Public Document Pack

Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	Wednesday 29 July 2020	Town Hall, Main Road, Romford

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

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

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

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

Reporting means:-

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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):

• any employment, office, trade, profession or vocation that they carry on for profit or gain;
• any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
• any land licence or tenancy they have in Havering
• any current contracts leases or tenancies between the Council and them;
• any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
• any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

NO

YES → Declare Interest and Leave

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)

• Your well-being or financial position; or
• The well-being or financial position of:

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

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

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

YES

NO → 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.

5 ADMISSION OF CATERLINK (LIFE EDUCATION TRUST) (Pages 5 - 10)

Report attached.

6 INVESTMENT STRATEGY STATEMENT (Pages 11 - 40)

Report and appendices attached.

7 PENSION FUND ACCOUNTS (Pages 41 - 78)

Report and appendix attached.

8 PENSION FUND BUSINESS PLAN (Pages 79 - 118)

Report and appendix attached.

9 COVID-19 AND FUNDING RISKS (Pages 119 - 144)

Report and appendices attached.

10 EXCLUSION OF THE PUBLIC

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

11 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 20 (Pages 145 - 182)

Report and appendices attached.

12 FUND MANAGER REVIEW - VOTING AND ENGAGEMENT (Pages 183 - 204)

Report and appendices attached.

Andrew Beesley
Head of Democratic Services

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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

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Chairman

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:	**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

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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

- 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.
	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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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 29	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**
(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.	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
	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;
	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;

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
	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.

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.	

APPENDIX B

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.
	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.

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
	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.
	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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.
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.
	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

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) 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.
Page 39	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.
	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.

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) 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 **29 JULY 2020**

Subject Heading:	**PENSION FUND ACCOUNTS 2019/20**
SLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund accounts to be noted by the Pensions Committee
Financial summary:	This report comments on the Pension Fund Accounts for the year ended 31 March 2020

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

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

SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31st March 2020 showing the unaudited accounts of the Havering Pension Fund ("the Fund") as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund unaudited Accounts as at 31st March 2020 and consider if there are any issues that need to brought to the attention of the Audit Committee.

REPORT DETAIL

1 Background

1.1. The Ministry of Housing, Communities and Local Government (MHCLG) has confirmed the details of the changes made to the Accounts and Audit Regulations 2015 in a letter to authorities on 3 April 2020. The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) extend the statutory audit deadline for 2019/20 for all local authorities, apart from health service bodies.

1.2. The publication date for audited accounts will move from 31 July to 30 November 2020 for all local authority bodies.

1.3. Accounts must be confirmed and published by the **31 August 2020** at the latest.

1.4. The Authority's Statement of Accounts for 2019/20 are yet to be audited, they have been presented to the Audit Committee for information only on the 28th July 2020. As these accounts include the Pension Fund accounts any matters which, in the opinion of the Pensions Committee, would require any amendments to the accounts will need to be reported to the Audit Committee at a future date when the accounts are submitted for approval.

1.5. At the time of writing this report the Pension Fund Accounts are still subject to audit by our auditor's Ernst and Young LLP as part of the overall audit of the Authority's accounts. The latest version of the Pension Fund Accounts are shown as attached in **Appendix A.**

1.6. The Accounts are compiled in line with the Chartered Instituted Institute of Public Finance & Accountancy (CIPFA) *"LGPS Funds Accounts 2016/17 example accounts."*

1.7. There have been no key content changes required by CIPFA for the 2019/20 accounts that were not already covered in 2018/19 accounts.

1.8. Key movements to note from the 2019/20 accounts are:

- The Net Assets of the Fund has decreased to **£729m** for 2019/20 from £733m in 2018/19, a net decrease of £4m.

- The net decrease of **£4m** is compiled of a change in the market value of assets of (£20m), investment income of £10m, net additions of cash of £10m and offset by management expenses of (£4m). Further details are included within the Fund Account and Net Asset Statement included in this report. This slight decrease in Net Assets should be viewed in context of the dramatic downturn in global financial markets to which the financial year end coincided with its lowest point that took place in the immediate wake of the global pandemic declaration demonstrating the resilience and diversification of the Fund.

- Following the appointment of Real Asset and Private Debt managers, and once fully funded, the fund will eventually hold c20% in non-sterling denominated assets and Russell Investments was appointed in December 2019 to manage the resulting currency risk.

- Royal London was appointed to manage an allocation to a Multi Asset Credit (MAC) fund and this commenced from January 2020. The Royal London mandate was also restructured to separate the MAC and index linked bonds from the allocation to Corporate Bonds. The Corporate bonds will continue to be used to fund future capital calls from the Private Debt managers.

- Following the appointments of a Global Property Manager, Infrastructure and Private Debt Managers the Fund has continued to fund these mandates. Capital Calls were made and funded as follows:

Investments made	Mandate	Amount £000's	Funded from
CBRE	Global Property	13,028	GMO
Stafford	Infrastructure	9,128	GMO
Churchill	Private Debt	10,314	Royal London
Permira	Private Debt	5,094	Royal London

Total		**37,564**	

- To retain exposure to emerging markets lost through disinvestments with GMO the Fund has also transferred cash to the value of £7.7m to Legal and General Investment Management (LGIM) passive Emerging Market Fund.

1.9. A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2019/20 Pension Fund Annual Report. The statutory publication date for the 2019/20 Pension Fund Annual Report is 1 December 2020.

1.10. As part of the audit process of the accounts our auditors will issue a draft ISA260 report, which summarises their findings and sets out key recommendations that will be considered by the auditors when deliberating their opinion, conclusion and issue of audit certificate. Officers will also be given an opportunity to respond to any recommendations raised in the report. At the time of writing this report the audit had not commenced and therefore the draft ISA 260 has yet to be issued by Ernst & Young.

IMPLICATIONS AND RISKS

Financial implications and risks:

The assets of the Pension Fund and its Managers' performance are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Regulation 10 of the Accounts and Audit regulations 2015 require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 31 July.

The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) extended the statutory audit deadline for 2019/20 for all local authorities. The publication date for audited accounts will move from 31 July to 30 November 2020. Accounts must be confirmed and published by the 31 August 2020 at the latest.

The Pension Fund accounts were completed and available for submission by the 31 May 2020, in line with original deadlines set out in the 2015 Accounts and Audit Regulations, to ensure that best practice was maintained.

The planned cost of a separate audit opinion for the 2019/20 Pension Fund accounts is expected to be c£52,000 (£16,170 2018/19), which includes the cost of the Pension Fund Annual Report. At the time of writing this report the audit planning report has not been made available so the reasons for the increase is not known.

This cost will be met from the Pension Fund. Final costs but will not be known until the audit is finalised.

Legal implications and risks:

The extension of the deadlines for the Accounts is provided for in the Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404). On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources implications and risks:

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

Equalities implications and risks:

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

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

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

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

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

BACKGROUND PAPERS

None

Pension Fund

Pension Fund Account for the year ended 31 March 2020

2018/19 £000		Notes	2019/20 £000
	Dealings with members, employers and others directly involved in the fund		
43,725	Contributions receivables	7	45,812
1,633	Transfers in from other pension funds	8	5,951
45,358			51,763
(37,834)	Benefits	9	(38,769)
(3,295)	Payments to and on account of leavers	10	(3,272)
(41,129)			(42,041)
4,229	Net additions (withdrawals) from dealings with members		9,722
(5,523)	Management expenses	11	(3,975)
(1,294)	**Net additions/(withdrawals) including fund management expenses**		**5,747**
	Returns on investments		
10,835	Investment income	12	10,077
(4)	Taxes on Income	13	(1)
16,746	Profit and losses on disposal of investments and changes in the market value of investments	14a	(20,518)
27,577	**Net returns on investments**		**(10,442)**
26,283	Net increase (decrease) in the net assets available for benefits during the year		**(4,695)**
707,108	Opening net assets of the Fund at start of year		733,391
733,391	**Closing net assets of the Fund at end of year**		**728,696**

Net Asset Statement for the year ended 31 March 2020

£000			£000
150	Long Term Investments	14	150
719,286	Investment Assets	14	707,782
-	Investment Liabilities	14	(2,174)
719,436	**Total net investments**		**705,758**
14,334	Current Assets	21	23,552
(379)	Current Liabilities	22	(614)
733,391	**Net assets of the Fund available to fund benefits at end of the reporting period**		**728,696**

The financial statements summarise the transactions and the net assets of the London Borough of Havering Pension Fund ("the Fund"). They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 19 of these accounts.

Notes to the Pension Fund

1 Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

The LGPS Regulations 2013 (as amended),

The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended),

The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, are not included as they come within another national pension scheme.

The Fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee: a committee of the Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2019/20 five new employers joined the Fund, two transferred out (Havering Sixth Form College and Havering College of Further and Higher Education) and one cessation.

There are 51 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-19		31-Mar-20
49	**Number of employers with active members**	**51**
	Number of employees in scheme	
4,686	London Borough of Havering	4,769
1,961	Scheduled bodies	1,650
70	Admitted bodies	73
6,717	**Total**	**6,492**
	Number of pensioners and dependants	
5,931	London Borough of Havering	5,950
522	Scheduled bodies	346
20	Admitted bodies	114
6,473	**Total**	**6,410**
	Deferred pensioners	
5,315	London Borough of Havering	5,274
1,183	Scheduled bodies	807
46	Admitted bodies	93
6,544	**Total**	**6,174**
19,734	**Total number of members in pension scheme**	**19,076**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2020. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Current employer contribution rates range from 17.5% to 38.2% of pensionable pay.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

	Service pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum is paid for each £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website www.yourpension.org.uk.

2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2019/20 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 "(the Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administrating authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 20.

The accounts have been prepared on a going concern basis.

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations 2013 (see note 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distribution from Pooled Funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property- Related Income

Property related income consists primarily of rental income and is recognised at the date of issue.

v) Movement in the Net Market Value of Investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

(d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing the payment has been approved.

(e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

(f) Management Expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).* All items of expenditure are charged to the fund on an accruals basis as follows:

Administrative Expenses

All staff costs of the pensions' administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Oversight and Governance Costs

All staff costs associated with governance and oversight are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Investment Management Expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

For officers' time spent on investment management functions a proportion of the relevant officers' salary costs have also been charged to the Fund.

(g) Lifetime Allowances

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

(h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).*

(i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

(k) Cash and Cash Equivalents
Cash comprises cash in hand (Fund's Bank account) and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

(l) Financial Liabilities
A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

(m) Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

(n) Additional Voluntary Contributions
The Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

(n) Contingent assets and contingent liabilities
A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

4 Critical Judgements in Applying Accounting Policies

Pension Fund Liability

This is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

This estimate is subject to significant variances based on the changes to the underlying assumptions which are agreed with the actuary and are summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

5 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment in the forthcoming year are as follows

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: 0.5% decrease in the real discount rate could result in an increase of 10% 0.5% increase in salary increase rate could result in an increase of 1% 0.5% increase in the pension increase rate could result in an increase of 8%	 105 6 112

6 Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) was amended to reflect the adjustment for the McCloud case - which concerns the transitional protections given to the scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pension reform. Tapered protections were provided for those 3-4 years younger. On the 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

7 Contributions Receivable

By category

2018/19 £000		2019/20 £000
	Employees' contributions	
	Normal:	
5,482	London Borough of Havering	5,819
1,641	Scheduled Bodies	1,462
83	Admitted Bodies	74
	Additional contributions:	
13	London Borough of Havering	7
7,219	**Total Employees' Contribution**	**7,362**
	Employers' contributions	
	Normal:	
12,930	London Borough of Havering	13,808
6,494	Scheduled bodies	5,853
346	Admitted bodies	311
	Deficit funding:	
16,220	London Borough of Havering	18,449 *
	Augmentation	
324	London Borough of Havering	4
192	Scheduled bodies	25
36,506	**Total Employers' Contributions**	**38,450**
43,725	**Total Contributions Receivable**	**45,812**

*The 2019/20 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £5.799m voluntary planned contributions.

By authority

2018/19 £000		2019/20 £000
34,969	London Borough of Havering	38,087
8,327	Scheduled bodies	7,340
429	Admitted Bodies	385
43,725	**Total Contributions Receivable**	**45,812**

8 Transfers in from Other Pension Funds

2018/19 £000		2019/20 £000
1,633	**Individual transfers**	5,951
1,633	**Transfers In from Other Pension Funds**	**5,951**

9 Benefits Payable

By category

2018/19 £000		2019/20 £000
	Pensions	
29,702	London Borough of Havering	30,137
1,222	Scheduled Bodies	1,399
648	Admitted Bodies	851
31,572	**Pension Total**	**32,387**
	Commutation and Lump Sum Retirements	
4,823	London Borough of Havering	4,431
501	Scheduled Bodies	402
250	Admitted Bodies	179
5,574	**Commutation and Lump Sum Retirements Total**	**5,012**
	Lump Sum Death Benefits	
477	London Borough of Havering	1,305
165	Scheduled Bodies	65
46	Admitted Bodies	-
688	**Lump Sum Death Benefits Total**	**1,370**
37,834	**Total Benefits Payable**	**38,769**

By authority

2018/19 £000		2019/20 £000
35,002	Havering	35,873
1,888	Scheduled bodies	1,866
944	Admitted Bodies	1,030
37,834	**Total Benefits Payable**	**38,769**

10 Payments To and On Account of Leavers

2018/19 £000		2019/20 £000
120	Refunds to members leaving service	110
3,175	Individual transfers	3,162
3,295	**Payments to and on Account of Leavers**	**3,272**

At the year end there are potential liabilities of a further £0.190m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11 Management Expenses

2018/19 £000		2019/20 £000
801	Administrative Costs	315
4,303	Investment Management Expenses	3,192
399	Oversight and Governance Costs	452
16	Oversight and Governance Costs - External Audit costs	14
4	Local Pension Board	2
5,523	**Management Expenses**	**3,975**

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £0.108m (2018/19 £0.076m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.023m in respect of transaction costs (2018/19 £0.358m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

11a. Investment Management Expenses

2018/19 £000		2019/20 £000
3,895	Management Fees	3,125
27	Performance measurement fees	17
23	Custody fees	27
358	Transaction costs	23
4,303	**Investment Management Expenses**	**3,192**

12 Investment Income

2018/19 £000		2019/20 £000
4,841	Pooled Investments - unit trusts and other managed funds	8,204
3,514	*Income from Bonds	2,561
1,960	Pooled Property Investments	1,871
289	Income form Derivatives (Foreign Exchange Gains/(losses))	(2,658)
149	Interest on Cash Deposits	202
82	Other Income	(103)
10,835	**Investment Income**	**10,077**

***** Income includes Index linked Interest of £0.103m (2018/19 £0.126m).

13 Taxes on Income

2018/19 £000		2019/20 £000
(4)	Withholding Tax	(1)
(4)	**Taxes on Income**	**(1)**

14 Analysis of Investments

2018/19 £000		2019/20 £000
	Investment Assets	
150	**Long Term Investments**	150
150		**150**
	Bonds - Fixed Interest Securities	
13,901	UK Public Sector quoted	1,574
76,084	UK Corporate quoted	47,632
89,985		**49,206**
	Bond - Index-Linked Securities	
30,150	UK Public Sector quoted	36,730
2,936	UK Corporate quoted	3,302
33,086		**40,033**
	Equities	
96	UK Quoted	-
96		**-**
	Derivative Contracts	
-	Forward Currency Contracts	1,445
0		**1,445**
	Pooled Investment	
493,040	UK Unit trusts - Quoted	475,846
36,097	Overseas Other unit trusts - Unquoted	63,619
42,109	UK Pooled property investments -Unquoted	41,174
13,046	Overseas Pooled Property investments - Unquoted	28,956
584,292		**609,595**
10,505	Cash deposits Managers	6,778
1,318	Investment income due	725
4	Outstanding Dividend and Recoverable Withholding Tax	-
11,827		**7,503**
719,436	**Total Investment Assets**	**707,932**
	Investment Liabilities	
	Derivative Contracts	
-	Forward Currency Contracts	(2,173)
-	Income receivable	(1)
-	**Total Investment Liabilities**	**(2,174)**
719,436	**Total Net Investments**	**705,758**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2020
	£000	£000	£000	£000	£000	£000
Equities	96	-	(107)	11	-	-
Fixed Interest Securities	89,985	28,259	(71,671)	2,633	-	49,206
Index-linked Securities	33,086	41,935	(35,974)	986	-	40,033
Pooled Investment Vehicles	584,442	94,427	(45,707)	(23,417)	-	609,745
Derivatives – forward currency contracts	-	146,466	(146,466)	(728)	-	(728)
Cash Deposits (fund managers)	10,505	-	-	(3)	(3,724)	6,778
	718,114	**311,087**	**(299,925)**	**(20,518)**	**(3,724)**	**705,034**
Other Investment Balances	1,322	-	-	-	(598)	724
	719,436	**311,087**	**(299,925)**	**(20,518)**	**(4,322)**	**705,758**

	Market Value at 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2019
	£000	£000	£000	£000	£000	£000
Equities	-	84	-	(10)	22	96
Fixed Interest Securities	84,128	25,991	(21,565)	1,431	-	89,985
Index-linked Securities	35,123	8,412	(12,290)	1,841	-	33,086
Pooled Investment Vehicles	565,563	79,680	(74,278)	13,499	(22)	584,442
Derivatives – forward currency contracts	18	86,021	(86,021)	(18)	-	-
Cash Deposits (fund managers)	3,215	-	-	3	7,287	10,505
	688,047	**200,188**	**(194,154)**	**16,746**	**7,287**	**718,114**
Other Investment Balances	1,248	-	-	-	74	1,322
	689,295	**200,188**	**(194,154)**	**16,746**	**7,361**	**719,436**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.023m (2018/19 £0.358m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2019 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2019 £000	%	Manager	Mandate	Value 31 March 2020 £000	%
Investments managed by London CIV asset Pool:					
150	0.02	London CIV	Equities Unquoted	150	0.02
94,692	13.16	Ruffer	Pooled Absolute Return Fund	97,738	13.85
138,095	19.20	Baillie Gifford	Pooled Global Alpha Growth Fund	136,341	19.32
87,740	12.20	Baillie Gifford	Pooled Diversified Growth Fund	80,000	11.34
320,677	**44.58**			**314,229**	**44.52**
PLUS Life Fund Investments aligned with London CIV asset pool:					
132,172	18.37	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	123,850	17.55
452,849	**62.95**	**London CIV Total**		**438,079**	**62.07**
Investments managed outside of the London CIV asset Pool:					
135,062	18.77	*Royal London Index Linked Bonds Fund	Investment Grade Bonds	70,577	10.00
-	-	*Royal London Corp' Bond Fund	Investment Grade Bonds	53,611	7.60
43,541	6.05	UBS Property	Pooled Property	41,067	5.82
34,450	4.79	GMO Global Real Return (UCITS) Fund	Pooled Multi Asset	5,038	0.71
13,422	1.87	CBRE	Global Pooled Property	28,956	4.10
7,791	1.08	Stafford Capital	Overseas Pooled Infrastructure	17,447	2.47
29,241	4.06	JP Morgan	Overseas Pooled Infrastructure	26,964	3.82
3,072	0.43	Churchill	Overseas Pooled Private Debt	14,026	1.99
-	-	Permira	Overseas/UK Pooled Private Debt	5,605	0.79
-	-	Russell Investments	Currency Management	(728)	(0.10)
8	-	Other	Other	5,116	0.72
266,587	**37.05**			**267,679**	**37.93**
719,436	**100.00**	**Total Fund**		**705,758**	**100.00**

* Royal London mandate split into two mandates during 2019/20

The following investments represent more than 5% of the net assets of the Fund:

Market Value 31-Mar-19 £000	% of total fund	Security	Market Value 31-Mar-20 £000	% of total fund
138,095	19.20	London CIV Global Alpha Fund	136,341	18.70
94,692	13.16	London CIV Ruffer Absolute Return Fund	97,738	13.41
87,740	12.20	London CIV Diversified Growth Fund	80,000	10.97
54,689	7.60	LGIM All World Equity Index	51,296	7.04
52,717	7.33	LGIM FTSE RAFI AW 3000 Index	44,638	6.12
42,109	5.85	UBS Property	41,067	5.65

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stocklending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2020, the value of quoted equities on loan was nil (£97.6m 31 March 2019) These equities continue to be recognised in the fund's financial statements.

