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PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 20 July 2021	Council Chamber, Town Hall

Members 7: Quorum 3

COUNCILLORS:

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

North Havering Residents' Group(1)

Martin Goode (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

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

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

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

Reporting means:-

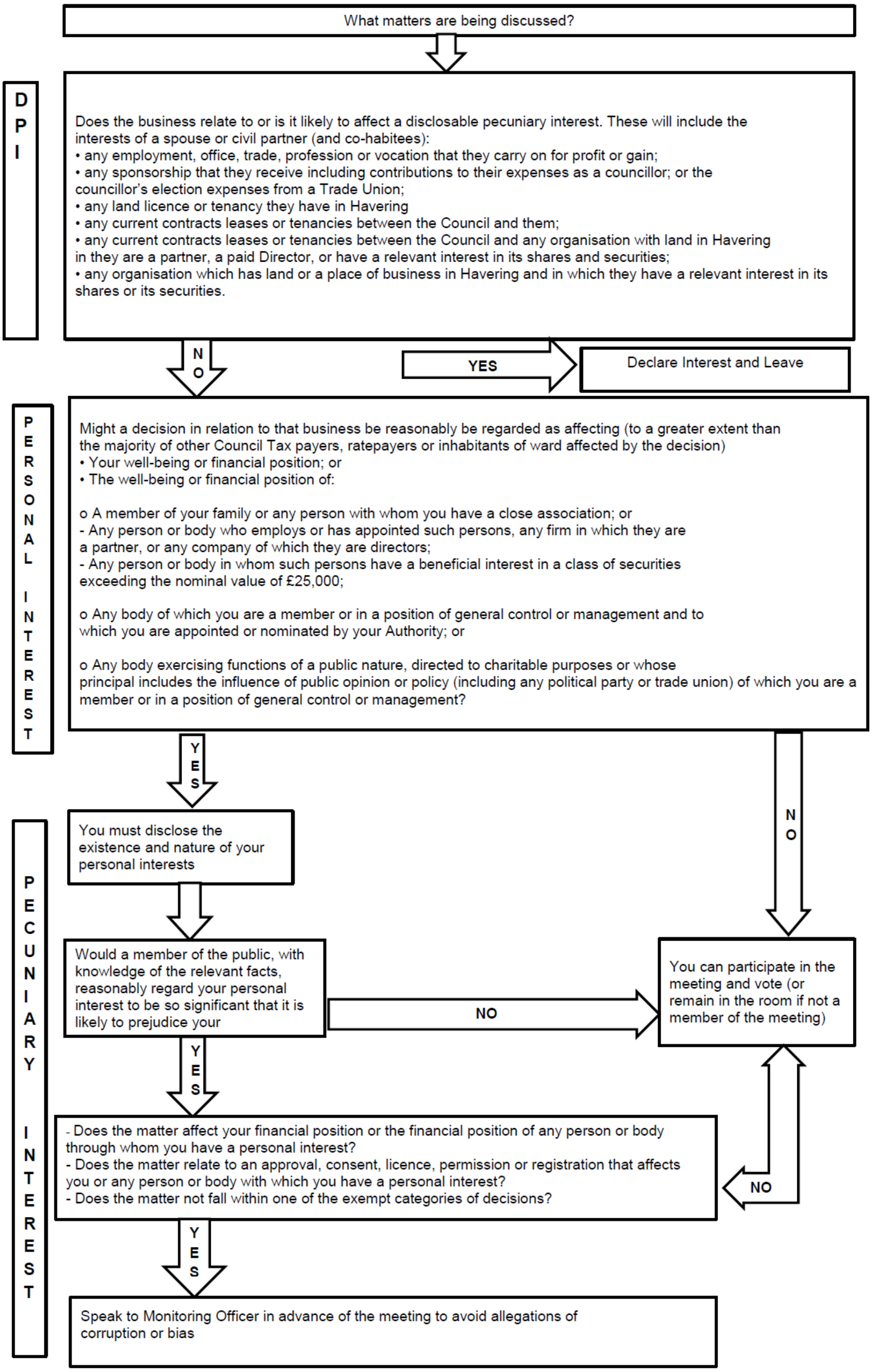
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



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 - 6)

To approve as correct the minutes of the meeting held on 16th March 2021 and authorise the Chairman to sign them.

5 MINUTES OF THE LOCAL PENSION BOARD (Pages 7 - 8)

To receive the minutes of the Local Pension Board.

6 ADMISSION OF ATALIAN SERVEST FOOD CO LTD TO THE LBH PENSION FUND

Report to follow

7 2020/21 ANNUAL REPORT

Report to follow

8 PENSION FUND ACCOUNTS 2020/21 (Pages 9 - 82)

Report and appendices attached

9 EXCLUSION OF THE PUBLIC

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

10 INVESTMENT STRATEGY UPDATE (Pages 83 - 104)

Report and appendix attached

11 PENSION FUND PERFORMANCE FOR QUARTER ENDING MARCH 2021 (Pages 105 - 172)

Report and appendices attached

Andrew Beesley
Head of Democratic Services

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Town Hall, Main Road, Romford
16 March 2021 (7.30 - 9.55 pm)

Present:

COUNCILLORS

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

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

There were no apologies for absence.

190 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

191 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 12th January 2021 were otherwise agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

192 **ADMISSION OF MAY HARRIS INTO THE PENSION FUND**

The report presented to the Committee sought approval for May Harris to be added to the Pension Fund with the transfer of 7 members of staff.

The Committee noted May Harris was awarded a contract for cleaning service for Royal Liberty and Sanders' School for a minimum of 3 years. Members noted the contract commenced on 1st January 2020 for Royal Liberty and 13th January 2020 for Sanders'. The contribution rate was set at 25.26% for Royal Liberty and 24.36% for Sanders' with the Success for All Education Trust (SFAET) acting as the guarantor.

The Committee **agreed** to admit May Harris into the Pension Fund subject to:

a) An Admission agreement for each academy being in place with all relevant parties signing up to respective Admission Agreements, and

b) May Harris Multi Services Ltd securing a Guarantee in an approved form from SFAET to protect the Fund in respect of each academy.

193 **ADMISSION OF OLIVE DINING LTD TO THE PENSION FUND**

The report presented to the Committee sought approval for Olive Dining Limited to be added to the Pension Fund with the transfer of 6 members of staff.

The Committee noted Olive Dining was awarded a contract for catering for Drapers' School for a minimum of 3 years which commenced on 1st November 2020. Members noted the indemnity level of £102,000 with a contribution rate of 41%.

The Committee **agreed** to admit Olive Dining Limited to the Pension Fund subject to:

a) All parties signing up to an Admission Agreement, and

b) Olive Dining Ltd securing a bond of £102,000 to protect the Pension Fund.

194 **VOLUNTARY PAYS POLICY**

The Committee received a report that presented to Members the policy on Voluntary Scheme Pays (VSP) for members who breach the HMRC's Annual Allowance (AA) limit for pension saving growth.

Members noted that AA limit was set at £40k per annum and if tax is occurred by savings exceeding this limit then it can be paid direct to HMRC or, alternatively, members can use the Mandatory Scheme Pays under criteria 3 to pay the AA tax. If a member does not fall under any criteria, they can request for the fund to pay the AA tax but would need approval from the Authority and would only pay tax on growth that has been made solely in the Havering Pension Fund. Members noted that any member who have an income of over £240k per annum are subject to a tapered AA which reduces the limit from £40k to £4k incrementally between £240k and £312k per annum.

The Committee **agreed** to use the VSP where:

a) A member's pension savings within the Fund is subject to the tapered annual allowance, and

b) The tax breach stems only from the member's London Borough of Havering Pension Fund benefits rather than via growth in multiple pension schemes, and

c) The application is received in writing to the Fund by 30 November in the tax year following the year to which the tax charge relates.

d) Late applications may be considered by the Head of People Transactional Services on a case by case basis.

195 FUNDING UPDATE AS AT SEPTEMBER 2020

The report presented to the Committee gave an update on the funding position of the Pension Fund.

Members noted that the funding level had decreased from 70% as at 31st March 2019 to 68.1% as at 30th September 2020 but had grown to 76% as at February 2021 with the funding plan on track.

The Committee **noted** that report and the Havering Pension Fund interim funding position update as at 30 September 2020.

196 PENSION FUND DISCRETIONS POLICY

The Committee received a report that presented the Discretions Policy for the Pension Fund.

Members noted that following guidance from the LGA the Local Authorities and Scheme Employers in the LGPS are required to formulate, publish and keep under review a statement of policy on all mandatory discretions or recommended non-mandatory discretions.

The Committee **approved** the Havering Administering Authority and Employing Authority Discretions Policies.

197 EXCLUSION OF THE PUBLIC

The Committee agreed to exclude the Public from the remainder of the meeting where appropriate 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.

198 PENSIONS ADMIN REVIEW

The report presented before the Committee showed members the forecasted spend for 2020-21 for the Pensions Administration Contract held by Lancashire County Council and administered by LPPA.

Members noted that the budget for the contract stood at £504,000 and as at November 2020 the LPPA forecasted that send for quarter 2 was £506,000 compared to the budget of £320,000, meaning an overspend of £186,000. Havering would be liable to pay 50% of the total overspend as per the service agreement.

The Committee **noted** the additional costs the Council are due to pay and **approved** the 2021-22 budget.

199 **INVESTMENT STRATEGY UPDATE**

The Committee received an update on the Investment Strategy and its implementation.

The Advisor to the Fund, Hymans, presented to the Committee the next steps and recommendations which have been highlighted form the work that has been undertaken.

The Committee **agreed** to:

a) Increase the SISF IV commitment by €10million.

b) Make a commitment of 2.5% of the fund's assets to the LCIV Renewable Infrastructure Fund, subject to their being no adverse issues indicated once the provision of formal advice has been given on the structure.

c) Make further allocations to the Private Debt mandate to maintain the 7.5% asset class level. Precise amounts will be subject to agreement with Officers based on prevailing requirements of the Fund.

d) Convert the Baillie Gifford Global Alpha fun to the Baillie Gifford Paris Aligned Global Alpha Fund, subject to there being no adverse issues indicated once due diligence has been undertaken on the strategy.

200 **PENSION FUND PERFORMANCE**

The report presented to the Committee gave an update on the Pension Fund's investment performance as at 31st December 2020.

The members noted that the fund value was £851million and had grown by 7%, outperforming its benchmarks.
The Committee:

a) **Considered** Hymans Market Background, Strategic Overview and Manager Performance Report (Appendix A)

b) **Considered** Hymans Performance Report and views (Appendix B Exempt)

c) **Received** presentation from the Funds Global Property Manager CBRE (Appendix C – Exempt)

d) **Considered** the quarterly reports sent electronically, provided by each investment manager.

e) **Noted** the analysis of the cash balances

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Chairman

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MINUTES OF THE MEETING OF THE LOCAL PENSION BOARD
Zoom
22 June 2021 (4.00 - 4.15 pm)

Present:

Denise Broom
Andrew Frater (Chairman)
Mark Holder

66 **CHAIR'S ANNOUNCEMENTS**

The Chairman reminded Members of the action to be taken if they lost connection to the Zoom call.

67 **APOLOGIES FOR ABSENCE**

Apologies were received from Anne Giles

68 **DISCLOSURE OF INTEREST**

There were no disclosures of interests.

69 **LOCAL PENSION BOARD WORK PLAN**

The Board were presented with the previous work plan and **agreed** for the following changes to be made:

1) Keep points 1 – 5 and 7 – 8 the same
2) Remove point 6
3) Add a further point to allow the Board to have oversight of the transition to the other admin platform
4) Alter the wording of points 2 and 4 to incorporate the entire risk register
5) Add a further point to report on COVID-19 and the impacts it has had on the scheme

The Board **agreed** for the updated work plan to be circulated by email

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Chairman

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Havering LONDON BOROUGH

PENSIONS COMMITTEE 20 JULY 2021

Subject Heading:	**PENSION FUND ACCOUNTS 2020/21**
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 2021

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 2021 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 Accounts (unaudited) as at 31st March 2021 and consider if there are any issues that need to brought to the attention of the Audit Committee.

REPORT DETAIL

1 Background

1.1. A review of the effectiveness of external audit and transparency of financial reporting in local Authorities by Sir Tony Redmond included a recommendation that the deadline for publishing audited accounts is extended to 30 September from the 31 July each year with draft accounts published on or before the 1 August. The proposal is for the amended deadlines to cover two years – 2020/21 and 2021/22 and then reviewed once it is clearer whether audit completion dates has improved.

1.2. Following this review the Ministry of Housing, Communities and Local Government (MHCLG) issued a '*Consultation on amendments to the Accounts and Audit Regulations 2015'.* This resulted in a change to regulations and the Local Authority Audit (Amendment) Regulations 2021 came into force on 31 March 2021.

1.3. Draft accounts must be published on or before the **1 August 2021.**

1.4. The latest version of the Pension Fund Accounts are shown as attached in **Appendix A.**

1.5. The Accounts are compiled in line with the Chartered Instituted Institute of Public Finance & Accountancy (CIPFA) *"LGPS Funds Accounts 2020/21 example accounts."*

1.6. There were some code changes in 2020/21 of which the most significant for the Pension Fund are as follows:

- Note 11a - more detailed disclosure requirements in respect of investment management fees. Fees now analysed over each asset class.
- Note 14 - the removal of the requirement to analyse assets between quoted/unquoted and UK/overseas. This analysis has now been removed.

- Note 14 - the revised analysis requirement for pooled investment holdings. This was previously shown on one line but now analysed over each asset class.

The changes required for the 2020/21 accounts meant prior year adjustments were necessary, these are shown as being restated in 2019/20 columns where applicable.

1.7. Key movements to note from the 2020/21 accounts are:

- The Net Assets of the Fund has increased to **£874m** for 2020/21 from £729m in 2019/20, a net increase of **£145m**.

- The net increase of **£145m** is compiled of a change in the market value of assets of £165m, investment income of £15m, net withdrawals of cash of (£31m) and offset by management expenses of (£4m). Further details are included within the Fund Account and Net Asset Statement included in this report.

- The net withdrawal figure of (£31m) includes a financial settlement figure for the bulk transfer out of the colleges to the London Pension Fund Authority.

1.8. 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 Council's accounts. Indicative Audit Plan for the Pension Fund is attached as **Appendix B**

1.9. The Authority's Statement of Accounts for 2020/21 will be presented to the Audit Committee on the **22 July 2021** for agreement. 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.

1.10. A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2020/21 Pension Fund Annual Report. The statutory publication date for the 2020/21 Pension Fund Annual Report is 1 December 2021.

1.11. 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 will not have been 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.

The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) extended the statutory deadlines. The publication date for audited accounts will move from 31 July to 30 September 2021. Draft accounts must be published by the 1 August 2021.

The Pension Fund accounts were completed by the 31 May 2021, in line with original deadlines set out in the 2015 Accounts and Audit Regulations, to ensure that best practice was maintained.

As referred to in the attached indicative audit plan (Appendix B) the audit will commence in September and the final report produced in December 2021.

The planned cost of a separate audit opinion for the 2020/21 Pension Fund accounts, as per the indicative audit plan 2020/21 is set below:

	Planned Fee 2020/21	**Planned Fee 2019/20**	**Actual Fee 2019/20**
	£'s	**£'s**	**£'s**
Scale Fee – Code work	18,325	16,170	16,170
IAS19 Assurance Approach	5,000	5,000	TBC
Triennial Review Procedures	0	3,000-4,000	TBC
Going Concern and PBSE disclosure consultation	TBC	4,000-8,000	TBC
Total Fees	**TBC**	**28,170 – 33,170**	**16,170**

The 2019/20 accounts were finalised on the 28 May 2021 and at the time of writing this report our auditors have yet to invoice the final fee charges for 2019/20.

