cost and may go beyond the 2020/21 financial year.

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 consider and note the Report and presentations.

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

This page is intentionally left blank

Appendix A: Market Background and Outlook

Market background for the quarter

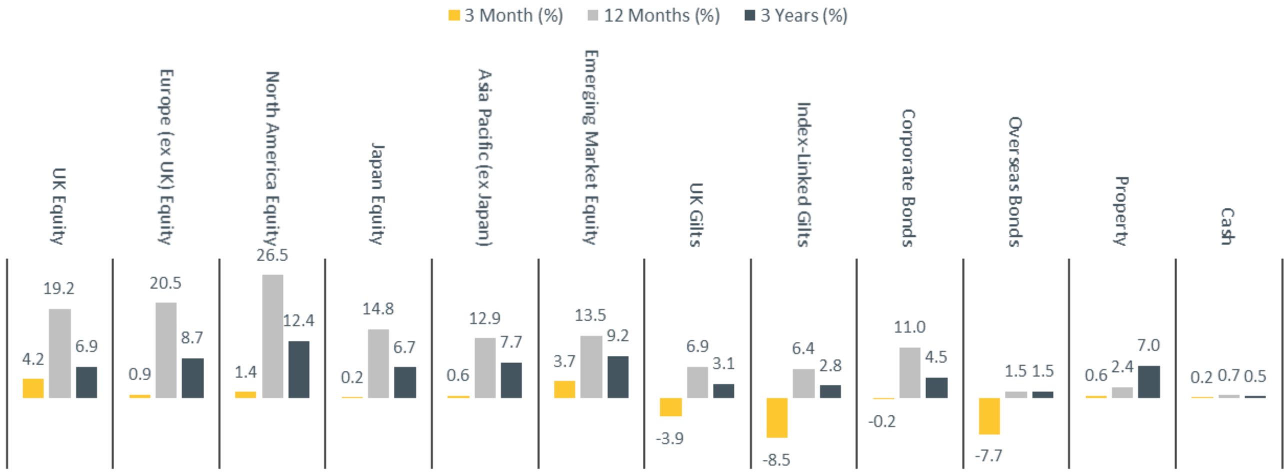
A "phase 1" trade deal, signed on January 15th, between the US and China, prevented a further increase in tariffs in December and reduced the level of some existing tariffs. US GDP growth continued to outperform developed market peers and Q3 expectations but has slowed on last year's robust pace. Eurozone growth also beat Q3 expectations as Germany narrowly avoided recession.

UK GDP growth achieved a modest recovery in Q3, following a contraction in Q2, however growth forecasts have slumped as slower global growth and Brexit uncertainty has weighed heavily on business investment. December's manufacturing Purchasing Managers Indices in the US, Eurozone, Japan and UK remained at a level consistent with a contraction in the manufacturing sector. However, service sector surveys in the US and Europe improved in the fourth quarter, and US jobs gains remained resilient.

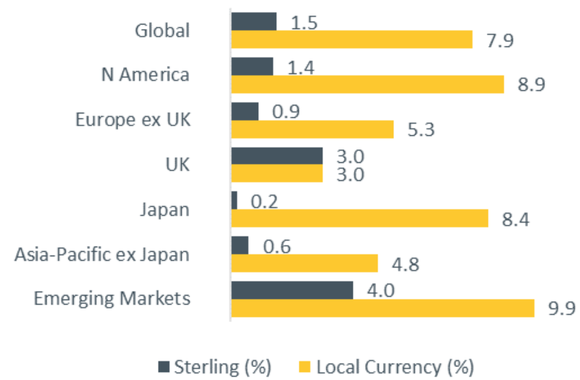
The Federal Reserve cut rates for the third time in three months in October, due to slowing global growth and weak inflation. The ECB cut rates to -0.5% and announced the restart of QE in November.

Sovereign bond yields rose across developed economies on trade progress and some improvements in economic data across various regions. In-line with Sterling strength, near-term UK implied inflation has fallen – UK 10-year spot gilt-implied inflation has fallen 0.21% p.a., as real yields rose more than nominal counterparts.

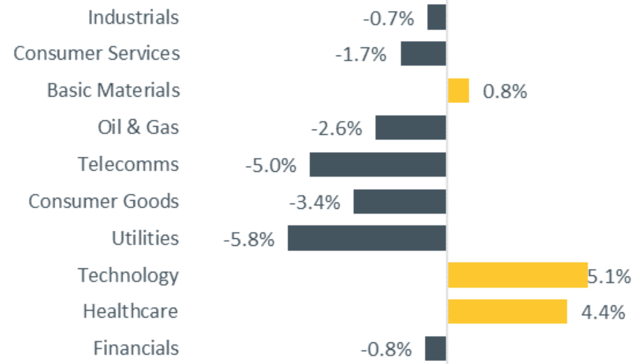
Historic returns for world markets



Regional equity returns [2]



Global equity sector returns (%) [3]



[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.

Page 24

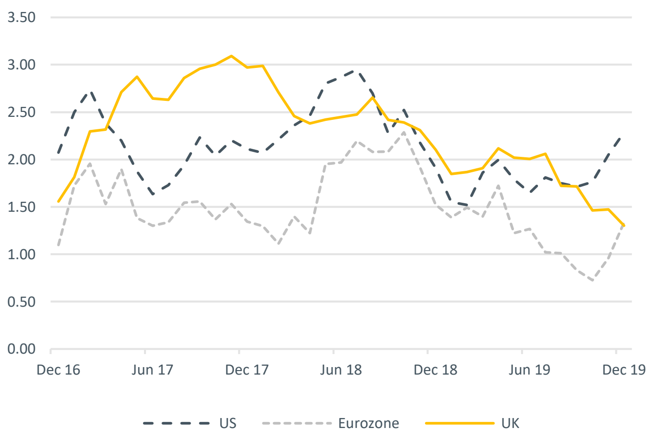
Investment-grade credit spreads tightened while rising underlying government bond yields weighed on returns in fixed rate markets. Speculative-grade markets outperformed investment-grade counterparts and high yield bonds outperformed leveraged loans, though loan spreads retraced some 2019's widening.

Global equity markets rose on the improved outlook and corporate earnings reports, which came in ahead of (albeit downgraded) consensus forecasts. A strong Q4 saw global equities deliver returns of 27% for 2019 in local currency term. Sterling strengthened against major currencies as a lower perceived chance of a no-deal Brexit and the Conservative election victory removed some Brexit uncertainty. The rebound in sterling negatively impacted unhedged overseas equity returns for sterling-based investors.

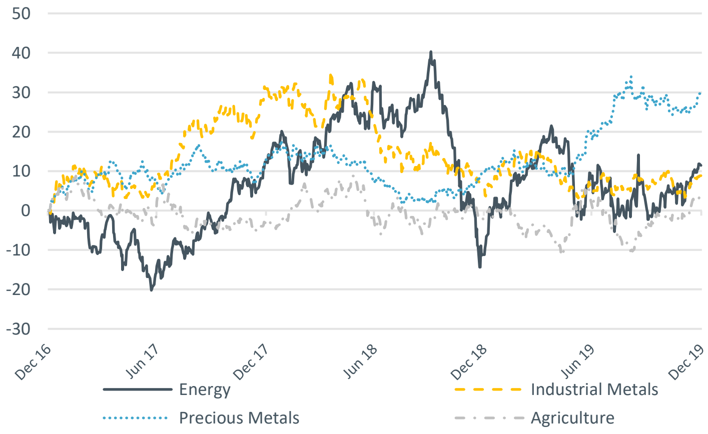
Emerging markets was the best performing region in Q4, given their greater sensitivity to the global trade environment. The UK was the laggard in local currency terms as the sharp rebound in Sterling weighed on the market's larger cap globally-exposed companies.

UK commercial property market returns continued to slow on a rolling annual basis, returning 2.1% in the 12 months to 31 December 2019, reflecting a sharp drop in comparison to recent years.

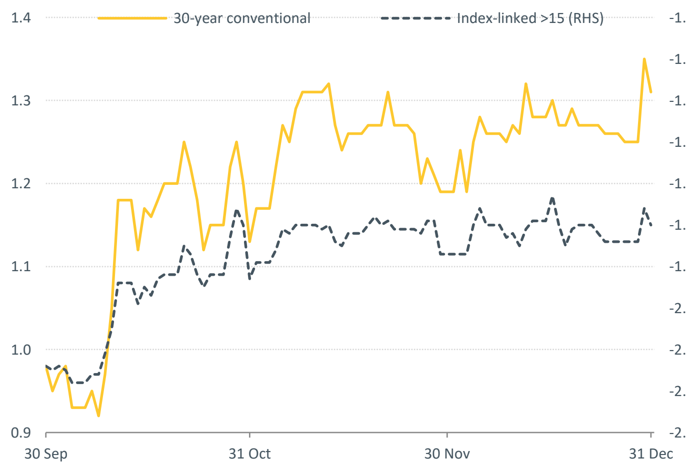
Annual CPI Inflation (% p.a.)