15 Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and various investment managers.

Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Russell. A breakdown of forward contracts held by the Fund as at 31 March 2020 and prior year is shown below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		000		000	£000	£000
Gross open forward currency contracts at 31 March 2020					-	-
Up to One month	**GBP**	9,977	**EUR**	10,444	-	(467)
	GBP	12,590	**USD**	13,314	-	(724)
	GBP	2,375	**AUD**	2,256	119	-
	USD	511	**GBP**	479	32	-
	EUR	23	**GBP**	23	-	-
Up to Two months	**GBP**	8,984	**EUR**	9,455	-	(471)
	GBP	13,975	**USD**	14,486	-	(511)
	GBP	2,190	**AUD**	2,120	70	-
	USD	5	**GBP**	5	-	-
Up to Three months	**GBP**	10,328	**EUR**	9,924	404	-
	GBP	14,411	**USD**	13,651	760	-
	GBP	2,251	**AUD**	2,191	60	-
	USD	12	**GBP**	12	-	-
	EUR	125	**GBP**	125	-	-
Open currency contracts at 31 March 2020					**1,445**	**(2,173)**
Net forward currency contracts at 31 March 2020						**(728)**
Prior year comparative						
Gross open forward currency contracts at 31 March 2019					-	-
Net forward currency contracts at 31 March 2019					**-**	**-**

16 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information where applicable. There has been no change in the valuation techniques used during the year.

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
UK Pooled instruments property funds	Level 3	Valuations carried out by the property funds external valuers, Knight Frank LLP	Market value in accordance with the "RICS" Appraisal and Valuation standards	Valuations could be affected by significant differences in rental value and rental growth
Overseas Pooled instruments property funds	Level 3	The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD	A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments	Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount

16 Fair Value Basis of Valuation (continued)

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Overseas Pooled instruments Infrastructure Funds (JP Morgan)	Level 3	The valuation function is performed by the JP Morgan Investment Inc (the Advisor). Estimated fair values are determined by the Advisor at valuation date and independently appraised on a quarterly basis.	Three valuation techniques can be used, the market, income or cost approach. For this fund, Income approach was used based on Unobservable input of Discount/WAAC rate and Exit EBITDA Multiples.	Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount
Overseas Pooled instruments Infrastructure Funds (Stafford Capital)	Level 3	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.
Overseas Pooled instruments Private DebtFunds (Churchill)	Level 3	Valuations undertaken quarterly. To determine the value the manager uses models that consider credit risk, liquidity, market spreads and other applicable factors.	Unobservable inputs include market yield discount rates and credit performance rates	Significant increases (decreases) in discount yields could result in lower (higher) fair value measurement. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.
Overseas/UK Pooled instruments Private Debt Funds (Permira)	Level 3	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Estimates and assumptions continually evaluated	Use of critical accounting estimates and changes in assumptions may have significant on the valuations. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.

16 Fair Value Basis of Valuation (continued)

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property funds	4.00	70,130	72,935	67,325
Pooled Unit Trusts	14.40	63,619	72,780	54,457

16a. Fair Value Hierarchy

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

Level 3

Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following tables provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	566,530	150	133,749	700,429
Loans and receivables	31,055	-	-	31,055
Total Financial Assets	**597,585**	**150**	**133,749**	**731,484**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	**(2,788)**	-	-	(2,788)
Total Financial Liabilities	**(2,788)**	**-**	**-**	**(2,788)**
Net Financial Assets	**594,797**	**150**	**133,749**	**728,696**

16a. Fair Value Hierarchy continued

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	616,207	36,247	55,155	707,609
Loans and receivables	26,161	-	-	26,161
Total Financial Assets	**642,368**	**36,247**	**55,155**	**733,770**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(379)	-	-	(379)
Total Financial Liabilities	**(379)**	-	-	**(379)**
Net Financial Assets	**641,989**	**36,247**	**55,155**	**733,391**

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

16b. Reconciliation of Fair Value Measurement within Level 3

	Market Value 31 March 2019	Transfer out of Level 3	Transfer Into Level 3	Purchases	Sales	Unrealised gains / losses	Realised gains / losses	Market Value 31 March 2020
	£000	£0.000	£000	£000	£000	£000	£000	£000
Property Funds	55,155	-	-	13,139	-	1,836	-	70,130
Infrastructure	-	-	33,082	9,434	(1,290)	12,979	(10,216)	43,989
Private Debt	-	-	3,015	13,171	(284)	3,728	-	19,630
Total	**55,155**	-	**36,097**	**35,744**	**(1,574)**	**18,543**	**(10,216)**	**133,749**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

(a) Transferred from Level 2 to Level 3 December 2019 and March 2020 due to change in investment strategy - disinvestment from Level 2 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 October and December 2019 due to change in investment strategy - disinvestment from Level 1 to invest in Private Debt Level 3

(c) All transfers between levels are recognised in the month in which they occur.

17 Financial Instruments

(a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period.

31 March 2019				31 March 2020		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
150	-	-	Long Term Investments	150	-	-
96	-	-	Equities	-	-	-
89,985	-	-	Bonds -Fixed Interest Securities	49,206	-	-
33,086	-	-	Bonds - Index linked securities	40,033	-	-
-	-	-	Derivative contracts	1,445	-	-
529,137	-	-	Pooled investment Vehicles	539,465	-	-
55,155	-	-	Property	70,130	-	-
-	10,505	-	Cash		6,778	-
-	1,322	-	Other Investment Balances		725	-
-	14,334	-	Debtors		23,552	-
707,609	**26,161**	**-**	**Financial Assets Total**	**700,429**	**31,055**	**-**
			Financial Liabilities			
-	-	-	Other Investment Balances	(1)	-	-
			Derivative contracts	(2,173)	-	-
-	-	(379)	Creditors			(614)
-	**-**	**(379)**	**Financial Liabilities Total**	**(2,174)**	**-**	**(614)**
707,609	**26,161**	**(379)**	**Grand total**	**698,255**	**31,055**	**(614)**
	733,391				**728,696**	

(b) Net Gains and Losses on Financial Instruments

2018/19 £000		2019/20 £000
	Financial assets	
16,746	Fair value through profit and loss	**(20,518)**
16,746	**Total**	**(20,518)**

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18 Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Authority manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Polices are reviewed regularly to reflect changes in activity and in market conditions.

(a) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held for the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the administering authority to ensure it is within limits specified in the investment strategy.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC) , it has been determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

If the market price of the Fund's investments, as set out in the Investment Strategy statement, had increased/decreased in line with the below, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is also shown below):

Asset Type	**Value as at 31 March 2020**	**Potential market movements**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Equities	260,341	13.10	294,446	226,237
Total Bonds	122,119	8.00	131,888	112,349
Pooled Overseas Unit Trusts	63,619	14.40	72,780	54,457
Global Pooled inc.UK	182,776	6.00	193,742	171,809
Pooled Property	70,130	4.00	72,935	67,325
Cash	6,773	0.60	6,814	6,733
Total	**705,758**		**772,605**	**638,910**

Asset Type	**Value as at 31 March 2019**	**Potential market movements**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Equities	96	10.10	106	86
Total Bonds	123,070	8.90	134,023	112,067
Global Pooled inc.UK	529,287	6.10	561,574	497,001
Property	55,155	3.40	57,030	53,280
Cash	10,505	0.50	10,558	10,453
Total	**718,114**		**763,291**	**672,887**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Assets exposed to interest rate risk	Value as at 31 March 2020 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	122,119	1,221	123,340	120,898
Cash and Cash Equivalents	6,773	68	6,841	6,705
Cash Balances	23,056	231	23,287	22,825
Total Change in Asset Value	**151,948**	**1,519**	**153,467**	**150,429**

Assets exposed to interest rate risk	Value as at 31 March 2019 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	123,071	1,231	124,301	121,839
Cash and Cash Equivalents	10,505	105	10,610	10,400
Cash Balances	13,698	137	13,836	13,562
Total Change in Asset Value	**147,274**	**1,473**	**148,747**	**145,801**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

Currency Risk - Sensitivity Analysis

Following analysis of historical data in consultation with PIRC it has been determined that a likely volatility associated with foreign exchange rate movements is 7.4% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.4% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Currency Risk – Sensitivity Analysis

Assets exposed to currency risk	Value as at 31 March 2020	Potential Market movement	Value on increase	Value on Decrease
	£000	7.40%	£000	£000
Overseas Pooled	86,970	6,436	93,406	80,534
Overseas Cash	4,836	358	5,194	4,478
Total change in assets available to pay benefits	**91,806**	**6,794**	**98,600**	**85,012**

Assets exposed to currency risk	Value as at 31 March 2019	Potential Market movement	Value on increase	Value on Decrease
	£000	8.90%	£000	£000
Overseas Pooled	49,143	4,374	53,517	44,769
Overseas Cash	770	69	839	701
Total change in assets available to pay benefits	**49,913**	**4,443**	**54,356**	**45,470**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash not needed to settle immediate financial obligations are invested by the Authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

(C) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements as at 31 March 2020 was £23.056m (31 March 2019 £13.696m).The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of liquid assets was £595m, which represented 82% of the total Fund (31 March 2019 £642m, which represented 88% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Authority will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

19 Funding Arrangements

Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated December 2019. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31-Mar-19 %
Discount Rate for Period	3.3
Salary increases assumption	3.0
Benefit increase assumption (CPI)	2.3

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

** Aged 45 at the 2019 Valuation*

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administrating Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

20 Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of benefits on this basis, the actuary has updated the actuarial assumption(set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31-Mar-19	Year Ended	31-Mar-20
£m		£m
1,344	Present Value of Promised Retirement Benefits	1,195
733	Fair Value of Scheme assets (bid Value)	729
611	**Net Liability**	**466**

Note the above figures include an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. It is estimated that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £102m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £34m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended (% p.a)	31-Mar-20	31-Mar-19
	% p.a.	% p.a.
Pension Increase Rate	1.9	2.5
Salary Increase Rate	2.6	2.8
Discount Rate	2.3	2.4

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners	22.4 years	25.2 years

Please note the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	105
0.5% p.a. increase in the Salary Increase Rate	1%	6
0.5% p.a. decrease in the Real Discount Rate	9%	112

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21 Current Assets

2018/19 £000		2019/20 £000
	Debtors:	
372	Contributions due from employers	265
100	Contributions due from employees	68
211	Pension Fund Bank Account Balances	1,307
26	Sundry Debtors	3
13,625	Cash deposit with LB Havering	21,909
14,334	**Current Assets**	**23,552**

22 Current Liabilities

2018/19 £000		2019/20 £000
	Creditors:	
(120)	Benefits Payable	(314)
(122)	Sundry Creditors	(140)
(137)	Holding Accounts	(160)
(379)		**(614)**

23 Additional Voluntary Contributions

Market Value 2018/19 £000	AVC Provider	Market Value 2019/20 £000
788	Prudential	753
134	Standard Life	108

Some employees made additional voluntary contributions (AVC's) of £33,022 (2018/19 £35,004) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2019/20 were £30,622 (2018/19 £32,604) to the Prudential and £2,400 (2018/19 £2,400) to Standard Life.

24 Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below:

2018/19 £000		2019/20 £000
1,380	Payments on behalf of Havering Council	1,360

25 Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Fund is administering by the London Borough of Havering and consequently there is a strong relationship between the Authority and the Fund. In 2019/20, £0.230m was paid to the Authority for the cost of administrating the Fund (2018/19 £0.710m).

The Authority is also the largest employer in the Fund and in 2019/20 contributed £32.257m (18/19 £29.150m) to the Pension Fund in respect of employer's contributions. All monies owing to and due from the fund were paid in year.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of London Borough of Havering, through a service level agreement. As at 31 March 2020 cash holdings totalled £23.056m (2018/19 £13.696m), earning interest over the year of £0.202m (2018/19 £0.148m).

Governance

Responsibility for management of the Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pensions Committee and Local Pension Board are required to declare their interests at

During the year no Member or Council officer with direct responsibility for Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

The members of the Local Pension Board receive an attendance allowance for each meeting and these costa are included within Note 11.

25a Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

26 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2020 were £49.94m. (31 March 2019 were £91.35m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.190m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Two admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.33m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Two admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.52m.

The Fund, in conjunction with the other borough shareholders in the London CIV, has entered into an exit payment agreement with the London CIV, acting as a Guarantor. The Fund will meet any exit payments due should the London CIV cease its admission arrangements with the City of London. Should the amount become due the Fund will meet 1/32 share of the costs.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 29 JULY 2020

Subject Heading:	**BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2019/20**
SLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	**A Business plan demonstrates compliance against Myners' principles for effective decision making**.
Financial summary:	**Any associated costs met by the Pension Fund**

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 sets out the work undertaken by the Committee during 2019/20 and the plan of work for the forthcoming three years, attached as **Appendix A**. This will form the basis of the Pension Fund Business Plan.

This report explains why a Business Plan is needed and what it should contain.

RECOMMENDATIONS

That the Committee:

Agree the Business Plan/Report of the work of the Committee for the year 2019/20

REPORT DETAIL

1. Background

1.1 Included within Myners Principle 1: Effective Decision Making suggested best practice was to create a Business Plan and a Training Plan.

1.2 The new Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles but the Committee agreed to still publish and explain compliance against these principles. This was published with the new Investment Strategy Statement in March 2017.

1.3 To meet best practice it is appropriate to continue to prepare a report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan. The Business Plan will incorporate the Training Plan. This would demonstrate compliance against Myners Principles 1: Effective Decision making.

1.4 In line with the Councils constitution – Part 4 Rules of procedure Ordinary meetings of the Council will receive reports for the previous year from the Chair of the Pensions Committee, this meeting is scheduled for the 9 September 2020.

1.5 CIPFA guidance suggests that the Business Plan is submitted to the committee for consideration and should contain:

a) Major milestones & issues to be considered by the Committee
b) Financial estimates – investment and administration of the Fund
c) Appropriate provision for training
d) Key targets & methods of measurement

e) Review level of internal & external resources the committee needs to carry out its functions
f) Recommended actions to put right any deficiencies.

2. Training

2.1 It is important that all the Members of the Committee are adequately trained and briefed to make effective decisions and those members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee which are:

a) To consider and agree the investment strategy and statement of investment principles (SIP) (subsequently superseded by the Investment Strategy Statement) for the Pension Fund and subsequently monitor and review performance
b) Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
c) To appoint and review the performance of advisers and investment managers for pension fund investments
d) To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7,12 or 24 of the Superannuation Act 1972.

2.2 The Pensions Regulator Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/LPB to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

2.3 LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the Shadow Scheme Advisory Board in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role.

2.4 A joint training strategy that incorporates Pension Committee member training with LPB members to keep officer time and training costs to a minimum, has been developed and agreed by the Pensions Committee on the 24 November 2015 and the Local Pension Board on the 6 January 2016. The Training Strategy can be found in **Appendix A - Annex C.**

2.5 The Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA's Knowledge and Skills Code of Practice.

2.6 Training and development will be held with regard to the work plan as shown in **Appendix A - Annex B**. The training undertaken can be seen within **Appendix A - Annex D**

2.7. Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under **Markets in Financial Instrument Directive (MiFID 11).** Firms will undertake an assessment of the **expertise, experience and knowledge** of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

IMPLICATIONS AND RISKS

Financial implications and risks:

Training costs are met from the Pension Fund directly or via the Advisor Fee.

There is a considerable risk of poor decision making if Members of the Committee are not adequately trained.

Legal implications and risks:

In line with the Councils constitution – Part 4 Rules of procedure Ordinary meetings of the Council will receive reports for the previous year from the Chair of the Pensions Committee:

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term.

Otherwise there are no apparent legal implications in taking the recommended decisions.

Human Resources implications and risks:

None arising directly.

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

BACKGROUND PAPERS

None

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APPENDIX A

Havering
LONDON BOROUGH

HAVERING PENSION FUND

BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2019/20

INTRODUCTION

The Havering Pension Fund (the Fund) provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

The Business Plan looks forward over the next three years and will be reviewed and updated annually.

This report also covers the period 1st April 2019 to 31 March 2020 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The value of assets held and the financial position of the Havering Pension Fund for 2019/20 is included in the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

BACKGROUND TO THE PENSION FUND

The Council is an Administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund has a total of 51 employers with active members, of which the London Borough of Havering is the largest. The other employers in the Fund are made of up of 42 Scheduled bodies (Academies and Further Education bodies) and 9 Admitted bodies (outsourced contracts). During 2019/20 there were 5 new employers joining the fund, 2 transferred out and 1 cessation.

The Council has delegated the responsibility for investment strategy and performance monitoring to the Pensions Committee.

Pension Fund – Funding

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2019/20 based on data as at 31 March 2020. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years and the results of the 2019 effecting employer contribution rates from 1 April 2020.

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process, the Fund reviews its funding and investment strategies to ensure that an appropriate contribution plan is in place.

A comparison of funding levels can be seen below:

Summary

Ongoing funding basis	31 Mar 2013	31 Mar 2016	31 Mar 2019
	£m	£m	£m
Assets	461	573	733
Liabilities	752	857	1,054
Surplus/(deficit)	**(292)**	**(284)**	**(320)**
Funding level	61.2%	66.8%	70.0%

The improvement in funding position is mainly due to strong investment performance over the periods. The next valuation will be based on data as at 31 March 2022.

Pension Fund – Investment Strategy Development & Performance Monitoring

The Committee adopted a new Investment Strategy Statement (ISS) in November 2017 and implementation of achieving the long term target asset allocation has been ongoing since then. An updated version of the ISS was due to be presented to the Pensions Committee at its meeting on the 17 March 2020 but due to the outbreak of COVID-19 and the introduction of the new working restrictions, the Committee meeting was postponed with the committee yet to formally adopt the latest updated version.

The asset allocations as at 31 March 2020 are shown below together with individual fund manager benchmarks:

Asset Class	Current Allocation 31 March 2020	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	18.7	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.0	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
	6.1	Legal & General Investment Management	Pooled	Passive	FTSE RAFI All World 3000 Index
	3.8	Legal & General Investment Management	Pooled	Passive	FTSE World Emerging Markets
Equities	**35.6**				
Multi Asset Strategy	11.0	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	0.7	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
	13.3	LCIV Ruffer	Pooled	Active	Absolute Return
Multi-asset	**25.0**				
Property	5.7	UBS	Pooled	Active	IPD All balanced (property) Fund's

Asset Class	Current Allocation 31 March 2020	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
					median +
Infrastructure	2.4	Stafford	Pooled	Active	CPI +5%% p.a. (net of fees)
	3.7	JPMorgan	Pooled	Active	CPI +5%% p.a. (net of fees)
Other	4.0	CBRE Global Property	Pooled	Active	CPI +5%% p.a. (net of fees)
Real assets	**15.8**				
Gilt/Investment Bonds	17.1	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years. Plus 1.25%*
Other Bonds-Private Debt	1.9	Churchill	Pooled	Active	LIBOR + 4%
Other Bonds-Private Debt	0.8	Permira	Pooled	Active	LIBOR + 4%
Cash	3.9	n/a	n/a	n/a	n/a
Currency Hedging	-0.1	Russell	Segregated	Passive	Hedge100% of EUR,USD and AUD currency (non-equity)
Bonds and Cash	**23.6**				
TOTAL	**100.0**				

*0.75% prior to 1 November 2015

As at March 2020 the total value of assets with the LCIV is £314m (£321m 2018/19) which represents 44% (45% 2018/19) of assets under management. The London CIV has a business arrangement with LGIM to deliver the passive global mandate; this can be classified as being held within the London CIV so the allocation increases to £453m (£453m 2018/19) (62%)

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) timelines.

Significant investment changes during 2019/20 were as follows:

- Following the appointment of Real Asset managers the fund will eventually hold approximately 20% in non-sterling denominated assets. To manage this currency risk the fund appointed Russell Investments. This mandate has been in operation since December 2019.

- Royal London was appointed to manage an allocation to a Multi Asset Credit (MAC) Fund and this commenced from January 2020. The Royal London mandate was also restructured with the MAC and index linked bonds separated into one fund and the allocation to Corporate Bonds held in another fund. The Corporate bonds will continue to be used to fund future capital calls from the Private Debt managers.