Whilst not reflected in the above table our auditors are proposing an increase in the scale fee from £18,325 to £55,000. They will submit the scale fees to Public Sector Audit Appointments (PSAA) for them to determine. Fees include the cost of the Pension Fund Annual Report.

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

In December 2020 - To support implementation of the Redmond review recommendations, MHCLG is providing principal local government bodies with £15 million in additional funding in 2021/22. This is intended to support affected local bodies to meet the anticipated rise in fees for 2020/21 audits, driven by new requirements on auditors, including the National Audit Office's Code of Audit Practice 2020, and to enable local authorities to develop standardised statements of service information and costs.

The consultation seeking views on how to most fairly allocate the £15 million provided to impacted principal bodies closed on the 18 may 2021.

Legal implications and risks:

Local Authority Audit (Amendment) Regulations 2021 (SI 2021/263) came into force on 31 March 2021. These amendments to the regulations only apply for accounts 2020/21 and 2021/22.

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.

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

BACKGROUND PAPERS

None

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Pension Fund

Pension Fund Account for the year ended 31 March 2021

2019/20 £000		Notes	2020/21 £000
	Dealings with members, employers and others directly involved in the fund		
45,812	Contributions receivables	7	47,418
5,951	Transfers in from other pension funds	8	4,896
51,763			52,314
(38,769)	Benefits	9	(38,804)
(3,272)	Payments to and on account of leavers	10	(44,630)
(42,041)			(83,434)
9,722	Net additions (withdrawals) from dealings with members		(31,120)
(3,975)	Management expenses	11	(4,428)
5,747	**Net additions/(withdrawals) including fund management expenses**		**(35,548)**
	Returns on investments		
10,077	Investment income	12	15,539
(1)	Taxes on Income	13	-
(20,518)	Profit and losses on disposal of investments and changes in the market value of investments	14a	165,548
(10,442)	**Net returns on investments**		**181,087**
(4,695)	Net increase (decrease) in the net assets available for benefits during the year		**145,539**
733,391	Opening net assets of the Fund at start of year		728,696
728,696	**Closing net assets of the Fund at end of year**		**874,235**

Net Asset Statement for the year ended 31 March 2021

£000			£000
150	Long Term Investments	14	150
707,782	Investment Assets	14	858,410
(2,174)	Investment Liabilities	14	(263)
705,758	**Total net investments**		**858,297**
23,552	Current Assets	21	16,403
(614)	Current Liabilities	22	(465)
728,696	**Net assets of the Fund available to fund benefits at end of the reporting period**		**874,235**

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 ("the 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 Fund, reference should be made to the Fund's Annual Report 2020/21 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. These have been accounted for within London Borough of Havering

During 2020/21 five new employers joined the Fund and one cessation.

There are 56 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-20		31-Mar-21
51	**Number of employers with active members**	**56**
	Number of employees in scheme	
4,769	London Borough of Havering	4,650
1,650	Scheduled bodies	1,697
73	Admitted bodies	79
6,492	**Total**	**6,426**
	Number of pensioners and dependants	
5,950	London Borough of Havering	6,014
346	Scheduled bodies	369
114	Admitted bodies	29
6,410	**Total**	**6,412**
	Deferred pensioners	
5,274	London Borough of Havering	5,179
807	Scheduled bodies	791
93	Admitted bodies	50
6,174	**Total**	**6,020**
19,076	**Total number of members in pension scheme**	**18,858**

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 2021. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Current employer contribution rates range from 14.2% to 40.8% 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. Havering Council pay a monetary value , other employers as a 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 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 2020/21 financial year and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 "(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. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet into the Balance Sheet of Lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They 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 Administering Authority is satisfied that Havering Pension Fund is a going concern. The return for 2020/2021 of 24.90% is greater than the actuary's long term target return for the Fund of +3.89% pa. The Fund still has the remaining year of the actuarial period to achieve the target return, and beyond this has agreed a 20 year recovery period should this be necessary to make good an increase in the funding deficit at the next actuarial valuation. The Fund's cashflow remains robust. The Fund held cash of £19m at the Balance Sheet date, equivalent to 2% of the Fund Assets. In addition, the Fund held £724m in Level 1 and Level 2 investment assets which could be realised within 3 months if required. However, based upon review of its operational cash flow projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any of these investments. As such 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 are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all that arise according to pensionable pay

Employer contributions are set at the percentage rate recommended by the fund actuary for the 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 (augmentation) 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

Transfers in and out relate to members who have either joined or left the fund.

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.

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 costs associated with governance and oversight are seperately identified and recharged to the Fund and charged as expenses to the Fund.

Investment Management Fees

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 charged by external investment managers and custodian are set out 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.

Officers' time spent on investment management functions are also 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. Any amounts due or payable in respect of trades entered but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a.

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 legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value 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 vauve of promised benfits by way of a note to the Net Asset 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 from those of the pension fund. 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).

(o) 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.

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.

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

4 Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Liability 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 9%. 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 10%	138 12 153

6 Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) includes 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. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabilities this year. There will be changes made to scheme regulations that will remove age discrimination from the LGPS and it is anticipated that these regulations will come into force from 1 April 2023.

COVID-19

The Fund has valued its assets based on the 31 March 2020 position as reported by its investment managers. However, there is uncertainty over asset valuations, in particular for real and private market assets. The Fund believes that these valuations are the most reliable, as there are not alternative reliable estimates given the absence of trading in these asset classes.

On 11 March 2020 the World Health Organisation (WHO) declared a COVID 19 pandemic. This caused a world-wide public health emergency and initially significantly impacted global markets which contributed to both a volatile and a severe decline in those sectors that were impacted. The rebound in equity markets from the COVID-19 lows have been a lot faster and stronger than many predicated and has resulted in traditional equity and bond markets ending March 2021 at exceptionally high levels. Whilst COVID 19 pandemic continued throughout 2020/21 volatility remains due to the uncertainty of further waves due to increases in coronvirus infections. For the purposes of these financial statements the COVID 19 impact is considered a non- adjusting event.

7 Contributions Receivable

By category

2019/20 £000		2020/21 £000
	Employees' contributions	
	Normal:	
5,819	London Borough of Havering	6,268
1,462	Scheduled Bodies	1,442
74	Admitted Bodies	73
	Additional contributions:	
7	London Borough of Havering	6
7,362	**Total Employees' Contribution**	**7,789**
	Employers' contributions	
	Normal:	
13,808	London Borough of Havering	14,716
5,853	Scheduled bodies	5,545
311	Admitted bodies	311
	Deficit funding:	
18,449	London Borough of Havering*	18,677
	Augmentation	
4	London Borough of Havering	341
25	Scheduled bodies	37
0	Admitted bodies	2
38,450	**Total Employers' Contributions**	**39,629**
45,812	**Total Contributions Receivable**	**47,418**

*The 2020/21 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £6.027m voluntary planned contributions.

By authority

2019/20 £000		2020/21 £000
38,087	London Borough of Havering	40,008
7,340	Scheduled bodies	7,024
385	Admitted Bodies	386
45,812	**Total Contributions Receivable**	**47,418**

8 Transfers in from Other Pension Funds

2019/20 £000		2020/21 £000
5,951	**Individual transfers**	4,896
5,951	**Total Transfers In from Other Pension Funds**	**4,896**

9 Benefits Payable

By category

2019/20 £000		2020/21 £000
	Pensions	
30,137	London Borough of Havering	30,798
1,399	Scheduled Bodies	1,692
851	Admitted Bodies	881
32,387	**Pension Total**	**33,371**
	Commutation and Lump Sum Retirements	
4,431	London Borough of Havering	3,577
402	Scheduled Bodies	344
179	Admitted Bodies	394
5,012	**Commutation and Lump Sum Retirements Total**	**4,315**
	Lump Sum Death Benefits	
1,305	London Borough of Havering	976
65	Scheduled Bodies	110
-	Admitted Bodies	32
1,370	**Lump Sum Death Benefits Total**	**1,118**
38,769	**Total Benefits Payable**	**38,804**

By authority

2019/20 £000		2020/21 £000
35,873	Havering	35,351
1,866	Scheduled bodies	2,146
1,030	Admitted Bodies	1,307
38,769	**Total Benefits Payable**	**38,804**

10 Payments To and On Account of Leavers

2019/20 £000		2020/21 £000
110	Refunds to members leaving service	70
-	Group Transfer*	40,438
3,162	Individual transfers	4,122
3,272	**Payments to and on Account of Leavers**	**44,630**

*College Transfer settlement - includes £15m cash withdrawal from Havering Pension Fund internally held cash & £25.4m investment withdrawal

11 Management Expenses

2019/20 £000		2020/21 £000
315	Administrative Costs	601
3,192	Investment Management Expenses	3,412
452	Oversight and Governance Costs	398
14	Oversight and Governance Costs - External Audit costs	16
2	Local Pension Board	1
3,975	**Management Expenses**	**4,428**

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 £0.102m (2019/20 £0.108m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.067m in respect of transaction costs (2019/20 £0.023m).

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

2020-21	Management fees	Performance Related fees	Transaction cost	2020/21 Total
	£000	£000	£000	£000
Bonds	162	-	-	162
Fixed Interest Unit Trust	106	-	-	106
Diversified Growth Funds	622	-	15	637
Infrastructure	313	-	-	313
Global Equity	1,445	-	52	1,497
Other Investments				
Pooled Property	304	102	-	406
Private Equity and joint venture	190	-	-	190
Derivatives -Forward Currency Contracts	17	-	-	17
	3,159	**102**	**67**	***3328**
Custody fees				37
Performance Measurement fees				33
Other Investment fees				14
Investment Management Expenses				**3,412**

*Includes £2.086m charged for assets in the London CIV asset pool (£1.732m In 2019/20)

11a Investment Management Expenses continued

2019-20 Restated	Management fees	Performance Related fees	Transaction cost	Total
	£000	£000	£000	£000
Bonds	133	-	-	133
Fixed Interest Unit Trust	101	-	-	101
Diversified Growth fund	393	-	15	408
Infrastructure	364	-	-	364
Global Equity	1,409	-	58	1,467
Other Investments:				
Pooled Property	405	105	23	533
Private Equity and joint venture	127	3	-	130
Derivatives - Forward Currency Contracts	3	-	-	3
	2,935	**108**	**96**	**3,139**
Custody fees				27
Performance measurement fees				17
Other Investment fees				9
Investment Management Expenses				**3,192**

12 Investment Income

2019/20 £000		2020/21 £000
8,149	Pooled Investments - unit trusts and other managed funds	8,101
2,582	Income from Bonds*	1,881
1,920	Pooled Property Investments	1,887
(2,642)	Income form Derivatives (Foreign Exchange Gains/(losses))	3,841
202	Interest on Cash Deposits	126
(134)	Other Income**	(297)
10,077	**Investment Income**	**15,539**

***** Income includes Index linked Interest of £0.137m (2019/20 £0.103m).

** Management expenses to offest against gross income from dividends

13 Taxes on Income

2019/20 £000		2020/21 £000
(1)	Withholding Tax	-
(1)	**Taxes on Income**	-

14 Analysis of Investments

2019/20 Restated		2020/21
£000		£000
	Investment Assets	
150	**Long Term Investments**	150
150		**150**
	Bonds	
49,206	Fixed Interest Securities	39,001
40,033	Index-Linked Securities	36,897
89,239		**75,898**
	Pooled Investment	
32,881	Fixed Interest Unit Trust	61,822
80,000	Diversified Growth Fund	87,978
43,988	Infrastructure	44,536
362,966	Global Equity	477,416
519,835		**671,752**
	Other Investments	
70,130	Pooled Property	68,986
19,630	Private Equity and Joint Venture	36,825
1,445	Derivatives - Forward Currency Contracts	1,148
91,205		**106,959**
6,778	Cash deposits Managers	3,321
725	Investment income due	480
7,503		**3,801**
707,932	**Total Investment Assets**	**858,560**
	Investment Liabilities	
	Derivative Contracts	
(2,173)	Forward Currency Contracts	(262)
(1)	Income receivable	(1)
(2,174)	**Total Investment Liabilities**	**(263)**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2020 Restated	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 2021
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	49,206	19,163	(32,774)	3,406	-	39,001
Index-linked Securities	40,033	95,380	(99,896)	1,380	-	36,897
Pooled Investment Vehicles	519,985	33,363	(43,672)	162,226	-	671,902
Other Investments	89,760	23,815	(4,685)	(3,079)	-	105,811
Derivatives – forward currency contracts	(728)	94,996	(94,996)	1,614	-	886
Cash Deposits (fund managers)	6,778	-	-	1	(3,458)	3,321
	705,034	**266,717**	**(276,023)**	**165,548**	**(3,458)**	**857,818**
Other Investment Balances	724	-	-	-	(245)	479
	705,758	**266,717**	**(276,023)**	**165,548**	**(3,703)**	**858,297**

	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**

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 £0.67m (2019 Restated £0.96m). 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 2020		Manager	Mandate	Value 31 March 2021	
£000	%			£000	%
Investments managed by London CIV asset Pool:					
150	0.02	London CIV	Equities Unquoted	150	0.01
97,738	13.85	Ruffer	Pooled Absolute Return Fund	111,270	12.96
136,341	19.32	Baillie Gifford	Pooled Global Alpha Growth Fund	191,042	22.27
80,000	11.34	Baillie Gifford	Pooled Diversified Growth Fund	87,978	10.25
314,229	**44.53**			**390,440**	**45.49**
PLUS Life Fund Investments aligned with London CIV asset pool:					
123,850	17.55	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	175,105	20.41
438,079	**62.08**	**London CIV Total**		**565,545**	**65.90**
Investments managed outside of the London CIV asset Pool:					
70,577	10.00	Royal London Index Linked Bonds Fund	Investment Grade Bonds	37,958	4.42
53,611	7.60	Royal London Corp' Bond Fund	Investment Grade Bonds	38,731	4.51
-	-	Royal London Multi Asset Credit Pooled Fund	Fixed Interest Unit Trust	61,822	7.20
41,067	5.82	UBS Property	Pooled Property	41,034	4.78
5,038	0.71	GMO Global Real Return (UCITS) Fund	Pooled Multi Asset	-	-
28,956	4.10	CBRE	Global Pooled Property	27,793	3.24
17,447	2.47	Stafford Capital SISF II	Overseas Pooled Infrastructure	19,118	2.23
-	-	Stafford Capital SISF IV	Overseas Pooled Infrastructure	1,557	0.18
26,964	3.82	JP Morgan	Overseas Pooled Infrastructure	23,861	2.78
14,026	1.99	Churchill	Overseas Pooled Private Debt	19,138	2.23
5,605	0.79	Permira	Overseas/UK Pooled Private Debt	17,687	2.06
(728)	(0.10)	Russell Investments	Currency Management	2,666	0.31
5,116	0.72	Other	Other	1,387	0.16
267,679	**37.92**			**292,752**	**34.10**
705,758	**100.00**	**Total Fund**		**858,297**	**100.00**

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

Market Value 31-Mar-20	% of total fund	Security	Market Value 31-Mar-21	% of total fund
£000			£000	
136,341	18.70	London CIV Global Alpha Fund	191,042	21.85
97,738	13.41	London CIV Ruffer Absolute Return Fund	111,270	12.73
80,000	10.97	London CIV Diversified Growth Fund	87,978	10.06
51,296	7.04	LGIM All World Equity Index	71,550	8.18
44,638	6.12	LGIM FTSE RAFI AW 3000 Index	64,316	7.36
-	-	Royal London Multi Asset Credit Pooled Fund	61,821	7.07
41,067	5.65	UBS Property	-	-
451,080		**Total Fund**	**587,978**	

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 2021, the value of quoted equities on loan was £3.233m (nil 31 March 2020) 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 2021 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
Up to One month	**GBP**	11,135	**EUR**	(10,706)	429	-
	GBP	17,511	**USD**	(17,328)	183	(1)
	GBP	2,642	**AUD**	(2,582)	60	-
	USD	414	**GBP**	(409)	5	-
	EUR	507	**GBP**	(517)	-	(10)
	AUD	308	**GBP**	(309)	-	(1)
Up to Two months	**GBP**	12,422	**EUR**	(12,238)	184	-
	GBP	17,027	**USD**	(17,277)	-	(250)
	GBP	2,346	**AUD**	(2,310)	37	-
	USD	70	**GBP**	(69)	1	-
	EUR	1,855	**GBP**	(1,855)	-	-
	AUD	111	**GBP**	(111)	-	-
Up to Three months	**GBP**	12,871	**EUR**	(12,714)	157	-
	GBP	13,749	**USD**	(13,670)	79	-
	GBP	2,027	**AUD**	(2,014)	13	-
Open forward currency contracts at 31 March 2021					**1,148**	**(262)**
Net forward currency contracts at 31 March 2021						**886**
Gross open forward currency contracts at 31 March 2020					1,445	(2,173)
Net forward currency contracts at 31 March 2020					**-**	**(728)**

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, where possible using market based information. There has been no change in the valuation techniques used during the year.