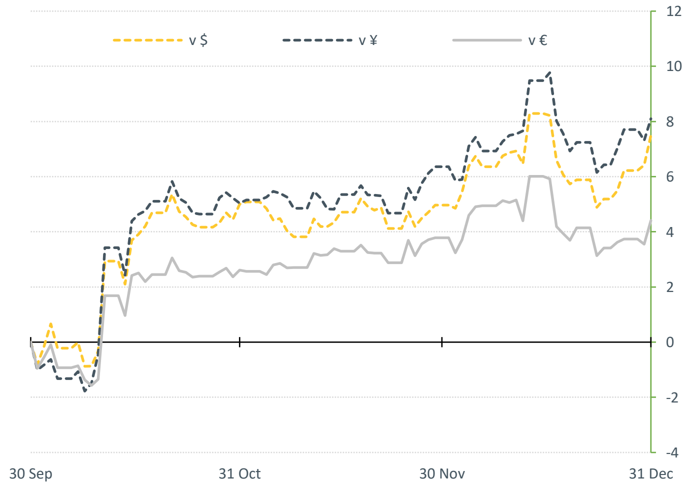
Commodity Prices



Gilt yields chart



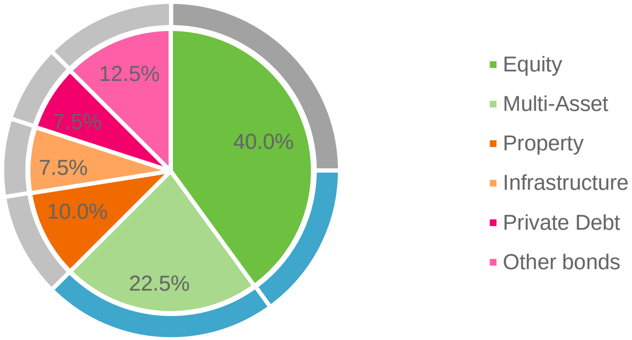
Sterling trend chart (% change)

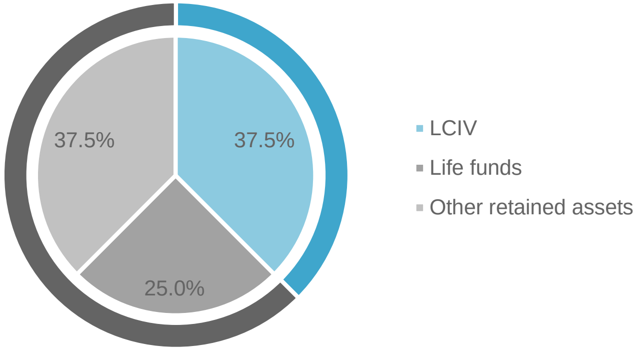


Appendix B: Strategic Overview

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:





Page 25

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 implementation of the Fund's longer term strategy progressed significantly during 2019, with the drawdown into the private debt and Stafford mandates expected to 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 %	Target %	Difference
Equity		**298.9**	**310.3**	**38.8%**	**35.0%**	**3.8%**
LGIM Global Equity	*LCIV aligned*	*60.1*	*61.0*	7.6%	*7.5%*	*0.1%*
LGIM Fundamental Equity	*LCIV aligned*	*57.2*	*57.8*	7.2%	*7.5%*	*-0.3%*
LGIM Emerging Markets	*LCIV aligned*	*31.9*	*34.5*	4.3%	*5.0%*	*-0.7%*
Baillie Gifford Global Equity	*LCIV*	*149.7*	*157.0*	19.6%	*15.0%*	*4.6%*
Multi-Asset		**202.5**	**201.5**	**25.2%**	**27.5%**	**-2.3%**
Ruffer Absolute Return	*LCIV*	*99.0*	*100.0*	12.5%	*15.0%*	*-2.5%*
Baillie Gifford DGF	*LCIV*	*90.6*	*93.1*	11.6%	*12.5%*	*-0.9%*
GMO Global Real Return	*Retained*	*12.9*	*8.4*	1.1%	*0.0%*	*1.1%*
Real-Assets		**108.2**	**105.4**	**14.7%**	**17.5%**	**-2.8%**
UBS Property	*Retained*	*42.1*	*41.8*	5.2%	*6.0%*	*-0.8%*
JP Morgan Infrastructure	*Retained*	*26.6*	*26.0*	4.2%	*4.0%*	*0.2%*
CBRE Global Property	*Retained*	*28.2*	*26.1*	3.3%	*4.0%*	*-0.7%*
Stafford Global Infrastructure	*Retained*	*11.3*	*11.5*	2.0%	*3.5%*	*-1.5%*
Bonds and Cash		**167.2**	**167.1**	**21.2%**	**20.0%**	***1.2%***
RLAM Bonds	*Retained*	*145.9*	*133.3*	16.7%	*12.5%*	*4.2%*
Churchill Private Debt	*Retained*	*3.1*	*7.4*	1.1%	*3.0%*	*-1.9%*
Permira Private Debt	*Retained*	*0.3*	*4.3*	0.7%	*4.5%*	*-3.8%*
Cash	*Retained*	*17.8*	*22.1*	2.8%	*0.0%*	*2.8%*
Total		**776.8**	**784.3**	**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 asset value includes the effect of the currency hedging mandate which was implemented by Russell over the quarter.

The total value of the Fund's assets increased by c. £7.5m over the quarter to c. £784m as at 31 December 2019 as global equities and other major asset classes all delivered positive returns. 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 to be funded from existing cash balances, 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 has been implemented by Royal London in January 2020 through a restructure of the existing bond mandate.

Over the quarter the Fund paid capital calls Permira (£1.4m) and Churchill (£1.4m) and Stafford (£0.5m). Post quarter end, a further capital call was paid to Churchill (£2.2m). These were all funded from existing cash and redemptions of the GMO mandate.

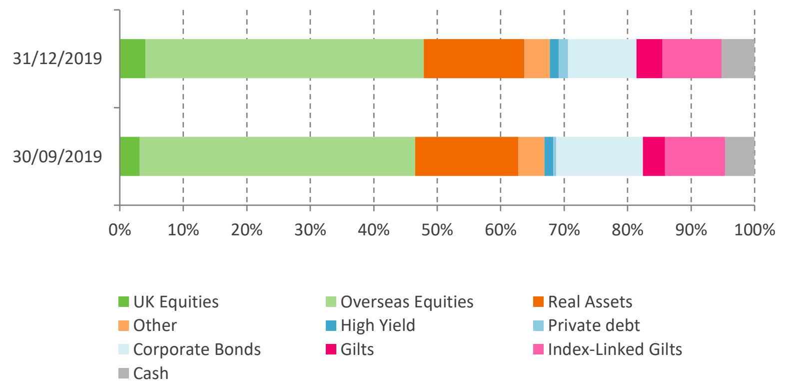
Asset Allocation

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.

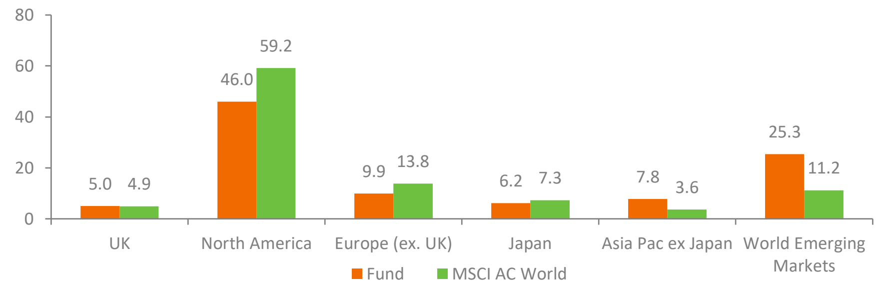
The Fund's allocation to equities increased marginally over the quarter, increasing to c.48% at 31 December 2019 (c. 44% at 30 September 2019). The allocation to real assets remained at c. 16% of Fund assets.

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 31 December 2019

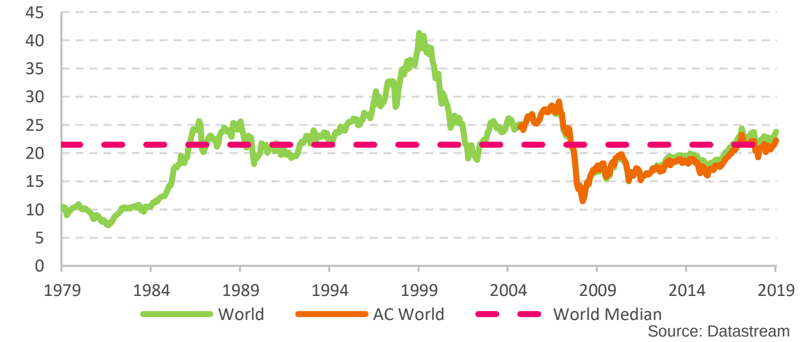


Regional Equity Allocation



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

Long term Shiller PE at 31 December 2019



Despite deteriorating industrial data over the course of 2019, the FTSE All World Index returned 22% in sterling terms. The strong fourth quarter performance was driven by perceived progress in global trade disputes, a third quarter earnings season that was generally better than feared and at least some improvements in macroeconomic data.

At the same time, earnings growth in 2019 was minimal, pushing global equity valuations slightly above longer-term average levels and we have mover our valuation assessment down to 'neutral to unattractive' as a result. We would be sceptical that this price growth can be sustained without a substantial acceleration in earnings growth. Consensus earnings growth expectations for 2020 currently point to a sharp rebound of around +9% for global equities. In our opinion, these forecasts look optimistic unless economic data pick up and the global trade negotiations result in a further easing of trade tensions.