- Following the appointments of a Global Property Manager, Infrastructure and Private Debt Managers the fund has continued to fund these mandates. Capital Calls were made and funded as follows:

Investments made	Mandate	Amount £000's	Funded from
CBRE	Global Property	13,028	GMO
Stafford	Infrastructure	9.128	GMO
Churchill	Private Debt	10.314	Royal London
Permira	Private Debt	5.094	Royal London
Total		**37.564**	

Further Capital Calls will continue to be met during 2020/21.

- To retain exposure to emerging markets lost through disinvestments with GMO the Fund has also transferred cash to the value of £7.7m to Legal and General Investment Management (LGIM) passive Emerging Market Fund.

The performance of the Fund is measured against a tactical and a strategic benchmark.

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. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit.

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.

The Fund changed performance measurement services from State Street Global Services (SSGS) Performance Services PLC (formerly known as WM Company) to Northern Trust from 1 October 2019, to provide comparative statistics on the performance of the Fund for its quarterly monitoring.

The overall net performance of the Fund as at 31 March 2020 against both benchmarks is shown below:

	1 year to 31.03.19 %	1 year to 31.03.20 %	3 Years to 31.03.20 %	5 years to 31.03.20 %
Fund Return	3.3	-1.55	2.21	4.39
Tactical Benchmark	**5.7**	**0.34**	**2.62**	**4.35**
Performance	-2.3	-1.21	-0.40	0.03
Fund Return	3.3	-1.55	2.21	4.39
Strategic Benchmark	**7.4**	**3.89**	**4.50**	**7.53**
Performance	-3.8	-5.44	-2.29	-3.15

Source: SSGS/ Northern Trust

The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term. The current funding approach implies a target investment return of Gilts + 1.8% p.a. over the longer term from the Fund's assets, or c. 3.3% per annum in absolute terms based on yields as at 31 March 2019 (the previous valuation date).

Although returns over the 12 month and 3 year periods have been behind this target to 31 March 2020 (at c. -1.6% and c. 2.2% per annum respectively), the strategy has delivered returns of c. 4.4% per annum over 5 years. Returns over the 5 year period are therefore ahead of the long term (absolute) return deemed sufficient to support an affordable and stable level of contributions. It should also be noted that the performance of the Fund's assets as at 31 March 2020 was heavily impacted by falls in markets during Q1 2020, as a result of the COVID-19 pandemic. A significant market recovery has been observed post quarter-end which has seen a marked improvement in the performance of the Fund's assets.

A key challenge for the Fund is that the value placed on the liabilities has risen by more than the assets since the 2019 actuarial valuation, increasing the funding deficit. The rise in value of liabilities has been driven by a continued period of falling gilt yields, which are now at historically low levels. Our long term outlook for index-linked gilts remains unchanged. We believe that valuations are inflated relative to history and expect that, over the long term, yields will rise from present levels leading to a fall in gilt (and consequently liability) values.

The aim of the investment strategy has been and remains to deliver sufficient and stable returns, but without introducing more investment risk than is necessary. The Fund's approach is to seek long term value and diversification across a broad range of asset classes and managers and the strategy incorporates a lower direct allocation to equity markets than other LGPS funds, with equity exposure being partly provided through multi-asset funds. Whilst over the last 5 years, the Fund's equity and bond allocations have consistently outperformed their respective return targets, performance from the multi-asset allocation has disappointed. However, the capital preservation goals of the multi-asset mandates have been partially highlighted over the 12 months to 31 March 2020, with the LCIV Absolute Return mandate protecting capital and delivering a positive 12 month return.

Implementation of the previously agreed changes in strategy have continued over the year and have seen allocations to multi-asset mandates reduced, albeit the underlying equity exposure has been retained. Allocations to global infrastructure, global property, multi-asset credit and private debt have all been introduced to the Fund's longer term strategy, offering the prospect of long-term income generation and boosting diversification within the strategy. We have confidence that the level of returns required to support affordable and stable contributions can be (at least) supported by the current investment approach.

The former (DCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) issued September 2016 relaxed the regulatory framework for scheme investments which also included the relaxation on reviewing investment manager performance.

In light of the above guidance, the Committee reviewed the reporting arrangements in June 2017 and agreed that only one fund manager will attend each Committee meeting, unless performance concerns override this. Managers in the London CIV are now monitored by them and the London CIV produce quarterly monitoring reports which are distributed to the Committee.

Cyclical coverage of manager monitoring is set out in **Annex B,** covering 2020/21 and 2021/22.

FUND GOVERNANCE STRUCTURE

Investment strategy and performance monitoring of the Fund is a matter for the Committee which obtains and considers advice from the Authority and onesource officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The terms of reference for the Committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) (now called Investment Strategy Statement) for the Pension Fund and subsequently monitor and review performance

- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters

- To appoint and review the performance of advisers and investment managers for pension fund investments

- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Committee (those responsible for decision making during the year to 31 March 2020), are as follows:

Conservative Group:
Cllr John Crowder (Chair)
Cllr Osman Dervish
Cllr Jason Frost

Residents Group
Cllr Stephanie Nunn

North Havering Residents' Group
Cllr Martin Goode (Vice Chair March 2019)

Upminster & Cranham Residents' Group
Councillor Ron Ower

Labour Group
Cllr Keith Darvill

Other
Union Members (Non-voting) - John Giles (Unison) replaced by Derek Scott (Unison) from September) and 2019 Andy Hampshire (GMB)

Admitted/Scheduled Body Representative (voting) (currently vacant)

SCHEME MANAGEMENT AND ADVISERS

Day to day management of the Fund is delegated to the authority's statutory section 151 officer/Chief Operating Officer and delivered via oneSource (shared service arrangement between London Borough of Havering, Newham and Bexley).

The Pensions and Treasury team within the oneSource Finance service ensures that members of the committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership (LPP) to undertake their pension's administration. The LPP monitor and manage the pension's employers and employee contributions into the Fund. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Jane West
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services (oneSource)
Fund Administrator	Local Pension Partnership (LPP)
Pension Fund Manager (Finance)	Debbie Ford (oneSource)
Legal Advisers	London Borough of Havering Legal Services (oneSource) provide legal advice as necessary
Fund Actuary	Hymans Robertson LLP
Fund Investment Advisers	Hymans Robertson LLP
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) London CIV Baillie Gifford Diversified Growth Fund (from 15 February 2015) London CIV Baillie Gifford Global Alpha (from 11 April 2016) London CIV RF Absolute Return (from 21 June 2016) Legal & General Investment Management GMO Global Real Return (UCITS) from January 2015 Stafford Capital – Real Assets Infrastructure (from June 18) JP Morgan – Real Assets Infrastructure (from July18) CBRE – Real Assets Global Property (from August 19) Churchill Asset Management – Private Debt (from December 18) Permira Credit Solutions– Private Debt (from January 19)

	Russell Investment – Currency management (from December 19)
Asset Pool Company	London Collective Investment Vehicle (London CIV)
Fund Custodians	State Street Global Services (up to 30 September 2019) Northern Trust (from 01 October 2019)
Performance Measurement	State Street Global Services – Performance Services PLC (formerly WM Company) (up to 30 September 2019) Northern Trust (from 01 October 2019) Pensions & Investment Research Consultants Limited (PIRC)
Bankers	National Westminster Bank PLC
Auditors	Ernst and Young LLP
AVC Providers	Prudential Standard Life

PENSION COMMITTEE MEETINGS 2019/20

The Committee met a number of times during 2019/20 and **Annex A** sets out the coverage of matters considered, but the key issues that arose in the period are shown below:

Major milestones and key issues considered by the Committee

- **Reviewed Fund Managers quarterly performance –** received presentations and met with Royal London (Bonds), UBS (UK Property) and Stafford Capital (Infrastructure).
- **Good Governance –** noted the report written by Hymans Robertson
- **Funding Strategy Statement –** agreed the Funding Strategy Statement and assumptions used in setting employer contributions rate as part of the 2019 valuation results.
- **Pensions Regulator** – noted conclusion of their in depth engagement review and resulting actions.
- **Reviewed performance of the Pension Fund's Custodians, Investment Advisor and Actuary.**
- **Investment Strategy updates** - Appointed Russell to manage the Fund's currency risk for non-sterling denominated mandates (excludes equities) and restructured the Royal London mandate which included appointing them to manage the Multi Asset Credit mandate.
- **Noted Local Pension Board Annual report for the year ending March 2019**
- **Noted Pension Fund Accounts for the Year ending 31 March 2019**
- **Noted Annual Report for the year ending 31 March 2019**
- **Local Government Pension scheme (LGPS) updates -** The Committee receives updates on relevant issues and developments in the LGPS and London CIV.

PENSION COMMITTEE MEETINGS 2020/21 AND ONWARDS

In addition to the annual cyclical work programme as shown in **Annex B** there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- ESG Investment Beliefs policy continued development and monitoring
- London CIV Pooling progression/Continued transfer of assets to the London CIV
- Further development and implementation of the Investment Strategy
- Monitoring of recommended actions following outcome of The Pension Regulator review
- Scheme Advisory Board developments
- Consideration of LGPS Regulation changes and consequential policy, as applicable
- Topical issues discussed as appropriate
- Continued training and development – induction of new members, where applicable.

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the Administrating Authority's Finance and Administration services (oneSource) and the associated costs are therefore reimbursed to the Administrating Authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts.

Estimated costs for the forthcoming three years for Administration, Investment Management expenses and Governance & Oversight follow in this report.

Pensions Administration - From 1 November 2017 the Pensions Administration is provided through a delegated arrangement and is supplied by Local Pensions Partnership (LPP) which is a joint venture between Lancashire County Council and London Pensions Fund Authority.

Pensions Administration also includes a post for the Projects and Contracts Manager who monitors the pension's administration contract and ad hoc projects.

Accountancy and Investment support - The oneSource Finance service that supports the Pension Fund consists of an establishment of 2 full time equivalent posts.

FINANCIAL ESTIMATES

In June 2014 The Chartered Institute of Public Finance & Accountancy (CIPFA) produced guidance on how to account for Management costs and then updated it in 2015 in order that improvements in cost comparisons can be made across all funds. Management costs are now split between three cost categories as follows:

Administrative Expenses
Includes all staff costs associated with Pensions Administration, including Payroll.

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Administration & Processing	*770	570	276	500	500	500
Other Fees	5	20	14	20	20	20
Other Costs	26	30	25	30	30	30
TOTAL	**801**	**620**	**315**	**550**	**550**	**550**

***Includes one off agency costs and GMP reconciliation costs during 2018/19 – an accrual was raised for GMP project which later transpired was not required. 2019/20 actuals reflect a credit of £215k.**

Investment Management expenses
These costs will include any expenses incurred in relation to the management of Fund assets. Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change.

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Fund Manager Fees	*3,895	3,900	3,125	3,400	3,400	3,400
Custodian Fees	23	25	27	25	25	25
Performance Measurement services	27	30	17	15	15	15
Transaction costs	*358	360	23	25	25	25
TOTAL	**4,303**	**4,315**	**3,192**	**3,465**	**3,465**	**3.465**

Please note the following regarding the above figures:

- Management and custody fees are charged according to the fund value; therefore an average figure from the last three years has been applied for 2020/21 onwards
- *Increased management costs in 2018/19 due to Fund manager sign up to transparent reporting of costs being included and a new fund manager one off catch up fees (Stafford).
- Transaction costs are reflected as a disclosure note in 2019/20 instead of inclusion in the accounting tables.

Governance and Oversight
This category captures all costs that fall outside the above two categories and include legal, advisory, actuarial and training costs. Staff costs associated with the financial reporting and support services to the Committee is included here.

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Financial Services	142	147	144	145	145	145
Actuarial Fees	20	50	101	25	25	25
Audit Fees	16	16	14	16	16	16
Member Training (inc. LPB)	4	10	0	10	10	10
Advisor Fees	71	65	79	65	65	65
London CIV	98	100	96	110	110	110
Local Pension Board	4	5	2	5	5	5
Pensions Committee	38	40	31	40	40	40
Other Fees	26	10	1	10	10	10
TOTAL	**419**	**443**	**468**	**426**	**426**	**426**

Please note the following regarding the above figures:

- Increase in Actuarial fees reflect increased fees for work carried out in relation to the 2019 valuation and additional project work.

OVERALL MANAGEMENT TOTAL	**3,925**	**3,995**	**3,975**	**4,441**	**4,441**	**4,441**

TRAINING AND DEVELOPMENT STRATEGY

The Local Pension Board (LPB) has been in place since 25 March 2015.

The Pensions Regulator Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/LPB to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the Shadow Scheme Advisory Board in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role. It was always the plan to adopt a training strategy that will incorporate Pension Committee member training with LPB members to keep officer time and training costs to a minimum.

A joint training strategy has been developed and was agreed by the Pensions Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016. The Training Strategy can be found in **Annex C.**

The Pension Committee of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. The Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA Code of Practice.

Pension Committee and Board members are expected to achieve a minimum level of training credits and the CIPFA's Knowledge and Skills self-assessment training questionnaire will be used to record credits attained and identify gaps in the knowledge and skills of the members.

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under **Markets in Financial Instrument Directive (MiFID 11).** Firms will undertake an assessment of the **expertise, experience and knowledge** of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

PROVISION OF TRAINING

A training budget has been agreed for the provision of training for £10,000 but this will be re-evaluated as appropriate. Training costs will be met from the Pension Fund.

The majority of training and development is cyclical in nature, spanning the four year membership of the committee. Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2020/21 and onwards as shown in **Annex B.**

In addition to the cyclical training and development that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

The Fund encourages use of the three day training courses offered by the Local Government Employers which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

Members receive briefings and advice from the Fund's Investment adviser at each Committee meeting.

Members and Officers also attend seminars arranged by Fund Managers or other third parties who specialise in public sector pensions.

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Head of Pensions and Treasury, Pension Fund Manager and /or Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officers within onesource Pensions teams also benefit from sharing of best practice

The London CIV runs periodic seminars to aid Officer and Committee member development.

Training and development took place during 2019/209 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in **Annex D**. Training has been recorded since the election in May 2018 to demonstrate continuous development and training during their full term of elected office on the Pensions Committee.

The Pensions Regulator has launched an e-learning programme and this has been made available for members to use.

Training will be targeted as appropriate.

APPENDIX A

PENSIONS COMMITTEE MEETINGS HELD DURING 2019/20 **ANNEX A**

MONTH	TOPIC	ATTENDED BY
24 July 2019	• Noted Pension Fund Performance Monitoring for the quarter ending 31 March 2019, received presentations from the Bonds Manager (Royal London) • Noted Pension Fund Accounts for the year ending 31 March 2019. • Agreed the Pension Fund Annual Report for the year ending 31 March 2019. • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2018/19 • Noted the Policy for overpayments of pensions following death of a pensioner or dependant member • Approved the proposed Work Programme for the year to March 2019.	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Ron Ower Cllr Keith Darvill
24 July 2019 (Special meeting)	• Strategic Rationale for Managing Currency Risk and appointment of Currency Hedge Manager	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Stephanie Nunn Cllr Ron Ower Cllr Martin Goode Cllr Keith Darvill
17 September 2019	• Noted Pension Fund Performance Monitoring for the quarter ending 30 June 2019, received presentations from the Funds Property Manager (UBS) • Noted the Good Governance report in the LGPS by Hymans Robertson • Agreed with the development of the Investment Strategy to incorporate an allocation to Multi Asset Credit and agreed to use Royal London to implement the mandate. • Noted the Local Pension Board Annual report for the year ending 31 March 2019 • Noted the conclusion of the Pensions Regulator in Depth engagement review and resulting actions • Considered and agreed the LCIV boards in respect of their pension scheme	Cllr John Crowder (chair) Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Keith Darvill Cllr Martin Goode

APPENDIX A

PENSIONS COMMITTEE MEETINGS HELD DURING 2019/20		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
12 November 2019	• Noted the views of officers on the performance of the Fund's Custodian for the period to September 2019. • Noted the views of officers on the performance of the Fund's Actuary for the period to September 2019. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2019. • Considered and agreed changes as necessary to the Governance Compliance Statement • Noted results of the Whistle Blowing Annual review	Cllr John Crowder (chair) Cllr Martin Goode Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Keith Darvill Cllr Linda Van den Hende (sub for Cllr Ower)
10 December 2019	• Noted the Pension Fund Performance Monitoring for the quarter ending 30 September 2019, received presentations from one of the Infrastructure Manager (Stafford Capital). • Agreed to the admission of Essex Cares to the Havering Pension Fund • Agreed to the admission of Lewis & Graves to the Havering Pension Fund • Agreed the assumptions proposed by the Actuary to set employer contributions rates and agreed the Funding Strategy Statement • Agreed the next steps in respect of developing the Investment beliefs, including agreement of the proposed updated wording to the responsible investment policy.	Cllr John Crowder (chair) Cllr Martin Goode Cllr Osman Dervish Cllr Stephanie Nunn Cllr Keith Darvill Cllr Ron Ower
17 March 2020	• Pension Fund Performance Monitoring for the quarter ending 31 December 2019, presentations due from one of the Funds Infrastructure managers (JP Morgan) • Admission of Caterlink (Life Education Trust) to the Havering pension Fund • Investment Strategy Statement (ISS) Update - consider and agree to the updated ISS • Review of the Fund manager voting and engagement activity.	**cancelled due to COVID-19 working restrictions**

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

APPENDIX A

KEY REPORTING DATES 2020/21

ANNEX B

	JULY 2020	SEPTEMBER 2020	NOVEMBER 2020	DECEMBER 2020	MARCH 2021
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 20: JP Morgan (Infrastructure) ▪ Business Plan/Report on the work of the Pensions Committee 2019/20 ▪ Pension Fund Accounts 19/20 ▪ Pension Fund Annual Report for 19/20 ▪ Reports from cancelled March 20 meeting	▪ Overall Monitoring Report on Pension Fund to end of June 20: Ruffer (Absolute Return/LCIV (Baillie Gifford and LCIV update) • Funding Strategy Statement - review for legislative changes • Investment Strategy - Update	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review	▪ Overall Monitoring Report on Pension Fund to end of September 20 CBRE (Global Property) ▪ Annual review of Fund Managers Voting & Engagement ▪ Climate Risk Governance ▪ Triennial mid-point valuation	▪ Overall Monitoring Report on Pension Fund to end of December 20: Churchill (Private Debt) • Good Governance review - outcomes and implementation planning for 2021/22
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

KEY REPORTING DATES 2021/22

ANNEX B (continued)

	JULY 2021	SEPTEMBER 2021	NOVEMBER 2021	DECEMBER 2021	MARCH 2022
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 21 LGIM (Passive Equities)	▪ Overall Monitoring Report on Pension Fund to end of June 21: Permira (Private Debt) • GAD Section 13 results	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review	▪ Overall Monitoring Report on Pension Fund to end of September 21 Royal London (Bonds)	▪ Overall Monitoring Report on Pension Fund to end of December 21: Russell (Currency)
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

Contents

LGPS Knowledge & Skills Training Strategy

Introduction

This is the Training Strategy for the London Borough of Havering Pension Fund.

It sets out the strategy agreed by the Pension Committee and the Local Pension Board concerning the training and development of the members of the

- Pension Committee (the "Committee Members");
- members of the local pension board (the "Board members") and
- officers of the London Borough of Havering Pension Fund responsible for the management of the Fund (the "Officers").

The Training Strategy is established to aid the Committee Members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the decision making responsibility put upon them. A code of practice and a framework of knowledge and skills has been developed by CIPFA which LGPS Funds are expected to sign up to.

The Public Service Pensions Act 2013 also requires London Borough of Havering Council to set up a Local Pension Board. The Act requires the Pensions Regulator to issue a code of practice relating to the requirements of the knowledge and understanding of Board members. Guidance on the knowledge and understanding of Local Pension Boards in the LGPS has also been issued by the Shadow Scheme Advisory Board in January 2015. Although this has not been designated as statutory guidance it should be held as good guidance and should be acknowledged.

The objective of the CIPFA knowledge and skills framework is to determine and set out the knowledge and skills sufficient to enable the effective analysis and challenge of decisions made by officers and advisers to the Pension Committee whilst the guidance for local pension boards issued by the Shadow Scheme Advisory Board is to assist the individual Board members in undertaking their role to assist the Scheme Manager (the London Borough of Havering Pension Fund) in the effective governance and administration of the local government pension scheme.

The training desired to achieve the additional knowledge and skills will be contained in the appropriate training plan(s)

Strategy Objectives

The Fund objectives relating to knowledge and skills are to:

- Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives –

The Committee Members require an understanding of:

- Their responsibilities as an administering authority of a local government pension fund;
- The fundamental requirements relating to pension fund investments;

- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the London Borough of Havering Pension Fund.