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, comprising 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 Valuation basis for each category of investment asset is set out below:

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	Level 1	Published bid market	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 (CBRE)	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	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.	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 Private Debt Funds (Churchill)	Level 3	Valuations undertaken quarterly and determined by the Investment Manager. To determine the value the manager relies on guidance by various regulatory and industry organisations and authorised to use independent third party pricing services and valuation firms.	Unobservable inputs are determined by the Investment Manager and shall take into account items that it reasonably believes would impact the valuation (such as expenses and reserves).	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 AIFM based on advice from Portfolio Manager and based on the International Private Equity and Venture Capital guidelines or other standards agreed by the Senior Fund Advisory Committee.	Unobservable inputs are determined by the Investment Manager.	Use of 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 performance measurement service , 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 2021.

	Assessed valuation range (+/-)	Value at 31 March 2021	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property funds	3.40	68,985	71,330	66,640
Pooled Unit Trusts	7.80	81,361	87,707	75,015

16a. Fair Value Hierarchy

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 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	704,263	150	150,346	854,759
Loans and receivables	20,204	-	-	20,204
Total Financial Assets	**724,467**	**150**	**150,346**	**874,963**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(728)	-	-	(728)
Total Financial Liabilities	**(728)**	**-**	**-**	**(728)**
Net Financial Assets	**723,739**	**150**	**150,346**	**874,235**

16a. Fair Value Hierarchy continued

	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**

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 2020	Transfer Into Level 3	Purchases	Sales	Unrealised gains/ losses	Realised gains/losses	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Property Funds	70,130	-	-	(80)	(1,065)	-	68,985
Infrastructure	43,989	7,561	490	(2,299)	(5,192)	(13)	44,536
Private Debt	19,630	18,753	5,064	(4,606)	(2,016)	-	36,825
Total	**133,749**	**26,314**	**5,554**	**(6,985)**	**(8,273)**	**(13)**	**150,346**

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 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 due to progressing the 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 2020 Restated				31 March 2021		
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	-	-
49,206	-	-	Bonds -Fixed Interest Securities	39,001	-	-
40,033	-	-	Bonds - Index linked securities	36,897	-	-
1,445	-	-	Derivative contracts	1,148	-	-
519,835	-	-	Pooled investment Vehicles	671,752	-	-
19,630			Private Equity and joint venture	36,825	-	
70,130	-	-	Property	68,986	-	-
-	6,778	-	Cash	-	3,321	-
-	725	-	Other Investment Balances	-	480	-
-	23,552	-	Debtors	-	16,403	-
700,429	**31,055**	**-**	**Financial Assets Total**	**854,759**	**20,204**	**-**
			Financial Liabilities			
(1)	-	-	Other Investment Balances	(1)	-	-
(2,173)	-	-	Derivative contracts	(262)	-	-
-	-	(614)	Creditors	-	-	(465)
(2,174)	**-**	(614)	**Financial Liabilities Total**	**(263)**	**-**	**(465)**
698,255	**31,055**	**(614)**	**Grand total**	**854,496**	**20,204**	**(465)**
	728,696				**874,235**	

(b) Net Gains and Losses on Financial Instruments

2019/20 £000		2020/21 £000
	Financial assets	
(20,518)	Fair value through profit and loss	**165,548**
(20,518)	**Total**	**165,548**

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 Fund 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. The Fund's investment managers mitigate this risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund 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 2021/22, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Asset Type	Value as at 31 March 2021 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Pooled Equities	539,389	15.60	623,532	455,243
Total Bonds	75,898	7.70	81,743	70,054
Pooled Overseas Unit Trusts	81,361	7.80	87,707	75,015
Global Pooled inc.UK	87,978	6.50	93,697	82,260
Pooled Property	68,985	3.40	71,331	66,640
Cash	4,686	0.60	4,714	4,658
Total	**858,297**		**962,724**	**753,870**

Asset Type	Value as at 31 March 2020 £000	Potential market movements %	Value on Increase £000	Value on Decrease £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**

Interest Rate Risk

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.

Interest Rate Risk Sensitivity Analysis

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. The 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.

Assets exposed to Interest Rate Risk

Assets exposed to interest rate risk	Asset Values as at 31 March 2021 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	75,898	759	76,657	75,140
Cash and Cash Equivalents	4,686	47	4,733	4,639
Cash Balances	15,963	160	16,123	15,804
Total Change in Asset Value	**96,547**	**966**	**97,513**	**95,583**

Assets exposed to interest rate risk	Asset Values 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**	**1,520**	**153,469**	**150,428**

Currency Risk

Currency risk represents the risk that fair value of future cash flows 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 (cont'd)

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 8.4% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.
A 8.4% 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	Asset Values as at 31 March 2021 £000	Potential Market movement 8.40%	Value on increase £000	Value on Decrease £000
Overseas Pooled	91,468	7,683	99,151	83,784
Overseas Cash	541	45	587	496
Total change in assets available to	**92,009**	**7,728**	**99,738**	**84,280**

Assets exposed to currency risk	Asset Values as at 31 March 2020 £000	Potential Market movement 7.40%	Value on increase £000	Value on Decrease £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	**91,806**	**6,794**	**98,600**	**85,012**

(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.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experieced any actual defaults in recent years and the current pracitice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

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 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 2021 was £15.963m (31 March 2020 £23.065m).The 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 2021 the value of liquid assets was £724m, which represented 83% of the total Fund (31 March 2020 £595m, which represented 82% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Fund 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 2020/21

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 2018 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a for males and females. 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 severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is broadly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

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 to disclose the actuarial present value of retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19.

31-Mar-20	Year Ended	31-Mar-21
£m		£m
1,195	Present Value of Promised Retirement Benefits	1,557
729	Fair Value of Scheme assets (bid Value)	874
466	**Net Liability**	**683**

The promised retirement's benefits at 31 March 2021 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 satisfed that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2021 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. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabiliites this year.

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.

Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2021 and 31 March 2020. It is estimated that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £299m. It is estimated that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £21m.

Financial assumptions

The actuary’s recommended financial assumptions are summarised below:

31-Mar-21	Year Ended (% p.a)	31-Mar-20
% p.a.		% p.a.
2.85	Pension Increase Rate	1.90
3.55	Salary Increase Rate	2.60
2.00	Discount Rate	2.30

Longevity assumption

Life expectancy is based on the Fund's VitaCurves alongside future improvements based on the CMI 2020 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.8 years	24.1 years
Future Pensioners	22.9 years	25.9 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%	138
0.5% p.a. increase in the Salary Increase Rate	1%	12
0.5% p.a. decrease in the Real Discount Rate	10%	153

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 2021 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

2019/20 £000		2020/21 £000
	Debtors:	
265	Contributions due from employers	307
68	Contributions due from employees	79
1,307	Pension Fund Bank Account Balances	116
3	Sundry Debtors	9
21,909	Cash deposit with LB Havering	15,876
-	Holding Accounts	16
23,552	**Current Assets**	**16,403**

22 Current Liabilities

2019/20 £000		2020/21 £000
	Creditors:	
(314)	Benefits Payable	(252)
(140)	Sundry Creditors	(169)
(160)	Holding Accounts	(44)
(614)		**(465)**

23 Additional Voluntary Contributions

Market Value 2019/20	AVC Provider	Market Value 2020/21
£000		£000
753	Prudential*	TBC
108	Standard Life	144

*Prudential unable to provide statement until July 2021

Some employees made additional voluntary contributions (AVC's) of £31,030 (2019/20 £33,022) 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 2020/21 were £28,730 (2019/20 £30,622) to the Prudential and £2,400 (2019/20 £2,400) to Standard Life.

24 Agency Services

The Fund pays discretionary awards to the former employees of Havering. The amounts paid are fully reclaimed from the employer bodies.

2019/20 £000		2020/21 £000
1,360	Payments on behalf of Havering Council	1,329

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. During the reporting period, the council incurred costs of £0.538 (2019/20 £0.230m) in relation to the administration and management of the fund and was reimbursed by the Fund for these expenses.

The Authority is also the largest employer in the Fund and in 2020/21 contributed £33.392m (19/20 £32.257m) 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 2021 cash holdings totalled £15.837m (2019/20 £23.056m), earning interest over the year of £0.126m (2019/20 £0.202m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2021 (19/20 £0.150m) are included as long term investments in the net asset statement. A mixed portfolio of pension fund investments is managed by the London CIV as shown in Note 14b. During 2020/21 a total of £2.086m was charged to the Fund by the London CIV in respect of investment management services (19/20 £1.732m).

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 each meeting.

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 costs 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 2021 were £50.62m. (31 March 2020 were £49.94m). 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. There are potential liabilities of £0.706m 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.

Three 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.

Six admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.36m.

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 Pension Fund

Indicative Audit Planning Report

Year ended 31 March 2021

April 2021

Building a better working world

16 April 2021

Members of the Audit and Pensions Committee
London Borough of Havering
Town Hall
Main Road, Romford RM1 3BB

Dear Audit Committee / Pension Committee Members,

2020/21 Indicative Audit Planning Report

We are pleased to attach our Indicative Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. We have not yet completed all our planning procedures and we will provide an updated Plan if there are any changes to our risk assessment or planned audit approach following the completion of these procedures.

This report is intended solely for the information and use of the Audit Committee, the Pension Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

Debbie Hanson

For and on behalf of Ernst & Young LLP

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Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error: Management Override	Fraud risk	No change in risk or focus	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Misstatements due to fraud or error: Incorrect posting of investment valuation and income journals	Fraud risk	No change in risk or focus	We have identified the incorrect posting of investment valuation and income journals as a specific risk where misstatements due to fraud or error may arise for the Pension Fund. There is the risk that management may post inappropriate investment journals for the year end 31 March 2021.
Valuation of complex investments (including pooled property funds, pooled infrastructure and pooled private debt)	Significant risk	No change in risk or focus	The Fund's investments include complex investments such as pooled property funds investments. The valuation of such investments are based on 'unobservable' inputs. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements. The proportion of the fund comprising of these investment types was around 18.9% in 2019/20. As these investments are more complex to value, we have identified the Fund's investments in level 3 investments as significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

	Risk identified	Change from PY	Details
Going concern assessment and disclosures	Higher inherent risk	No change in risk or focus	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern. However, the current uncertain economic environment as a result of Covid-19 increases the need for the Fund to undertake a detailed going concern assessment to support this assertion. In addition, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Fund's assessment will also need to cover this period. Therefore, the Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to the 2022/23 financial year.

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Overview of our 2020/21 audit strategy

Materiality

Planning materiality

£7.28m

Materiality has been set at £7.28 million, which represents 1% of the prior year's net assets of the scheme available to fund benefits, as reported in the unaudited accounts. The rate used is the same rate that was used in the prior year and reflects the public interest in the Pension Fund and pension funds generally.

Performance materiality

£5.46m

Performance materiality has been set at £5.46 million, which represents 75% of materiality.

Audit differences

£0.36m

We will report all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Accounts) greater than £0.36 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Indicative Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and

- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of London Borough of Havering.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuation of pension assets, in particular property related assets, and the introduction of new accounting standards, such as IFRS 9 and 16, in recent years. Therefore, to the extent any of these are relevant in the context of Havering Pension Fund's audit.

02 Audit risks

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud and error: Management override and incorrect posting of investment journals

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

We have considered the specific areas where this risk may be manifested. The valuation of investment assets is a key metric for measuring the performance of the pension fund. We consider that management has an incentive to increase these values reported in the financial statements and is in a unique position to influence the posting of year end investment asset valuation journals. There is therefore a risk this may result in misstatements either due to fraud or error.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To respond to the specific fraud risk we have identified relating to the incorrect posting of investment journals we will perform the following additional audit procedures:

- Verify agreement of the Pension Fund's investment asset holdings as at 31 March 2021, including asset values, and investment income for 2020/21 to source reports from the Pension Fund's custodian and individual fund managers.
- Agreed the reconciliation of holdings included in the Net Assets Statement to the source reports from the Pension Fund's Custodian and Investment Fund Managers.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of complex investments (including pooled property funds, pooled infrastructure and pooled private debt)

Financial statement impact

The proportion of the fund comprising of complex investments (Pooled property funds) at 31 March 2020 was approximately £133.7 million, representing 18.9% of total pension fund.

As these investments are more complex to value, we have identified the Fund's level 3 investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

What is the risk?

The Fund's investments include complex investments such as pooled property funds investments. The valuation of such investments are based on 'unobservable' inputs.

Judgements are taken by the Investment Managers to value those investments where prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

For 2020/21, potential ongoing impacts of the Coronavirus pandemic may increase this volatility, particularly for pooled property valuations.

What will we do?

We will:

- Review the basis of valuation and assess the appropriateness of the valuation methods used. Where appropriate this may include the use of EY Pension or valuation experts to support the audit team if necessary.
- Review the latest audited financial statements of the individual investment funds to:
  - Confirm the valuation of a sample to the underlying net assets of the individual investment funds,
  - Ensure there are no matters arising that highlight weaknesses in the funds valuation.
- Where possible, perform analytical procedures to check the valuation output for reasonableness against our own expectations.
- Review disclosures in the Fund's financial statements to ensure that where significant estimates and/or judgements have been made in relation to valuation of complex investments, they are appropriately disclosed.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Going concern disclosures This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. The revised standard increases the work we are required to perform when assessing whether Havering Pension Fund is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2020/21 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: ➢ Auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ➢ Greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ➢ Improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While Pension Funds are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ➢ A stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ➢ Necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We applied the principles of the new standard to our 2019/20 audit of the Pension Fund, and will continue to liaise with finance staff during 2020/21 to confirm the work that we will be required to undertake in 2020/21.

03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £7.28 million. This represents 1% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. We have provided supplemental information about audit materiality in Appendix C. The same rate was used in determining the prior year's materiality.

Net Assets
£728.69m

Planning materiality
£7.28m

Performance materiality
£5.46m

Audit differences
£0.36m

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.46 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold (£0.36 million) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications, misstatements in disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers the financial statement audit.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland) as well as on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of London Borough of Havering.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls;
- Substantive tests of detail of transactions and amounts; and
- Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work

For 2020/21, we plan to adopt a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

05 Audit team

Audit team and the use of specialists

Audit team

The core audit team is led by Debbie Hanson as Associate Partner and Lorenz Cayetano as Manager.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pension fund valuation and disclosures	Hymans Robertson (Havering Pension Fund actuary) PwC (Consulting Actuary to the National Audit Office) EY Pensions Advisory Team
Investment valuation	The Pension Fund's custodian and fund managers EY Pensions or Valuation experts (if required) to assess the valuation of complex investments

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

06 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems	April	Pension Fund Committee	Indicative Audit Planning Report
	May		
	July	Audit Committee (TBC)	Updated Audit Planning Report (if needed)
Execution: audit of 20/21 draft financial statements	September/ October		
Conclusion: Audit completion procedures	November	Audit Committee (TBC)	Audit Results Report Audit Report and Consistency Opinion
Final reporting	December		Auditor's Annual Report (timing to be confirmed) – this will cover the audit of the Council and Pension Fund

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07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the pension fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standard or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the pension fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other communications

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As noted in slide 8, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. A combination of pressures is impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a result, we have had to revisit the basis on which the scale fee was set. We previously shared with the Council our proposal for increasing the scale fee and details of the main drivers. As a result of these factors, we are proposing an increase in the scale fee from £18,325 to £55,000. We will submit our fee estimate to PSAA for them to determine. This updated scale fee is not currently reflected in the table below.