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	1.5	1.5	0.0	22.3	22.2	0.0	10.3	10.3	0.0	12.6	12.6	0.0
LGIM Fundamental Equity	1.2	1.2	0.0	18.2	18.3	-0.1	7.2	7.3	-0.1	-	-	-
LGIM Emerging Markets	4.0	4.0	0.0	12.0	12.0	0.0	n/a	n/a		n/a/	n/a/	
Baillie Gifford Global Equity (CIV)	4.9	1.1	3.8	27.8	22.0	4.8	14.6	10.2	4.0	15.4	12.4	2.7
MULTI-ASSET												
Ruffer Absolute Return (CIV)	1.0	0.2	0.8	8.9	0.8	8.0	1.3	0.8	0.4	3.4	0.8	2.6
Baillie Gifford DGF (CIV)	2.8	1.0	1.8	12.6	4.2	8.1	4.6	4.1	0.5	4.7	4.1	0.6
GMO Global Real Return	5.1	1.3	3.7	9.4	6.4	2.8	3.8	6.1	-2.2	1.8	6.0	-3.9
REAL-ASSETS												
UBS Property	0.0	0.3	-0.3	2.2	1.8	0.4	6.8	6.1	0.6	7.4	6.7	0.6
JP Morgan Global Infrastructure	1.5	1.3	0.2	-	-	-	-	-	-	-	-	-
CBRE Global Property	0.8	1.2	-0.4	-	-	-	-	-	-	-	-	-
Stafford Capital Global Infrastructure	3.9	1.3	2.5	-	-	-	-	-	-	-	-	-
BONDS AND CASH												
RLAM Bonds	-4.2	-5.1	0.9	12.5	11.8	0.6	5.5	4.7	0.7	7.1	6.5	0.5
Permira	1.2	1.2	0.0	-	-	-	-	-	-	-	-	-
Churchill Private Debt	2.4	1.2	1.2	-	-	-	-	-	-	-	-	-
Total	**1.2**	**0.3**	**0.9**	**14.6**	**10.4**	**3.8**	**6.7**	**5.9**	**0.8**	**7.4**	**6.7**	**0.6**

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. The Fund performance figure includes the effect of the currency hedging mandate which was implemented by Russell over the quarter.

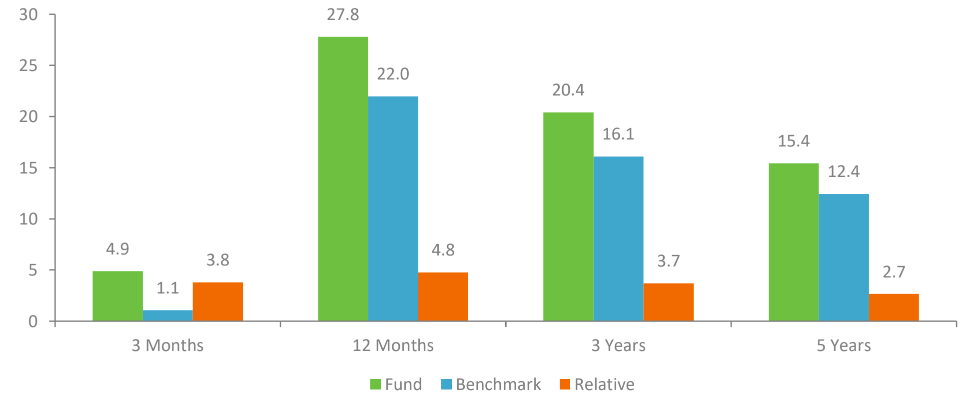
LCIV funds

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.

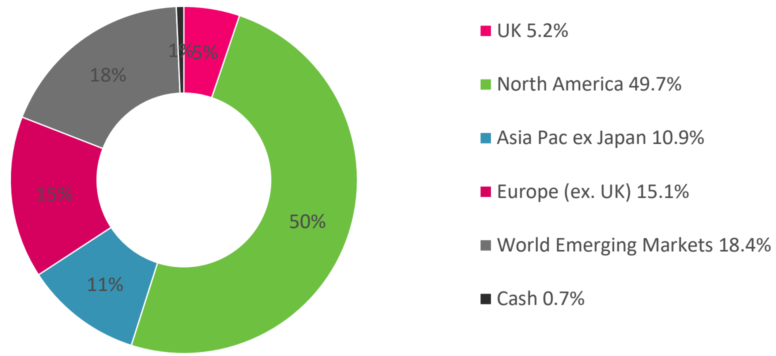
Performance to 31 December 2019



Date of inception 25 April 2012

Source: LCIV

Regional allocation as 31 December 2019



Source: Baillie Gifford

Page 29

LCIV Diversified Growth Fund

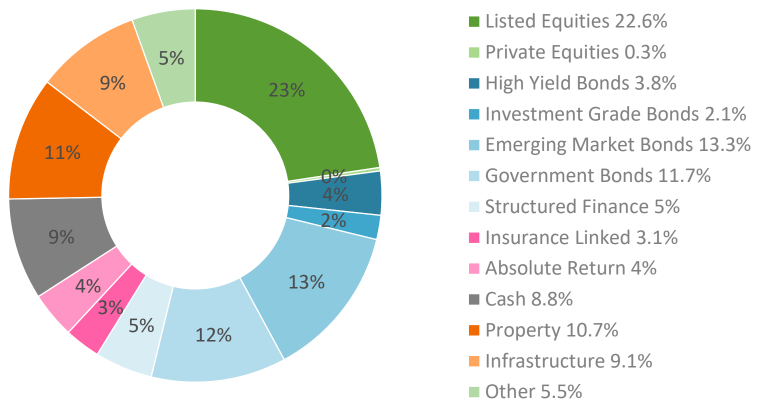
The sub-fund is managed by Baillie Gifford through their Diversified Growth strategy. The sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	2.8	12.6	4.6
Base Rate + 3.5% (net)	1.0	4.2	4.0
Relative (to Target)	1.8	8.1	0.6
Multi Asset Composite	*0.4*	*11.2*	*5.8*
Relative (to composite)	*2.4*	*1.3*	*-1.1*

Source: Baillie Gifford. Inception date: 26/11/2013

Asset Allocation as at 31 December 2019



Page 30

LCIV Absolute Return Fund

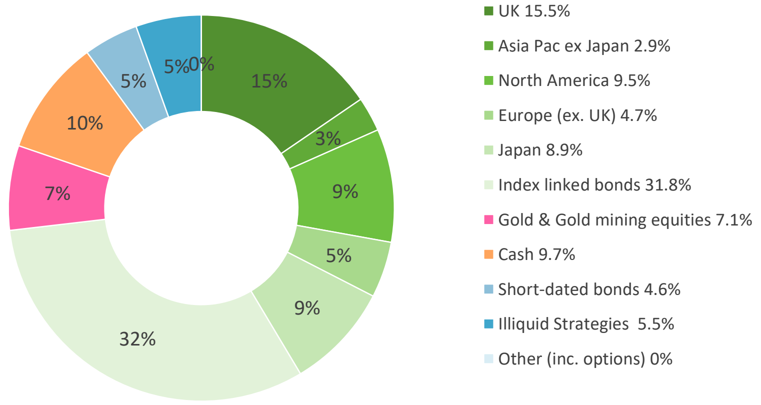
The sub-fund is managed by Ruffer. The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.

Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	1.0	8.9	1.3
GBP 3 Month LIBOR	0.2	0.8	0.8
Relative (to LIBOR)	0.8	8.0	0.4
Multi Asset Composite	*0.4*	*11.2*	*5.8*
Relative (to composite)	*0.6*	*-2.1*	*-4.3*

Source: Ruffer. Inception date: 13/09/2010

Asset Allocation as at 31 December 2019



LGIM Global Equity

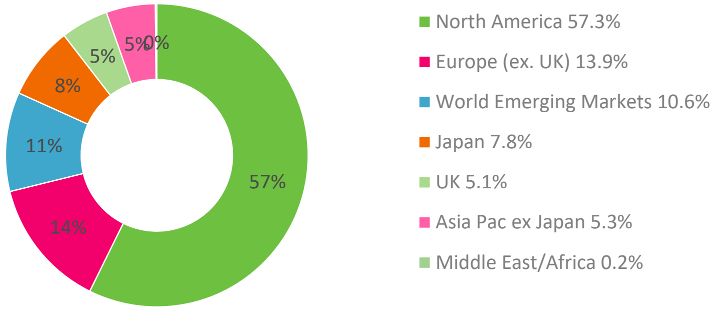
LGIM were appointed from November 2017 to manage the Fund's index tracking global equity portfolio, with the mandate being split equally between investment in a fund tracking a market cap weighted index and a fund tracking a fundamentally weighted index. The mandate was previously managed by SSGA. The 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 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	1.5	22.3	10.3	12.5
Benchmark	1.5	22.2	10.3	12.5
Relative	0.0	0.0	0.0	0.0

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

Regional Allocation as at 31 December 2019



Source: LGIM

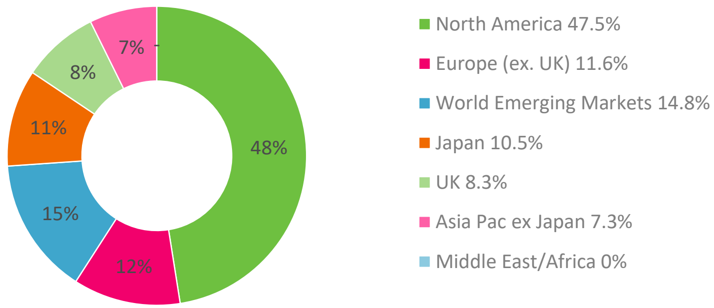
Page 31

FTSE RAFI All World 3000 Equity Index Fund: Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	1.2	18.2	7.2	12.2
Benchmark	1.2	18.3	7.3	12.3
Relative	0.0	-0.1	-0.1	-0.1

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

Regional Allocation as at 31 December 2019



Source: LGIM

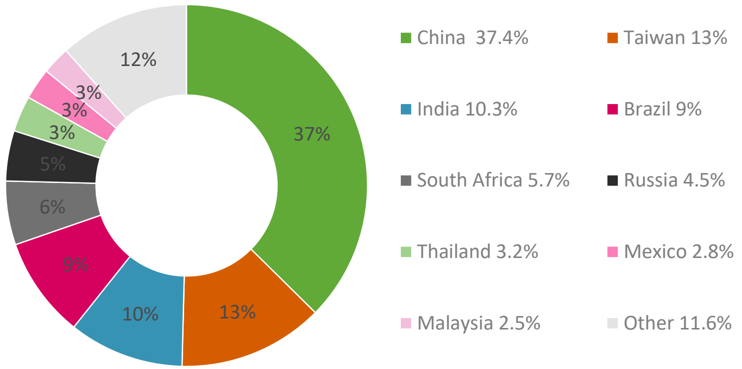
Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.