Board members are conversant with–

- The Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund
- and have knowledge and understanding of:
- The law relating to pensions; and
- Such other matters as may be prescribed

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework. Attention will also be given to the guidance issued by the Shadow Scheme Advisory Board, the Pensions Regulator and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's 3-year business plan. For example, funding training will be given immediately preceding the Committee or Board meeting that discusses the Funding Strategy Statement.

Board members will receive induction training to cover the role of a local pension board and understand the duties and obligations of a LGPS administering authority, including funding and investment matters.

All those with decision making responsibility in relation to LGPS pension matters and Board members will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified; and
- seek to maintain their knowledge.

Application of the training strategy

This Training Strategy will apply to all Committee Members and representatives with a role on the Pension Committee and to all the Board members. Other officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

Purpose of training

The purpose of training is to:

- Equip people with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Provide individuals with integrity;
- Meet the required needs in relation to the Fund's objectives.

Summary

This training strategy:

- Assists in meeting the Fund's objectives;
- Meets the business plan;

- Will assist in achieving delivery of effective governance and management;
- Will equip those responsible with appropriate knowledge and skills;
- Promote ongoing development of the decision makers;
- Lead to demonstrating compliance with the CIPFA Knowledge and Skills Framework;
- Lead to demonstrating with statutory requirements and associated guidance

Meeting the business plan

Timely and relevant

There will be times in the year when different circumstances will require specific training. For example, funding training can be provided just prior to the Committee meeting that discusses the Funding Strategy Statement.

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan.

The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Delivery of Training

Training resources

Consideration will be given to various training resources available in delivering training to the Committee Members, Board members or officers in order to achieve efficiencies. These may include but are not restricted to:

For Pension Committee and Local Pension Board Members	For Officers
• In-house* • Self-improvement and familiarisation with regulations and documents • The Pension Regulator's e-learning programme • Attending courses, seminars and external events • Internally developed training days and pre/post Committee/Board sessions* • Shared training with other Funds or Frameworks* • Regular updates from officers and/or advisers* • Circulated reading material	• Desktop / work based training • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (e.g. CIPFA, CIPP, PMI) • Internally developed sessions • Shared training with other Funds or Frameworks • Circulated reading material

*These may be shared training events for Pension Committee and Local Pension Board members

Training Plans

To be effective, training must be recognised as a continual process and will be centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

Training Plans will be developed at least on an annual basis, as per the Business Plan. These will be updated as required taking account of the identification of any knowledge gaps, changes in legislation, Fund events (e.g the triennial valuation) and receipt of updated guidance.

Induction Training will be provided for all new officers with pensions responsibilities, members of the Pension Committee and Local Pension Board. This will involve covering the requirements of the Training Strategy alongside guidance and information on the requirements of their roles.

External Events

As information on events becomes available, members will be advised by email.

After attendance at an external event, Committee Members and Board members will be expected to provide verbal feedback at the following Pension Committee/Board meeting covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other Pension Board members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points:

- Their view on value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

On-going development

Maintaining knowledge

In addition to undertaking on-going assessment in order to measure knowledge and skills against the CIPFA requirements and identify knowledge gaps, Officers, Committee Members and Board members are expected to maintain their knowledge of on-going developments and issues through attendance at external events and seminars.

Appropriate attendance at events for representatives of the Pension Committee and Board will be agreed by the appropriate chairman.

If an event occurs and appropriate, members will be advised by email.

The Committee/Board will approve an appropriate level of credits for attendance at an event in relation to the type of event, its content and relevance to knowledge maintenance.

In any event, attendance at events/seminars (which may include some internal training sessions) that are not direct training courses focussed on the CIPFA Knowledge Skills Framework or issued guidance but enhance and improve related on-going and emerging pension knowledge will count as one credit for each session of up to a half day.

Where the Committee/Board members have work related experience or previous knowledge through former membership of a Committee or Board will be able to count this as credits in their own assessment and score accordingly.

There is a practical recognition that it will take a newly appointed member a reasonable period to attain the required full level of knowledge and understanding and hence the training and continued development will span the duration of the role.

Owing to the changing world of pensions, it will also be necessary to have ad hoc training on emerging issues or on a specific subject on which a decision is to be made by the Pension Committee in the near future or is subject to review by the Local Pension Board. These will also count as credits in maintaining knowledge.

As a measure of training given or knowledge level officers, Committee Members and Board members are expected to have a minimum level of training credits. These are as follows -

Relevant Group	Knowledge Skills - level of attainment	The expected minimum level of credits over the 4 year term of office
Officers	Own sectional and personal development objectives	Own sectional and personal development objectives
Pension Committee and Local Pension Board Members	32 credits	8 credits

These will be measured and monitored annually by Pension Fund Accountant and reported in the Pension Fund Annual Report. Please see the appendix Knowledge and Skills – self assessment of training needs for basis of scoring.

CIPFA Requirements

CIPFA Knowledge & Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skill set for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS Funds.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

First published in October 2011 and redrafted in July 2013, CIPFA's Code of Practice embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pension Committee of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Code of Practice and has agreed to formally adopt its principles. This Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA Knowledge and Skills Code of Practice.

Guidance from the Scheme Advisory Board

General Principles

The Shadow Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and published in January 2015 guidance in a local government context for administering authorities to support them in establishing their local pension board and this includes a section to enable it to help Board members to meet their knowledge and understanding obligations.

Knowledge and understanding must be considered in the light of the role of a Local Pension Board and the London Borough of Havering will make appropriate training available to assist and support Board members in undertaking their role.

Pension Committee Members

Although the CIPFA knowledge and skills framework complements the code of practice that should be adopted by administering authorities there is no legal requirement for knowledge and understanding for members of a Pension Committee. However it will be seen as good practice and governance if members of a Pension Committee use the knowledge and skills requirements set at a similar benchmark as the Local Pension Board.

Degree of Knowledge and Understanding

The role of the Local Pension Board is to assist the administering authority. To fulfil this role, Board members should have sufficient knowledge and understanding to challenge failure to comply with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Board members should understand the regulatory structure of the LGPS and the documentary recording of policies around the administration of the London Borough of Havering Fund in enough detail to know where they are relevant and where it will apply.

Acquiring, Reviewing and Updating Knowledge and Understanding
Board members should commit sufficient time in their learning and development and be aware their responsibilities immediately they take up their position. London Borough of Havering will therefore provide induction training for all new Board members which will also be available to new Committee Members.

Flexibility
It is recognised that a rigid training plan can frustrate knowledge attainment when it is required for a particular purpose or there is a change in pension's law or new responsibilities are required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

Training records and certification

Progress and achievement
Personalised training plans will be used to document and address any knowledge gaps and update areas of learning where required and assist in the acquisition of new areas of knowledge in the event of change.

Progress and achievement will be certificated at least on an annual basis individually to all Committee Members, Board members and officers. These will detail:

- The current assessment of an individual's acquired knowledge;
- Their progress against achieving the credits from other internal/external training or events; and
- All training courses and events attended by them to date.

Risk

Risk Management
The compliance and delivery of this training strategy is at risk in the event of –

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Cost
A training budget will be agreed and costs will be met from the Pension Fund.

APPENDIX A

PENSIONS COMMITTEE MEMBER TRAINING (Election May 2018 – 31 March 2020)

ANNEX D

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
3 July 2018	Peter Worth – Understanding the role of the Pensions Committee	Town Hall	KSF 1	Paid for by OneSource – to be recharged to Havering	Cllr J Crowder (Chair) Cllr M Wallace (Vice-Chair) Cllr R Ramsey Cllr M Goode (also Chair Audit cttee) Cllr R Ower Cllr Mt Sutton (also Vice-Chair Audit cttee)
24 July 2018	Officer - New Councillor Induction • plus Hymans "A brief Guide to the LGPS'	Town Hall	ALL	Officer Time	Cllr R Morgon Cllr R Ower
24 July 2018	Officer - New Councillor Induction – distribution of slides only	Town Hall	ALL	Officer Time	Cllr M Sutton
24 July 2018	Officers - Pension Fund Accounts 17/18 Briefing covered: • Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr J Crowder (chair) Cllr M Wallace (vice-chair) Cllr M Goode Cllr R Ower Cllr R Morgon Cllr J Sargent Cllr G O'Sullivan Cllr D Durant Cllr Viddy Persuad (part)

APPENDIX A

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 August 2018	Hymans – Direct Corporate Lending, covered: • What is Direct corporate Lending • Why we are investing in this asset class • How to get exposure • bFinance - covered the manager selection process	Town Hall – Prior to Special Pensions Committee meeting	KSF 3 KSF 5	Part of contract	Cllr J Crowder (chair) Cllr M Wallace (vice-chair) Andy Hampshire (GMB union- employee rep)
15 November 2018	SPS Conferences Local Authority - Pension Fund Investment Strategies: • Topical Issues • Income from Property & Infrastructure- planning for cash flow negativity • Management of Assets – improving cost transparency • • LGPS Perspectives -current issues	Le Meridien Hotel, Picadilly, W1	KSF 5	Free	Cllr S Nunn
11 December 2018	Officer - New Councillor Induction	Library	ALL	Officer Time	Cllr D Durant
11 December 2018	Hymans-ESG :Introductory Training: • Introduction • Regulation • Application and Action • • Next steps: establishing a set of beliefs:	Town Hall – Prior to Pensions Committee meeting	KSF 1 KSF 4 KSF 5	Part of contract	Cllr J Crowder (chair) Cllr M Wallace (vice-chair) Cllr R Ower Cllr S Nunn Cllr D Durant Cllr M Sutton (part)

APPENDIX A

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
9 July 2019	Officer – New Councillor Induction	Town Hall	ALL	Officer time	Cllr J Frost
11 July 2019	Officer – New Councillor Induction	Town All	ALL	Officer time	Cllr K Darvill
11 July 2019	Hymans - Managing Currency Risk	Town Hall	KSF 3 KSF 4 KSF 5	Hymans Fee	Cllr M Goode Cllr S Nunn Cllr R Ower Cllr J Frost Cllr J Crowder
18 July 2019	Officers - Pension Fund Accounts 18/19 Briefing covered: Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr M Goode Cllr R Ower Cllr O Dervish Cllr V Persaud (Audit)
23 July 2019	Hymans - Managing Currency Risk – training slides distributed for non-attendees on 11 July 2019		KSF 4 KSF 5	Officer Time	Slides Distributed to Cllr K Darvill Cllr O Dervish Andy Hampshire (GMB rep)
23 July 2019	Officer – New Councillor Induction	Town Hall – EF14	All	Officer Time	Cllr O Dervish
16 September 2019	Officer –Induction training	LBH Offices	ALL	Officer time	Derek Scott (UNISON Rep)

APPENDIX A

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
17 September 2019	Hymans – Multi Asset Credit: • Debt markets overview • What is Multi Asset Credit (MAC) • Absolute Return Bonds (ARB) • Current Yields • Comparison of MAC vs ARB	Town Hall - As part of the Pensions committee meeting	KSF 3 KSF 4 KSF 5	Hymans Fees	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr K Darvill
24 October 2019	Officer – New Councillor (sub) Induction	LBH Offices	ALL	Officer Time	Cllr L Van den Hende
12 November 2019	A Guide to the LGPS –sent via email	LBH Offices	ALL	Officer Time	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr S Nunn Cllr K Darvill 2 nominated substitutes: Cllr R Morgan Cllr L Van den Hende
13 November 2019	CIPFA – Annual Pensions Conference	The London Stock Exchange	ALL	Free Place	Cllr J Crowder
10 December 2019	Hymans Valuation 2019 training presentation	LBH Offices	KSF 6	Hymans Fee	Cllr J Crowder Cllr D O'Flynn (sub) Cllr S Nunn Cllr K Darvill

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Agenda Item 9

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 29 JULY 2020

Subject Heading:	**Actuarial Update – COVID19 and Funding Risks**
SLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	Risk management
Financial summary:	**None directly**

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

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

SUMMARY

This report includes a briefing from the Funds Actuary to help the Committee understand the funding impact and risks associated with the ongoing COVID-19 pandemic.

Hymans paper is attached at Appendix A (Exempt) – this item is exempt as it contains information relating to the financial affairs of employers in the Fund.

RECOMMENDATIONS

That the Committee note:

1. Hymans report and recommendation as set out in Appendix A (exempt), and
2. the risks identified and the funds mitigations in place.

That the Committee is asked to agree:

To adopt the Pensions Regulator guidance as set out in Appendix B when considering suspension of contribution rates.

REPORT DETAIL

1. Background

a) COVID-19 has led to a worldwide increase in deaths and a significant shock to the global economy with large movements and increased volatility in stock market values and financial difficulties for some employers in the sectors that have been impacted. Whilst the short-term impact on the number of deaths and the economy is significant, it is unclear at this stage what will be the medium and longer term impact.

b) Hymans briefing paper focuses on what this means for the funding of the Local Government Pension Scheme ("LGPS").

c) Hymans have considered what measures the Fund could take to mitigate the identified risks. As the pandemic evolves, and the economic and political environment reacts, the conclusions contained within Hymans paper may also evolve. Therefore Hymans recommend that the Fund and the Pensions' Committee keep this situation and its response under regular review.

2. Hymans paper has been divided into two sections:

2.1 Impact Analysis –

a) The funding level remains within the 'corridor' of outcomes predicted at the 2019 valuation i.e. Didn't fall below 58% or rise above 84%
b) Main risks for the Fund by its employers is their ability to make contributions when they fall due and whether insolvency results in an employer ceasing whilst in deficit.

2.2 **Risk Mitigation Measures -** There are a number of measures that Hymans recommend the Fund take to mitigate risk and the Fund's response to these recommendations are outlined below:

a) *Market Movements:*
- *Funding Level* - The Fund continues to monitor the funding level and outlook and returns on the Funds asset as this is covered within the quarterly monitoring reports and advice from the Funds investment advisors.
- *Revisit contribution rates* – no action recommended at this time.

b) *Employer covenant and risks:*
- *Policy for suspension of contribution rates* – Hymans suggest *that the Fund may wish to agree a policy for consistent handling of any requests to defer, reduce or suspend contributions to ensure that each are treated equitably and transparently.* It should be noted that any requests would be discussed with our actuary in the first instance but officers recommend that the Committee agree to follow the Pensions Regulator Guidance (tPR) "DB scheme funding and investment: COVID-19 guidance for trustees" attached as **Appendix B**. Contributions continue to be monitored monthly as part of our cash flow monitoring processes.
- *Consider various communication with guarantors/letting authorities in relation to the pension funding risks.* Admitted Bodies are mainly covered by bonds. Guarantors/letting authorities already aware of their risks and obligations, however officers are currently trialling an online monitoring facility provided by Hymans which provides funding updates for employers without having to involve the actuary that can be used as a monitoring tool and results can be distributed to guarantors/letting authorities for consideration.
- *Covenant checks and admission and guarantor paperwork is up to date*. This is being managed by our pension administrators (Local Pensions Partnership (LPP)) and the Pensions Projects & Contracts Manager monitors their progress in ensuring that paperwork is up to date. LPP also carry out the covenant checks and in their last quarterly report as at March 2020 stated no employers in the fund are deemed high risk.
- *Leisure Centres – Keep under review -* our current leisure provider is covered by a bond.

IMPLICATIONS AND RISKS

Financial implications and risks:

Defaults - The Fund currently has seven admitted bodies of which four have a contract expiry date before March 2023, the earliest being September 2020. These are more at risk of leaving the fund with a potential deficit if market falls are not recovered during their remaining time in the Fund. In total deficits are estimated to be £444k as at the end of April 2020.

Any cessations in the fund resulting in deficits, that couldn't be met from a Bond, would be covered by the Letting Authority or Guarantor.

The Academies are the letting authority/guarantor for three of these contracts and Havering Council for one of these contracts (this being Housing Services for the Housing Maintenance contract).

As set out in the Funds Funding Strategy Statement – any unpaid amounts (non-recovery of deficits) would be shared amongst all of the other employers in the Fund. There is no risk to the Pension Fund in collecting what is due to the Fund. However, Havering Council as the largest employer in the Fund would carry most these costs were this situation to arise.

Payment Holidays - Local Government Association advice in respect of allowing employer contribution "holidays" follows:

Regulations confirm that an administering authority may determine the intervals for employer contribution payments, as they consider appropriate. There must be at least one payment per year but whatever intervals are set, the total contributions due for the year, as set out in the rates and adjustments certificate, must be received by year end and each payment must equal the appropriate proportion of the total contributions due for the year as determined by the authority.

Deferrals of contributions are only allowed in limited circumstances and there is no provision for non-payment 'holidays' where contributions are not recovered during the year.

The Fund will assess any requests in line with tPR guidelines, current covenant checks and advice from the Actuary.

Legal implications and risks:

There are no apparent legal implications in noting the contents of the Report and approving the adoption of the Pensions Regulator's advice. It is reasonable to follow the Pensions Regulator's advice as they regulate the sector. .

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, 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 Authority 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 EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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

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The Pensions Regulator

DB scheme funding and investment: COVID-19 guidance for trustees

This guidance will help trustees of defined benefit (DB) pension schemes to deal with issues that have arisen during the COVID-19 situation. These include dealing with requests to suspend or reduce contributions and making difficult decisions.

This guidance supplements our **Annual Funding Statement** (https://www.thepensionsregulator.gov.uk/en/document-library/statements/annual-funding-statement-2020) published on 30 April 2020.

We appreciate this guidance cannot cover the whole range of issues that trustees are facing. This guidance is designed to support them as they face unusual challenges but does not supersede trustees' fiduciary duties, their obligations under the scheme rules, or the legislation. We are not authorising, encouraging or compelling a particular outcome - we simply expect trustees to do the right thing for their situation and members. This guidance highlights some good practice ideas and outlines our current response to legislative breaches or trustee actions.

Published: 27 March 2020.

Updated: 16 June 2020.
Major rewrite to consolidate previously published guidance, provide an update of our view of the impact of COVID-19, explain how we will continue to adapt our regulatory approach and to provide guidance for trustees dealing with difficult decisions.

Our monitoring of the landscape

Since publishing the original guidance we have been monitoring how trustees and employers have reacted to the economic impact of the last few months. There continue to be a wide range of impacts on funding positions and employer covenants.

Informed by the feedback we received from employers, trustees and advisers, we have consolidated our existing guidance where relevant and provided additional guidance on some of the practical challenges that trustees and employers face. We continue to monitor the situation but do not anticipate further updates unless circumstances change significantly.

Suspending or reducing contributions

The current landscape

Our evidence suggests that only a small proportion of employers have asked to suspend or reduce contributions (deficit repair contributions (DRCs) or future service payments). We believe that around 10% of schemes have agreed a temporary suspension or reduction of DRCs so far. However, we understand that more trustees and employers are in the process of discussing possible requests to suspend or reduce contributions. Extensions to existing suspensions could also still be needed in the near future as some employers continue to experience significant trading and liquidity pressures.

Furthermore, given the timing of the start of business restrictions and closures due to the pandemic, employer loan and banking covenant tests at 31 March 2020 are unlikely to have been adversely affected. However, 30 June 2020 and future covenant tests may have been significantly impacted. This could result in funders seeking increased protections from employers and lead to further requests of trustees.

We expect that for many schemes there is now greater understanding of the employer financial position including short-term affordability. Discussions with lenders and other creditors are likely to have progressed and employers are now more likely to have financial projections as part of an updated business plan which reflects their view of the likely impacts of COVID-19 (albeit based on a range of scenarios). As such, many trustees should be able to review in more detail the business case for a new or continuing suspension or reduction of contributions to ensure it is appropriate and the scheme is being treated equitably.

Requests to suspend or reduce payments for future service should be treated in a similar way as requests to reduce or suspend DRCs. Trustees should consider whether to take legal advice in these circumstances.

What we expect now

DRC suspensions or reductions may continue to remain appropriate. However, in view of the improved visibility of employers' financial situations, we do not expect trustees to unquestioningly extend their original suspension arrangements on a three-month rolling basis based on limited information and for this to become the new normal. Instead, we now expect that most trustees will be able to undertake due diligence on the employer's financial position before agreeing a new suspension or reduction.