	Planned fee 2020/21 (Note 2)	Final Fee 2019/20 (Note 1)
	£'s	£'s
Scale fee – Code work	18,325	16,170
IAS 19 Assurance Approach	5,000	5,000
Triennial Review Procedures	0	3,000-4,000
Going Concern and PBSE disclosure consultation	TBC	4,000-8,000
Total fees	TBC	28,170 – 33,170

All fees exclude VAT

Note 1 – We are still finalising the 2019/20 audit and, as communicated in our Audit Results Report, we are proposing a variation in relation to the work performed to provide IAS 19 assurances, as well as additional work in relation to the triennial valuation and going concern and PBSE disclosures consultation. We will update the Audit Committee on the final fee once we have completed the audit. The proposed additional fee related to going concern and PBSE will also need to be approved by PSAA.

Note 2 - We anticipate charging an additional fee of £5,000 in 2020/21 in relation to the additional work required to provide the IAS19 assurance for the London Borough of Havering. This is consistent with the additional fee proposed in 2019/20.

We also expect to charge an additional fee for the additional work which will again be required in relation to the going concern assessment as an area of focus identified for the audit. Until we have completed this work we are not able to provide an estimate of the level of additional fee.

The planned fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee .

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Indicative Audit planning report – April 2021
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – November 2021
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report - November 2021
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report - November 2021

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report - November 2021
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report - November 2021
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Indicative Audit planning report – April 2021 Audit results report - November 2021
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report - November 2021

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Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report - November 2021
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report - November 2021
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - November 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - November 2021
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report - November 2021
Fee Reporting	• Breakdown of fee information when the Audit Plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report – April 2021 Audit results report - November 2021

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Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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PENSIONS COMMITTEE 20 July 2021

Subject Heading:	**INVESTMENT STRATEGY REVIEW UPDATE**
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:	Implementation of the investment strategy will be met from restructuring existing mandates

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 an update on the implementation of the Investment Strategy, to follow up on specific development areas identified in the Fund's investment strategy review.

The Fund's Investment Advisor (Hymans) were asked to produce a paper outlining the next steps and recommendations which are set out in Appendix A (exempt) to this report.

Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it contains information relating to the financial or business affairs of the investment managers already appointed to the Fund and comparisons of financial information to mandates available in the markets.

RECOMMENDATIONS

That the Committee is asked to:

1. Note Hymans report on the follow up on some of the development areas identified as part of Fund's investment strategy review attached as **Appendix A (exempt).**

2. To consider and agree the recommendations and future areas of focus as set out in Section 2 and 3 of this Report.

REPORT DETAIL

1. Background

a) The Pensions Committee ("the Committee") adopted an Investment Strategy Statement (ISS) at its 28 March 2017 meeting. The Fund has made good progress implementing this Strategy, focusing on individual asset classes at various stages of implementation.

b) Subsequently the Committee agreed an updated ISS at its meeting on the 29 July 2020 (postponed from the cancelled March 2020 meeting due to the pandemic declaration made earlier that month).

c) At the meeting held on the 1 October 2021 the Committee decided to adopt a number of recommendations and next steps suggested by Hymans as part of the on-going implementation of the investment strategy.

d) At the meeting held on the 16 March 2021 – the Committee decided to adopt a number of recommendations and next steps suggested by Hymans as part of the on-going implementation of the investment strategy.

e) The attached paper (Appendix A - EXEMPT) has been produced by Hymans to follow up on Multi Factor investment and Private Debt as identified from decisions made by the Committee at previous meetings set out above.

f) This paper is exempt as it contains information pertaining to the financial or business affairs of Fund's investment managers together with comparisons made with alternative mandates in the markets.

g) The Hymans report includes the rationale of the proposed options for consideration and next steps. Recommendations are also outlined below:

2. Proposed recommendations:

a) **Multi Factor -** Recommend that the Committee invest 10% of the Fund assets in the Legal & General Investment Management (LGIM) Future World Fund, to be funded from redeeming the LGIM Fundamental Equity mandate (aka FTSE International Limited and Research Affiliates LLC (RAFI) and by rebalancing the Baillie Gifford Global Alpha overweight allocation. This fund does have some alignment with the Paris Climate Agreement.

b) **Private Debt - Recommendation 3**: Recommend that the Committee re-allocate to the Churchill Middle Market Senior Loan Fund IV and Permira Credit Solutions V Fund. Subject to due diligence on both funds

3. Future areas of Focus

a) **LCIV Low Carbon** - To give consideration to the LCIV Low carbon product as a potential replacement for the LGIM Global Market (market cap) fund once the detail of the product has been finalised. If the details are available in time then this will be submitted for consideration at the September Committee meeting.

b) **Emerging Market Investing** - Hymans suggest a review of the approach to emerging markets investing is carried out during 2022, this remains an evolving area and the importance of companies in emerging markets as both drivers of growth and change cannot be ignored. In particular, the Environmental, Social and Governance (ESG) and climate standards can often lag Developed markets.

IMPLICATIONS AND RISKS

Financial implications and risks:

The commitment of 10% to the LGIM Future World Fund equates to c£88m (based on 31 March 2021 fund values). The precise 10% amount will be determined based on fund values at the time of the account opening. The LGIM Fundamental Equity Fund as at 31 March 21 is valued at £64m and the balance will be met from the LCIV

Baillie Gifford Global Alpha Fund. The overweight position on the Global Alpha Fund equates to c£60m

Retaining the 7.5% allocation to Private Debt equates to c£66m (based on 31 March 2021 fund values). As above, the precise amounts will be determined based on fund values at the point of investment. Both private debt mandates are newer vintages of our existing products held with both managers. The new vintages will be funded primarily by capital being returned from the prior vintages with any short term funding mismatches being met by any existing overweight allocations in the Fund.

The commercial terms for the current investments were negotiated as part of an initial project run by Bfinance (Project Monument). Based on information provided by Bfinance and confirmed by the two managers, both Churchill and Permira have offered favourable fee rates to existing Project Monument investors. Fee structures are set out in Hymans report attached as Appendix A.

Advisory costs: The advisory costs of implementing the changes made to the investment strategy and its structure will be incurred through the Investment Management consultancy services contract with Hymans. Costs are ongoing throughout implementation and will be monitored closely by Officers - the final cost will not be known until this has concluded and is dependent on the direction of strategy options taken forward by the Committee.

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

Legal implications and risks:

The changes proposed will not impact the content of the Investment Strategy Statement as they are within the parameters set out within it. Therefore there is no need to consult on the proposals. Otherwise there are no apparent legal implications of making the proposed amendments.

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

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

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

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

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

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

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

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected
None arising directly.

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.

Document is Restricted

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 20 July 2021

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2021**
CLT Lead:	**Jane West**
Report Author and contact details:	***Chrissie Sampson Pension Fund Accountant (Finance)/ Debbie Ford 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 2021

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 2021**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by **2.33%** over this quarter outperforming both its tactical and strategic benchmark. In 2020-21 the Fund grew by an impressive **£145m**, a **24.9%** increase for the year, driven mainly by the uplift on the Global Equity funds.

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

The manager attending the meeting will be:

Churchill Nuveen

Hymans will discuss the manager's performance after which the manager will be invited to join the meeting and make their presentation.

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, Strategic Overview and Manager Performance Report (Appendix A)
2) Consider Hymans Performance Report and views (Appendix B **Exempt)**
3) Agree Hymans recommendation to increase the allocation to JP Morgan of £12m (Section 8.1 (c) refers)
4) Receive presentation from the Funds Private Debt Manager Churchill Nuveen (Appendix C – **Exempt)**
5) Consider the quarterly reports sent electronically, provided by each investment manager.
6) Note the analysis of the cash balances

REPORT DETAIL

1. Elements from Hymans report which are deemed non-confidential can now be found in **Appendix A.** Opinions on Fund manager performance will remain as exempt and shown in **Appendix B.**

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

3. We welcome any feedback and suggestions that will help members gain a better understanding of the reports.

4. BACKGROUND

a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.

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:

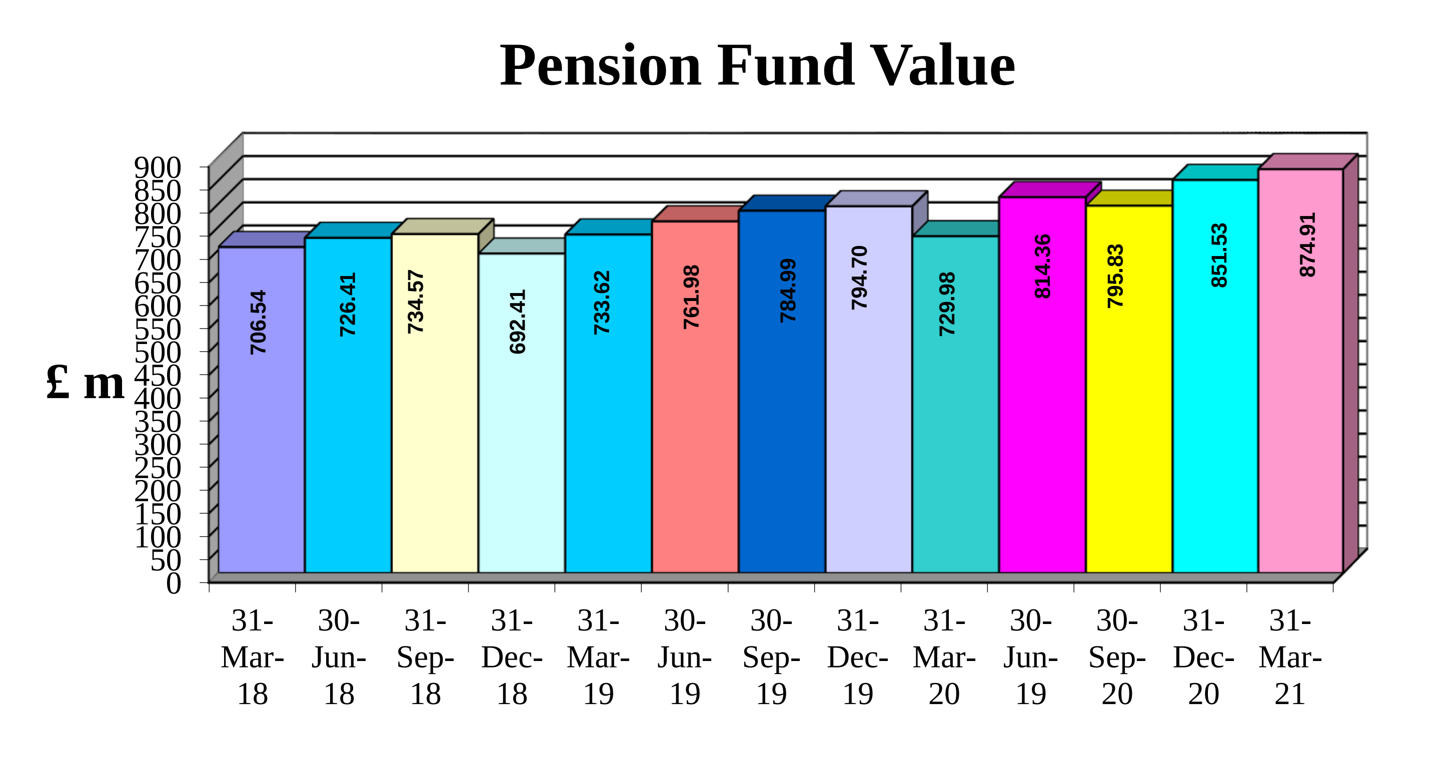
e. **Tactical Benchmark -** Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic 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. According to Northern Trust, the total Fund value at 31 March 2021 was **£874.91m** compared with £851.53m at the 31 December 2020; an **increase of £23.38m, (2.33%)**. This growth can be attributable to an increase in both assets of £19.06m and cash of £4.32m. Internally managed cash stands at **£15.96m-** analysis follows in this report.

Chart 1 – Pension Fund Values*



Source: Northern Trust Performance Report
**Quarter ending September 2020 includes a bulk transfer out of £40m*

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 31.03.21	**12 Months to 31.03.21**	**3 Years to 31.03.21**	**5 years to 31.03.21**
	%	**%**	**%**	**%**
Fund	2.33	24.90	8.32	9.35
Benchmark	1.39	16.04	6.93	7.15
*Difference in return	0.94	8.86	1.40	2.20

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. 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.

Table 2: Annual Performance

	Quarter to 31.03.21	12 Months to 31.03.21	3 Years to 31.03.21	5 years to 31.03.21
	%	%	%	%
Fund	2.33	24.90	8.32	9.35
**Benchmark	-5.77	4.19	5.14	7.66
*Difference in return	8.10	20.71	3.18	1.68

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 A** in the performance report which will be covered by the Investment Adviser (Hymans).

e. The Fund also uses the services of Pensions & Investment Research Consultants Ltd (PIRC) to provide LGPS universe comparisons against other LGPS funds. There are 64 Funds in the universe and Havering Fund comparisons can be seen in the table below:

	2020/21					
Universe data	**1 Year %**	**3yrs % pa**	**5yrs % pa**	**10yrs % pa**	**20yrs %pa**	**30yrs %pa**
Havering Fund Return	24.9	8.3	9.3	8.5	6.2	8.2
Universe Average	**22.8**	**7.6**	**9.5**	**8.3**	**6.9**	**8.4**
Relative Return	2.1	0.7	-0.2	0.2	-0.7	-0.2
Havering Universe Ranking (20/21)	46	36	51	36	85	59

6. CASH POSITION

a. An analysis of the internally managed cash balance of **£15.963m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2018/19 31 Mar 19**	**2019/20 31 Mar 20**	**2020/21 31 Mar 21**
	£000's	£000's	£000's
Balance B/F	**-17,658**	**-13,698**	**-23,056**
Benefits Paid	37,954	38,880	38,874
Management costs	1,490	1,107	1,420
Net Transfer Values	1,543	-2,789	14,251
Employee/Employer Contributions	-44,804	-47,508	-48,049
Cash from/to Managers/Other Adj.	7,925	1,154	723
Internal Interest	-148	-202	-126
Movement in Year	**3,960**	**-9,358**	**7,093**
Balance C/F	**-13,698**	**-23,056**	**-15,963**

b. Members agreed the updated cash management policy at their committee meeting, 17 September 2019 and the main points are: target cash level is £6m within a set parameter of £3m to £8m, income from the bond and property manager can be drawn down when required, any excess cash above the upper £8m parameter maybe considered for reinvestment or settlement of capital calls, the S151 Officer may exceed the target level to meet foreseeable payments.