World Emerging Markets Equity Index Fund: Performance to 31 December 2019

	3 Months (%)	12 Months (%)	Since Inception (%)
Fund	4.0	12.0	7.1
Benchmark	4.0	12.0	7.2
Relative	0.0	0.0	0.0

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

Regional Allocation as at 31 December 2019



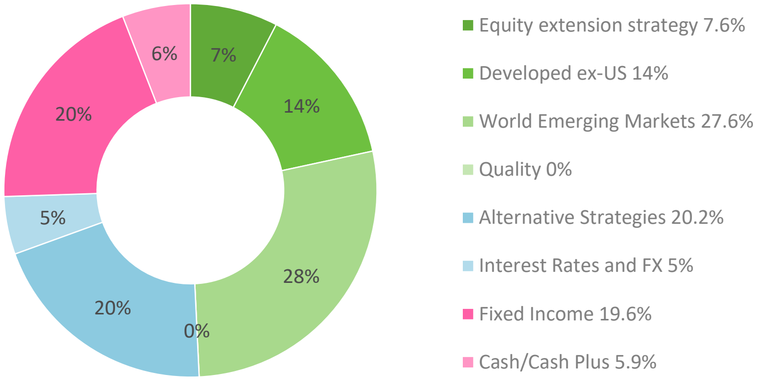
Source: LGIM

Page 32

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 31 December 2019



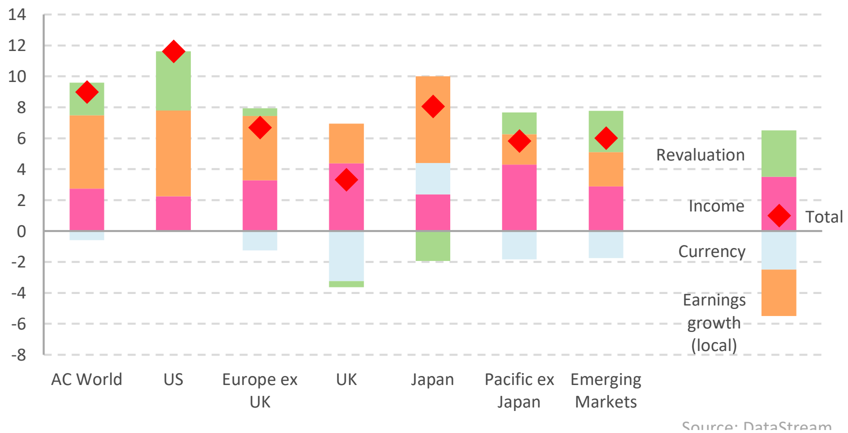
Performance to 31 December 2019

	3 Months (%)	12 Months (%)	Since inception
Fund	5.1	9.4	1.9
OECDG7 CPI	1.3	6.4	6.0
Relative (to benchmark)	3.7	2.8	-3.9
Multi Asset Composite	*0.4*	*11.2*	*7.9*
Relative (to composite)	*4.7*	*-1.6*	*-5.6*

Source: GMO.

Page 33

MSCI Index performance ($ total return 31.12.14 – 31.12.19, % p.a.)



Overall, global equity valuations conceal a wide regional disparity with US equity valuations expensive by historical comparison whilst UK and emerging market equity valuations look more compelling. That said, if the global outlook continues to deteriorate, we expect the more cyclical economies (e.g. Europe ex UK, Japan and EM) to be impacted more than those markets with a more defensive earnings profile, such as the US and UK.

Consensus earnings growth forecasts for 2020 are signalling a strong rebound across all regions, however, the UK is still expected to lag other developed markets.

Amid slowing growth, weak inflation and continued trade concerns, the shift to more accommodative monetary policy is well established. The Fed cut rates for the third time in three months at its October meeting, but noted the "mid-cycle policy adjustment" was likely complete. The ECB cut rates to -0.5% and announced the restart of QE in November.

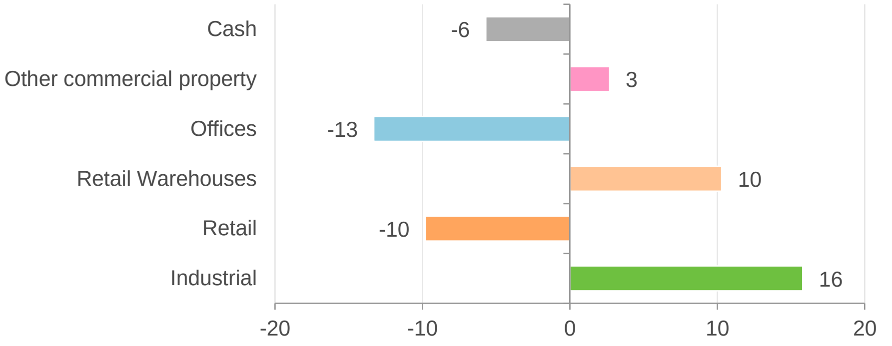
UBS Triton Property Fund

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 31 December 2019

Source: UBS

Relative sector allocation as at 31 December 2019



Source: UBS

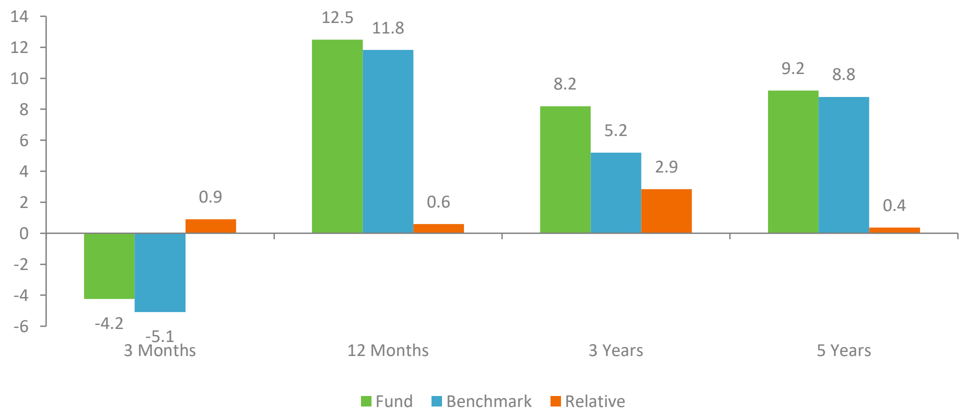
The UBS property mandate has successfully outperformed the broader peer group of UK property funds over all longer periods considered but lagged over 3 months. This was due to the portfolio's overweight allocation to the retail sector versus the benchmark and the continued consumer trend towards online retail.

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.

During January 2020, Royal London have implemented changes to the mandate structure including the introduction of multi-asset credit. This reflects the direction of travel towards the Fund's longer-term strategic asset allocation. We will report on the new structure from our Q1 2020 reporting.

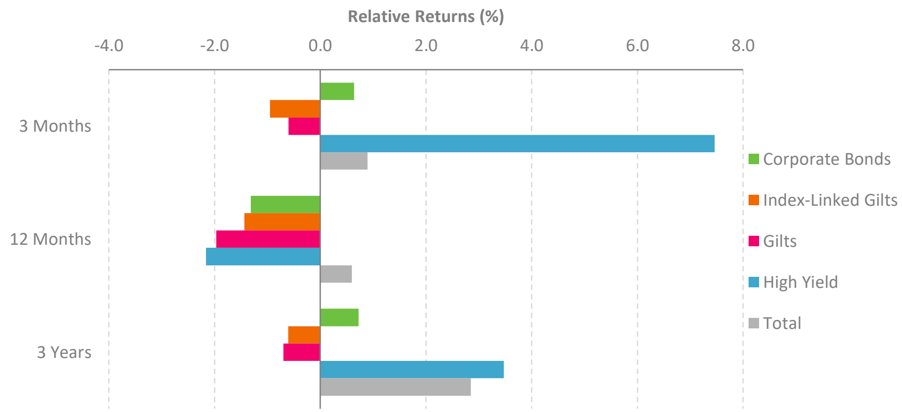
Performance to 31 December 2019



Source: RLAM

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 31 December 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.