Employer covenant: due diligence

There is a distinction between visibility over short-term liquidity/affordability and visibility over the broader covenant in the medium to long term. Trustees need to decide whether there is genuine and possibly temporary uncertainty or if there has been a material deterioration in the employer covenant.

If there is good evidence that the covenant has materially worsened and is not expected to recover in a reasonably short timeframe, trustees should consider whether it would be in the best interests of members to update the scheme's funding arrangements (eg calling a new actuarial valuation and/or revising the recovery plan) to more accurately reflect the sponsoring employer's position.

We expect trustees to be open to reasonable requests from the employer, but to make an informed assessment of whether it is in members' best interests to agree, even if a request is part of a larger co-ordinated request across other stakeholders that may appear equitable.

Where a suspension or reduction in contributions is necessary and appropriate (for example, the employer has an immediate or demonstrable cashflow need for the foregone contributions) , trustees should seek protections and other mitigations. These may, for example, include the following:

- All dividends and other forms of shareholder distribution to stop throughout the period of suspension and not to start again until the deferred or suspended contributions have been paid.
- Where contributions have been suspended or reduced, trustees should agree arrangements for contributions to start again or increase based on appropriate triggers. For example, when access to liquidity above a certain level is restored.
- Equitable treatment of the pension scheme compared to other creditors remains a key consideration when accessing increased liquidity. Trustees should ensure the scheme is not unfairly prejudiced by other creditors being inappropriately repaid in priority. They should agree appropriate legally enforceable protections.
- Where a suspension or reduction of contributions is agreed as part of a refinancing or other amendment process from lenders or significant creditors, trustees should fully understand the terms and conditions, costs and enhancements. If possible they should try to seek the same recourse and access to security/valuable assets, for example, with the deferred sums being given the same protections as the new money lending.
- Enhanced monitoring of the employer's and (if applicable) wider corporate group's trading and liquidity position will likely be required over the short to medium term. Therefore, as part of any agreement to concessions, trustees should ensure they will continue to receive appropriate and regular forward looking and actual financial information to identify changes in circumstances of the employer and the position of its funders.
- Where possible, we expect reduced or suspended contributions to be repaid within the current recovery plan timeframe and the recovery plan not to be lengthened unless there is sufficiently reliable covenant visibility available to suggest otherwise. There are

different mechanisms for deferring contributions. We expect trustees to take legal and actuarial advice on this as the consequences and impact will be different for each scheme.

If there is little or no information available

There may be some employers where short-term visibility remains extremely limited and it will be difficult for the employer to provide information required by trustees to make an informed decision. If trustees are satisfied that there is uncertainty and a lack of information, a further short-term suspension of contributions may be appropriate provided that trustees are confident and can explain how the suspension would not be a breach of their fiduciary duties. In particular, trustees need to consider whether the contribution suspension may result in a write-down of scheme assets if the employer is unable to repay them or it would reduce recovery if the employer becomes insolvent.

This should be undertaken alongside other financial creditors agreeing concessions to support the employer. Agreeing to concessions outside of a co-ordinated support package risks leaving trustees without negotiating power if other creditors seek enhanced protections (eg security or preferential access to future cashflows) in exchange for concessions. For example, where lenders seek enhanced protections for breach of covenant tests which would weaken the scheme's position if the trustees were not actively involved in negotiations alongside the financial creditors.

In the absence of covenant and liquidity visibility in the short term we expect trustees to:

- agree only short-term concessions until there is more reliable visibility
- make sure that the less confidence they have of getting access to timely and relevant financial information, the shorter the reduction or suspension should be
- consider carefully how appropriate a suspension is if the contributions due in the proposed suspension period are substantial (eg where a one-off, large, single payment is due or where contributions are paid annually and the next one happens to fall in the suspension period)

Reminder of legal obligations

Even though we are issuing this guidance, it doesn't override trustees' and employers' existing legal obligations. Therefore, if trustees and employers agree to amend their funding arrangements, any new valuations, amended recovery plans and schedules of contributions are to be completed and submitted to us in accordance with the legislation and the **funding defined benefits code of practice** (https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-3-funding-defined-benefits-)
.

Distressed employers

The impact of COVID-19 and the measures taken to contain it have been swift and severe. The impact on trade, liquidity and debt burden of employers has been varied from those experiencing limited adverse impacts to those that have seen significant deterioration in corporate health. Some employers have been placed in insolvency proceedings. Uncertainty is expected to continue which heightens the need for trustees to understand the corporate health of their scheme's sponsoring employer. We expect trustees will need to enhance the level of covenant monitoring over the short to medium term.

Engaging with the employer will continue to be complicated by the many new demands on their time.

COVID-19 questions for covenant monitoring and contingency planning

The following questions should help trustees understand risks to the scheme's sponsoring employers and assist in covenant monitoring.

- How will the impact of the virus and the measures to contain it affect:
  - demand for the employer's products
  - cashflow - employers should be preparing 13-week cashflows where there is a significant impact on cashflow
  - debt burden
- What are the assumptions and scenarios used to prepare forecasts or projections?
- What financial information is being provided to other key stakeholders?
- Are there any key payment dates in the short term that will affect the business (eg rent quarter dates)?
- Are there any restrictions on using available borrowing?
- When will the banking covenants next be tested and are they or future tests expected to be met?
- For how long are current borrowing facilities expected to be sufficient?
- Is the employer discussing further funding facilities?
- Are funders seeking new security and, if so, what is the impact on the scheme?
- What are the positions of key suppliers and creditors? Have they imposed any restrictions on normal credit availability or supply volumes?
- What is the position of trade credit insurers?
- What payments are proposed to associated or connected companies or shareholders in the next six months?

Trustees should consider the likely significance of the impact on the scheme in line with our guidance on **integrated risk management** (https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/integrated-risk-management)

. This should include considering whether contingent assets or other protections may be available to support the scheme, particularly if these are being sought by other creditors or concessions are being sought from the scheme.

Trustees should also consider the approach taken by other creditors, shareholders and associated companies to ensure that the scheme is being treated equitably.

Requests to release security

Where employers ask trustees to release security, there is the possibility that if the employer fails to recover, the scheme will have lost access to a potentially valuable asset. It is very unlikely that security release is in members' best interests. Therefore, we expect trustees to carefully consider such a request and obtain full legal and financial advice from specialist advisers.

We expect trustees to be provided with a business plan and forecasts detailing why the request is being made so they can assess the prospects of success to determine whether such action is in the best interests of members. Before agreeing to such requests, trustees should fully understand how relinquishing security would affect the covenant and understand what requests are being made of other secured creditors. Schemes should be treated equitably with other creditors and we do not expect such requests to be limited to them. If possible, trustees should obtain some sort of alternative security or mitigation from the employer.

If trustees have any concerns, they should contact us at **customersupport@tpr.gov.uk** (mailto:customersupport@tpr.gov.uk)
.

Valuations due to be finalised

We recognise that trustees currently finalising their valuations may still need more time to complete them. The valuation assumptions may have been set under very different conditions than those prevailing today, both in terms of financial markets and the employer covenant. We do not necessarily expect trustees to revisit these assumptions, although some trustees may be advised that it is in the best interests of their members to do so.

For many schemes the current funding position, calculated using consistent assumptions as for the valuation, will be significantly worse and the deficit materially larger. We will not require trustees to allow for relevant experience since the effective date of the valuation in their recovery plan. However, we do expect trustees to consider whether the post-valuation experience is relevant when agreeing the recovery plan in the context that the employer's affordability may now be constrained.

Some trustees may decide that it is in the best interest of their members to take more time to consider the scheme and employer's current situation rather than submit a valuation and associated documents which may need to be renegotiated soon. Our preference is for the best outcome to be reached for the scheme, rather than one agreed under pressure simply to meet the deadline.

Scheme investments

Pension funds generally have long-term investment horizons and many schemes and employers will have the ability to trade through the current challenging market conditions. Our evidence suggests that there has been a broad range of impacts on scheme funding positions, depending on the scheme's pre-COVID asset allocation, the degree of hedging and trustee risk management and contingency planning. Over the last few months, we have seen high-levels of volatility in investment markets and, as a result, funding positions of many schemes.

Nevertheless, there are some significant short-term risks for all schemes. There are also some significant medium to longer-term risks for schemes both in terms of the uncertainty around economic outlook and investment returns and, for many schemes, the employer's longer-term prospects. Trustees should review the impact on their scheme's investments if they have not done so already and be ready to undertake a further review if the situation changes. Trustees should review with their advisers and consider the following:

- Their expected scheme cash outflows over the short to medium term and where they expect those cash outflows to be met from.
- How their expected scheme cash outflows and inflows might vary. For example, in times of economic stress, member movements (eg retirements, early retirements, transfers and, where funded, death benefits) may increase the requirement for cash. In addition, some trustees may be asked to reduce or suspend expected DRC payments for a period to help with their short-term business cashflows, which could reduce an expected source of cash.
- The investment strategy and investment mandate rebalancing requirements they currently have in place. In some instances, trustees may feel it is appropriate to suspend or refine these requirements.
- The degree of diversification and the extent of any concentrations of risk in specific investments or sectors they currently have through their investment arrangements or investment mandates. In some instances, trustees may feel it is appropriate to consider making changes in relation to certain exposures (or levels of exposures) to specific investments or sectors.
- The appropriateness of the derivative positions and structures they hold, and their collateral management arrangements.
- The extent of their exposures to certain counterparties.
- The timing of any pre-agreed asset transitions, incremental strategy changes or de-risking milestones.

- The terms of reference for any subcommittees to ensure they can continue to function in the event of trustee incapacity or absence. This might include a review of quorate and sign-off/signature requirements.
- The schedule of delegated responsibilities to ensure activities can be carried out in the event of trustee incapacity or absence, for example where the chair of the investment subcommittee or trustee board is required to authorise disinvestments of certain levels.
- Where trustees have serious concerns about the ability of the employer to trade, they should consider whether any investment and risk management actions are needed to help protect their members' benefits.
- Their current integrated risk management policy and monitoring framework.
- Their current investment and risk governance arrangements. Trustees may feel an alternative governance structure might be more appropriate, for example to enable investment and risk management decisions to be made more quickly.

Trustees should also consider that market dislocations can present opportunities. They should consider with their advisers how they might evolve their investment strategies or arrangements at an appropriate time. Some of these opportunities may involve:

- value enhancing investment opportunities
- value preservation activities, for example through proactive management of deteriorating risks
- where funding levels permit, risk transfer opportunities through buy-in or buy-out activities

Dealing with difficult decisions

These can be very difficult times for both trustees and employers. Trustees sometimes have to make decisions where there is no obvious right answer or guaranteed outcome, but they have to exercise their judgement as best they can.

Sometimes it can be in the best interests of members to allow the employer some commercial and financial breathing space. However, trustees need to understand how their decision will support the employer and consequently the covenant supporting the scheme, and weigh that against the potential risks to the scheme. In doing so they should, where possible, seek appropriate protections for the scheme.

Conflicting priorities

Managing conflicts continues to be one of the foundations of good trustee decision-making. It is particularly important when facing a challenging situation. Trustees should remind themselves of our **conflicts of interest guidance** (https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/conflicts-of-interest)
.

Value of focused advice

We don't recommend that trustees take professional advice for every decision they make. Trustees can make many of their day-to-day decisions without advice. However, in some situations, particularly where trustees have difficult decisions to make and the decision is material for the scheme or employer, taking advice is the right thing to do.

Professional advice can highlight options or problems that the trustees may not be aware of and, by supporting good decision-making, can help save money in the longer run. It can also protect the trustees from claims of a breach of trust.

Trustees may need to seek advice beyond their usual advisers. For instance, independent advice need not be limited to just covenant, but to understanding the scheme's position in refinancing, restructuring and insolvency scenarios.

Trustees and employers may be concerned about the costs of advice, particularly when the employer is suffering cashflow problems. It may be sensible for trustees to check whether their trust deed and rules allows for expenses to be paid from scheme assets, even if the employer usually pays. If the governing documents do not provide for expenses to be paid from assets, the employer and trustees may wish to consider whether it would be in members' best interests to amend the documents to permit it.

Trustees can manage costs by being proportionate and targeted on key issues and prioritising essential projects. Trustees may decide it is appropriate to obtain targeted real time advice, such as verbal advice backed up by short (email) written advice, rather than to commission detailed reports.

Information sharing

We acknowledge the challenging circumstances and uncertainties faced by many employers. However, it is important that they **provide trustees with the information they need** (https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/trustee-guidance#5c915b72b3d6427dbb0656ab196932f3) (or at least whatever can reasonably be provided) in a timely manner as per their legal obligations. Equally, trustees should be open with the employer. This will facilitate appropriate and swift decision-making which will benefit the employer and the scheme members.

A seat at the table

If there are competing stakeholders, such as in refinancing or restructuring situations, trustees may find it difficult to ensure their interests are properly addressed. We recommend that trustees in this position take advice (including legal advice) on their negotiation options. They may have more leverage than they realise. For instance, the trust deed and rules may contain a strong contribution power or trustees could commission a new actuarial valuation.

Good decision-making

Trustees may be worried about not having enough information at their disposal or making the 'wrong' decision. Some may be reluctant to engage with employers about contribution suspensions.

We recognise the challenging position many trustees find themselves in. Nevertheless, we expect trustees in these circumstances to do the best they can and follow due process. Trustees facing difficult decisions should be aware that if hindsight proves that they made the 'wrong' call, they will be able to defend their decision if they have:

- obtained as much relevant information as they reasonably could
- ignored irrelevant considerations and taken into account only the relevant factors
- taken professional advice where appropriate
- acted in accordance with the provisions of the trust dee
- made the decision in good faith

Trustees also need to keep full records of the decision-making and how they reached their conclusions.

DB transfers

We expect trustees to be able to report any breaches of their transfer obligations from 1 July 2020. We will continue to take a pragmatic approach to breaches caused by COVID-19 issues.

COVID-19 may cause two problems for trustees of DB schemes:

- calculating cash equivalent transfer values (CETVs) may take more time as trustees may wish to revisit the basis upon which they are calculated
- some schemes may see an increased demand for CETVs at the same time as facing shortages of administrative staff

If COVID-19 presents these issues for trustees, they may consider taking advantage of the existing flexibility in the legislation which provides for additional time (up to three months) to issue CETV quotations for reasons outside their control. Trustees should get advice before taking a decision to delay. Find out how to **apply to us for more time to complete a transfer request** (https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/db-to-dc-transfers-and-conversions#a1adbea91b154389b27ddad5d6c59998)
.

COVID-19 may see savers rush into decisions about their pensions. We don't want them to rush decisions which they may later regret, or worse still become the victim of scammers.

If a member asks for a CETV quotation, you should send them a **letter with their valuation (PDF, 2 pages, 171kb)**

(https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/cetv-members-letter.ashx)
warning them such a move may not be in their best interests and urging them to think carefully. The transfer letter, signed by The Pensions Regulator, the Money and Pensions Service and Financial Conduct Authority also shows how savers can be **ScamSmart** (https://www.fca.org.uk/scamsmart)
and highlights where they can get support.

Read more about **communicating with members when they request a transfer or to access benefits** (https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19)
.

Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme provides essential support for workers and employers at the current time. It also supports an employer's ability to make pension contributions. Find more information about the **Coronavirus Job Retention Scheme** (https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/automatic-enrolment-and-pension-contributions-covid-19-guidance-for-employers#eff1fd251ecc4af1b8827cadba8c57d4)
and what this means for employer pension responsibilities.

What you can expect from us

Evidence to date indicates that the current scheme-specific funding regime is flexible enough to cope with the impact of a severe economic downturn. However, we appreciate that schemes will be affected to a larger or lesser extent depending on their circumstances, and some may face significant challenges.

We recognise that trustees may, through no fault of their own, breach some of their legislative requirements. We expect trustees to report such breaches to us in line with their legal duty to report. Trustees should report with the confidence that we will continue to regulate in a reasonable way. **Read about reporting duties and enforcement activity during COVID-19** (https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/covid-19-an-update-on-reporting-duties-and-enforcement-activity)
.

The Pensions Ombudsman has confirmed it will take into account our guidance on COVID-19 issues if it receives complaints about delays caused by COVID-19 circumstances. **Read The Pensions Ombudsman statement on COVID-19** (https://www.pensions-ombudsman.org.uk/coronavirus-covid-19-update)
.

Our regulatory approach

We believe it is important that we have visibility about how COVID-19 is affecting our regulated community and compliance. Therefore, we will expect trustees, wherever possible, to comply with their reporting requirements from 1 July 2020. We will continue to regulate pragmatically and sympathetically.

Suspension or reduction of contributions

We cannot waive any obligation for trustees to report agreements to suspend or reduce contributions. Depending on the method used to suspend contributions, we will expect either a:

- revised recovery plan to be submitted with an explanation of the reasons for change and revised schedule of contributions
- report of missed contributions explaining the reasons why and how the trustees intend to resolve the breach as it is likely to be of material significance to us in the exercise of our functions: we expect trustees to communicate to members about late payments in line with our **code of practice on reporting late payment of contributions** (https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-5-reporting-late-payment-of-contributions-to-occupational-pension-schemes)

In addition to providing a short explanation for the change and the contribution suspension, we encourage trustees to provide further information when submitting the above. For example:

- confirming what advice the trustees have sought
- whether they have received sufficient information
- the timescales for repaying missed or deferred contributions
- whether mitigations have been obtained
- details of how the trustees have ensured that the scheme is being treated equitably

We may ask more questions to understand the context for the agreed suspension and how the guidance has been applied.

We will take a practical approach to late reporting breaches caused by COVID-19 issues, provided that they are reported to us within three months of the breach.

Ongoing valuations and recovery plans not agreed

We cannot waive trustees' obligation to provide us with a copy of the recovery plan within 15 months of the valuation date. However, we will continue to take a reasonable approach to late submission caused by COVID-19 issues. We will support trustees if they cannot agree a valuation for valid reasons.

Schemes in relationship-managed supervision

Many relationship-managed schemes will have already spoken with their named supervisor. In light of the current exceptional events, we have refocused our relationship-managed supervisory activity, focusing more on near-term risks rather than the standard activities in our supervisory cycle. We will continue to speak to trustees and employers of relationship-managed schemes to better understand their position and the risks and issues that have arisen.

Please continue to contact your named supervisor to discuss any issues.

Other schemes

Our event and rapid response supervision teams will lead for those schemes who are not in relationship-managed supervision. We will continue to take a risk-based approach in our supervisory activity, reviewing and assessing incoming requests against a range of risk indicators.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 29 July 2020

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2020**
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 Manager performance is regularly monitored to ensure investment objectives are met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 March 2020

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 an overview of: Fund investment performance, Manager Monitoring and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending 31 March 2020. Significant events that occur after production of this report will be addressed verbally at the meeting.

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans.