7. REPORTING ARRANGEMENTS

a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand they be brought back again for further investigation. Individual Fund Manager Reviews are included within Hymans performance report at **Appendix A.**

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 the Funds Private Debt manager Churchill, their report is attached at **Appendix C (Exempt).**

8. FUND UPDATES:

8.1 Changes made since the last report and forthcoming changes/events:

a. The Fund has continued to fund capital draw down requests: £1.11m Churchill, £2.95m Permira and c£1.97m Stafford II Fund since the last report.

b. The Fund has made its first capital call of £1.70m to the new Stafford IV Fund on 29 March 2021 and c£2.49m subsequently.

c. The Fund remains underweight to both JP Morgan and infrastructure as a whole. To rebalance the Fund, it is recommended that an additional £12m is allocated to JP Morgan and that this be funded from the overweight Baillie Gifford Global Alpha Fund (Hymans report Appendix, A page 5 refers).

d. Oasis Community Learning (OCL) – They are a Multi Academy Trust (MAT) that currently participates as a Scheme employer in 16 different LGPS Funds, administered by 16 different administering authorities covering 53 academies and the Oasis Head Office along with current or former attaching admission bodies from the outsourcing of services. On 14 April 2021, the Ministry for Housing, Communities and Local Government (MHCLG) received an application submitted on behalf of London Pensions Fund Authority (LPFA), Oasis Community Learning (Oasis), Sodexo Limited (Sodexo) and Aspens-Services Limited (Aspens), for a direction to substitute various different administering authorities, for LPFA. An application can only be granted after MHCLG has consulted any bodies appearing to be affected by a proposed direction. The Fund is affected by this proposed transfer as a Havering School (Pinewood) and former admission body (Sodexo) are currently part of the Havering Fund. The Fund responded by opposing the transfer on the grounds that it would set a precedence by encouraging other similar employers (that are estimated to make up c10% of the Fund's assets and liabilities) to take similar action – the resulting adverse cash flow impact, would tilt the investment strategy further toward income generating assets and in turn result in potentially higher employer contribution rates for the remaining employers.

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. Business update meetings (virtually) – take place monthly with the latest meetings held on the 18 June 2021.

b. Each meeting includes an update from the Chief Investment Officer covering current Fund offerings, Fund performance, update on Funds for which enhanced monitoring is in place and the pipeline for new fund launches. In addition to this relevant topical issues are included as appropriate.

c. A range of topics covered since the last committee meeting include:

- Updates from the Chief Operating Officer covering:

  i. Private Markets Valuation process
  ii. New Quarterly Investment Reports - these will be launched in Q2 21 – an overview of the changes explained (includes enhanced ESG reporting).
  iii. Client reporting updates – including Transparency reporting and fee saving.
  iv. Annual pooling report to MHCLG is due 3 September.
  v. MHCLG Returns and Balanced Value Reporting project - This is a cross pool working group, one of its aims is to ensure consistency in the way pools report costs, savings and benefits. Project also includes Value for Money assessment that has to be prepared by 2022. Alpha Consulting has been appointed to coordinate this project.

- Website and portal – Preview of the new website and client portal.

- Responsible Investment Policies - Update on LCIV's Responsible Investment and Engagement Strategy, Climate Change Policy, Stewardship Policy

d. Meet the Manager - As part of their monitoring and review processes, LCIV hosted a Meet the Manager event on 20 May 2021. Three separate panel discussions covering Renewable Infrastructure, Private Debt and Sustainability, to form panel discussions that explored key topics and questions in this area.

e. LCIV are working with Hermes and EOS (voting and stewardship providers) to began developing voting and engagement report.

f. LCIV have completed the United Nations Principles of Responsible Investment (UNPRI) analysis and published their Stewardship Outcomes Report 2021 (year 2020).

g. LCIV have issued their Climate Change Policy 2021 and their Task Force on Climate Related Financial Disclosures (TCFD) Report 2021.

h. Enhanced monitoring continues on the LCIV Multi Asset Credit (MAC) Fund and the LCIV Global Equity Focus Fund is on watch.

8.2.2 Review of the LCIV Funding Model and Cost Benchmarking

a. Work on the development of a new funding model including pricing and timeline for implementation continues.

b. Cost Transparency initiatives timetable set out for 2020/21: manager and custodian data should be received by 23 April and uploaded to the Byhiras website by the end of May. Private Markets cost transparency data expected to be completed and uploaded to Byhiras in September onwards.

c. Fee savings reports to be made available in August 2021.

8.2.3 Sub Fund Launch Updates

a. Renewable Energy Fund – Launched 29 March 2021. Pensions Committee meeting, 16 March 2021 confirmed a commitment to this fund of £25m. On-boarding paperwork submitted to meet the second close deadline of 2 July 2021.

b. Private Debt – Launched 29 March 2021. Two asset managers for the LCIV Private Debt Fund have been appointed – Churchill and Pemberton. This Committee will consider the appointment of LCIV Private Debt managers and appears elsewhere on the agenda for this meeting.

c. Low Carbon (Passive) mandate – Stage 2 (Mandate development). The Seed Investor Group (SIG) launched on the 4 November 2020. Havering has registered an interest in this fund and officers have been attending these meetings to provide input on the development of this mandate. The mandate specification has now been finalised and Request For Proposal issued to nine potential managers. London CIV expect to make a decision on the selected manager in July, negotiations and due diligence will follow before confirming launch date later in 2021. The next meeting is scheduled for 27 July 2021.

d. Paris Aligned Global Equity Fund – Launched 13 April 2021. This is a Paris aligned version of the Global Equity Fund managed by Baillie Gifford and offered in in addition to the Baillie Gifford Global Equity Fund that Havering already invests in. Members at its Pensions Committee meeting on the 16 March 2021 agreed to switch to the Paris Aligned mandate and the on-boarding will be progressed.

e. Sterling Credit Fund – Stage 1 – Client demand. Survey was issued in December to ascertain client demand. First Seed Investor Group meeting held 26 January 2021.This is not an ongoing part of our strategy as the Fund is selling down its credit allocation so officers are not involved in the SIG.

f. Alternative Credit Fund – Stage 1 – Client demand. This is the potential new fund that might be created resultant of current discussions regarding LCIV MAC Fund. This will be an additional manager to the existing MAC mandate.

8.2.4 LCIV Key Staffing updates –

a. LCIV announced the forthcoming departure of Deputy Chief Investment officer (CIO) after his 3 month notice. He will be serve his 3 months' notice and the Head of Private Markets will return from maternity leave at or around the same time of the Deputy CIO''s departure.

b. LCIV have appointed a Senior Portfolio Manager for Equities who will start on 12th July 2021.

c. LCIV are in the process of recruiting a Head of Public Markets with first interviews completed w/c 21 June 2021

d. LCIV announced the appointment of Mike Craston as Chair designate of London CIV in succession to Lord Kerslake. The appointment is subject to FCA approval and Mike is expected to take up post in September 2021.

8.3 LGPS GENERAL UPDATES:

8.3.1 Public sector exit payments (aka £95k Cap)

a. The Government concluded that the Exit Cap regulations had unintended consequences and the 2020 Regulations were revoked in March 2021.

b. Guidance states it is still vital that exit payments deliver value for the taxpayer and employers should always consider whether exit payments are fair and proportionate and HM Treasury is expected to revisit exit costs later this year.

c. We await further updates

8.3.2 Public sector exit credit payments

a. The LGPS (Amendment) Regulations 2018 regulations introduced ‘exit payments’ for the Fund to automatically pay employers who leave the Fund who were assessed as being in surplus by the actuary. Prior to this regulation any surplus when employers left the Fund was retained by the Fund.

b. In 2020, MHCLG amended the regulations which gave funds discretion over the amount of any exit credit payable.

c. There was a recent judgement following a challenge by a contractor who sought judicial review of the retrospective effect of the 2020 Regulations as it argued it was entitled to an exit credit from the LGPS under the 2018 Regulations.

d. The Court in its judgment found in favour of MHCLG and upheld the retrospective effect of the 2020 Regulations. The consequence of the Court’s decision is that all exit credit payments, which have not already been settled, will fall to be dealt with under the 2020 Regulations. The prior 2018 Regulations, which allowed surplus on exit to be paid automatically to an employer will not apply.

e. The Court also provided helpful clarification in relation to the provisions in the 2020 Regulations which give LGPS funds discretion as to the amount, if any, of an exit credit. As a result our Actuary has advised a minor adjustment be made to the Fund’s Funding Strategy Statement and this will be made in due course.

8.3.3 LGPS Amendments to Statutory Underpin

a. When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older scheme members. Following the findings in the McCloud legal judgement, certain elements of public sector pension schemes brought in at the time of the reforms have been deemed age discriminatory. The Government confirmed that there will be changes to all public sector pension schemes to remove the age discrimination. In the case of the LGPS, it is the “underpin” provision which gives special protection to the rights of older members that has been classed as age discriminatory.

b. Following on from the announcement in the Queen’s Speech about how the McCloud ruling would be incorporated into public sector schemes, Luke Hall (the MHCLG minister) has issued a statement about the remedy for the LGPS. The statement confirms the key changes to scheme regulations that will be made to remove age discrimination from the LGPS. The statement confirms that:

- Underpin protection will apply to LGPS members who meet the revised qualifying criteria, principally that they were active in the scheme on 31st March 2012 and subsequently had membership of the career average scheme without a continuous break in service of more than five years.
- The period of protection will apply from 1st April 2014 to 31st March 2022 but will cease earlier where a member leaves active membership or reaches their final salary scheme normal retirement age (normally 65) before 31st March 2022.
- Where a member stays in active membership beyond 31st March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier.
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- A 'two stage process' will apply for assessing the underpin so that, where there is a gap between a member's last day of active membership and the date they take their pension, members can be assured they are getting the higher benefit.
- Scheme regulations giving effect to the above changes will be retrospective to 1st April 2014.

8.3.4 The Pensions Regulator (TPR) Single Code of Practice

a. The Pensions Regulator's issued a consultation on its new single 'Code of Practice to cover all regulated schemes which closed on 26 May 2021.

b. The new Code will apply to occupational schemes, personal and public service pension schemes, although not all of the obligations in it apply to all types of scheme.

c. The new Code will initially consolidate 10 of the existing 15 Codes of Practice into one document. It comprises 51 modules and is the first phase of the transition to one 'Code of Practice'.

d. There were concerns raised about how its governance arrangements will fit with both local authorities and LGPS funds. For example, the Code's definition of 'governing bodies' includes both scheme managers and local pensions boards; this is unhelpful as boards are unable to exercise decision making powers. They also think it would be helpful for the Code to recognise the unique legal framework under which LGPS administering authorities operate e.g. on areas such as remuneration policy and cyber controls, the vast majority of LGPS funds will need to work within the local authority's constitution and policies in order to ensure that they are appropriate for the fund.

8.3.5 Cost Cap

a. In 2014 the LGPS reformed to become a Career Average Revalued Earning Scheme (CARE). It was understood, at this time, that the cost of funding future pension benefits would be 19.5% of an employee's salary. As a part of the reform, and to ensure the ongoing affordability of the LGPS, the Government introduced a 'cost cap' mechanism. This mechanism involves checking the cost of LGPS pension provision every four years to ensure that these costs have not materially changed. In the event that the actual cost fell within 2% of 19.5%, no change will be made to the Scheme's design.

b. An announcement was made in July 2020 that the 2016 Cost Cap process will now be 'unpaused' and the cost of resolving McCloud will now be included in the assessment of scheme costs.

c. On the 4 February 2021 HM Treasury (HMT) published an update stating that HMT is now able to produce the amending directions. HMT believe they have sufficient information to instruct Government Actuary Department (GAD) on how to allow for McCloud in the cost cap valuations. The next step is for HMT to consult with the Scheme Advisory Board (SAB) to see if any revisions are required to the assumptions which feed into the cost cap valuation. Thereafter, final directions will be published by HMT and results confirmed with each SAB. If benefit or member rate changes are then required, each SAB needs to consider what format they will implement. Where necessary, schemes will then commence discussions with SABs later this year on any rectification.

d. The update also mentions that the review of the cost cap mechanism itself is still ongoing and this review may then necessitate changes to the current format of the cost cap mechanism and the 2020 cost cap valuations. If there is still a cost cap mechanism in existence after the review, any benefit or member contribution rate changes resulting from the 2020 cost cap valuation will now be implemented in 1 April 2024 (instead of 1 April 2023 as set out in current regulations) given that the 2016 cost cap valuations are still to be completed.

e. On the 27 May 2021 The Government Actuary Department (GAD) published its review on the cost sharing mechanism.

f. The objective's of the risk sharing arrangement are noted in the report as:

- ➢ To protect taxpayers from unforeseen costs
- ➢ To maintain the value of pension schemes to the members
- ➢ To provide stability and certainty to benefit levels – the mechanism should only be triggered by ‘extraordinary, unpredictable events.

g. The Government Actuary’s report sets out five separate recommendations on potential changes to the mechanism – which applies across all public service pension schemes. The report confirms that the review did not consider the separate cost control mechanism for the LGPS which is operated by the Scheme Advisory Board. The report acknowledges that the differences between the LGPS and the unfunded schemes mean that some of the recommendations, if adopted, may need revising to accommodate those differences.

h. The Government will respond to this report in due course.

8.3.6 Good Governance

a. The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals (Phase 3). The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic.

b. Some proposals from Phase 2 didn’t need further detail in order to progress with implementation and Phase 3 focussed on the proposals which needed further analysis or consideration ahead of implementation.

c. Outline of the key proposals under Phase 3:

- ➢ Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).
- ➢ Each Fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance
- ➢ Each Fund must produce and publish a policy on the representation of scheme members and non administering authority employers on its committees, explaining its approach to representation and voting rights for each party
- ➢ Each administering authority must publish an administration strategy (previously voluntary – will become mandatory)

- Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
- Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

d. The Scheme Advisory Board have agreed the proposals and these have been submitted to MHCLG to request implementation of the recommendations and we await for their response.

e. It is expected that, if progressed, the proposals to be in place from 1 April 2022, although it will be most likely that the Fund will have a year from that date to evidence compliance.

f. Officers will work with the Committee and the Local Pension Board in planning for the introduction of these proposals.

8.3.7 The Task Force on Climate-Related Financial Disclosures (TCFD)

a. The TCFD is an organization that was established in December of 2015 with the goal of developing a framework for the disclosure of climate related risks.

b. The Department for Work and Pensions (DWP) on the 08 June 2021 published regulations and guidance on TCFD requirements for private sector schemes with £5bn or more in assets, and all authorised master trusts, to report on how they will manage their climate risk from October 2021.

c. Whilst it is not yet a regulatory requirement for the LGPS to report against this framework. MHCLG will conduct a consultation during 2021(no date specified) on the implementation of mandatory TCFD aligned reporting in the LGPS by 2023.

d. A briefing paper was distributed to members on the 21 January as a way of providing background and for the Committee to begin its understanding and engagement with the issues and requirements.

e. Officers will work with Hymans on how best to prepare for this reporting requirement.

8.3.8 Government Actuary Report (Section13)

a. Under Section 13 of the Public Service Pensions Act 2013, MHCLG are required to carry out a review of all LGPS local fund valuations to ensure they comply with four key criteria:
   - Compliance with the LGPS regulations
   - Consistency between funds
   - Solvency
   - Long-term cost efficiency

b. MHCLG commission the Government Actuary's Department (GAD) as the suitably qualified person to carry out this analysis. GAD have shared initial draft results of the 2019 Section 13 valuation. This is still undergoing internal reviews and may change, however GAD do not expect any changes to materially affect the results.

c. The Fund has received a clean bill of health. Previously under the 2016 Section 13 exercise Havering received an amber flag for the solvency measure.

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.

The Committee may be interested to note that LLG (Lawyers in Local Government) and ALACE (the Association of Local Authority Chief Executives and Senior Managers) have formally launched judicial review proceedings in a bid to quash the Exit Payment Cap Regulations. These proceedings are at an early stage and therefore it is not possible to provide any further detail.

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

BACKGROUND PAPERS

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London Borough of Havering Pension Fund

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Q1 2021 Investment Monitoring Report

Simon Jones – Partner
Mark Tighe – Investment Analyst
Meera Devlia – Investment Analyst

HYMANS ROBERTSON

Market Background

Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

Global equity markets gained 6.2% during the quarter. The improving economic outlook was supportive for more cyclical sectors with energy, financials, basic materials, and industrials the top performing sectors year-to-date, in that order.