Private Markets investments

Since March 2018, the Fund has made commitments to five private markets funds as outlined below.. The table below provides a summary of the commitments and drawdowns to 31 December 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. $0.8m (EUR 1.2m)	-	-	c. £1.4m (USD 1.8m)	c. £1.4m (EUR 2.2m)
Net capital drawn to date (Payments less returned capital)	EUR 11.8m (c. £12.3m)	c. £26.1m (USD 34.0m)	c. £26.1m (USD 34.0m)	c. £6.7m (USD 8.7m)	c. £1.4m (EUR 2.2m)
Other distributions to date (Includes income and other gains)	EUR 0.9m** (c. £0.8m)	-	-	-	N/A
NAV at quarter end	EUR 13.5m (c. £11.5m)**	USD 33.4m (c. £26.0m)**	USD 34.3m (c. £26.2m)**	USD 9.8m (c. £7.5m)**	£1.7m**
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 September 2019.*

arising from its use.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 17 MARCH 2020

Subject Heading:	**REVIEW OF THE INVESTMENT STRATEGY STATEMENT**
SLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager (Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review this statement
Financial summary:	No direct financial implications

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

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

SUMMARY

In line with the Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 requires an administrating authority, after taking proper advice to formulate an investment strategy statement (ISS) which must be in accordance with guidance issued by the Secretary of State.

The authority must review and if necessary revise its investment strategy from time to time and at least every 3 years, and publish a statement of any revisions.

The Statement has been reviewed and updated to reflect the progression of the investment strategy.

RECOMMENDATIONS

That the committee:

1. Consider this report and any consultation responses and, subject to these, decide whether to agree the proposed amendments to the ISS (**Appendix A**).

2. Agree the proposed changes to the maximum range allocations for the mutli-asset down to 40% (from 50%) and the Infrastructure range up to 15% (from 10%).

3. Note the reporting of compliance against the Myner's investment principles, as set out in **Appendix B.**

REPORT DETAIL

1. Background

1.1 The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 came into force in November 2016 and guidance was issued by the Department for Communities and Local Government (DCLG) in September 2016.

1.2 In line with the regulations and guidance, as above, the administrating authority, after taking proper advice must publish an investment strategy statement (ISS) no later than 1st April 2017. The first such statement was produced in March 2017 to meet this deadline.

1.3 In line with the LGPS (Management and Investment of Funds) Regulations 2016 Regulation 7 (7) the authority must also review and if necessary revise its investment strategy from time to time and at least every 3 years, and publish a statement of any revisions.

1.4 The ISS has been reviewed and updated to reflect the decisions and progression of the implementation of the strategy and is attached as **Appendix A.**

1.5 Whilst the reporting of compliance against the Myner's investment principles is no longer a statutory requirement, the Pensions Committee previously agreed that it met best practice to continue to report compliance and this is therefore set out in **Appendix B** as attached.

2 Investment Strategy Statement

2.1 The ISS **(Appendix A**) has been revised and the main changes within the ISS are highlighted as follows:

- An additional Appendix 1 has been included for the previously agreed Investment Beliefs
- Appendix 2 (previously Appendix 1) has been updated to show the current mandate allocations etc.
- The benchmark allocations in Table 1 have been updated to reflect the current position and previous changes.
- Hymans propose adjusting the maximum allocation for multi-asset down to 40% (from 50%) to reflect the expectation that the benchmark allocation will continue to reduce. Hymans also propose increasing the maximum allocation to infrastructure to 15% (from 10%) to give scope for this to be increased in future. Changes made to the benchmark allocation reflect previous committee decisions made to the benchmark allocations during implementation of its 2017 strategy.
- Added reference to the agreed policy on currency hedging (4.8)
- Updated some of the references to risk around Environmental, social and Governance (ESG) etc which pick up the language in the new policy wording on ESG issues
- Added in the agreed new policy wording on ESG (sections 6-8) – previously agreed by the Pensions Committee at its meeting on the 10 December 2019.
- Other changes are either superficial language adjustments or to bring numbers/allocations up-to-date.

2.2 In line with LGPS (Management and Investment of Funds) Regulations 2016 Section 7 (5) the authority must consult such persons as it considers appropriate as to the proposed content of its investment strategy. The ISS including revisions was distributed to all participating stakeholders in the Fund and the local pension board on the **19 February 2020** for comments. Closing date for any comments is the **16 March 2020.**

2.3 Any comments received from the consultees will be reported to members on the night of the meeting for consideration and following the committee's consideration of the consultees' comments the ISS will be updated where required and published.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no implications arising directly, however undertaking a review of the Investment Strategy on a regular basis will identify whether the investment objectives are being met and that they remain realistic. One of the Investment Strategy aims is to achieve a funding level of 100% over a 20 year horizon whilst ensuring that investment objectives are being met and minimise any costs to the general fund.

The risks vs level of return of any change to the asset allocation can be found within Hymans report attached in Appendix A.

Legal implications and risks:

It is a principle of administrative law that when the Authority has a duty to consult it must conscientiously take into consideration the representations of consultees before making its decision. Accordingly any comments provided under para 2.3 above should be considered conscientiously.

Otherwise there are no apparent legal implications and the applicable law is set out in the main body of the Report.

Human Resources implications and risks:

None arise 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

None

This page is intentionally left blank

Investment Strategy Statement

1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the London Borough of Havering Pension Fund ("the Fund"), which is administered by Havering Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

1.2 The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG). The Committee acts on the delegated authority of the Administering Authority.

1.3 In order to guide the ongoing development of its investment strategy, the Committee has considered and agreed a series of investment beliefs. These beliefs are set out in Appendix 1.

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

1.5 The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated December 2019).

1.6 The ISS was approved by the Committee on 17 March 2020.

2. The suitability of particular investments and types of investments

2.1 The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

2.2 The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.3 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

2.4 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.5 It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

2.6 Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. For direct investments, an Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions. For pooled vehicles, appropriate governing documentation is in place for each pooled fund.

2.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile;
- The level of expected risk;
- Outlook for asset returns.

2.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.

2.9 In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

2.10 If rebalancing is triggered, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.

2.11 In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweight assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

3 Investment of money in a wide variety of investments

Asset classes

3.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

3.2 The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

3.3 The Fund's target investment strategy is set out in Table 1 below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Strategic benchmark allocation

Asset class	Benchmark Proportion %	Maximum %
Global Equity	35.0	45.0
Multi Asset	27.5	40.0
Property	10.0	15.0
Infrastructure	7.5	15.0
Bonds & Cash	20.0	25.0
Total	100.0	

3.4 At 31 December 2019, the expected return of this portfolio over a 20-year time horizon was 5.0%p.a. with an expected volatility of 12.9%p.a. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

3.5 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

3.6 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in Appendix 2 to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

4 Risk management

4.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

4.2 The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

4.3 Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Committee monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid -cycle to the triennial valuation. The following key risks have been identified:

- **Financial mismatch**: The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

- **Changing demographics**: This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

- **Systemic risk**: The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

4.4 The Committee measures and manages financial mismatch in two ways:

- As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

- The Committee also assesses risk relative to liabilities by monitoring the delivery of returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus 1.8% per annum, which is consistent with the discount rate used by the Actuary to value the Fund's liabilities.

4.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to the Committee's own views and the level of risks associated with these assumptions to be assessed.

4.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but recognises that it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

4.7 The Committee recognises that the Fund's investments are exposed to a range of asset specific risks which include:

- **Concentration risk**: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.

- **Liquidity risk**: Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

- **Currency risk**: The strategic asset allocation adopted by the Committee provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance.

- **Environmental, social and governance ("ESG") risks**: The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- **Manager risk**: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

- **Climate risk**: The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

4.8 The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, the Committee has recognised the need for access to liquidity in the short term.

4.9 The Committee has chosen to manage currency risk as follows:

- Within equity mandates, the Committee has chosen to retain currency risk unhedged;

- Within multi-asset mandates, the managers employed have discretion to make use of currency exposure as a source of potential return although are mandated to deliver returns relative to a sterling objective. The Committee is therefore satisfied that currency risk is managed within these mandates but monitors currency exposures;

- Within real asset and private debt mandates, where overseas currency exposure arises, the Committee has chosen to hedge 100% of such currency exposure (subject to de minimis limits) given the expectation that income is a primary driver of return.

4.10 The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The Committee assesses the investment managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

4.11 Details of the Fund's approach to managing ESG and climate risks are set out later in this document.

Other provider risks

4.12 The Committee recognises that investment risk arises in the operational management of the Fund and have identified the following major risks:

- **Transition risk**: The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- **Custody risk**: The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default**: This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.

- **Stock-lending risk**: The possibility of default and loss of economic rights to Fund assets.

4.13 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

4.14 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

5 The approach to pooling

5.1 The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA as an alternative I investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme Fund. The structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

5.2 The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions is as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

5.3 At the time of preparing this statement, 62.5% of the Fund's assets were invested through the Pool or through passive vehicles facilitated by the Pool as set out in Table 2 below:

Table 2: Pool allocations

Asset **class**	Invested through pool **%**	Retained outside pool **%**
Global Equity	35.0	-
Multi Asset	27.5	-
Property	-	10.0
Infrastructure	-	7.5
Bonds & Cash	-	20.0
Total	**62.5**	**37.5**

5.4 The Fund has committed 7.5% of its assets to private debt mandates that were procured on a collaborative basis in conjunction with other London LGPS funds.

5.5 The Fund holds 17.5% of the Fund in property and infrastructure assets and these will remain outside of the London CIV pool as the cost of exiting these strategies would have a negative financial impact on the Fund. These will be held until such time as a cost-effective means of transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.