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) – NO LONGER ATTENDING**
6) Consider the quarterly reports sent electronically, provided by each investment manager.
7) Note the analysis of the cash balances

REPORT DETAIL

1. Elements from Hymans report which are deemed non confidential can now be found in separate appendices **(Appendix A, B and C refers**). Opinions on Fund manager performance will remain as exempt and 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:

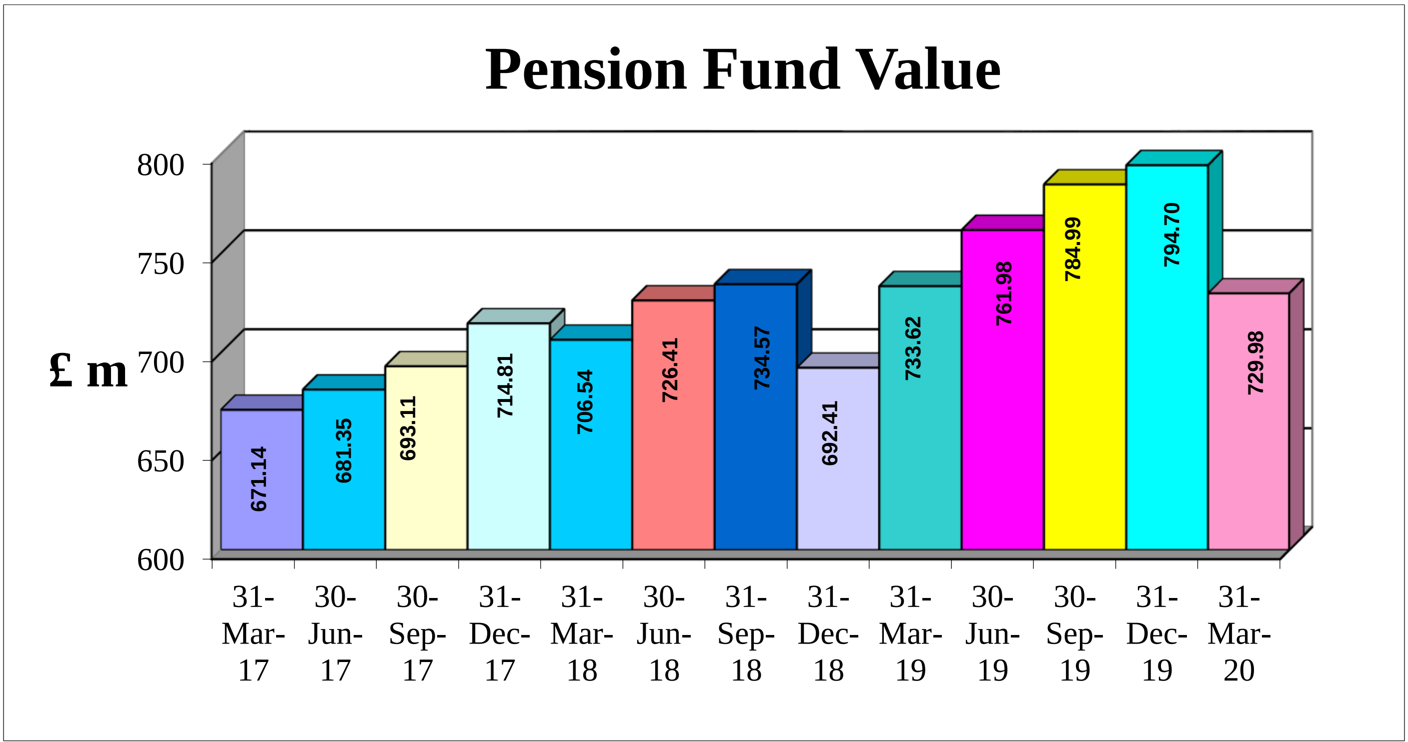
e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic 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, Northern Trust, the total combined fund value at the close of business on 31 Mar 2020 was **£729.98m.** This compares with a Fund value of £793.35m at the 31 Dec 2019; a **decrease** of **-£63.37m**. Movement in the Fund value is attributable to a decrease in assets of -£67.14m and an increase in cash of £3.77m. Internally managed cash level stands at **£23.056m** of which an analysis follows in this report. It should be noted that the financial year-end coincided with the lowest point in a sharp downturn global stock markets following the pandemic declaration this was followed by a sharp recovery. Fund asset value has contracted by only £3.64m from the figure at 31 March 2019 and used in the triennial valuation.

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 31.03.20	12 Months to 31.03.20	3 Years to 31.03.20	5 years to 31.03.20
	%	%	%	%
Fund	-8.34	-1.55	2.21	4.39
Benchmark	-6.28	-0.34	2.62	4.35
*Difference in return	-2.06	-1.21	-0.40	0.03

Source: Northern Trust Performance Report
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. The intention is to review this measure following the 2019 actuarial valuation, and this will be addressed s alongside the strategy review current position is shown as follows:

Table 2: Annual Performance

	Quarter to 31.03.20	**12 Months to 31.03.20**	**3 Years to 31.03.20**	**5 years to 31.03.20**
	%	**%**	**%**	**%**
Fund	-8.34	-1.55	2.21	4.39
**Benchmark	2.12	3.89	4.50	7.53
*Difference in return	-10.46	-5.44	-2.29	-3.15

Source: Northern Trust Performance Report

**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 **£23.056m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2017/18 31 Mar 18**	**2018/19 31 Mar 19 Revised**	**2019/20 31 Mar 20**
	£000's	£000's	£000's
Balance B/F	**-12,770**	**-17,658**	**-13,698**
Benefits Paid	36,532	37,954	38,880
Management costs	1,221	1,490	1,107
Net Transfer Values	1,108	1,543	-2,789
Employee/Employer Contributions	-42,851	-44,804	-47,508
Cash from/to Managers/Other Adj.	-785	7,925	1,154
Internal Interest	-113	-148	-202
Movement in Year	**-4,888**	**3,960**	**-9,358**
Balance C/F	**-17,658**	**-13,698**	**-23,056**

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 threshold. This policy includes drawing down income from the bond and property manager when required.

c. The cash management policy includes a discretion that allows the Statutory S151 officer to exceed the target level to meet unforeseeable payments such as the college transfer. £15m of this cash will be used to fund the college merger in July 2020.

7. REPORTING ARRANGEMENTS

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

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

c. The Fund Manager attending this meeting is J.P.Morgan (the funds infrastructure manager) and their presentation can be found at Appendix F (Exempt). NO LONGER ATTENDING

8. FUND UPDATES:

8.1 Changes made since the last report and forthcoming changes/events (some comments in this section are repeated from the monitoring report submitted for the 17 March 2020 as that report was not formally considered but are deemed relevant enough to be retained):

a. The Fund has continued to fund capital draw down requests: c£3.5m for Churchill and c£1.7m for Stafford.

b. Northern Trust was appointed to provide Custodial and performance measurement services with effect from 1 October 2019.

c. The Fund appointed Russell investments on 11 December 2019 to implement a currency hedge for the Fund.

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 Corporate Bonds held in a separate account to fund capital call requests for the Private Debt mandates.

e. Funding of the college bulk transfer to the London Pension Fund Authority (LPFA) - Negotiations for the settlement are currently being finalised with the settlement likely to be in the region of £40m which is line with the estimated amount reported previously to the Pensions Committee and Cabinet. This will be settled in two payments – first payment of £30m was made on the 15 July 2020 and the balancing payment due on the 5 August 2020. Following on from the Cabinet decision to delegate authority to Chief Operating Officer/s151 Officer, a non-key decision report has been processed that agreed the route for disinvestment to fund the college transfer.

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 the assets under management position improve 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 – Environmental, Social and Governance (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 Q1 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 attended this meeting.

e. 5 March 2020 - Proxy Voting and Engagement Services - one of the recommendations following the Responsible Investment (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.

f. 16 April, 21 May and 18 June 2020 - Business update meetings (via WebEx). A range of topics covered including:

   i. Outline of their Governance framework, Manager selection process, Manager oversight process and fund processes
   ii. COVID-19 market implications on the sub funds
   iii. Outline of the role of the Cost Transparency Working Group (CTWG) – chaired by John Turnball at Waltham forest. Meetings to commence May 2020 They have a number of objectives but will be looking at assisting boroughs with reporting requirements and will be conducting a fee model review. As minutes are going to be shared further updates will be shared with the committee.
   iv. Updates on the Cost Transparency Initiative (CTI)
   v. Climate change indices

g. 11 June 2020 - Cost Transparency Initiative (CTI) Reporting workshop – Purpose of the meeting was to explain the process LCIV went through to create the CTI reports that were circulated to client funds and to give client funds the opportunity to ask questions on the process and interpretation of the reports.

h. 16 July 2020 - LCIV Annual General Shareholder (AGM) meeting. At the time of writing this report no papers have been released. Feedback can be provided by the Chair on the evening of this meeting.

8.2.2 Pension Cost Recharge Agreement and Pension Guarantee

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

b. All 32 boroughs have now signed the Pensions Guarantee agreement, and the new 32 party agreement is now in place as of 28th May 20. This enabled the LCIV to move forward on the closure of the final salary pension scheme to new hires, with a replacement scheme in its place from 1st June 2020, this should deliver a saving of £370k per annum on pension contributions made by the LCIV.

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 had been asked by the LCIV to assist in the progression of some of those recommendations. Jacqueline Jackson who has been appointed as Head of Responsible Investment in June 20 will review work undertaken to date before progressing.

8.2.5 Service level Agreements (SLA)

a. A revised version of the SLA has been received and Officers will review and consider for approval.

8.2.6 Shareholder Agreement amendment

a. LCIV proposed at the July 2019 General Meeting 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. LCIV now have signatures from all 32 boroughs for the agreement to the change in business purpose. This will now enable them to move forward on seeking additional Financial Conduct Authority (FCA) permissions.

b. It was proposed at the 30 January 2020 shareholder meeting to agree to progress with proposals to apply for additional regulatory permissions. It has also been confirmed that individual LLAs who opt not to take those additional services **will not be charged** the related costs which was a previous obstacle to those boroughs that were reluctant to sign. The CTWG will be conducting the fee model review.

8.2.7 Sub Fund Updates

a. Renewable Energy Fund – Stage 2 (mandate development stage) and progressing towards formal mandate sign-off from Executive Committee to proceed with anticipation of further discussions with the

Seed Investor Group (SIG). SIG consists of 3 boroughs with 5 other boroughs expressing interest).

b. Impact Fund (aka London Fund - a partnership arrangement with the London Pension Fund Authority (LPFA) and Local Pensions Partnership (LPP)) – Stage 2 (mandate development stage) SIG formed with first meeting scheduled for 19th June 20. SIG consists of 2 boroughs.

c. Inflation Plus Fund - This has now launched with seed investment from two boroughs.

d. Private Debt – Stage 1 (Client demand) – SIG to be formed imminently. SIG to consist of 4 boroughs and 3 boroughs expressing interest

e. Baillie Gifford Global Alpha Fund - Forthcoming changes at Baillie Gifford; Charles Plowden, Baillie Gifford's Joint Managing Partner, will retire next year on 30 April 2021. Malcolm MacColl, Portfolio Manager of the Global Alpha strategy will replace Charles Plowden as Joint Managing Partner on 1 May 2021 as well as retaining his portfolio management responsibilities within Global Alpha

8.2.8 LCIV Key Staffing updates

a. The Director of Client Relations retired at the end of March 2020 and a new Director of Client relations joined in May 2020 - Cameron McMullen.

b. Chief Investment Officer (CIO)- Jason Fletcher has been appointed and start on 1st July 2020, Kevin Corrigan will continue as the interim CIO until then. Rob Hall was appointed as Deputy CIO.

c. Jacqueline Jackson has been appointed as Head of Responsible Investment in June 20

8.2.9 Governance Progress Review –

a. Governance Workshop held on the 24 February 2020 - identified four priorities:

- Improving pool members’ involvement and engagement in achieving pooling, fund launches and manager oversight
- Transparency and Communication
- Improving arrangement to achieve consensus and a collective shareholder “voice”.
- Shareholder Committee Governance and board appointments and working practices

b. Updated Shareholder Terms of Reference will be discussed and agreed at the June Board and Shareholder Committee meetings and AGM, which is being held on the 16 July 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. Due to the impact of Covid-19, to allow local government officers to concentrate on priority matters during the emergency, the Board agreed that the Phase III Implementation Working Group should be stood down until further notice. In the meantime, the project team at Hymans Robertson will continue to work on draft outcomes for consideration by the working group and the Board in due course.

e. 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. The use of the former LGPS templates expires in May 2020.

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 Work of the Scheme Advisory Board (SAB):

a. **Responsible Investment** - SAB are preparing draft guidance for Responsible Investment. Guidance will be split into two parts with the aim of the first part to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy. The second part of the guidance aims to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy statements. SAB has decided to reflect on the guidance until it has had the opportunity to evaluate the judgement handed down by the Supreme Court and when more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill.

b. **McCloud** - SAB have been working closely with Ministry of Housing, Communities, & Local Government (MHCLG) and Government Actuary Department (GAD) to ensure that the remedy to remove age discrimination from the LGPS is robust and comprehensive. The SAB set up two working groups to assist with the development of the remedy. One policy group to assist MHCLG with areas of policy that are not centrally determined and a larger implementation group which will consider the significant challenge of implementing the remedy. The government plans to issue consultations on changes to public service pension scheme regulations in the first half of 2020.

c. **Supreme Court decision on LGPS investment guidance -** In a judgment handed down on 29 April 2020, the Supreme Court has ruled by a narrow majority that the Secretary of State for Housing, Communities and Local Government exceeded his powers when issuing guidance in 2016 to Local Government Pension Scheme (LGPS) administering authorities which purported to prohibit the adoption of investment policies that are contrary to UK foreign policy or UK defence policy. Following the Supreme Court's decision, it is now clear that current legislation does not permit the Secretary of State to impose the government's view on foreign and defence policy on LGPS administering authorities. Although the judgement was primarily concerned with the exercise of the Secretary of State's powers, comments made may be viewed as providing support for ensuring that, when taking non-financial considerations into account in relation to investment decisions, members' views should be effectively communicated to, and considered by, administering authorities as an intrinsic part of their investment decision making processes. Otherwise, **the judgement does not change the fundamental role or duties of LGPS administering authorities in relation to their investment or other powers and confirms that administering**

authorities remain responsible for the investment decisions of their respective funds.

d. **COVID-19** - members were advised that the following work was being carried out by the SAB to assist the scheme:

- UK wide FAQ's including guidance on furloughed staff and emergency voluntary leavers
- New covid-19 section of the SA website at www.lgpsboard.org
- Establishment of a Covid-19 Practitioners Group
- Weekly meetings with MHCLG, SPPA (Scotland) and DfC (Northern Ireland)
- Three surveys launched on schemes resilience; cash flow and governance
- Employers Webinars
- Scheme members FAQs

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 from consideration of the content of the Report.

Mention is made of the decision of the Supreme Court in the case of R (Palestine Solidarity Campaign) v SoS for HCLG (2020) UKSC 16 ("the Palestine case")

The issue in the case was the Guidance issued by the Secretary of State.

The Guidance prohibited the use of pension investment policies (1) to pursue boycotts and similar activities against nations against whom the UK Government does not currently impose sanctions or (2) to pursue policies which were contrary to UK foreign or defence policy. This was irrespective of whether the boycott decision met the two stage test below.

The two stage test provides that the Administering Authority may take into account non-financial considerations when making investment decisions provided these were approved by Members and did not result in financial detriment.

LJ Wilson stated: "*The SoS is entitled to give Guidance about HOW AAs should formulate investment policies consistently with the quasi-fiduciary duty. That does NOT include power to direct WHAT investments they should not make* "(emphasis in the original)

Accordingly the decision doesn't directly affect the Council in its role as Pension Fund Administering Authority, although new legislation is being processed to address the Court's decision.

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

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Appendix A: Market Background and Outlook

Market background for the quarter

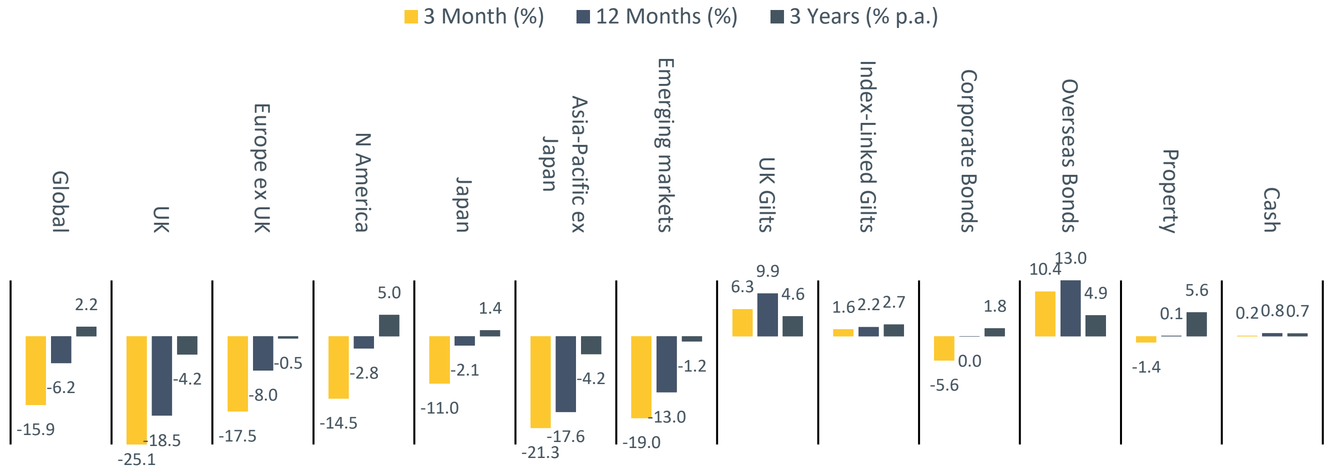
Developed market sovereign bond yields have been pushed near record lows, though have not been immune to volatility as investors liquidated bonds in a dash for cash in March. Sterling investment grade spreads rose 1.34% p.a., more than offsetting any benefit from falling underlying government bond yields.

Unsurprisingly, speculative grade credit spreads underperformed their investment grade counterparts with high yield energy bonds particularly hard hit. Leveraged loans underperformed within speculative-grade markets as a collapse in interest rate expectations weighed on floating-rate loans.

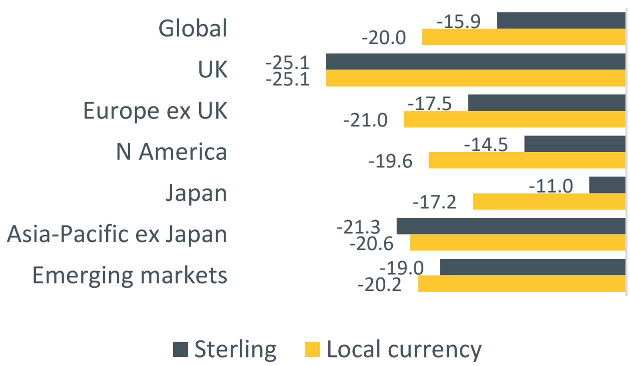
Global equity markets fell 20% in local currency terms and 15.9% in sterling terms, as weakening sterling benefited unhedged investors. The UK equity market was the worst performer with the FTSE 100 posting its biggest fall since 1987 as its sectoral composition and exposure to oil & gas hurt performance. Global equities did recover some losses towards the end of the quarter, as market sentiment improved on the back of fiscal and monetary support measures. Volatility levels, as measured by the VIX Index, hit levels not seen since the global financial crisis.

Several UK property funds have suspended dealing as property valuers have been unable to accurately value the underlying assets with any certainty, inserting material uncertainty clauses into their valuations.

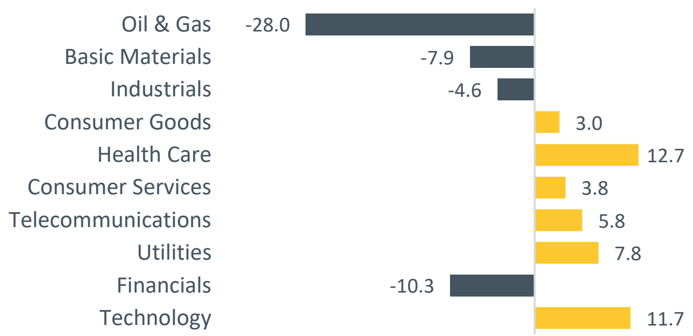
Historic returns for world markets



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.

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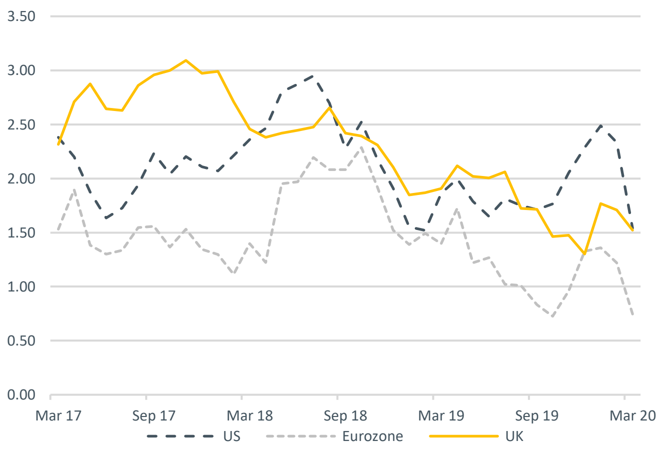
Q4 GDP numbers were broadly in-line with recent trends - a modest slowdown year-on-year. The global spread of Coronavirus, and the impact on supply and demand from necessary containment measures, will inevitably impact the rate of global economic growth in 2020 and possibly beyond.

Falling domestic demand globally and steep oil price declines are disinflationary. The slump in global demand for oil has been compounded by a price war between OPEC (led by Saudi Arabia) and Russia, Brent crude falling to its lowest level since 2002. Inflation, which was already below target in the major advanced economies, is forecast to slow in 2020, with some Eurozone countries and Japan expected to enter deflation.