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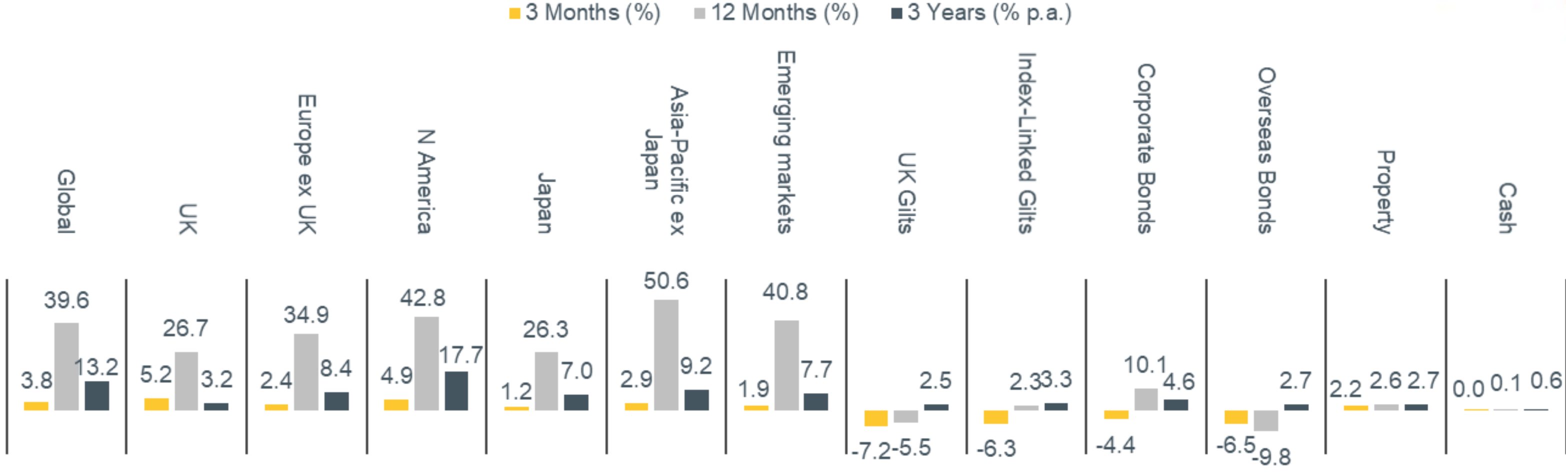
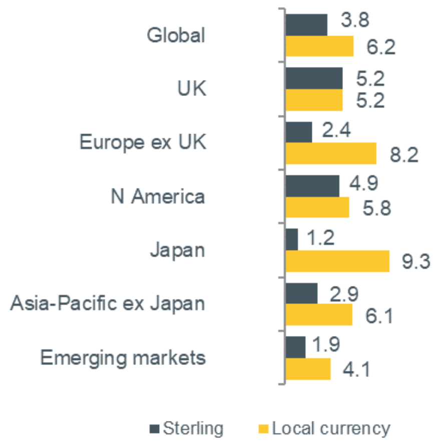
Sectoral performance helps explain regional equity performance: Japan and Europe ex-UK, with their above average exposures to industrials, lead the regional performance rankings year-to-date. Emerging markets underperformed markedly, weighed on by a stronger dollar and a Chinese equity market sell-off in February. Despite a higher than average exposure to oil & gas and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index.

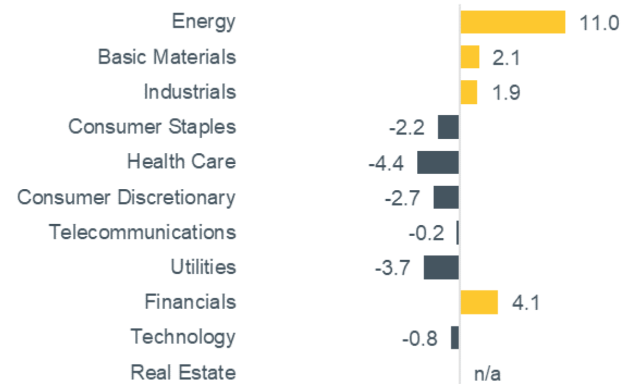
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, 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; UK Interbank 7 Day. [2] FTSE All World Indices. Commentary compares regional equity returns in local currency. [3] Returns shown relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021 – returns for Real Estate will be included when there is a sufficient track record.

HYMANS ROBERTSON

Market Background

While realised inflation has remained subdued, UK headline CPI inflation rose to 0.7% year-on-year in March, a resumption of activity and deferred consumption alongside rising oil prices are expected to lead to higher inflation in the short-term.

Reflecting the improvement in economic outlook, government bond yields rose significantly: UK 10-year government bond yields rose 0.7% p.a. to 0.8% p.a. Real yields rose less, with 10-year implied inflation, based on the difference in yield on conventional and index-linked gilts, rising 0.4% p.a. to 3.7% p.a.

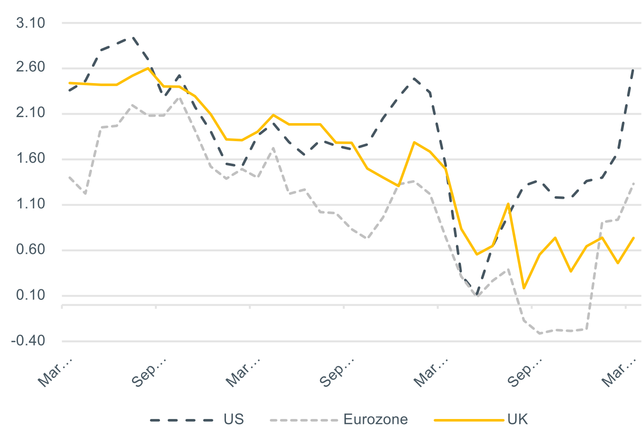
Rising sovereign bond yields weighed on total returns in fixed interest credit markets, which are negative year-to-date for investment-grade markets. Global investment-grade spreads fell 0.1% p.a. to 1.0% p.a. and speculative-grade spreads fell 0.4% p.a. to 3.7% p.a.

Sterling continued to move higher, rising 4.1% in trade-weighted terms. Relative improvement in the economic outlook and increased market-implied odds of rate rises saw the US dollar rise 2.5%, in trade-weighted terms, while the Euro and Japanese Yen fell 1.7% and 4.4%, respectively.

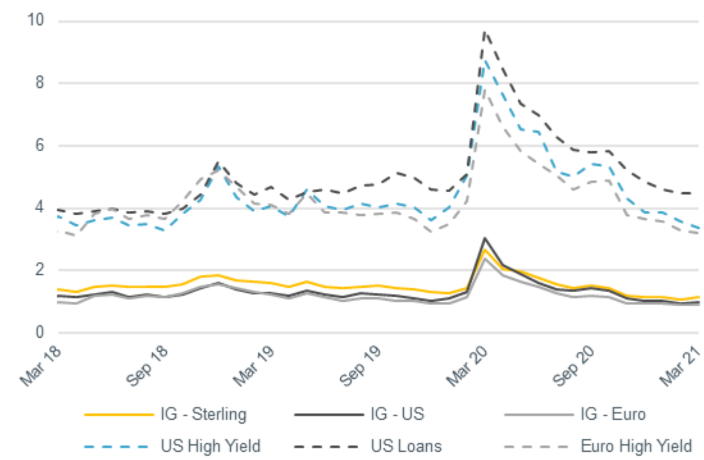
Despite slipping towards the end of the period, oil prices rose 22.4% in the first quarter to $64 per barrel, while the dollar spot price of gold slipped 10.2% as bond yields rose.

The rolling 12-month total return on the MSCI UK Monthly Property Index was 2.6% to the end of March. Capital values, in aggregate, fell 2.9% over the period (driven by a 12.4% decline in retail sector), however aggregate monthly capital value growth has been positive since November.

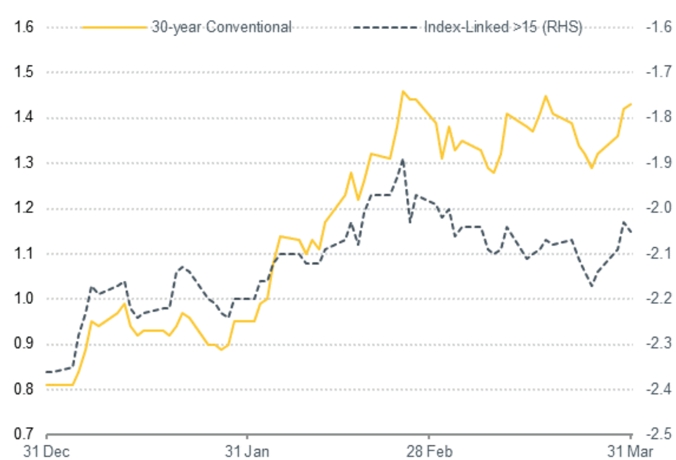
Annual CPI Inflation (% p.a.)



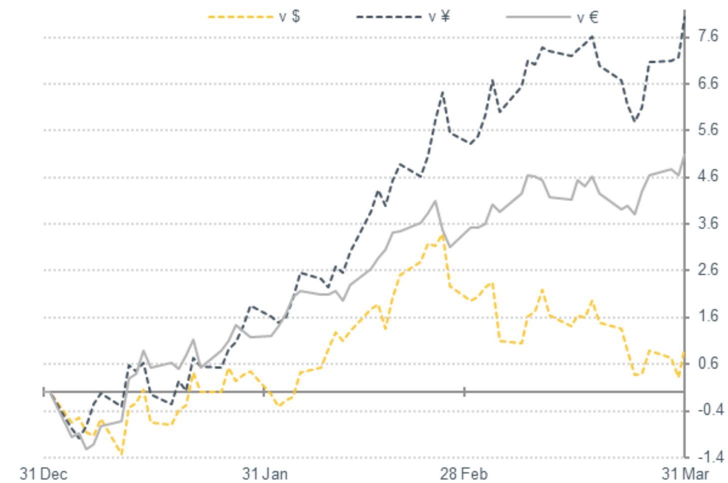
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: DataStream, Barings and ICE

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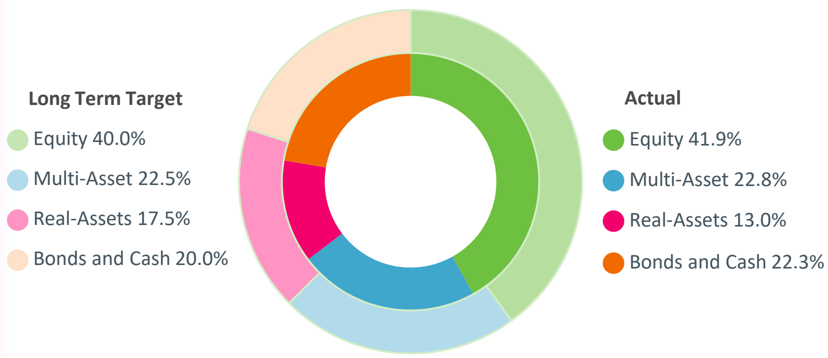
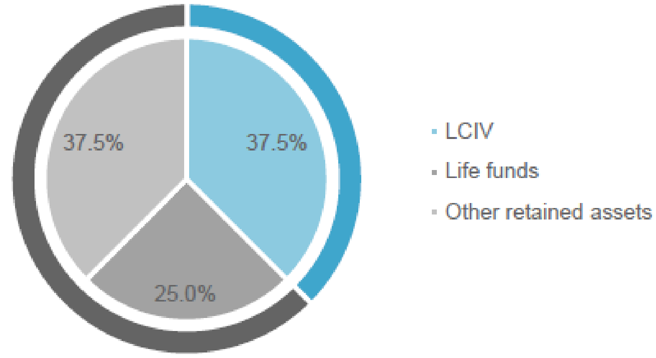
- The Fund's investment approach is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The charts right summarise the approach agreed for the implementation of the Fund's longer-term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee.
- The drawdown in the first Stafford infrastructure fund and private debt mandates is expected to be completed in 2021.
- The target allocation to LCIV and life funds totals 62.5% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- A review of the Fund's investment strategy was carried out by the Committee in 2020. Agreed changes are currently being implemented.
- The Committee has also agreed to a 2.5% allocation to renewable energy infrastructure to be funded by a reduction in multi-asset mandates. This commitment is not yet reflected in target allocations

Asset Allocation





Long Term Strategic Target

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40.0	Baillie Gifford	15	LGIM	25		
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**	**-**	**37.5**	**-**	**25**	**-**	**37.5**

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Current Investment Implementation

- The total value of the Fund's assets rose by c. £23.4m over the quarter to c. £874.9m as at 31 March 2021 as global equities rose and credit spreads continued to narrow over the quarter.
- The Baillie Gifford equity mandate remains overweight to support the implementation of changes to the Fund's strategy. In particular, a portion of the overweight position will be trimmed to fund an investment in multi-factor equity.
- **The Fund remains underweight to JP Morgan and underweight to infrastructure as a whole. We recommend that an additional £12m is allocated to JP Morgan and that this be funded from the Baillie Gifford Global Alpha fund.**

The Fund paid the following capital calls during the quarter:

- c.£0.7m and c.£2.1m to Churchill funded from existing cash and the RLAM corporate mandate, respectively.
- £3.0m to Permira funded using profits from the Russell currency hedging mandate.
- c.£0.6m to Stafford SISF II funded from existing cash.
- c.£1.7m to Stafford SISF IV funded from the RLAM corporate mandate.

Asset Allocation

Manager		Valuation (£m) Q4 2020	Valuation (£m) Q1 2021	Actual Proportion	Benchmark	Relative
Equity		**352.9**	**366.1**	**41.9%**	**40.0%**	**1.9%**
LGIM Global Equity	LCIV aligned	68.9	71.6	8.2%	10.0%	-1.8%
LGIM Fundamental Equity	LCIV aligned	58.5	64.3	7.4%	10.0%	-2.6%
LGIM Emerging Markets	LCIV aligned	38.5	39.2	4.5%	5.0%	-0.5%
Baillie Gifford Global Equity (CIV)	LCIV	187.0	191.0	21.9%	15.0%	6.9%
Multi-Asset		**192.2**	**199.2**	**22.8%**	**22.5%**	**0.3%**
Ruffer Absolute Return (CIV)	LCIV	103.6	111.3	12.7%	12.5%	0.2%
Baillie Gifford DGF (CIV)	LCIV	88.6	88.0	10.1%	10.0%	0.1%
Real-Assets		**111.4**	**113.8**	**13.0%**	**17.5%**	**-4.5%**
UBS Property	Retained	40.3	41.4	4.7%	6.0%	-1.3%
CBRE	Retained	26.7	27.8	3.2%	4.0%	-0.8%
JP Morgan	Retained	23.8	23.9	2.7%	4.0%	-1.3%
Stafford Capital Global Infrastructure SISF II	Retained	20.7	19.1	2.4%	3.5%	-1.1%
Stafford Capital Global Infrastructure SISF IV	Retained	0.0	1.6			
Bonds and Cash		**195.0**	**195.7**	**22.3%**	**20.0%**	**2.3%**
RLAM MAC	Retained	61.1	62.0	7.1%	7.5%	-0.4%
RLAM ILGs	Retained	41.7	38.8	4.4%	5.0%	-0.6%
RLAM Corporate Bonds	Retained	44.2	38.0	4.3%	0.0%	4.3%
Churchill	Retained	16.5	19.1	2.2%	3.0%	-0.8%
Permira	Retained	14.4	17.7	2.0%	4.5%	-2.5%
Cash at Bank	Retained	12.5	17.3	2.0%	0.0%	2.0%
Currency Hedging P/L	Retained	3.3	2.7	0.3%	0.0%	0.3%
Total Fund		**851.5**	**874.9**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