5.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

6 Approach to responsible investment including climate change considerations

6.1 It is recognised that a range of factors, including 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.

6.2 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.

6.3 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. 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.

6.4 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.

6.5 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.

6.6 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.

6.7 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.

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

7 Consideration of non-financial factors and social investments

7.1 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.

7.2 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.

7.3 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.

8 Stewardship of assets

8.1 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.

8.2 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.

8.3 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 monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

8.4 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.

8.5 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.

8.6 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.

8.7 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.

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: Manager benchmark allocations

Mandate	Manager	Allocation	Benchmark/Target
Equity			
Global equities	LGIM	7.5%	FTSE All World Index
Fundamental Equity	LGIM	7.5%	FTSE RAFI All World 3000 Index
Emerging Market Equity	LGIM	5.0%	FTSE Emerging Markets Index
Global equities	LCIV	15.0%	MSCI ACWI + 2% p.a.
Multi Asset			
Absolute Return	LCIV	15.0%	Preserve and grow capital (LIBOR +4% p.a.)
Diversified Growth	LCIV	12.5%	Bank Base Rate +3.5% (net)
Property			
UK property	UBS GAM	6.0%	MSCI All Balanced Funds WA Index
Global property	CBRE GIP	4.0%	UK CPI + 5% p.a. (net of fees)
Infrastructure			
Infrastructure	Stafford Capital	3.5%	UK CPI + 5% p.a. (net of fees)
Infrastructure	JP Morgan	4.0%	UK CPI + 5% p.a. (net of fees)
Bonds			
Index Linked Gilts	Royal London AM	5.0%	Over 5 year index linked gilts index
Multi Asset Credit	Royal London AM	7.5%	LIBOR +4% p.a.
Private Debt	Churchill	3.0%	LIBOR +4% p.a.
Private Debt	Permira	4.5%	LIBOR +4% p.a.

Note that the table includes ongoing mandates only.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

APPENDIX B

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
1. Effective decision-making **Administrating authorities should ensure that :**		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and **(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the day to day running of the administering authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles (superceded by the Investment Strategy Statement (ISS).	The delegation process for the day to day running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website:www.havering.gov.uk, follow links council and democracy and council, select constitution, select view our constitution or select the link below. havering.gov.uk our constitution
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are no longer required to be specified in the ISS
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking Business Plan for the fund. Forward looking Business Plan is presented at the Pensions Committee meeting annually and reported in the Pension Fund Annual Report. Members agreed to completing the CIPFA's Knowledge and Skills self assessment of training needs. The training plan incorporates the outcomes of the self assessments. Following the establishment of a Local Pension Board (LPB) a joint training strategy was developed that incorporates training of Pension Committee members with LPB members, where appropriate.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the Pension Fund. The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment advisor and Actuarial advisor. The Pension Fund Manager (Finance) provides in house support to members. The Pension Committee is also supported by the Statutory Section 151 and the Council's Pension administration and payroll services. Internal and external resources are considered as part of the Business Plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 -'Members Allowance Scheme')
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the Business Plan.
	15) The CFO should ensure that a medium term Business Plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The Business Plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The Business Plan also incorporates the training plan.
	16) Business Plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The Business Plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship .	The Pension Fund prepares, publishes and maintains a Governance compliance statement which shows the extent to which the administrating authority complies with the principles and is reviewed annually.
Page 85	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: www.havering.gov.uk (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pensions page below. Pension Fund page
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently has not opted to establish an administration strategy, consideration of adopting this strategy is reviewed regularly.
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Councils website, www.havering.gov.uk, council and democracy, council data and spending, then Pension Fund or by selecting the link below. Pension Fund page
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment strategy currently includes a mix of different asset classes which are managed actively and passively.
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. At the 12 November 2019 pensions committee meeting it formally adopted the format as set out in the Pensions Regulator *"trustee guide to:setting objectives for investment consultancy services" to comply with CMA "order" 2019*
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment advisors a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the Fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's ISS
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts. Havering Pension Fund is working towards encouraging **ALL** of its managers to adopt the voluntary adherence to the Transaparency Code
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought. Costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of State Street Global Services (SSGS) (up to 30 Septemebr 2019) and Northern Trust from 1 October 2019 for independent monitoring of performance against benchmarks. Peer group benchmark performance provided by Pensions & Investment Research Consultants (PIRC)is used for comparison purposes only.
3. Risk and liabilities		**SUMMARY: FULLY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2016. The Fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the ISS and FSS. It is anticipated that small adjustments may be made to the ISS once the 2019 valuation results are finalised
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	2019 valuation results are finalised.
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's ISS.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the **CFO** should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The Fund receives a risk assessment as part of the Valuation process with full consultation of the Fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken as required by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Investment Manager Audited Internal Control reports are received and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles (now ISS) should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's ISS includes a description of the risk assessment framework.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. The Risk Register is designed to be a living document and is included as a standing item on the Fund's Local Pension Board Agenda. It is reported periodically to the Pensions Committee.
4. Performance assessment **a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors** **b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision- making body and report on this to scheme members**	**Investments**	**SUMMARY: FULLY COMPLIANT**
	The committee should:	
	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. In line with the reporting cycle, the Committee will see one fund manager at each meeting unless there are performance concerns for individual mangers. Where appropriate Fund managers will report tracking errors.
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment advisor monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee - return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of SSGS Performance Services (up to 30 Sept 19) and Northern Trust from 1 October 2019 who independently report against the overall fund and individual manager returns on a quarterly basis. performance returns are monitored against fund manager returns and discrepancies are investigated. The Fund also uses the Services of PIRC to provide LGPS universe comparisons.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, SSGS Performance Services/ Northern Trust measure fund manager returns against their set benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the performance report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	PIRC performance returns against peer group benchmarks are used for comparison purposes only.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	Advisors	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee. Objectives for the Investment consultant have now been formulated to be in line with the Competition and Markets Authority (CMA) Order 2019.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	Decision-making bodies 16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its Business Plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report
5. Responsible ownership **Administrating authorities should:** **a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code** **b) include a statement of their policy on responsible ownership in the statement of investment principles (now ISS)** **c) report periodically to scheme members on the discharge of such responsibilities.**		**SUMMARY: PARTIALLY COMPLIANT**
	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles (now ISS) which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the ISS, a copy of which is also included in the Pension Fund Annual Report.
	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that the funds investment managers to integrate all material financial factors into the decision making process for fund investments.
	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	On the 19 March 2019 the Pensions Committee established and published a Statement of investment Beliefs which reflects the broad views of committee members in regard to ESG .Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. The Fund are members of LAPFF
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The ISS is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	Whilst the Fund is not signatories to the Stewardship Code , the Committee fully endorses the principles laid down in the UK Stewardship Code
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment mangers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds UK asset managers and service providers have adopted the code. The 2012 signatories to the code will be valid until the first signatory list is published in March 2021 under the new code launched in January 2020.
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code. One of these managers is in the advanced stage of completing the documentation and the other manager is actively considering joining in 2016. WAIT FOR HYMANS REORT BEFORE DF WRITES TO FM
6. Transparency and reporting **Administrating authorities should:** **a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives** **b) provide regular communication to scheme members in the form they consider most appropriate.**	The committee should:	**SUMMARY: FULLY COMPLIANT**
	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non- compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on a regular basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

APPENDIX B

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, council committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pensions page on the councils website. Pension Fund page
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG 2019 edition.
	6) The Funding Strategy (FSS) , the Statement of Investment Principles (SIP) (now ISS) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the ISS and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for council and democracy, or select the link below. This page also includes the Pension Fund's Communication Strategy. Where applicable reference to all these documents is made in other publications. Pension Fund page
	With regard to the FSS and SIP (now ISS), they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.

INVESTMENT STRATEGY STATEMENT - COMPLIANCE AGAINGST MYNER'S PRINCIPLES

- To be read in conjunction with the Investment Strategy Statement dated December 2019

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with DCLG guidance (now MHCLG).
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 17 March 2020

Subject Heading:	**RESPONSIBLE INVESTMENT: MANAGER REVIEW**
SLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Responsible investment issues as set out in the Investment Strategy Statement
Financial summary:	No financial implications

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

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

SUMMARY

The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement. The review focused on the period for the year to **30 June 2019**.

RECOMMENDATIONS

That the committee:

1. Note Hymans summary review of fund manager voting and engagement activity attached as Appendix A and Appendix B (Exempt).

2. Consider and agree the potential next steps in respect of future developments of the monitoring and review process as outlined in Hymans report (Appendix B - exempt).

REPORT DETAIL

1. Background

1. The engagement and voting activity is largely delegated to the Fund's investment managers with the Fund reviewing their approach on an annual basis. Hymans carried out a review of the activity undertaken by the managers. The review focused on the period for the year to **30 June 2019**.

2. The attached report from the Fund's Investment Advisor (Hymans), summarises the Fund's investment managers' responsible investment activities in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement (ISS).

3. The report has been split into two sections:
   - **Appendix A -** includes factual data from the managers. Carbon Risk exposure is included within in this appendix along with manager's compliance with industry governance standards and summaries of voting and engagement activities.
   - **Appendix B (Exempt)** – includes qualitative comments and Hymans recommendations on potential next steps for the fund.