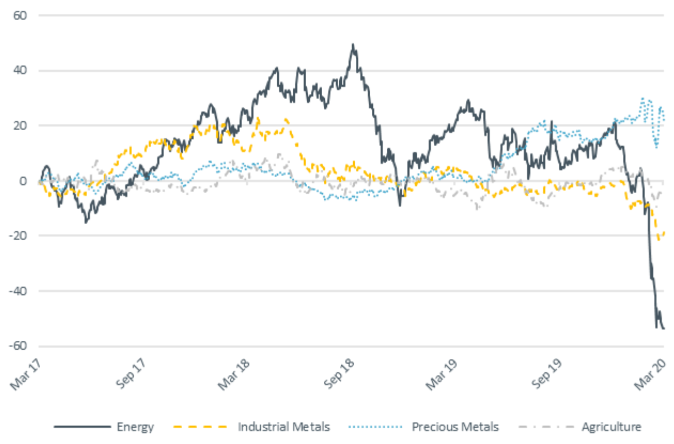
The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows and the Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt.

Currency markets were typical of a period of increased risk. The haven appeal of the dollar and yen was apparent and, in line with their less defensive reputation, sterling and emerging market currencies fell.

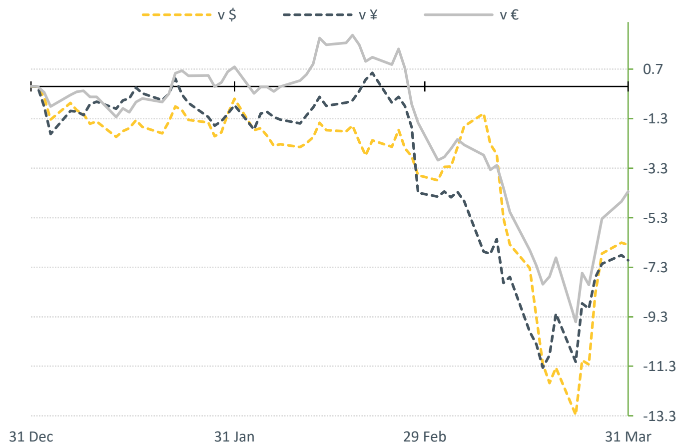
Annual CPI Inflation (% p.a.)



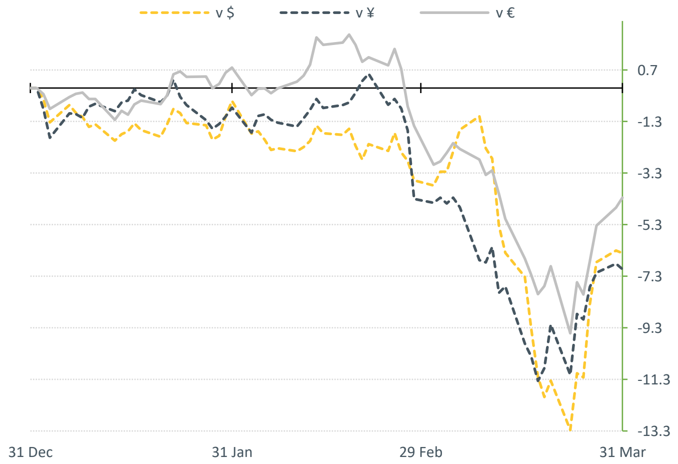
Commodity Prices



Gilt yields chart



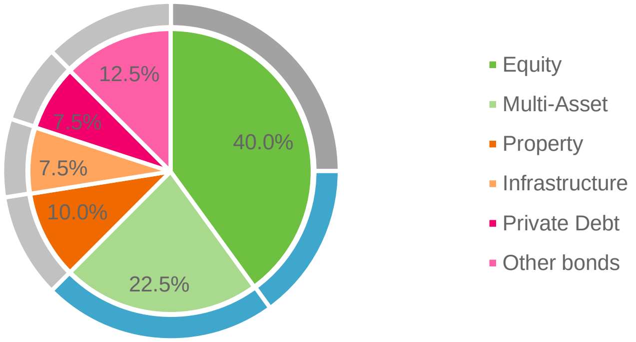
Sterling trend chart (% change)

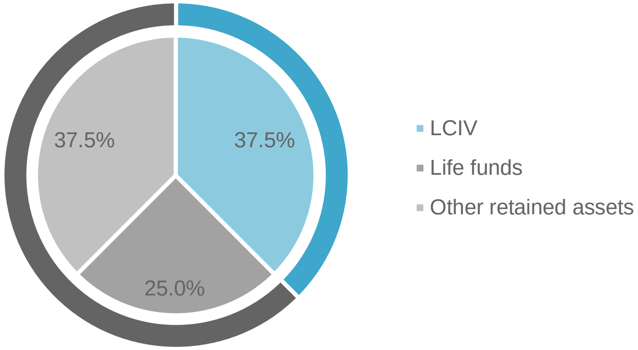


Appendix B: Strategic Overview

Strategic overview

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





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

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

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

The 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	Cashflows	Current Quarter	Actual %	Target %	Difference
Equity		**310.3**	**0.0**	**260.2**	**35.6%**	**35.0%**	**0.6%**
LGIM Global Equity	*LCIV aligned*	*61.0*	*0.0*	*51.3*	*7.0%*	*7.5%*	*-0.5%*
LGIM Fundamental Equity	*LCIV aligned*	*57.8*	*0.0*	*44.6*	*6.1%*	*7.5%*	*-1.4%*
LGIM Emerging Markets	*LCIV aligned*	*34.5*	*0.0*	*27.9*	*3.8%*	*5.0%*	*-1.2%*
Baillie Gifford Global Equity	*LCIV*	*157.0*	*0.0*	*136.3*	*18.7%*	*15.0%*	*3.7%*
Multi-Asset		**201.5**	**-1.9**	**182.8**	**25.0%**	**27.5%**	**-2.5%**
Ruffer Absolute Return	*LCIV*	*100.0*	*0.0*	*97.7*	*13.4%*	*15.0%*	*-1.6%*
Baillie Gifford DGF	*LCIV*	*93.1*	*0.0*	*80.0*	*11.0%*	*12.5%*	*-1.5%*
GMO Global Real Return	*Retained*	*8.4*	*-1.9*	*5.1*	*0.7%*	*0.0%*	*0.7%*
Real-Assets		**105.4**	**-1.2**	**114.9**	**15.7%**	**17.5%**	**-1.8%**
UBS Property	*Retained*	*41.8*	*-0.7*	*41.5*	*5.7%*	*6.0%*	*-0.3%*
JP Morgan Infrastructure	*Retained*	*26.0*	*-1.9*	*27.0*	*3.7%*	*4.0%*	*-0.3%*
CBRE Global Property	*Retained*	*26.1*	*0.0*	*29.0*	*4.0%*	*4.0%*	*0.0%*
Stafford Global Infrastructure	*Retained*	*11.5*	*1.4*	*17.4*	*2.4%*	*3.5%*	*-1.1%*
Bonds and Cash		**167.1**	**3.4**	**172.8**	**23.7%**	**20.0%**	**3.7%**
RLAM Bonds	*Retained*	*133.3*	*-3.6*	*124.6*	*17.1%*	*12.5%*	*4.6%*
Churchill Private Debt	*Retained*	*7.4*	*3.4*	*14.0*	*1.9%*	*3.0%*	*-1.1%*
Permira Private Debt	*Retained*	*4.3*	*-0.2*	*5.6*	*0.8%*	*4.5%*	*-3.7%*
Cash	*Retained*	*22.1*	*3.8*	*28.5*	*3.9%*	*0.0%*	*3.9%*
Currency Hedging P/L	*Retained*	*-0.1*	*2.7*	*-0.7*	*-0.1%*	*0.0%*	*-0.1%*
Total		**784.3**	**0.3**	**730.0**	**100.0%**	**100%**	**-**

Source: Northern Trust; 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 fell by c. £54m over the quarter to c. £730m as at 31 March 2020 as global equities and other major asset classes fell sharply as a result of the global coronavirus pandemic. 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 corporate bonds mandate (Private Debt). The Committee agreed to implement an allocation to multi-asset credit with Royal London in January 2020, facilitated through a restructure of the existing bond mandate.

Over the quarter the Fund paid capital calls to Churchill (£3.4m) and Stafford (£1.4m). These were funded from existing cash and redemptions from the GMO mandate.

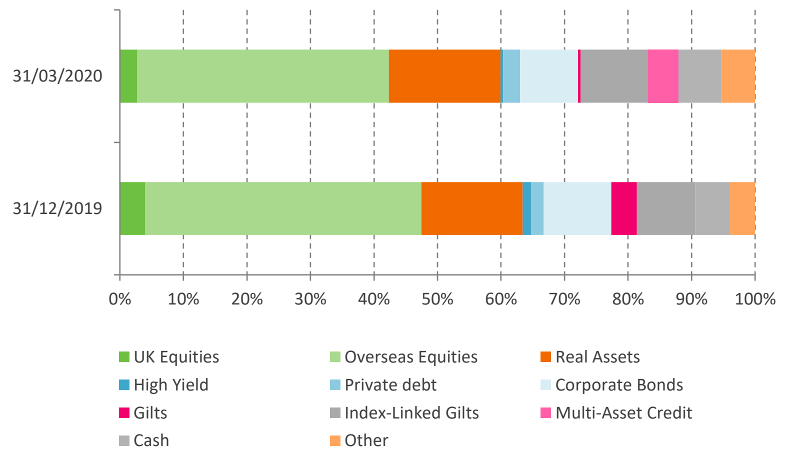
Asset Allocation

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.

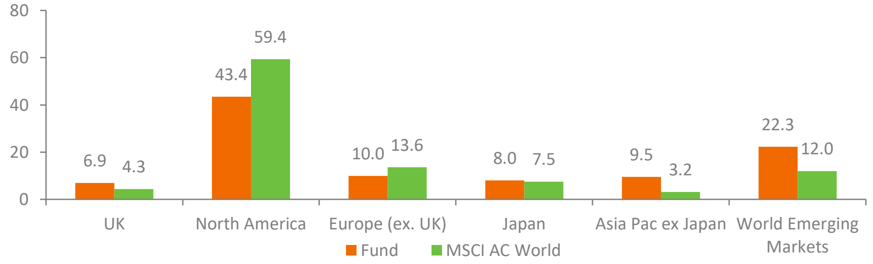
The Fund's allocation to equities fell over the quarter to c.42% at 31 March 2020 (c.48% at 31 December 2019). The allocation to real assets increased to c.18% of Fund assets as at 31 March 2020 (c.16% as at 31 December 2019). These movements were driven principally by significant equity market falls which resulted from the global coronavirus pandemic.

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

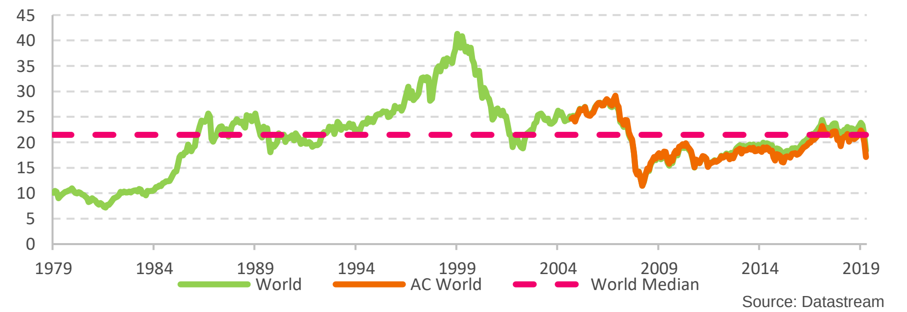
Look through asset allocation as at 31 March 2020



Regional Equity Allocation



Long term Shiller PE at 31 March 2020



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

At the beginning of the year, the outlook for equity markets was relatively positive. However, the sudden economic shock of the coronavirus outbreak has resulted in a substantial adjustment to future outlook and caused a widespread sell-off in equity markets as investors looked to reduce risk.

The marked falls across equity markets in March 2020 have led to valuations moving to more attractive relative to historic levels. However, the huge uncertainties over the duration of the economic shutdown across major economies and the impact of policy support measures mean the rate of recovery is very hard to predict.

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	-15.9	-16.0	0.0	-6.2	-6.3	0.0	2.2	2.2	0.0	7.1	7.1	0.0
LGIM Fundamental Equity	-22.8	-23.0	0.2	-15.4	-15.5	0.2	-3.0	-3.0	0.0	-	-	-
LGIM Emerging Markets	-19.0	-19.0	0.0	-13.3	-13.2	-0.1	-	-	-	-	-	-
Baillie Gifford Global Equity (CIV)	-13.2	-15.9	3.2	-1.3	-6.2	5.3	6.6	2.3	4.2	10.2	7.2	2.8
MULTI-ASSET												
Ruffer Absolute Return (CIV)	-2.3	0.2	-2.4	3.2	0.8	2.4	0.5	0.8	-0.3	2.0	0.8	1.2
Baillie Gifford DGF (CIV)	-14.0	1.0	-14.9	-8.8	3.9	-12.3	-1.4	4.0	-5.2	0.8	4.0	-3.0
GMO Global Real Return	-18.5	1.3	-19.6	-14.7	6.2	-19.6	-4.5	6.0	-9.9	-2.6	6.0	-8.1
REAL-ASSETS												
UBS Property	0.0	-1.3	1.3	2.0	0.1	1.9	6.3	4.9	1.3	6.8	5.8	1.0
JP Morgan Global Infrastructure	16.6	1.3	15.1	19.3	6.5	12.0	-	-	-	-	-	-
CBRE Global Property	10.9	1.3	9.4	10.9	6.5	4.1	-	-	-	-	-	-
Stafford Capital Global Infrastructure	9.8	1.3	8.4	-	-	-	-	-	-	-	-	-
BONDS AND CASH												
RLAM Bonds	-3.8	-3.7	-0.1	1.9	1.1	0.8	3.3	2.6	0.7	5.5	4.9	0.6
Permira	1.2	1.2	0.0	-	-	-	-	-	-	-	-	-
Churchill Private Debt	7.2	1.2	5.9	7.2	1.2	5.9	-	-	-	-	-	-
Total	**-8.3**	**-6.3**	**-2.2**	**-1.6**	**-0.3**	**-1.2**	**2.2**	**2.6**	**-0.4**	**4.4**	**4.4**	**0.0**

Source: Northern Trust. 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. Performance for RLAM Bonds does not include the Multi-Asset Credit portfolio – this will be included from Q2 2020 when a full quarter's data will be available.

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

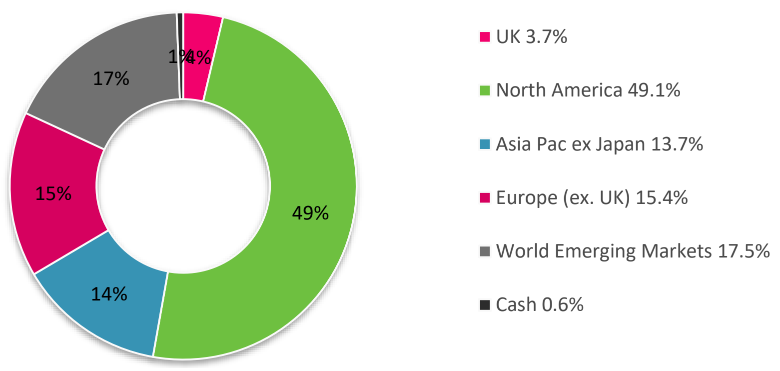
The sub-fund is managed by Baillie Gifford. The objective of the sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross of fees basis over rolling five-year periods.

Performance to 31 March 2020

**Date of inception 25 April 2012*

Source: Northern Trust

Regional allocation as 31 March 2020



Source: Baillie Gifford

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 March 2020

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	-14.0	-8.8	-1.4
Base Rate + 3.5% (net)	1.0	3.9	4.0
Relative (to Target)	-14.9	-12.3	-5.2
Multi Asset Composite	*-7.4*	*-1.9*	*2.0*
Relative (to composite)	*-7.1*	*-7.1*	*-3.4*

Source: Northern Trust. Inception date: 26/11/2013

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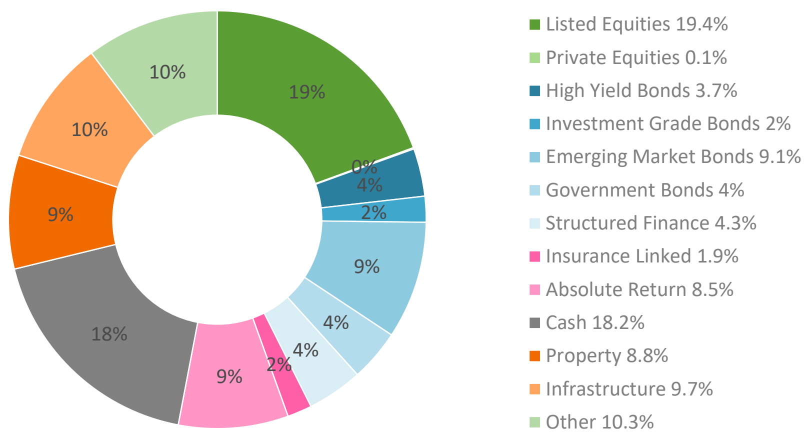
Asset Allocation as at 31 March 2020 (Source: Baillie Gifford)



LCIV Absolute Return Fund

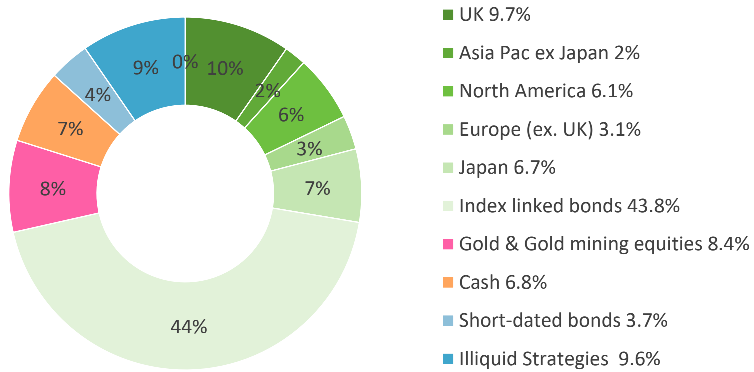
The sub-fund is managed by Ruffer. The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.

Performance to 31 March 2020

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	-2.3	3.2	0.5
GBP 3 Month LIBOR	0.2	0.8	0.8
Relative (to LIBOR)	-2.4	2.4	-0.3
Multi Asset Composite	*-7.4*	*-1.9*	*2.0*
Relative (to composite)	*5.5*	*5.2*	*-1.5*

Source: Northern Trust. Inception date: 13/09/2010

Asset Allocation as at 31 March 2020 (Source: Ruffer)



LGIM Global Equity

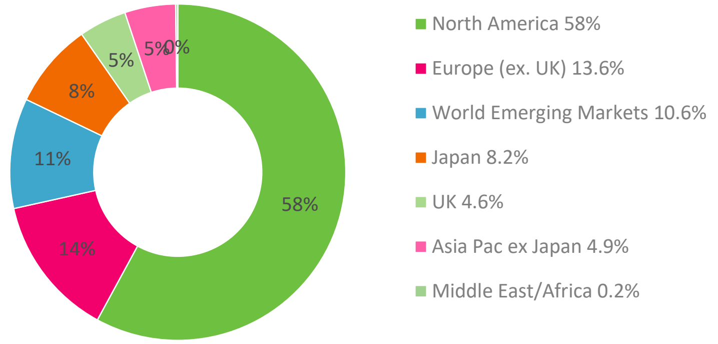
LGIM were appointed from November 2017 to manage the Fund's index tracking global equity portfolio, with the mandate being split equally between investment in a fund tracking a market cap weighted index and a fund tracking a fundamentally weighted index. The mandate was previously managed by SSGA. The 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 March 2020

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	-15.9	-6.2	2.2	9.7
Benchmark	-16.0	-6.3	2.2	9.7
Relative	0.0	0.0	0.0	0.0

Source: Northern Trust. Inception date: 23/02/2011.