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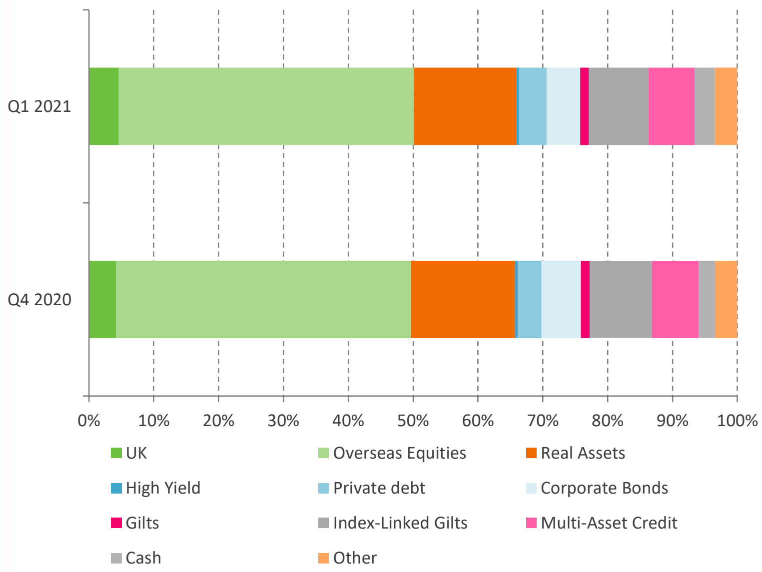
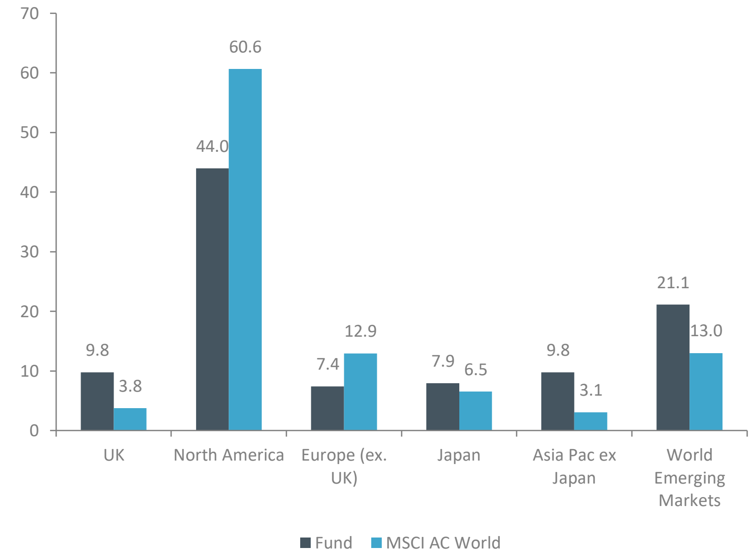
Asset Allocation

- The chart right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.
- The Fund's allocation to equities increased over the quarter to c.50.1% at 31 March 2021 (c.49.7% at 31 December 2020).
- The allocation to real assets decreased to c.15.8% of Fund assets as at 31 March 2021 (c.16.0% as at 31 December 2020).
- These movements were driven by the significant progress in vaccine rollout programmes, resulting in an improvement in economic outlook and equity market gains over the quarter.
- Strategic allocations to market-cap equity and factor-based equity were both increased from 7.5% to 10.0% following the Committee's review of investment strategy. A corresponding decrease to the multi-asset allocation took place. As noted, the commitment to renewable energy infrastructure is not yet reflected.

Asset class exposures



Regional Equity Allocation



Source: Investment Managers, Datastream

- The table sets out the performance of each mandate against their respective benchmarks.
- The LGIM mandates broadly tracked their respective benchmarks over the quarter, whilst mixed returns were observed across the other mandates.
- The best performing allocation was the Fundamental Equity mandate as value stocks rallied significantly. Mandates with significant duration exposure delivered negative returns as interest rates rose.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate.
- Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

Manager performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
LGIM Global Equity	3.9	3.9	**0.0**	39.5	39.6	**-0.1**	13.1	13.1	**0.0**	12.7	12.7	**0.0**
LGIM Fundamental Equity	9.9	9.9	**-0.1**	44.1	44.4	**-0.2**	9.1	9.2	**-0.1**	11.5	11.6	**-0.1**
LGIM Emerging Markets	2.0	1.9	**0.2**	40.6	40.8	**-0.2**	-	-	-	11.4	11.5	**-0.1**
Baillie Gifford Global Equity (CIV)	2.2	3.7	**-1.5**	56.3	39.3	**12.2**	18.8	13.1	**5.1**	17.2	13.2	**3.5**
Ruffer Absolute Return (CIV)	7.4	1.0	**6.3**	20.8	4.3	**15.8**	7.4	4.7	**2.6**	5.6	4.8	**0.8**
Baillie Gifford DGF (CIV)	-0.7	0.9	**-1.6**	18.1	3.7	**13.8**	2.6	4.0	**-1.3**	4.2	4.0	**0.1**
Income												
UBS Property	3.1	2.2	**0.9**	3.2	2.5	**0.7**	3.9	2.5	**1.3**	5.9	6.7	**-0.8**
CBRE	4.0	1.4	**2.5**	-4.0	5.7	**-9.2**	-	-	-	4.9	5.7	**-0.8**
JP Morgan	4.4	1.4	**2.9**	-1.7	5.7	**-7.0**	-	-	-	7.8	5.7	**2.0**
Stafford Capital Global Infrastructure SISF II	-3.7	1.4	**-5.1**	-8.6	5.7	**-13.6**	-	-	-	4.2	6.1	**-1.7**
Stafford Capital Global Infrastructure SISF IV	-	-	-	-	-	-	-	-	-	0.0	0.0	**0.0**
Protection												
RLAM Index Linked Gilts	-7.1	-7.0	**-0.1**	2.9	2.6	**0.3**	-	-	-	0.4	0.3	**0.1**
RLAM Multi-Asset Credit	1.3	1.0	**0.3**	21.9	19.1	**2.8**	-	-	-	4.2	3.1	**1.1**
RLAM Corporate Bonds	-7.6	-8.1	**0.6**	8.7	8.8	**-0.1**	-	-	-	8.7	8.8	**-0.1**
Churchill	0.7	1.0	**-0.3**	-6.5	4.4	**-10.4**	-	-	-	1.3	4.7	**-3.2**
Permira	2.3	1.0	**1.3**	-2.9	4.4	**-6.9**	-	-	-	1.5	4.6	**-2.9**
Total	2.3	1.4	**0.9**	24.9	16.0	**7.6**	8.3	6.9	**1.3**	8.2	-	-

Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute 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 CBRE, Stafford ad JP Morgan has been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell..

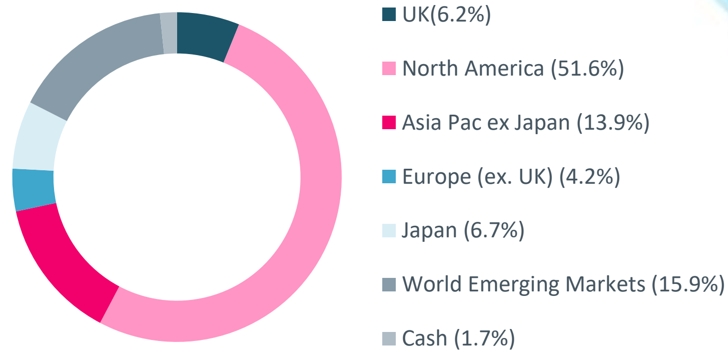
LCIV Funds

- The Fund accesses global equity and multi-asset sub-funds through LCIV.
- LCIV are responsible for the ongoing monitoring and governance of the underlying investment managers.
- The Global Alpha Growth 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.
- Following exceptionally strong performance over 2020, the allocation to the Global Alpha Growth sub-fund is significantly over target weight. The Committee has agreed to trim this as part of the upcoming equity restructure.

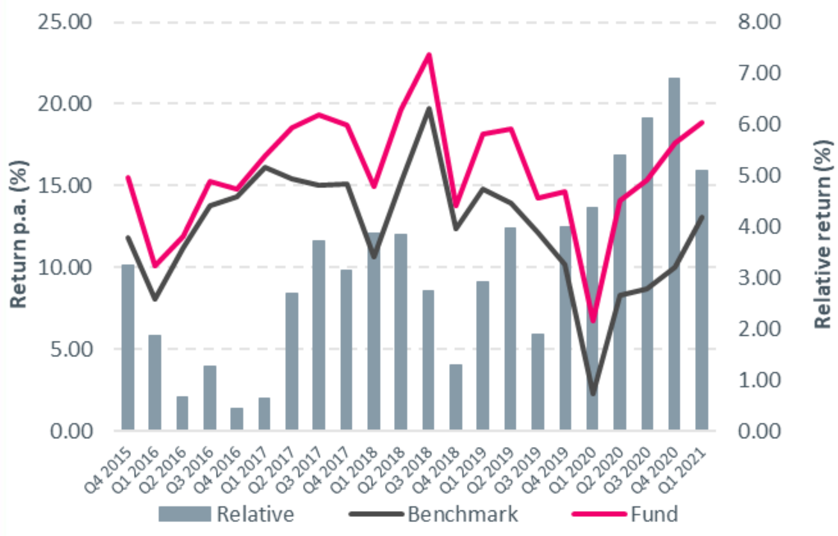
LCIV Global Alpha Growth

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Global Alpha Growth	2.2	56.3	18.8	17.2
Benchmark	3.7	39.3	13.1	13.2
Relative	-1.5	12.2	5.1	3.5

Regional Allocation



Rolling 3 year return



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.
- Benchmark is UK base rate + 3.5% (net).

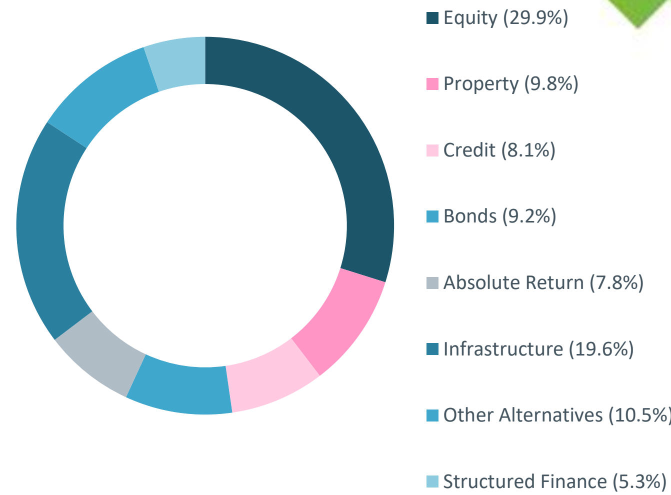
LCIV Absolute Return Fund

- The sub-fund is managed by Ruffer.
- The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.
- Benchmark is 3 month LIBOR + 4% p.a.

LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	-0.7	18.1	2.6	4.2
Benchmark	0.9	3.7	4.0	4.0
Relative	-1.6	13.8	-1.3	0.1

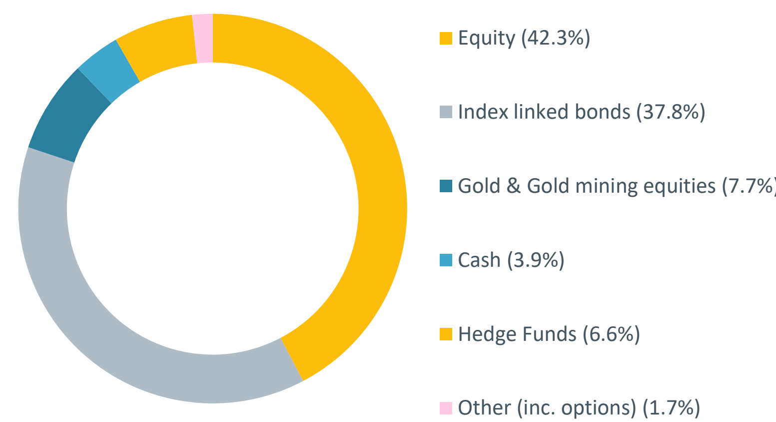
Asset Allocation



LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	7.4	20.8	7.4	5.6
Benchmark	1.0	4.3	4.7	4.8
Relative	6.3	15.8	2.6	0.8

Asset Allocation



Source: Investment Managers, LCIV, Northern Trust
Diversified Growth Fund inception date: 26/11/2013
Absolute Return Fund inception date: 13/09/2010

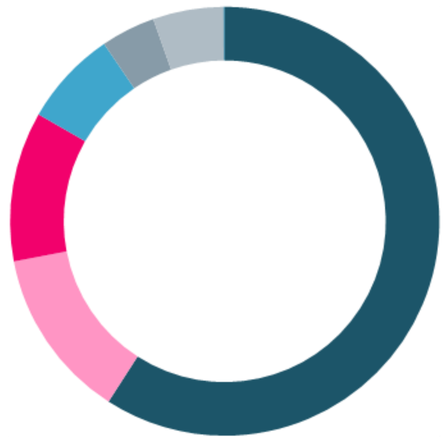
LGIM Equity Funds

- 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 (RAFI).
- The objective of this mandate is to match the performance of the respective benchmark indices.
- Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.
- The RAFI fund has outperformed the global index by c.6% over the quarter and continues to return strongly in the longer term being c.5% ahead of the global index over 12 months to 31 March 2021.
- The Committee are considering replacing the RAFI allocation (value tilted) with a multi-factor equity fund.

All World Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Global Equity	3.9	39.5	13.1	12.7
Benchmark	3.9	39.6	13.1	12.7
Relative	0.0	-0.1	0.0	0.0

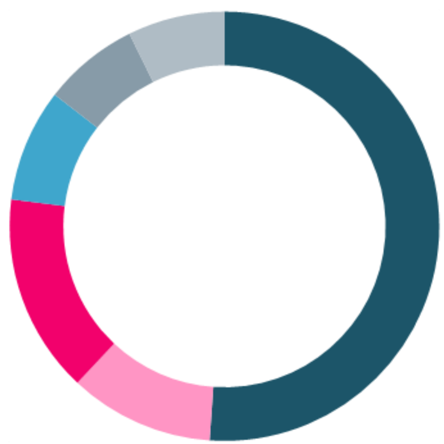
Regional Allocation



FTSE RAFI All World 3000 Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Fundamental Equity	9.9	44.1	9.1	11.5
Benchmark	9.9	44.4	9.2	11.6
Relative	-0.1	-0.2	-0.1	-0.1

Regional Allocation



Source: Northern Trust, LGIM
All World Equity Index inception date: 23/02/2011
FTSE RAFI All World 3000 inception date: 19/08/2015

LGIM Emerging Markets

- The objective of this mandate is to match the performance of the FTSE Emerging indices.
- The Committee are planning to review the Fund's emerging market equity allocation in 2022.