4. The Committee is reminded that they agreed to update the Investment Strategy Statement to incorporate the members 'Statement on Investment Beliefs' as agreed at the 10 December 2019 meeting and that the committee, amongst other beliefs, adopted the belief that effective

stewardship can be achieved through voting and engagement to influence corporate behaviours. They also agreed to an increased direct scrutiny of its equity investment managers on their stewardship and, where appropriate, challenge managers on the action they have taken. Officers will explore with Hymans the establishment of a responsible investment monitoring mechanism in accordance with the summary of their report as the next steps shown in Appendix B (exempt).

5. London CIV's current Responsible Investment policy is under review. LCIV issued a questionnaire to Funds seeking their input on this process towards the end of 2019. An update is anticipated in early 2020. Hymans will consider implications of LCIV's updated policy on the Fund once this has been finalised.

IMPLICATIONS AND RISKS

6.

Financial implications and risks:

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

Add Risk Register FSS

Legal implications and risks:

In a case decided on appeal in June 2018, R. (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Communities and Local Government, the Court of Appeal considered the guidance issued by the Secretary of State on investment strategy for local government pension schemes. The Court of Appeal held that it was lawful for the secretary of state to provide, in the statutory guidance governing the investment strategy for the local government pension scheme, that administering authorities should not use pension policies to pursue boycotts, divestment and sanctions against foreign nations.. The particular issue related to the boycott of Israeli investments as a protest against the occupation of the West Bank and Gaza Strip. However, this may have wider implications. At present the decision is subject to appeal to the Supreme Court.

As the law currently stands Local Authorities are able to take into account non-financial considerations in respect of its investment strategy, subject to the general administrative principles of fairness and reasonableness, and subject to any Guidance issued by the Secretary of State.

In terms of the statutory Guidance in addition to the issue which was the subject of the case above, the Guidance states:

“Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.”

Otherwise there are no apparent legal implications in noting the content of the Report and considering the recommendations for the potential next steps set out in Appendix B.

Human Resources implications and risks:

None arise 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

None arise from this report as this report is required to be published in order to comply with Local Government Pension Scheme Regulations 2013.

BACKGROUND PAPERS

None

This page is intentionally left blank

Appendix 1: Carbon risk exposure

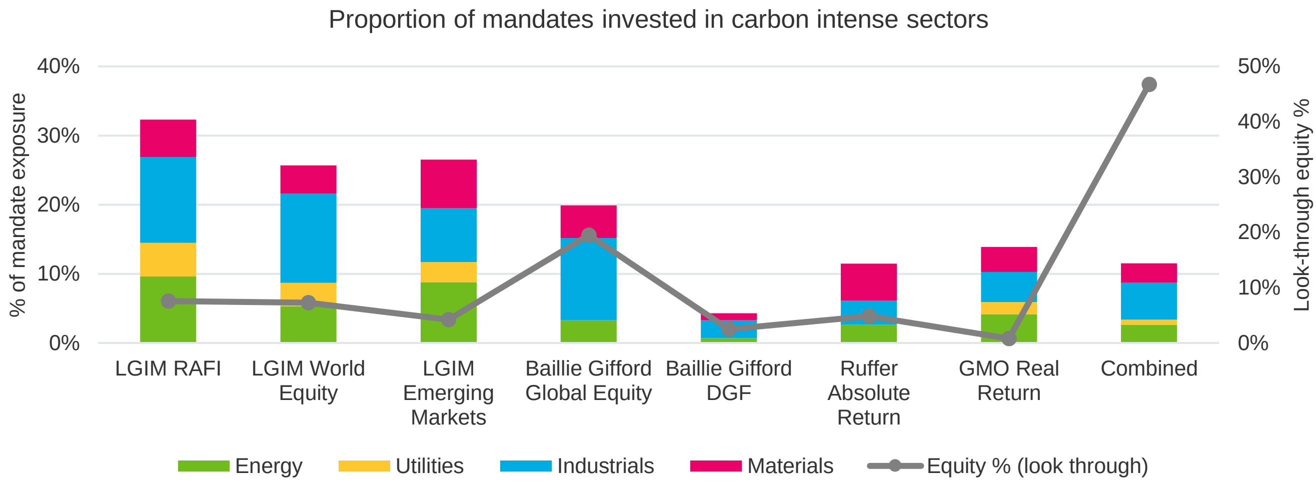
Pension funds are being increasingly challenged to both recognise and then address the risks of climate change within their investment arrangements. Climate risk was described by Mark Carney as comprising three elements:

- Physical risk i.e. damage to real assets such as property or agricultural yields arising from changing climate patterns;
- Transition risk, i.e. a loss of financial value arising from the transition to a low carbon economy, and
- Liability risk, i.e. the potential costs arising from claims made against investors and advisers for inaction.

Climate risk is complex given both the timeframe and inherent uncertainties attached to the worldwide human response. However, one key risk arises from policy change which may create unbudgeted costs for businesses and render current business practices unviable. For example, the imposition of a carbon tax to prevent the continued burning of fossil fuels could give rise to stranded assets.

A number of pension funds have sought to understand their exposure to carbon risk by measuring a “carbon footprint”, those holdings within equity portfolios which have the highest level of carbon emissions and/or carbon intensity (i.e. carbon emissions per unit sales). This generally reveals companies in four sectors – Energy (which comprises both Coal and Oil & Gas), Materials, Industrials and Utilities.

Whilst we haven’t undertaken such an exercise, the chart below details the exposure to the most carbon intensive sectors from each mandate incorporating exposure to equity markets as at 30 June 2019 as an indication of potential risk. Non-equity mandates have been excluded for this purpose.



Source: Investment managers

On a look through basis, around 12% of the Fund’s equity exposure is invested in sectors which are more directly exposed to carbon risk. Index-tracking mandates have greater exposure with the RAFI fund being more exposed to carbon-intensive sectors than the World Equity fund due to its value bias.

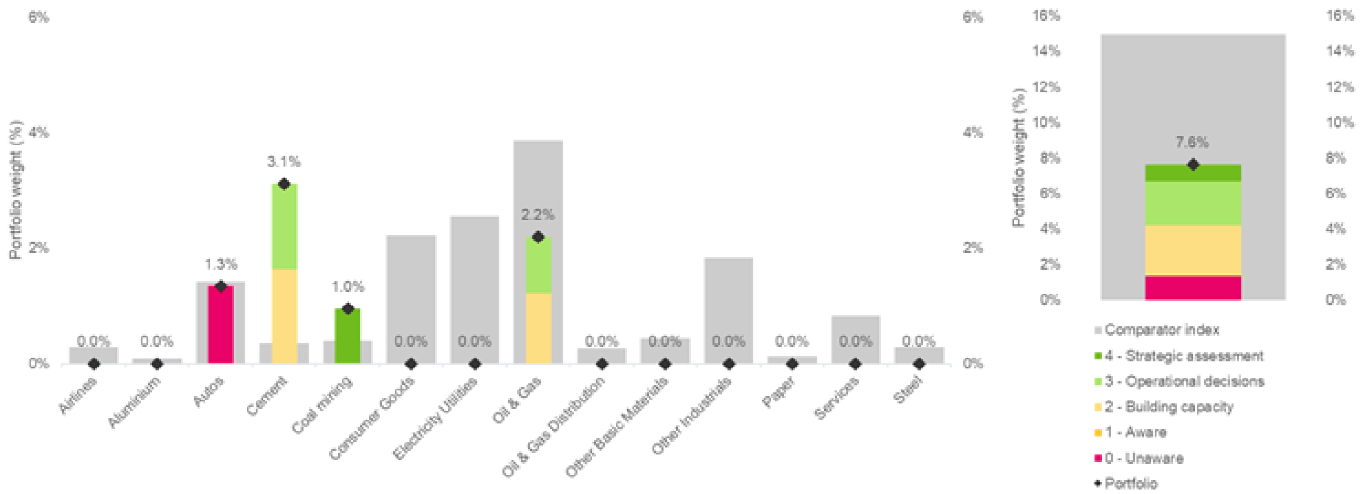
The Committee retains control over the Fund’s exposure to carbon-intensive sectors via the index-tracking mandates, whilst Baillie Gifford, and the multi-asset managers are responsible for the management of this exposure within their respective mandates.

Transition Pathway Initiative ("TPI")

The TPI is aimed at investors and assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change. The TPI's free to use tool enables the assessment of companies' carbon management quality and carbon performance, within a selected sector.

From the Fund's perspective, the TPI tool can be used to identify engagement areas with investment managers, and London CIV, and to gain more in-depth insight into different benchmark indices under consideration.

Using this data, we have analysed the Fund's active global equity mandate with LCIV (managed by Baillie Gifford) and summarised the outputs in the chart below:



Source: eVestment, TPI

An analysis of Baillie Gifford's portfolio relative to the MSCI All Countries World Index indicates that:

- Exposure to carbon-intensive sectors is lower than the benchmark;
- The portfolio has a larger allocation to cement and coal mining relative to the benchmark, although the allocation to oil & gas and other sectors is significantly lower;
- TPI's analysis indicates that companies held in the Autos sector have not fully quantified the extent of risks associated with the transition to a lower carbon economy.

Appendix 2: Equities and multi-asset funds

The Fund invested in equities via LGIM and Baillie Gifford mandates as well as multi-asset mandates managed by Baillie Gifford, Ruffer and GMO. The Baillie Gifford and Ruffer mandates are delivered via LCIV, whilst the LGIM mandates are aligned with LCIV. Total investments in equities represented c. 47% of Fund assets as at 30 June 2019 on a look through basis. An overview of each of the managers is included in the Appendix to this report.