Regional Allocation as at 31 March 2020



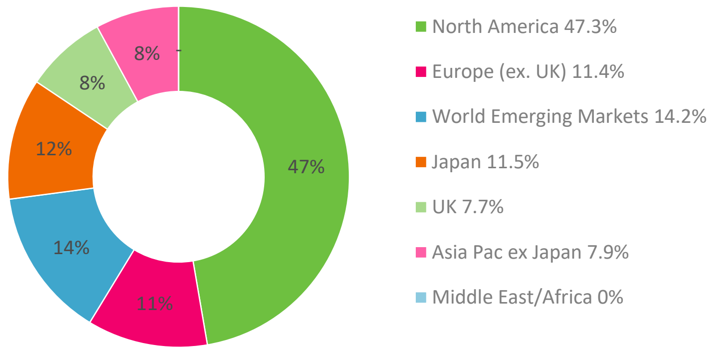
Source: LGIM

FTSE RAFI All World 3000 Equity Index Fund: Performance to 31 March 2020

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	-22.8	-15.4	-3.0	5.6
Benchmark	-23.0	-15.5	-3.0	5.7
Relative	0.2	0.2	0.0	0.0

Source: Northern Trust. Inception date: 19/08/2015.

Regional Allocation as at 31 March 2020



Source: LGIM

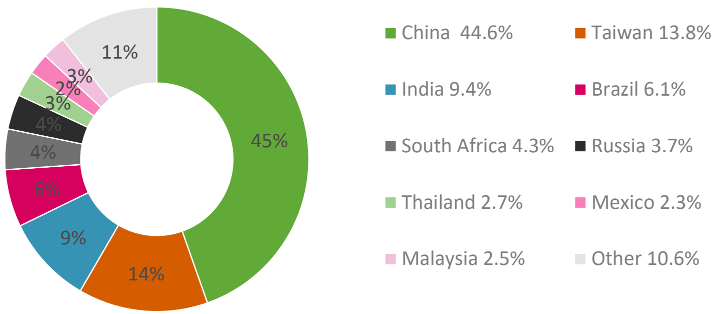
Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.

World Emerging Markets Equity Index Fund: Performance to 31 March 2020

	3 Months (%)	12 Months (%)	Since Inception (%)
Fund	-19.0	-13.3	0.0
Benchmark	-19.0	-13.2	0.0
Relative	0.0	-0.1	0.0

Source: Northern Trust. Inception date: 01/01/2019.

Regional Allocation as at 31 March 2020



Source: LGIM

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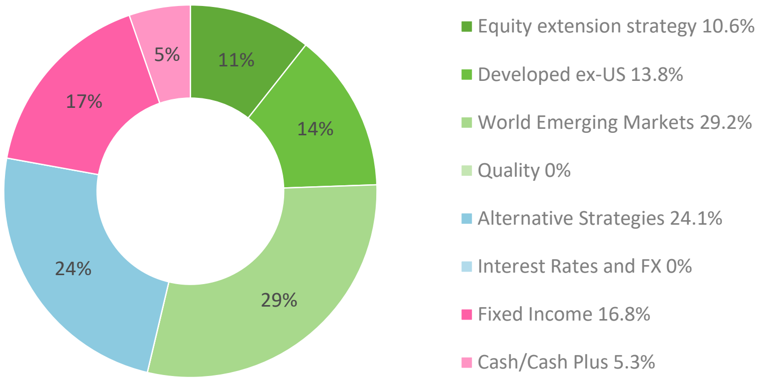
GMO Real Return Fund

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 manager 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. As a result, a modest allocation to the mandate (less than 1% as at 31 March 2020) has significantly reduced the impact of recent performance at a total Fund level.

Portfolio positioning at 31 March 2020 (Source: GMO)

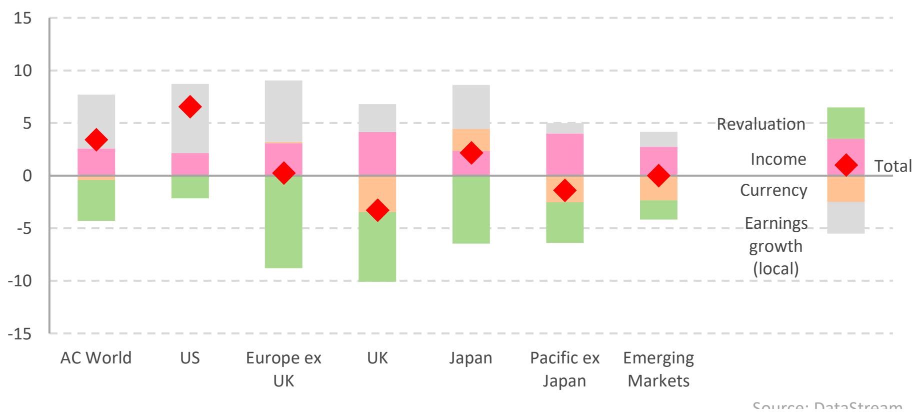


Performance to 31 March 2020

	3 Months (%)	12 Months (%)	Since inception
Fund	-18.5	-14.7	2.9
OECDG7 CPI	1.3	6.2	5.9
Relative (to benchmark)	-19.6	-19.6	-2.9
Multi Asset Composite	*-7.4*	*-1.9*	*5.9*
Relative (to composite)	*-12.0*	*-13.0*	*-2.9*

Source: Northern Trust.

MSCI Index performance ($ total return 31.03.15 – 31.03.20, % p.a.)



In the short-term, an earnings recession across major equity markets in the first half of the year looks inevitable, given the widespread containment measures in place. As a result, we would treat the current valuations with caution and do not believe they are sufficiently low to compensate for the level of uncertainty of earnings or significant fundamental risks that now face equity markets.

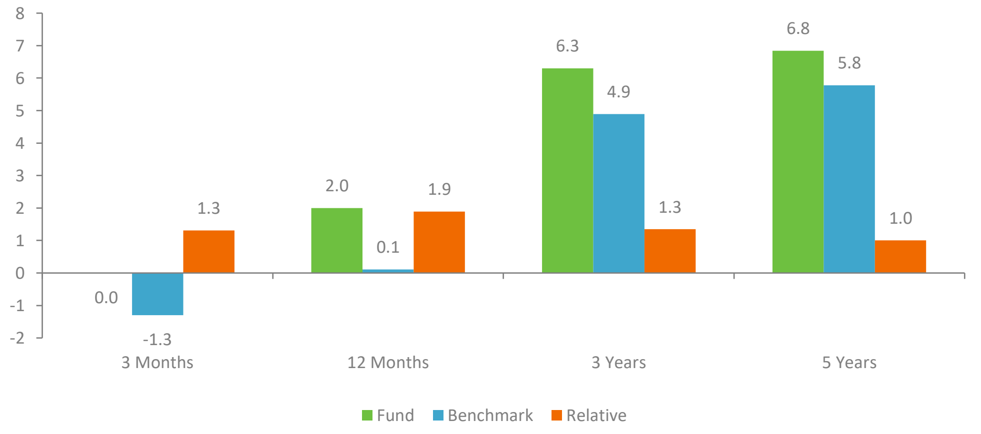
Despite falls, the US remains at a premium to other regions, but the defensive characteristics of the market may mean it remains in favour in the short-term.

The large global technology related exposure in the US market is also supportive (Amazon, Microsoft, Apple, Google and Facebook now at 20% of total US stock market) - demand appears more insulated from the pandemic and demand for technological solutions has increased amid social distancing.

UBS Triton Property Fund

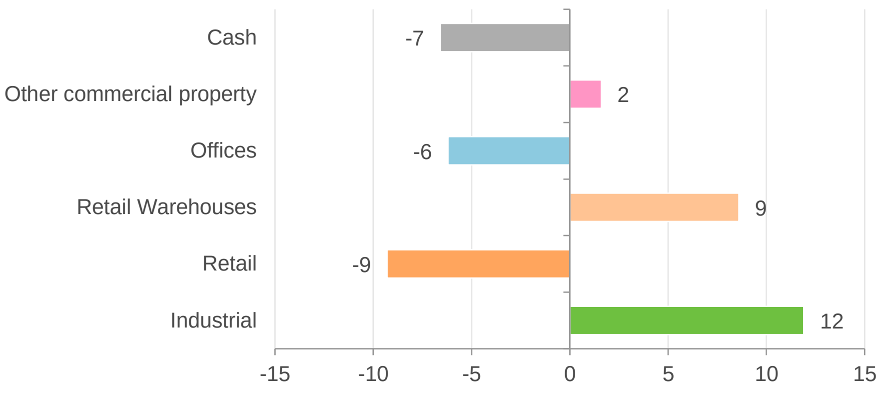
UBS were appointed in February 2005 to manage a UK property mandate within the Triton Property Fund. The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds. The fund invests directly in UK properties with returns generated through the collection of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

Performance to 31 March 2020



Source: Northern Trust

Relative sector allocation as at 31 March 2020



Source: UBS

The UBS property mandate has outperformed the broader peer group of UK property funds over all time periods considered. Longer term performance has been supported by the portfolio's underweight allocation to the retail sector, which underperformed the broader market.

As a result of the coronavirus pandemic, all major UK property funds, including UBS Triton, suspended trading as a result of significant uncertainty in pricing. As such, the full implications of the pandemic on pricing are not currently known, and performance information should therefore be regarded as illustrative at this time.

Whilst significant uncertainty remains, our general expectation is that the retail and office sectors will be impacted heavily by the lockdown. The UBS mandate offers a degree of protection given underweight allocations to each of these sectors.

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.

The chart below right compares the credit rating breakdown of the multi-asset credit portfolio against the corporate bond portfolio at the end of the quarter. We will report on the performance of the multi-asset credit portfolio from our Q2 2020 reporting, when a full quarter's data is available.

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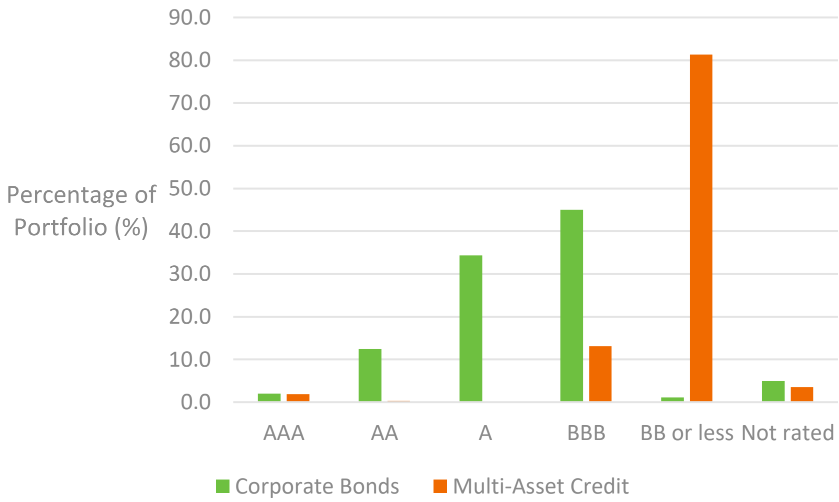
Performance to 31 March 2020

Source: Northern Trust

Credit rating breakdown by sector as at 31 March 2020



Source: RLAM

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 March 2020.

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. £26.1m (USD 34m)	c. £23.8 m (USD 31m)	c. £36 m
Net capital called during quarter (Payments less returned capital)	c. £1.4m (EUR 1.7m)	-	-	c. £3.4m (USD 4.4m)	N/A
Net capital drawn to date (Payments less returned capital)	EUR 19.8m (c. £17.5m)	c. £26.1m (USD 34.0m)	c. £26.1m (USD 34.0m)	c. £13.5m (USD 17.1m)	c. £5.4m (EUR 6.1m)
Other distributions to date (Includes income and other gains)	EUR 3.0m (c. £2.7m)	-	-	-	N/A
NAV at quarter end	EUR 19.6m (c. £17.4m)	USD 34.1m (c. £27.0m)	USD 35.3m (c. £29m)	USD 18.0m (c. £14m)	£5.6m
Net IRR since inception (in fund currency)	8.3% p.a. *(vs. 8-9% target)*	4.2%	7.0%	N/A	N/A
Net cash yield since inception (in fund currency)	4.3% p.a. *(vs. 5% target)*	11.9%	3.2%	N/A	N/A
Number of holdings	21 funds, 285 underlying assets*	18 companies, 534 assets*	50 investments, 2,484 properties	N/A	N/A

Source: Investment managers. Based on information available as at 31 March 2020.

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

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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

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Appendix 1: Carbon risk exposure

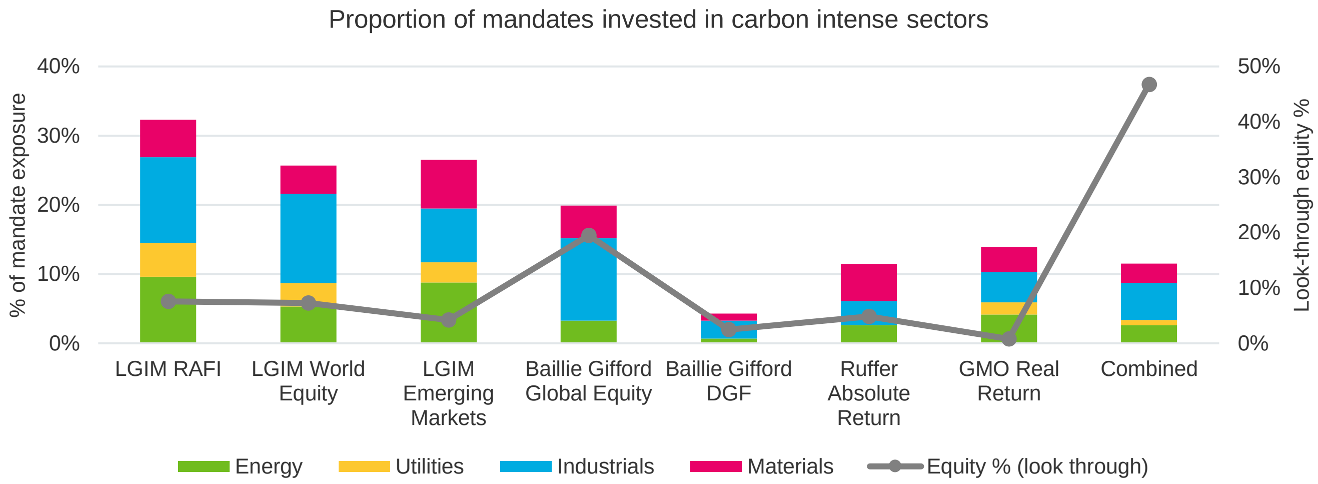
Pension funds are being increasingly challenged to both recognise and then address the risks of climate change within their investment arrangements. Climate risk was described by Mark Carney as comprising three elements:

- 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.

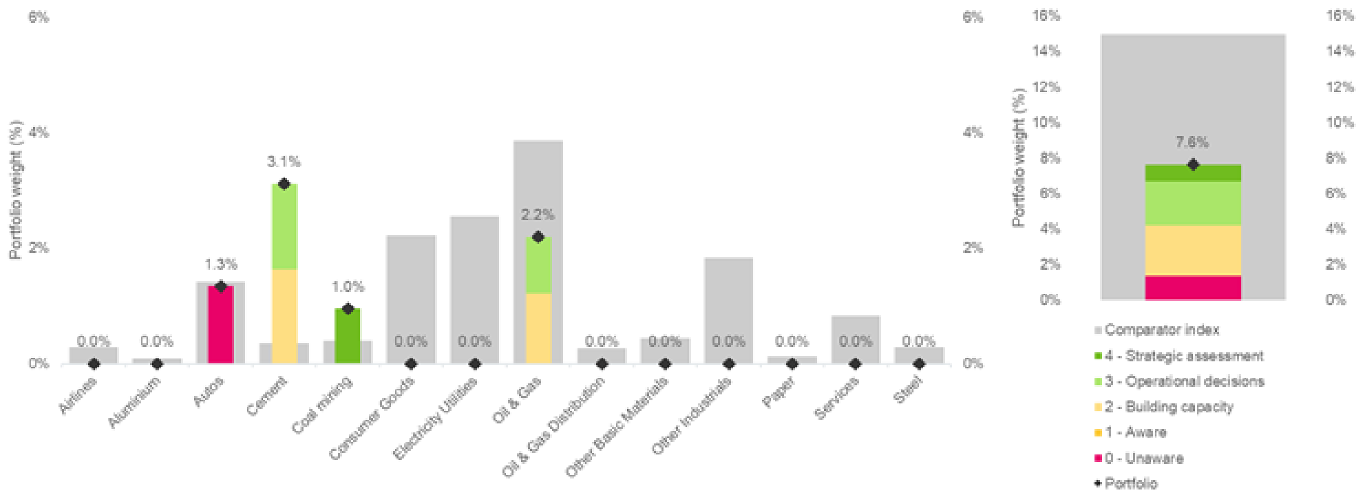
The Committee retains control over the Fund’s exposure to carbon-intensive sectors via the index-tracking mandates, whilst Baillie Gifford, and the multi-asset managers are responsible for the management of this exposure within their respective mandates.

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.

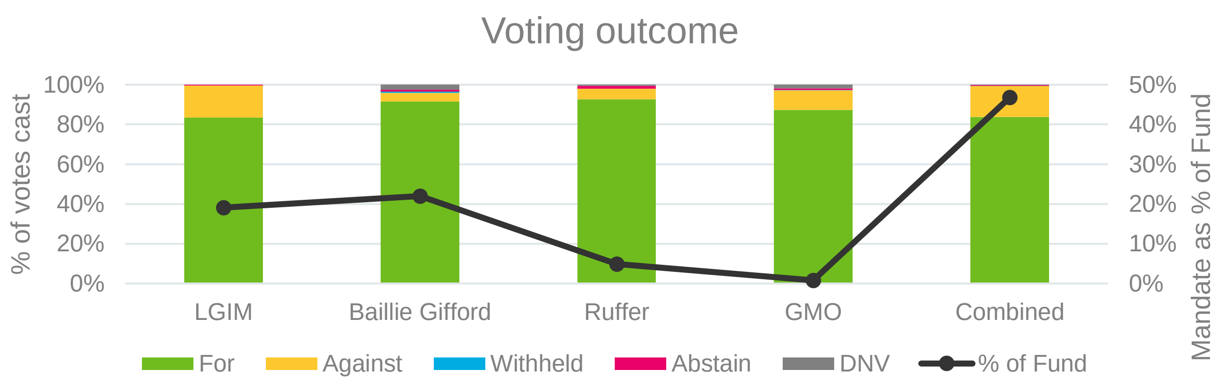
We note that LCIV arranges for appointed managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum ("LAPFF") (of which the Council is a member) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with 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:

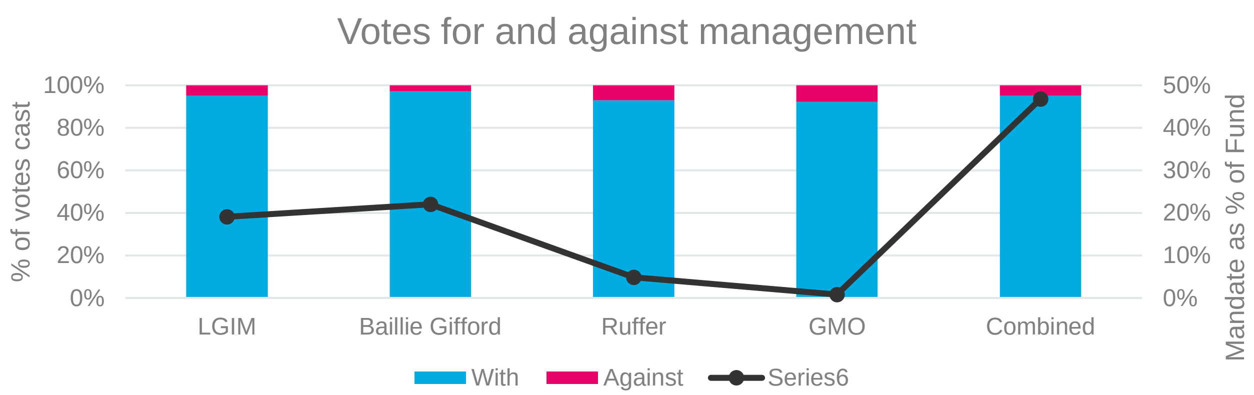
http://www.lapfforum.org/wp-content/uploads/2018/12/LAPFF-Annual-Report-2019.pdf

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.

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