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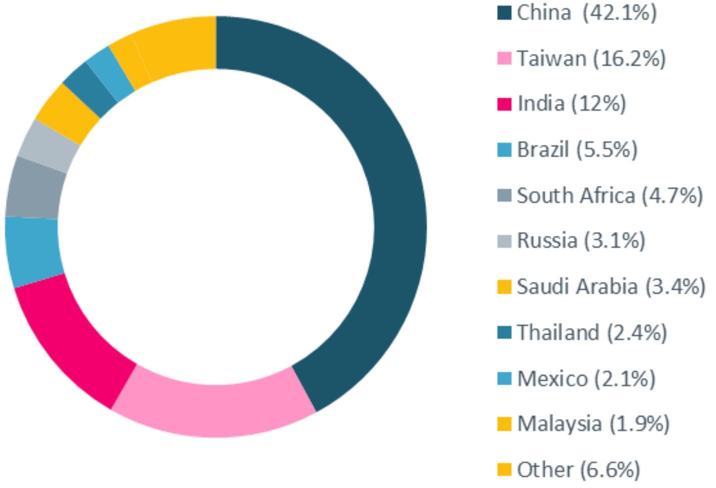
World Emerging Markets Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Emerging Markets	2.0	40.6	-	11.4
Benchmark	1.9	40.8	-	11.5
Relative	0.2	-0.2	-	-0.1

Regional Allocation



Source: Northern Trust, LGIM
Inception date: 01/01/2019

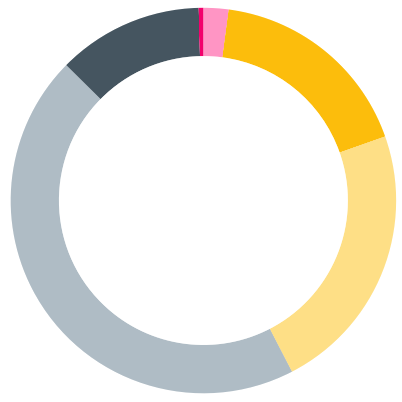
UBS Triton Property Fund

- 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.
- The Triton fund continued to increase the level of rent collection over the quarter and this is moving towards more normal levels after a dip during the start of the pandemic. Rent collection remained positive over Q1 2021 at 90% (89% over Q4 2020) despite lockdown restrictions imposed at the start of 2021.
- The fund delivered strong returns over the quarter, outperforming its benchmark by c.1%, this due to the fund's overweight position to the industrial/logistics sector which strengthened over Q1 2021.

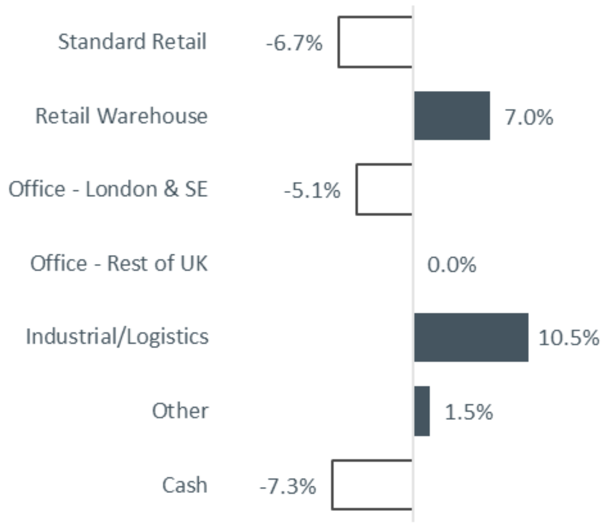
UBS Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
UBS Property	3.1	3.2	3.9	5.9
Benchmark	2.2	2.5	2.5	6.7
Relative	0.9	0.7	1.3	-0.7

Sector Allocation



Sector Allocation Relative to Benchmark



Source: Northern Trust, UBS
Inception date: 28/02/2005

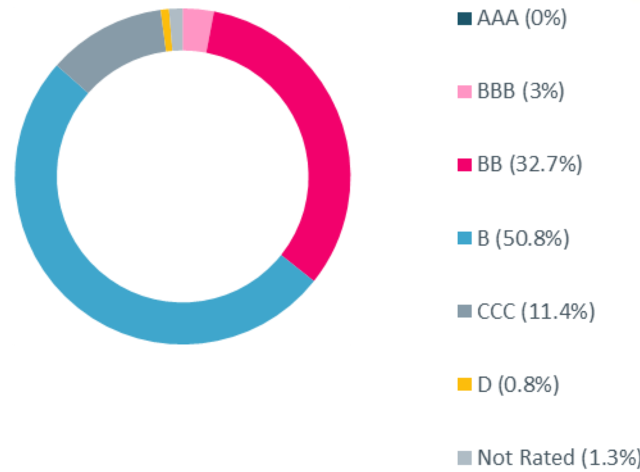
RLAM – Bond mandates

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate.
- RLAM now manage two separate portfolios: the existing portfolio consisting of index linked gilts and with the addition of MAC; and a separate corporate bond portfolio which is being sold down to fund strategic changes.
- The chart below right compares the credit rating breakdown of the multi-asset credit and corporate bond portfolios at the end of the quarter.
- The strategic allocation to corporate bonds is now 0%, with allocations to index linked gilts and multi-asset credit 5% and 7.5% respectively.
- Credit spreads continued to narrow during the quarter which benefitted the corporate bond and MAC portfolios. However, yields rose significantly over the quarter, detracting from overall returns of the joint MAC and ILGs portfolio.

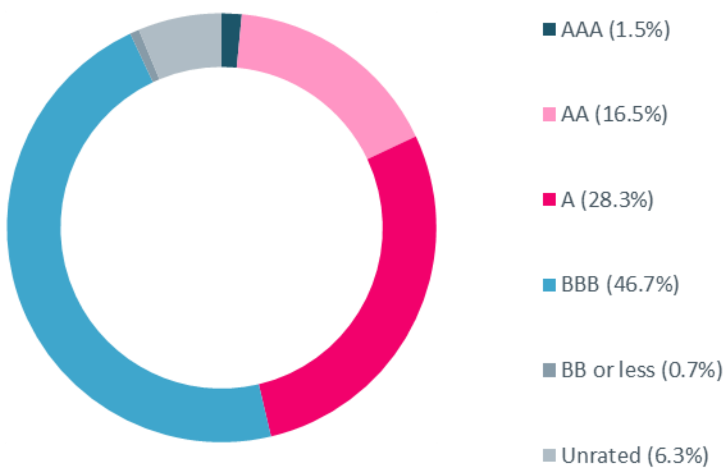
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
RLAM ILGs	-7.1	2.9	0.4
Benchmark	-7.0	2.6	0.3
Relative	-0.1	0.3	0.1
RLAM MAC	1.3	21.9	4.2
Benchmark	1.0	19.1	3.1
Relative	0.3	2.4	1.1
RLAM Corporate Bonds	-7.6	n/a	8.7
Benchmark	-8.1	n/a	8.8
Relative	0.6	n/a	-0.1

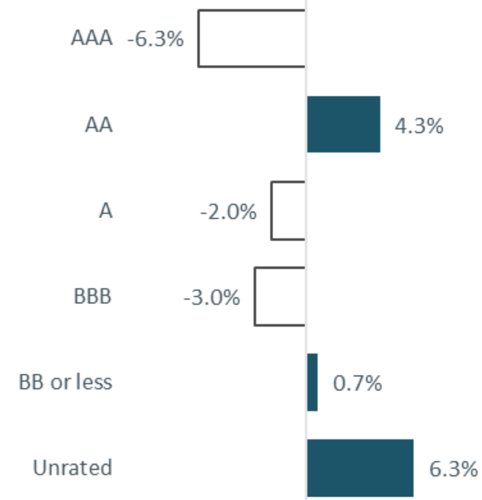
Credit Allocation (MAC)



Credit allocation (Corporate Bonds)



Credit Allocation relative to benchmark (Corporate Bonds)



MAC and ILGs Benchmark: FTSE Index Linked over 5 Year 50%, ICE BAML BB-BBB Index 25%, Credit Suisse US Leveraged Loan GBP Hedged 25%.
Corporate Bonds Benchmark: iBoxx Sterling Non-Gilt Over 10 year Index.

Source: Northern Trust, RLAM

Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- Since implementation, the mandate has a realised gain of c.£1.1m. This is due to outperformance of sterling against the Euro and Australian Dollar. A corresponding fall has been seen in the value of the assets exposed to these currencies.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 4.9% to date when the impact of currency fluctuations is included and only 4.1% when currency movements are stripped out by the Russell currency overlay mandate.

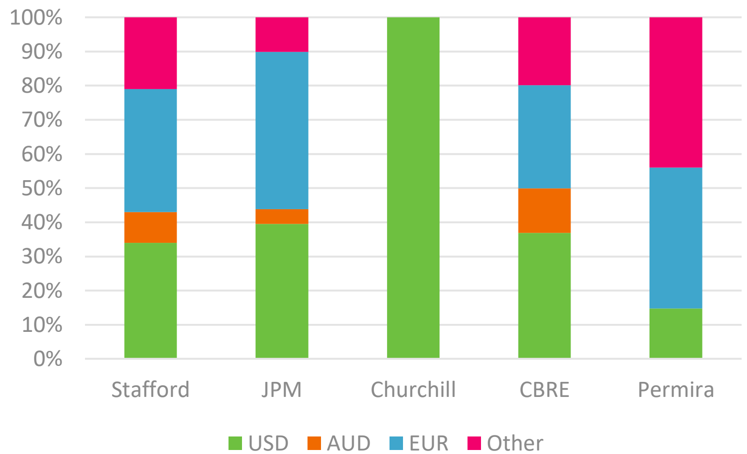
Q1 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	-3.7	2.5	-1.2	1.4	-2.6
JPM	4.4	2.9	7.3	1.4	5.8
Churchill	0.7	3.3	4.0	1.0	3.0
CBRE	4.0	2.2	6.2	1.4	4.7
Permira	2.3	1.8	4.1	1.0	3.1

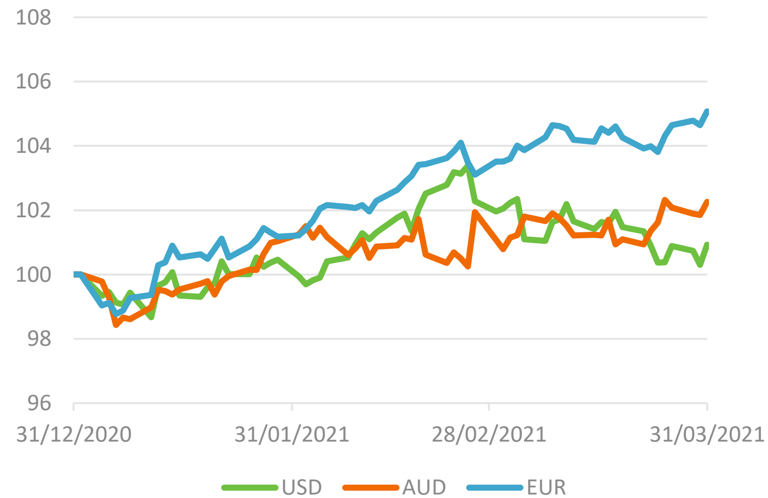
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	4.2	0.6	4.8	6.1	-1.2
JPM	7.8	-0.3	7.5	5.7	1.7
Churchill	1.3	3.1	4.4	4.7	-0.2
CBRE	4.9	0.0	4.9	5.7	-0.8
Permira	1.5	0.5	2.1	4.6	-2.4

Hedged currency exposure as at quarter end**



Sterling performance vs foreign currencies (rebased to 100 at 31 December 2020)



Source: Northern Trust, Investment managers
**Performance shown since 31 December 2019 which was the first month end after inception*
*** As at Q4 2020*

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- Since March 2018, the Fund has made commitments to five private markets funds as outlined below. The table provides a summary of the commitments and drawdowns to 31 March 2021.
- The allocations to JP Morgan and CBRE are fully drawn.
- The first capital call to the Stafford IV fund was made during the quarter.
- There are outstanding commitments of approximately £35m to the remaining funds which will be primarily funded from the RLAM corporate bond mandate.

Mandate	Infrastructure			Global Property	Private Debt	
Vehicle	Stafford Infrastructure Secondaries Fund II	Stafford Infrastructure Secondaries Fund IV	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	18 December 2020	31 July 2018	30 September 2018	December 2018	December 2018
Fund currency	EUR	EUR	USD	USD	USD	EUR
Gross commitment	c. £26m (EUR 28.5m)	c.£18m (EUR 20m)	c. £26.1m (USD 34m)	c. £26.1m (USD 34m)	c. £23.8 m (USD 31m)	£36 m
Net capital called during quarter (Payments less returned capital)	c. £0.6m (EUR 0.7m)	c. £1.7m (EUR 1.9m)	-	-	c. £2.8m (USD 3.8m)	c.£3.0m
Net capital drawn to date	EUR 23.4m (c. £19.9m)*	-	c. £26.1m (USD 34m)	c. £26.1m (USD 34m)	c. £19.4m (USD 26.7m)	c. £15.0m (EUR 17.6m)
Distributions/returned capital to date (includes income and other gains)	EUR 4.7m (c. £4.0m)	-	c. £4.49m (USD 6.8m)	-	c. £0.9m (USD 1.2m)	£1.0m
NAV at quarter end	EUR 24.3m (c. £20.7m)	-	USD 32.9m (c. £23.9m)	USD 38.4m (c. £27.8m)	USD 26.4m (c. £19.1m)	£17.7m
Net IRR since inception (in fund currency)	5.3% p.a. *(vs. 8-9% target)**	-	8.6%*	9.6%*	7.7**	13.6*%
Net cash yield since inception (in fund currency)	5.0% p.a. *(vs. 5% target)**	-	10.8%*	4.6%*	5.7%*	4.8%*
Number of holdings	20 funds, 306 underlying assets*	-	18 companies, 594 assets	50 investments, 2,812 properties*	92 investments	26 investments

**as at 31/12/2020 (latest available) **refers to the IRR of realised investments in the portfolio*

Source: Investment Managers

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Asset Class	Market Summary
Equities	• Modest gains in equity markets year-to-date leave long-term valuation measures similarly stretched as last quarter. However, valuations look less expensive in the context of very low real yields and there remains significant disparity in valuations by region. Earnings momentum is moderately positive and the bounce in earnings now forecast in 2021 would leave full-year earnings in 2021 approximately 7% above end-2019 levels. Given high valuations and near-term economic uncertainty, we hold a neutral position, despite the fundamental improvement expected in 2021.
Investment Grade Credit	• Spreads remain well below long-term median levels, providing little cushion to guard against potential further rises in yields. While leverage remains elevated and interest coverage is low relative to even shorter-term averages, the earnings recovery forecast should be supportive of debt fundamentals going forward. • Equivalently rated European ABS spreads have lagged the recovery in corporate credit spreads since the peak of market disruption at the end of Q1 2020 and look compelling relative to similarly rated corporate credit. Materially lower forward-looking issuance forecasts remain a relative technical support for ABS markets.
Liquid Sub-Investment Grade Debt	• Defaults remain elevated and leverage and interest coverage are above and below average levels, respectively, but robust earnings growth forecasts could see metrics improve in 2021. While current spreads, which sit well below long-term median levels, suggest the market is already pricing the expected recovery, an environment of declining default rates may lend support to current valuations. Higher yielding, shorter-duration speculative-grade credit markets may have more scope to absorb any further potential rises in government bond yields amid the pro-growth backdrop.
Private Lending	• The fundamental backdrop deteriorated in 2020 due to the pandemic and direct lender's hospitality, retail and travel exposures have been particularly impacted. Transaction levels have returned to pre-COVID levels. Pricing has improved slightly although with higher leverage and loan documentation is now back to pre-COVID. The illiquidity premium to the loan market is positive. More affected outstanding debt in public and private markets may create opportunities for new stressed/distressed and special situations financing strategies.
Core UK Property	• The outlook for UK property market fundamentals has improved slightly, as the pace of rental declines has eased, though any tailwinds will likely require the UK's path out of lockdown and economic recovery to be smooth. Technical data is improving, with transaction activity strongly rebounding over recent months, although it remains to be seen whether such improvements will be sustained.
Long Lease Property	• On an absolute basis, valuations appear less attractive than wider property market but are supported by marginally stronger fundamentals and are less exposed to the most troubled sectors.
Conventional Gilts	• A sharp acceleration in growth and inflation is expected amid a more substantial easing of COVID restrictions in Q2 on the back of a rapid vaccine roll-out and falling case rates, following Q1 weakness. Yields have risen in the first quarter but may face further upwards pressure as economic recovery and reflation continue. Front-end nominal yields are more beginning to look more fairly valued but longer-term nominal yields are far less attractive.
Index-Linked Gilts	• Implied inflation looks very expensive at terms up to around 25 years and only slightly less so thereafter.

The table summarises our broad views on the outlook for markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

Source: Hymans Robertson

Risk Warning

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

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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of the Local Government Act 1972.

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