Compliance with industry governance standards

All of the investment managers permitted to invest in equities on behalf of the Fund (with the exception of GMO) are Tier 1 signatories to the UK Stewardship Code and signatories to the PRI. GMO is a relatively new signatory to the PRI and has not yet received an assessment. The first such assessment is expected to be undertaken in 2020. We have summarised relevant scores from the 2019 PRI assessment for the other managers below:

Assessment	LGIM	Baillie Gifford	Ruffer	GMO
Strategy & Governance	A+	A+	A+	*n/a*
Listed Equity - Incorporation	A	A	A	*n/a*
Listed Equity - Active Ownership	A+	A	A	*n/a*

Source: Investment managers

Voting and engagement

Each of the Fund's equity (and multi-asset) managers invest in shares in underlying companies. Attached to the ownership of shares is the right to vote on a range of resolutions at company AGM's. Analysis of voting statistics can provide insight in terms of the extent to which managers vote for or against resolutions or with or against management.

It should be noted that, as a large asset manager, LGIM votes on a significantly larger number of resolutions that then Fund's other managers. In particular, LGIM voted on 98,480 resolutions over the year to 30 June 2019. The following information should therefore be considered in this context.

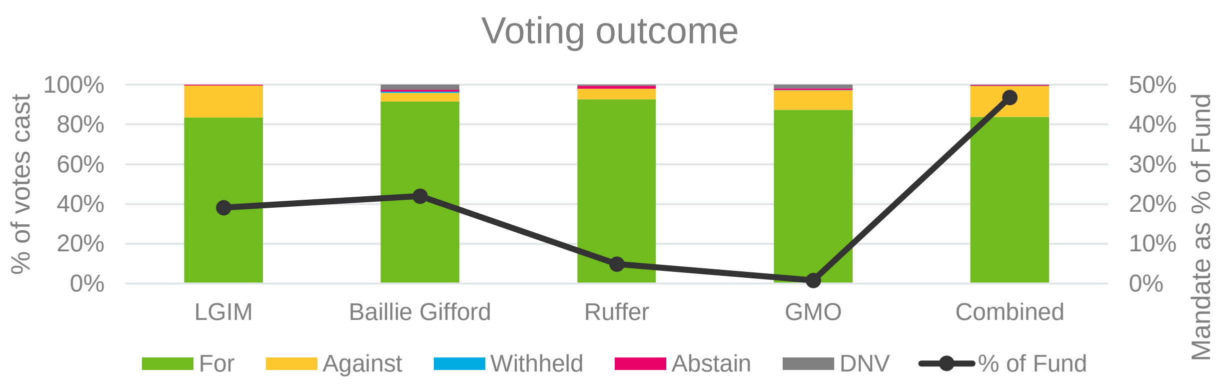
We note that LCIV arranges for appointed managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum ("LAPFF") (of which the Council is a member) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with LAPFF directions. We are not aware of any instances where concerns have developed around the voting practices of the Fund's managers accessed via LCIV.

For reference, a copy of LAPFF's 2019 annual report, which summarises voting alerts issued in 2019, can be found at the link below:

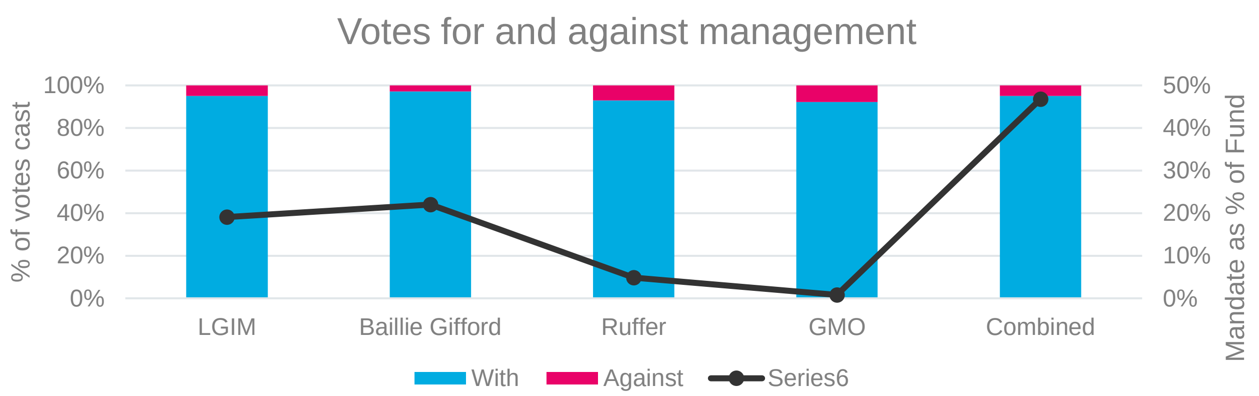
http://www.lapfforum.org/wp-content/uploads/2018/12/LAPFF-Annual-Report-2019.pdf

Voting outcome

The following chart illustrates how each of the Fund's equity (and multi-asset) managers voted shares on behalf of the Fund in the year to 30 June 2019:



Votes for and against management



Engagement activity

LGIM

LGIM's Corporate Governance team's objective is to raise the standards of the companies and markets in which they invest on behalf of their clients. During the year, LGIM focussed on a range of issues through engagement with companies, including sustainability, executive pay and diversity.

LGIM's active ownership report sets out full details of the work undertaken http://update.lgim.com/activeowner.

Baillie Gifford

Baillie Gifford published their 2019 governance and sustainability principles and guidelines earlier this year. Baillie Gifford produced their first annual governance and sustainability report, including a summary of the engagements undertaken during the year. These included:

- Engagement with Tesla on remuneration and proposals to take the company into private ownership
- Engagement with Amazon on working conditions, and the company's plans for future sustainability development.

Appendix 3: Real Assets

The Fund invested in real assets via UBS and CBRE (property) and JP Morgan and Stafford (infrastructure). Total investments in real assets represented c. 15% of Fund assets as at 30 June 2019. An overview of each of the managers is included in the Appendix to this report.

Compliance with industry governance standards

All of the Fund's real assets managers are signatories to the PRI. As part of their 2019 assessments, PRI considered signatories relative to a full range of investment capabilities. We have summarised relevant scores below for the Fund's real assets managers:

Assessment	UBS	CBRE	JP Morgan	Stafford
Strategy & Governance	A+	A+	A+	A
Property / Infrastructure	A+	A	A	A

Source: Investment managers

External ratings

GRESB is an independent organisation that assesses the sustainability of performance from real estate and infrastructure portfolios worldwide. Annual assessments consider a range of areas including management, policy and disclosure, risks and opportunities, monitoring, performance data, building certifications and stakeholder engagement. The following table summarises the 2019 assessments for each of the Fund's real assets managers:

Assessment	UBS	CBRE	JP Morgan	Stafford
GRESB ranking relative to peers	1 / 79	77 / 100	5 / 28	*Not reported*

Sustainable investment

Sustainable investment can be measured in a range of ways. In recent years, UBS have provided information below in relation to environmental figures relating to energy, water and waste usage within assets held in the Triton property portfolio. At this time, equivalent information is not readily available from the Fund's other real assets managers.

Assessment (most recent available)	UBS	CBRE	JP Morgan	Stafford
Number of underling assets	31	1,908	439	207
Total energy consumed (MWh) per asset	308	2,331	4,168	*Not reported*
Total waste produced (tonnes) per asset	14.8	12.6	*Not reported*	*Not reported*
Total water usage (m^3) per asset	2,110	1,538	484,357	*Not reported*

Source: UBS, CBRE, JP Morgan

Stafford's infrastructure portfolio consists of 207 underlying assets across 10 underlying funds. Whilst Stafford do not currently report on the information outlined above, they are considering doing so in future.

Appendix 4: Bonds

The Fund invested in bonds via the Royal London aggregate bond mandate, representing c. 18% of Fund assets as at 30 June 2019. An overview of Royal London is included in the Appendix to this report. The Fund has more recently invested assets in private debt funds managed by Churchill and Permira and our report for the year ending 30 June 2019 will also include these managers.

Compliance with industry governance standards

Royal London is a signatory to the PRI. As part of their 2019 assessment, PRI considered Royal London's full range of investment capabilities. We have summarised relevant scores below:

Assessment	Manager score	Median
Strategy & Governance	A	A
Fixed Income - SSA	A	B
Fixed Income – Corporate Financial	A	B
Fixed Income – Corporate Non Fin	A	B
Fixed Income - Securitised	A	C

Source: Royal London

Engagement activity

Royal London are not equity owners in relation to the Fund's investment in the fixed income mandate, therefore there are no attaching voting issues.

However, Royal London is responsible for the promotion of good corporate governance and consideration for broader ESG matters to the extent these impact on the value of the Fund's investment as bond holders.

As reported last year, Royal London set out in their 2017 Social Responsibility Report how they are raising awareness of ESG issues within the company and how they plan to continue this into the future. Royal London have published their 2019 Stewardship Statement, and Stewardship Activity report online. The Stewardship Activity report includes a number of examples of Royal London's engagement within the fixed income asset class. For example, Royal London engaged with Akelius (Akfast) ahead of lending to the company on a number of areas including compensation practices, governance structure and interaction between the charity and the corporate arms. In addition, Royal London have engaged with the Big 6 energy providers in relation to the energy transition, and conducted research into ESG risks associated with water utilities.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank