Public Document Pack

Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 25 January 2022	Zoom

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:-

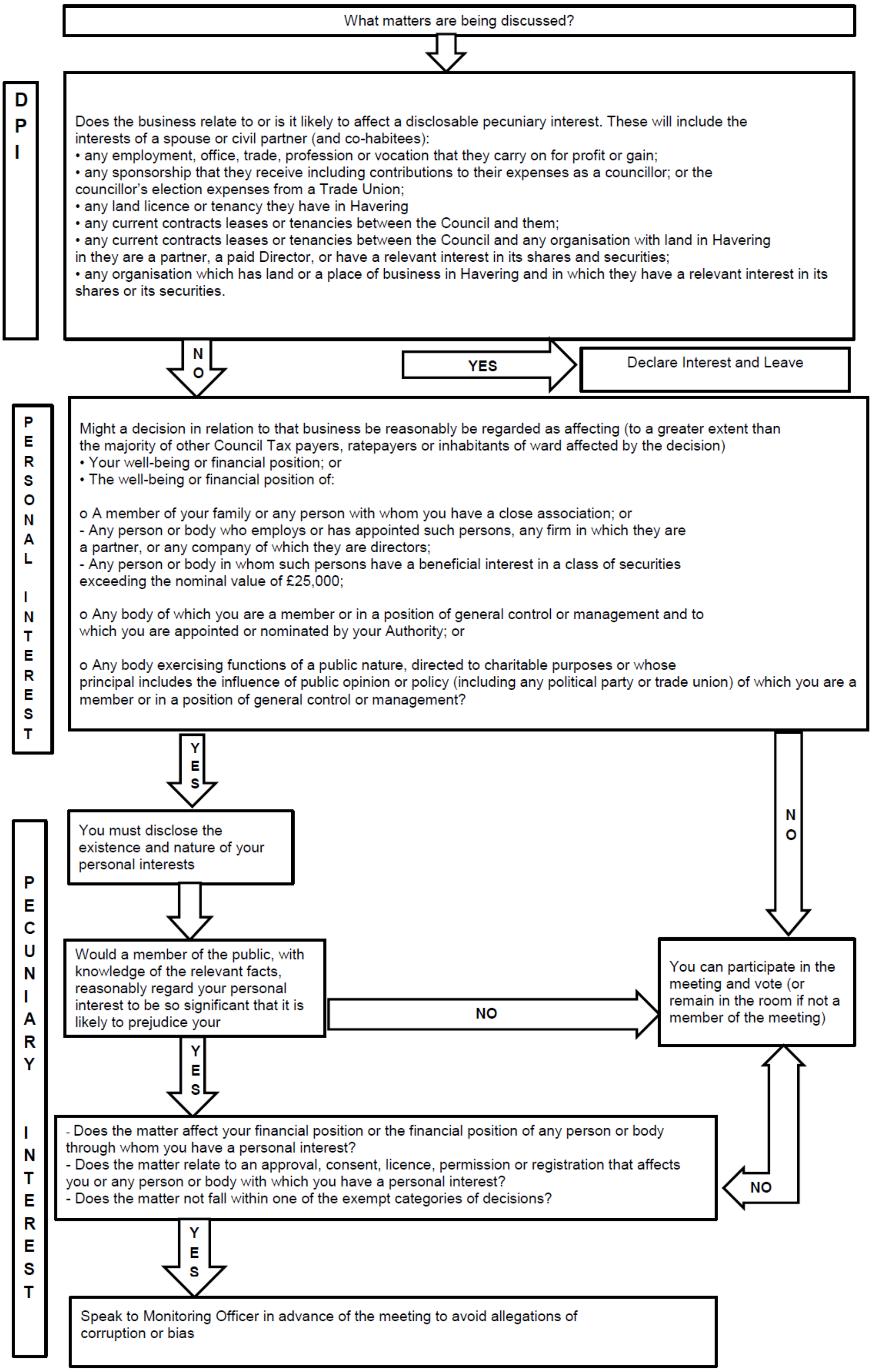
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, 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 - 4)

To approve as correct the minutes of the meeting held on 9th November 2021 and authorise the Chairman to sign them.

5 VOTING & ENGAGEMENT (Pages 5 - 22)

Report and appendix attached

6 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.

7 PENSION FUND PERFORMANCE QUARTER END SEPTEMBER 2021 (Pages 23 - 88)

Report with 1 public and 2 exempt appendices attached

Zena Smith
Democratic and Election Services Manager

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Council Chamber - Town Hall
9 November 2021 (7.00 - 7.45 pm)

Present:

COUNCILLORS

Conservative Group	Jason Frost
Residents' Group	Stephanie Nunn
Labour Group	Keith Darvill
Upminster & Cranham Residents Group	Ron Ower

As the Chair and Vice-Chair were not present at the meeting, Cllr Jason Frost was proposed, seconded and voted in as Chairman.

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

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

Apologies were received from Councillors John Crowder, Martin Goode and Osman Dervish.

221 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

222 **MINUTES OF THE MEETING**

The minutes of the previous meeting held on 14th September 2021 were agreed as a correct record and were signed by the Chairman.

223 **RISK REGISTER**

The Risk register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks.

The Committee agreed the revised format of the Pension Fund Risk Register, updated in September 2021.

The Committee agreed the recommendations.

224 **ACTUARIAL SERVICES REVIEW**

Report reviews the service and performance of the Fund Actuary for the year ending 30 September 2021.

The Committee noted the views of officers

The Committee agreed the recommendations.

225 **INVESTMENT CONSULTANT SERVICE PERFORMANCE REVIEW**

Report reviews performance of the investment consultant for the year ending 30 September 2021 against strategic objectives previously set.

The Committee noted the views of officers on the performance of the Investment Consultant against the set objectives

The Committee agreed the recommendations.

226 **SERVICE REVIEW OF PENSION FUND CUSTODIAN**

Report reviews the performance of the Custodian for the year ending 30 September 2021.

The Committee notes the views of officers on the performance of the Custodian

The Committee agreed the recommendations.

227 **WHISTLEBLOWING OF THE PENSIONS ACT**

Since April 2005, it has been a whistleblowing requirement to report breaches of law to the Pensions Regulator. No possible breaches have been reported.

The committee noted that no possible breaches were reported

The Committee agreed the recommendations.

228 **COMMUNICATIONS STRATEGY REVIEW**

It is a requirement of the Local Government Pension Scheme Regulations to publish a communications policy. The 2021-2024 policy includes references to virtual meetings and training sessions with a continued focus on electronic communication.

The Committee agreed the recommendations.

229 **POLICY REVIEW FOLLOWING THE DEATH OF A MEMBER**

Good practice to have policy. Continued recommendation to automatically write off overpayments of under £250 as inefficient to recover these with the average cost of recovery being £76.91 per case. Debt written off in 2020/21 was £3792.30 covering 53 different cases, average of £73.55 per case which fall under the expected average of £5000 per annum.

An invoice is raised for overpayments of over £250, and work is ongoing to establish a procedure when an invoice isn't paid.

The Committee agreed the recommendations.

230 **LOCAL PENSION BOARD REPORT**

The report is published to the period ending 31st March 2021, in line with scheme advisory board guidance. The budget for the Board is £27,000 including a training budget of 10,000 shared with the Pensions Committee. Actual costs for board were £1075 during the year. There were a reduced number of meetings due to COVID-19 pandemic. The report covers items reviewed and the future work plans.

Climate training offered by Hymans with provisional dates of 24th November and 1st December. Printing costs mainly occur when advertising a vacant role as has to be sent to all PF members' active, deferred and pensioners. We do not hold alternate methods of communication to notify all members.

We are encouraging members to provide email addresses and improving the information on website for members to view.

The Committee passed thanks to Chairman and Board members

The Committee agreed the recommendations.

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Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 07 December 2021

Subject Heading:	**REVIEW OF VOTING AND ENGAGEMENT ACTIVITY**
CLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	To meet objectives set out in the Investment Strategy Statement
Financial summary:	No direct financial implications

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

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

SUMMARY

The attached report, produced by the Fund's Investment Advisor (Hymans), presents a Review of the Fund's investment mangers' Voting and Engagement activities over the 12-month period to 30 June 2021.

RECOMMENDATIONS

That the committee:

1. Note Hymans review of Fund Manager Voting and Engagement activity attached as **Appendix A**.

2. Note the summary and recommendations as set out in **Appendix A.**

REPORT DETAIL

1. **Background**

1. The attached report at **Appendix A**, from the Fund's Investment Advisor (Hymans), summarises the Fund's investment managers' Voting and Engagement activities' in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement (ISS). The review focused on the period for the year to **30 June 2021**.

2. The Fund does not have its own voting policy and in line with the Fund's current ISS, engagement and voting activity is delegated to the Fund's Investment managers with the Fund reviewing their approach on an annual basis.

3. Shareholder rights are only available to the Fund's investment managers that have segregated equity holdings. Equity holdings held are managed on a pooled basis so the Fund has no shareholder rights in respect of voting.

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

   - Investments through the London CIV (LCIV) are covered by the voting policy of the LCIV, which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. LCIV has taken action to evolve its approach to stewardship with the appointment of Hermes

EOS as a voting and engagement partner. LCIV will be developing and implement its own voting policy although this is not yet in place.

- In respect of Fund investments outside the LCIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value

5. In line with the Fund's ISS the Committee will on an annual basis:

   a. Monitor the voting decisions made by all its investment managers and receive reports from their advisers to support this on an annual basis.

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

   c. Reviews voting activity by its investment manager and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure.

6. Hymans report attached as **Appendix A** addresses the above for the Committee's consideration.

IMPLICATIONS AND RISKS

Financial implications and risks:

No direct financial implications but the Committee has set an objective of seeking to ensure that voting policies and engagement are regularly reviewed and updated to ensure that changing practices and regulation can continue to be reflected where necessary. The purpose of influencing behaviour is that they make for better returns over the long term

Legal implications and risks:

There are no apparent legal implications in noting the content of the Report and making the requested decisions.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

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

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

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

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

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

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

BACKGROUND PAPERS

Background Papers List
None

London Borough of Havering Pension Fund

Review of Voting & Engagement Activity

- Simon Jones, Partner
- Mark Tighe, Investment Analyst

August 2021

Executive summary

Introduction

- This paper is addressed to the Pensions Committee ("the Committee") of the London Borough of Havering Pension Fund ("the Fund").
- The purpose of this paper is to summarise the Fund's investment managers' voting and engagement activities over the 12 month period to 30 June 2021.
- This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Summary of observations

In this paper, we make the following observations:

- JP Morgan and Russell both applied and were unsuccessful to become signatories to the 2020 UK Stewardship Code. CBRE, Stafford, Churchill and Permira decided not to apply to become signatories. All other managers have been accepted as signatories.
- During the year, the Fund had investment through two managers across six mandates with equity exposure. The two managers are LGIM and LCIV although LCIV's policy is currently to delegate voting implementation to the underlying managers of the funds in which the Fund is invested, Baillie Gifford and Ruffer.
- We note that over the year, the vast majority of votes that were eligible to be exercised were voted. Exercise rates for all six mandates was at least 97%.
- All managers demonstrated a preparedness to vote against company management on occasion. LGIM voted against management most frequently with around 16% of votes, on average, against management. This is consistent with the index-tracking nature of these mandates.
- Climate change was the most frequent reason for engagement for all three managers over the year whilst diversity was one of the top five reasons for both Baillie Gifford and LGIM.
- Similar to last year, there was commonality in the reasons why managers voted against management with Remuneration and Director re-election again being key themes. It should be noted that managers may vote against the re-election of directors for a number of reasons which may be unrelated to the particular director.

We look forward to discussing this paper with the Committee.

HYMANS ROBERTSON

UK 2020 Stewardship Code

- The 2020 code reflects the fact that the investment market has changed considerably since the publication of the initial code in 2012. Specifically, there has been a greater need to implement ESG criteria in assets other than listed equity, including fixed income, real estate and infrastructure.
- The new code attempts to reflect the diversity amongst asset groups in terms of investment periods, rights and responsibilities, and signatories to the 2020 Code will need to consider how to exercise stewardship effectively, and report accordingly across asset classes. Assessing a manager's willingness to incorporate the new code and understanding the central principles should be of interest to the Committee.
- The 2020 Code comprises twelve principles for asset owners and asset managers, listed right.
- Becoming a signatory is voluntary and to be listed as a signatory, asset managers and asset owners must report annually against each of the 12 principles, setting out the actions they have taken to meet the principle and the outcomes that have been achieved.
- Reports as published and the FRC evaluates reports to determine whether or not the standards of the Code have been met.
- The first list of signatories was published in September 2021; a second list is expected to be published in January 2022.
- The position of the Fund's managers is shown overleaf.

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society;
2. Signatories' governance, resources and incentives support stewardship;
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first;
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system;
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities; and
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.

Summary of UK Stewardship Code adherence

Manager	Signatory of 2020 Code	Applied for 2020 Code but unsuccessful	Comments
London CIV	Yes	-	
LGIM	Yes	-	
Baillie Gifford	Yes	-	
Ruffer	Yes	-	
JP Morgan	No	Yes	• Feedback from the FRC cited insufficient detail included in the application report, particularly around the approach taken at firm level rather than just the underlying investment funds. • A work group has been established to address the feedback and a subsequent application will be made in the future.
UBS	Yes	-	
CBRE	No	No	• Considering a future application but no decision as yet
Stafford	No	No	• Considering a future application but no decision as yet
Royal London	Yes	-	
Churchill	No	No	• Churchill (and parent company Nuveen) are supportive of the principles of the Code but have no immediate intention of applying to become a signatory.
Permira	No		• Considering a future application but no decision as yet
Russell	No	Yes	• Feedback from the FRC was focused around a lack of supporting examples. • Russell re-applied to become a signatory at the next window (October 2021). We are yet to find out if they have been accepted.

Principles for Responsible Investment

- The six Principles for Responsible Investment are a voluntary set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice.
- The principles were established in 2006 and are now supported by over 1700 signatories.
- Following pages set out each of the Fund's investment managers' signatory status and most recent assessment rating.
- Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles. Assessment is across a range of areas of capability for the signatory (referred to as modules). Signatories demonstrating a core level compliance can gain a score of up to 75% (reflected in scores of B, C, D and E). Higher scores (A+ and A) are available to signatories providing additional information.
- The rating of each of the Fund's managers is shown on the relevant asset class page throughout this report.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Equity and multi-asset: Voting and engagement

Delegation of voting

- The Fund has voting rights through its equity investment with LCIV (both directly, and indirectly via the Baillie Gifford Diversified Growth Fund and Ruffer Absolute Return Fund) and with LGIM.
- The Fund has delegated its voting responsibility to its investment managers. The LCIV currently do not have undertake voting and in turn delegate voting to the appointed managers. Therefore, the Fund's voting is carried out in line with the house voting policy of LGIM, Baillie Gifford and Ruffer for the respective investments.
- LCIV has taken action to evolve its approach to stewardship with the appointment of Hermes EOS as a voting and engagement partner. We expect LCIV to develop and implement its own voting policy although this is not yet in place.

Key topics

- We note that **climate change** and **diversity and inclusion** have been identified as areas of interest for Committee in the past. We have therefore focused on these areas when highlighting key votes and further engagement themes in our report.
- Climate change was the most frequent reason for engagement for all three managers.
- Diversity was in the top five engagement themes for both Baillie Gifford and LGIM.

Equity and multi-asset: Exercise of votes

	LGIM PRI rating for Listed Equity Ownership (LEO): A+			LCIV (Baillie Gifford) LEO: A+		LCIV (Ruffer) LEO: A
	All World	Emerging Markets	RAFI	Global Alpha	DGF	Absolute return
# eligible votes	64,750	35,672	44,767	1,391	1,477	1,259
% votes exercised	99.9	99.8	99.7	96.5	97.1	100.0
% against management	16.2	14.1	18.2	2.6	3.6	6.9
% abstained / withheld	1.1	1.8	0.6	0.5	1.0	2.2
% meetings with at least one vote against management	60.0	47.6	72.6	15.7	17.7	47.3

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- The Fund has direct exposure to equities via LGIM and LCIV (Baillie Gifford) mandates, with additional exposure obtained through multi-asset mandates managed by Baillie Gifford and Ruffer
- The table above provides a summary of voting over the 12 month period to 30 June 2021. We can observe the following from this data:
  - The exercise of voting rights was high across most mandates. Ruffer voted at the lowest number of eligible meetings last year but voted at all eligible meetings this year
  - Similar to last year, abstentions/withheld votes were relatively low. Managers continue to exercise voting rights
  - By a considerable margin, LGIM were the most active manager in terms of voting against management. This is to be expected given the index-tracking nature of the LGIM mandates and therefore LGIM do not have an option of disinvestment. Conversely, Baillie Gifford and Ruffer actively select stocks and, should on average, have a greater alignment of interests.
  - The index-tracking LGIM funds have a significantly larger stock listing than Baillie Gifford and Ruffer. Hence the LGIM funds are eligible for a larger number of votes.
- LGIM were generally supportive of management led “Say on Climate” resolutions although notably voted against resolutions at Shell and Glencore, which were broadly supported by others. LGIM were also generally supportive of shareholder resolutions on environmental and diversity themes, voting for around 70% of resolutions on these subjects. Around half the shareholder resolutions that LGIM supported were passed; none of the resolutions that LGIM voted against were passed.

Equity and multi-asset: Significant votes

Manager	Main reasons to vote against management	Significant votes
LGIM PRI rating for equity: A+	1. Director-related 2. Non-salary remuneration 3. Capitalisation 4. Routine 5. Reorgs./Mergers	• Barclays. Vote to approve Barclays' Commitment in Tackling **Climate Change**. LGIM were satisfied that the proposed commitment, which also had the backing of ShareAction, was sufficient in setting out Barclays' long-term plans to tackle climate change. • Olympus Corporation. Vote against director election. Vote to signal that the company needed to take action to increase **diversity and inclusion**. See the engagement section overleaf for further details.
Baillie Gifford PRI rating for equity: A+	1. Remuneration 2. Capitalisation 3. Director elections 4. Routine 5. Reorgs./Mergers	• Moody's. Supported a shareholder resolution to approve the company's 2020 **Decarbonisation Plan**. Moody's has a clear strategy and targets to reduce its carbon footprint which are science-based and aligned with the Paris Agreement. • Booking Holdings. Supported a shareholder resolution relating to the issuance of a **climate transition report.** Better disclosure was believed to be in the shareholders best interests.
Ruffer PRI rating for equity: A (Other asset classes have not received a PRI rating)	1. Director elections 2. Remuneration policies 3. Requests for reports on lobbying and political donations 4. Excessive share issuance authority 5. Shareholder resolutions on climate change.	• Aena. Supported a shareholder resolution relating to the company's **climate transition plan**. This was one of three shareholder resolutions which Ruffer supported requesting that the company submit its climate transition plan to a shareholder advisory vote at is 2021 AGM, with annual updates given from 2022 onwards. (LGIM also voted in favour of this resolution). • Royal Dutch Shell. Vote for management resolution relating to the company's **climate transition plan**. The decision to support the resolution was made in the context of the progress Shell has made as a result of engagement and the commitment of the company leadership to continue to meaningfully engage on the remaining areas of Climate Action 100+. (LGIM voted against this resolution, voting instead in favour of the Shareholder proposal on climate.) • American Express. Supported a shareholder resolution that requires the company to annually publish a report assessing **Diversity, Equity, and Inclusion** Efforts. Whilst American Express is taking meaningful steps to increase its workforce diversity and promote inclusion, Ruffer felt that reporting of its diversity statistics has room for improvement.

Equity and multi-asset: Significant engagements

Manager	Main engagement themes	Significant engagement
LGIM	1. Climate change 2. Remuneration 3. Diversity 4. Board composition 5. Strategy	**Diversity and inclusion** in Japan LGIM feel that companies operating on a global level should have at least one female director on their board and, in particular, that Japanese companies in general have trailed behind European and US companies in ensuring more women are appointed to their boards. In mid-2020, LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. LGIM then announced that they would commence voting against the most senior board member for those companies included in the TOPIX100 which still did not have any women on their boards or at executive level. The vote against director election noted on the previous page for Olympus Corporation is an example of this and is intended to signal that the company needed to take action on this issue.
Baillie Gifford	1. Climate Change 2. Board Matters 3. Remuneration 4. Company Culture and Employee Relations 5. Diversity	Amazon **gender pay gap** reporting Baillie Gifford engaged with Amazon to encourage more granular reporting on the extent of their gender pay gap, including median pay figures across the business. In the engagement, Baillie Gifford cited previous experience with companies reporting these figures and how the were helpful. Following the engagement, Amazon agreed to increase the transparency of reporting around pay and noted this was beneficial when getting a subsequent gender pay proposal approved by shareholders.
Ruffer	1. Climate change 2. Board structure 3. Executive remuneration 4. Cross shareholdings (Japan) and capital structure 5. Environment – tailings dams	ExxonMobil extended engagement on **climate change** action Ruffer has engaged with ExxonMobil both independently and through the Climate Action 100+ working group. To date, the engagement has resulted in greenhouse gas reduction targets being set which are aligned with the Paris Agreement. Ruffer continues to actively engage with ExxonMobil and have noted they expect further progress to be made.

HYMANS ROBERTSON

Real assets: Stewardship and engagement

Manager	Main engagement themes
JP Morgan PRI rating for infrastructure : A	• The JP Morgan ESG Leadership Group meets quarterly and includes one ESG Leader from each Infrastructure Investment Fund ("IIF") portfolio company; recent topics include materiality assessments, **physical and transition risk** assessments, **ESG reporting** frameworks, **stakeholder engagement** and **policy implementatio**n. • IIF introduced its **Diversity, Equity and Inclusion** ("DEI") strategy through the Culture Forum with a framework for accountability. One of IIF's holdings, BWC Terminals, created 3 sub-committees to implement DEI initiatives: Employee Education, Community Outreach and Recruitment through Community Engagement. A further holding, Sonnedix, launched its One Team Network to promote DEI and strengthen culture – this includes Connection Groups like The Sonnedix Women Alliance, Returning from Leave and Career Kickstarter Network
UBS PRI rating for property: A+	• UBS established the Group Risk Control (GRC) Climate Risk Program and a three-year work plan to address **climate risk** regulatory expectations emerging globally during the year. • UBS are developing an initiative, The Social Value Portal ("SVP"), to quantify assets' contributions to the **UN's Sustainable Development Goals** (SDGs). SVP uses an independent measurement framework to generate a social, economic and environmental value. In development UBS worked with tenants and property and facilities management teams onsite to understand and measure things like local employment levels, traineeships, jobs for young offenders, community events held at the property and volunteering. • UBS Triton was ranked 1st out of 84 UK core diversified strategies by the Global Real Estate Sustainability Benchmark (GRESB) in November 2020.
CBRE PRI rating for property: A	• CBRE have centred their ESG focus in three main areas: **1.** **Climate**: commitment to address climate-related risks and opportunities by focusing on delivering net-zero carbon performance and physical resilience; **2.** **People**: commitment to champion diversity, equity, inclusion and the well-being of our people and other stakeholders. **3.** **Influence**: commitment to engage with and positively influence key stakeholders where we do not have direct management control. • CBRE grade their ESG performance and improvement ambitions against an ESG Maturity Matrix in order to identify future ESG risks and opportunities and develop a targeted engagement strategy for each investment. Investment team members conduct engagement meetings with senior executives and board members on a frequent basis throughout the year to gain clarity on their performance and initiatives and encourage disclosure.
Stafford PRI rating for infrastructure : A	• Stafford recently implemented the rollout of a **climate change** quantitative and qualitative questionnaire in order to ascertain further information as to the underlying asset contributions to **CO_2 emissions**, any emissions savings that have been achieved, and the approach to climate change implemented by the underlying managers both holistically and in terms of specific investments. • A detailed valuation assessment was performed to gauge the impact of **COVID-19**. The process involved consolidation of underlying manager provided information (investor updates, calls with management, and completion of a questionnaire prepared by the Stafford team), supplemented by market and sector research. A line by line assessment was then performed at the underlying asset level.

HYMANS ROBERTSON

Fixed income: Stewardship and engagement

Manager	Main engagement themes
Royal London PRI rating for fixed income corporate financial / non-financial: A/A+	• Royal London have identified climate change as a key risk and in response have made the following commitments: 1. **Climate risk policy**: Actively implement the climate risk policy. 2. **Low carbon economy**: Advocate and promote the transition to a low carbon economy with industry, policymakers and other influential stakeholders. 3. **Managing risk**: Consider climate change risk within the risk management framework and business planning. 4. **Reduce carbon footprint**: Consider climate change risks and opportunities internally. 5. **Clear reporting**: Report on the progress against these commitments and the wider climate risk strategy in an annual report and on the Royal London website at least once a year, in line with recommendations from the TCFD.
Churchill PRI rating for corporate non-financial: A	• With regards to ESG process enhancements, over the past year, Churchill has implemented a proprietary internal ESG Rating Tool developed by Churchill's parent company's Responsible Investing team. The ESG Rating Tool assesses a company or issuer's **ESG risk exposure and risk management** and has been adapted from MSCI's ESG Rating for publicly listed securities. The Rating Tool automatically integrates ESG materiality research from leading sources such as MSCI, SASB and Verisk Maplecroft to generate an ESG risk exposure score. Analysts then assess a company's risk management practices, resulting in a risk management score that is weighted by risk exposure, and ultimately an ESG rating that compares ESG performance to peers. The approach combines both qualitative and quantitative assessments of risk exposure and risk management to allow for both nuance and analytics when reporting on the ESG characteristics of a portfolio. • One of Churchill's investment, World50, provides virtual and in-person mediums where senior executives from multiple companies in various industries can discuss prevalent topics in the workplace, including **inclusion**, **sustainability**, and other ESG matters. There is a specific Sustainability group within World50 for members that are focused solely on these topics, however these topics are often points of conversation in all other groups. Additionally, 37% of members are female, which outpaces the global percentage of senior executives at 25%.
Permira PRI rating for corporate non-financial: A	• During the year, Permira added a second full-time ESG specialist to their ESG team, with an intern also due to join later in 2021. Permira's Head of ESG and ESG specialists continue to have oversight of ESG initiatives. • Permira has continued to develop its approach to ESG integration, post-investment engagement and ESG-focused reporting to investors over the past 12 months. In 2020/21 Permira Credit completed a pilot ESG KPI data collection exercise of the PCS4 portfolio. In light of the positive response rate, Permira intends to roll this out to other PCS funds to increase engagement. The firm also engaged ERM to carry out a top-down **greenhouse gas emissions** footprint of the portfolio. Starting from the 2021 calendar year, Permira will prepare an annual report for investors detailing the firm's latest activity with regard to ESG, including further details of these exercises, and providing certain key ESG metrics for PCS4.

HYMANS ROBERTSON

Summary and Recommendations

- The Fund's managers have exercised voting policies and undertaken engagement activity in line with expectations and we have no significant concern with the extent to which stewardship activity has been exercised over the last year.
- It has been noted that certain managers are not signatories to the 2020 UK Stewardship Code. The Code has been designed to be applicable to managers across all asset classes and therefore we would expect all of the Fund's managers to have an aspiration to eventually become a signatory. We suggest revisiting this point in 12 months and exploring in greater detail the rationale of any managers which have not yet attempted to become a signatory.
- In line with the Committee's stewardship policy, the practices of the Fund's managers should continue to be monitored. We recommend that at future Committee meetings where LGIM or LCIV present that some focus be given to voting practices. We propose to identify appropriate case studies to facilitate discussion.
- LCIV continue to delegate voting to the appointed managers, though we understand this may change with LCIV developing their own voting policy. We suggest the Committee monitor LCIV's progress in developing their voting policy, and proactively engage on the development of this policy. In particular, we suggest working with LCIV to ensure that greater consistency can be achieved in the exercise of voting.
- Committee is scheduled to undertake a deeper dive on climate change issues later in 2021. We propose revisiting stewardship activity as part of this session and consider how Committee could develop its approach to demanding accountability and scrutiny.

Thank you

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, investments 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 overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **07 December 2021**

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 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 30 September 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 **30 September 2021**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by **0.56%** over this quarter but underperformed both its tactical and strategic benchmark.

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:

Permira Credit Solutions Senior IV GBP SCSp

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

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) Receive presentation from the Fund's Private Debt Manager: Permira Credit Solutions (Appendix C – **Exempt)**
4) Consider the quarterly reports sent electronically, provided by each fund manager.
5) Note the analysis of the cash balances
6) Consider the timing of the relaunch of the CIPFA Knowledge and Skills framework (Section 8.3.1 (g) refers)

REPORT DETAIL

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

2. When appropriate topical LGPS news that may affect the Pension Fund will 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:

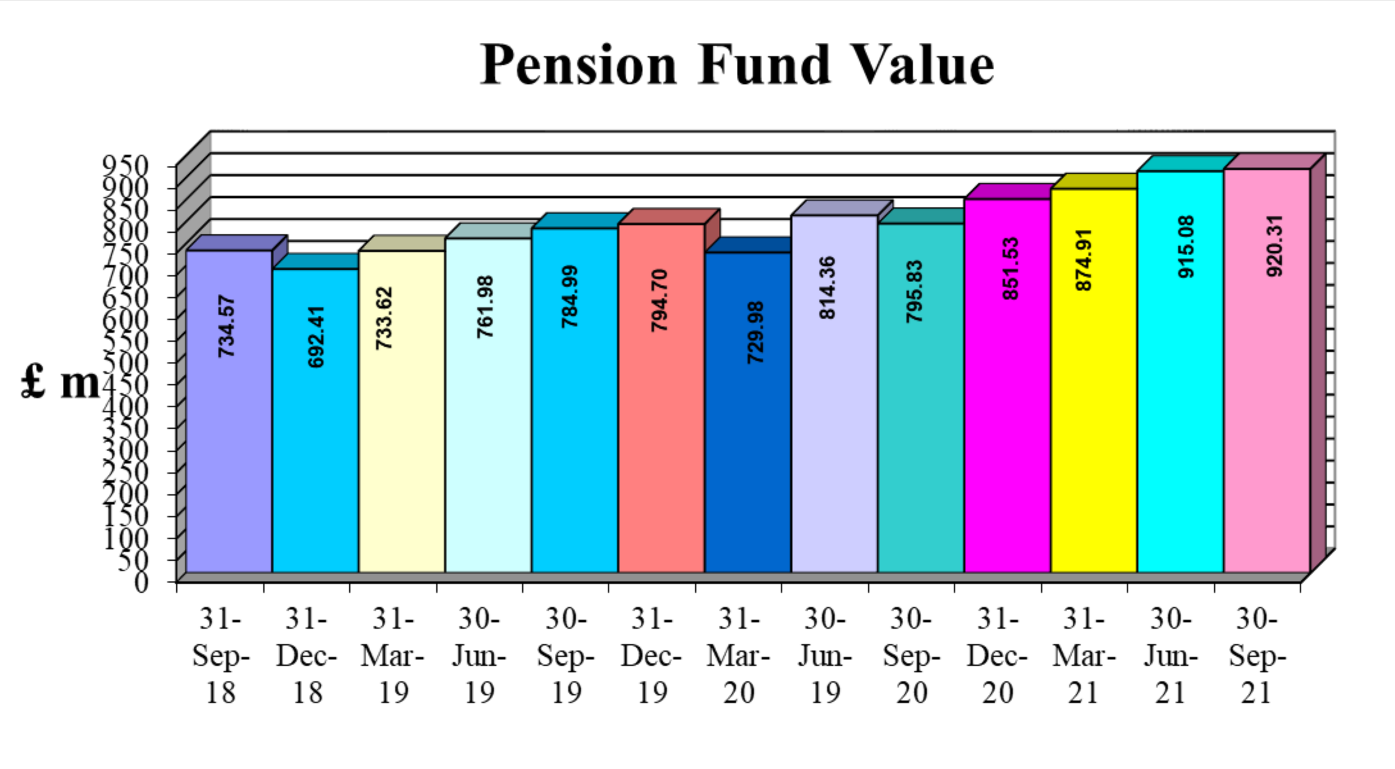
e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark 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% (net of fees) 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. As reported by the Fund's custodian Northern Trust, the total Fund value at 30 September 2021 was **£920.31m** compared with £915.08m at the 30 June 2021; an **increase of £5.23m, (0.56%)**. This growth can be attributable to an increase in asset values of £5.39m and a contraction in externally held cash of £-0.16m. Internally managed cash stands at **£19.123m,** analysis follows in this report.

Chart 1 – Pension Fund Value*****



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: Tactical Performance

	Quarter to 30.09.21	12 Months to 30.09.21	3 Years to 30.09.21	5 years to 30.09.21
	%	%	%	%
Fund	0.56	14.46	8.89	8.01
Benchmark	1.09	11.42	7.54	6.44
*Difference in return	-0.54	3.04	1.35	1.57

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: Strategic Performance

	Quarter to 30.09.21	12 Months to 30.09.21	3 Years to 30.09.21	5 years to 30.09.21
	%	%	%	%
Fund	0.56	14.46	8.89	8.01
**Benchmark	2.57	2.10	7.88	4.86
*Difference in return	-2.01	12.36	1.01	3.15

Source: Northern Trust Performance Report

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

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

6. CASH POSITION

a. An analysis of the internally managed cash balance of **£19.123m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2019/20 31 Mar 20**	**2020/21 31 Mar 21**	**2021/22 30 Sept 21**
	£000's	£000's	£000's
Balance B/F	**-13,698**	**-23,056**	**-15,963**
Benefits Paid	38,880	38,874	18,526
Management costs	1,107	1,420	631
Net Transfer Values	-2,789	14,251	1,156
Employee/Employer Contributions	-47,508	-48,049	-23,498
Cash from/to Managers/Other Adj.	1,154	723	96
Internal Interest	-202	-126	-71
Movement in Year	**-9,358**	**7,093**	**-3,160**
Balance C/F	**-23,056**	**-15,963**	**-19,123**

b. Members agreed the updated cash management policy at their committee meeting on 17 September 2019. 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/rebalancing within the investment strategy

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. 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 fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.

c. The fund manager attending this meeting is the Fund's Private Debt manager Permira, their report is attached at **Appendix C (Exempt).**

8. FUND UPDATES:

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

a. Since the last report, the Fund has continued to fund capital draw down requests: £0.32m Stafford II, £1.13m Stafford IV, 0.88m Permira, £4.65m London Collective Investment Vehicle (LCIV) Renewables Fund and £3.8m for the new Churchill IV fund.

b. On the 09 September 2021, holdings were switched from the Legal and General Investment Management (LGIM) RAFI Index Fund to the LGIM Future World Index. This was topped up with a withdrawal from the London CIV (LCIV) Baillie Gifford Global Alpha fund to meet the target allocation.

c. On the 15 September 2021, holdings with the LCIV Baillie Gifford Global Alpha Fund were switched to its Paris Aligned version.

d. The Committee agreed to increase the allocation to the Funds UK Property Manager (UBS) by £10m at its meeting on the 14 September 2021. Payment was made on the 20 October 2021.

e. In order to maintain the target allocation to Private Debt, members at the Pensions Committee on the 20 July 2021, agreed to make continued investments in the new vintages of the Churchill Middle Market Senior Loan Fund IV and the Permira Credit Solutions V (PCS5). Relevant on boarding documentation has now been completed and submitted for the Churchill Fund with the first capital call due on the 23 November 2021. The on boarding of the PCS5 is in progress.

f. Members at the Pensions Committee on the 14 September 2021 agreed to invest a 5% allocation to the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund. This is to be funded from a drawdown from the Legal & General All World Equity Fund and settlement is planned for the 3 December 2021.

8.2 **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 (currently held virtually) – take place monthly with the latest meeting held on the 7 September 2021.

b. Each meeting includes an update from Chief Officers 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, relevant topical issues are included as appropriate.

c. Update from the Head of Responsible Investment on Net-Zero Strategy:

i. LCIV has committed to become a net zero entity by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C.
ii. It will also become a net zero company across operational and supply chain emissions as early as 2025
iii. Alongside its main commitment, LCIV has set interim targets for its investments including a 35% carbon intensity reduction by 2025 (relative to 2020), and 60% by 2030 across funds invested via the LCIV fund range.
iv. LCIV plan to achieve its goals by decarbonising existing funds through targeted engagement, contributing to avoided emissions, launching new net zero funds and eventually contributing to negative emissions

d. Update from Chief Executive officer– Medium Term Financial Strategy

i. LCIV Fund Total: 65 sub funds, with £23.8bn pooled
ii. Off Pool: Client London Borough Funds have 25 Property managers and 130 other investment manager relationships with £20bn Assets Under Management (AUM).
iii. Proposed 5 year road map leading to 70% of assets pooled by 2025.
iv. Detailed work underway on 3 year budget forecast – considered as part of normal budget setting process.
v. Expectations are that there will be no increase in charges over the next 3 years but dependent on AUM growth and meeting target of 70% by 2025

e. Update from Chief Operating Officer- MHCLG and Pooling Projections

i. Summary of pooling data submitted to MHCLG as follows:
ii. Pooling ratio across all Client Funds stood at 53% as at 31 March 2021.
iii. Forecasting an increase of 6% by March 2022 and a further 8% by March 2025.
iv. By March 2025, LCIV anticipate that 29 client funds will have at least a 50% pooling rate (Havering is currently c66% estimated to be 70% by 2025)
v. Future Department for Levelling Up, Housing & Communities (DLUHC) reporting – Cross Pools working – Pools are seeking to make the return more value focussed (what value they deliver to investors) in 2022 and to co-develop a value framework and scorecard that has close alignment to the way Asset Manager assess value.

f. Update from Head of Investment Risk and Performance

i. Enhanced monitoring continues on the LCIV Multi Asset Credit (MAC) Fund and the LCIV Global Equity Focus Fund is on watch.
   i. Libor benchmark is being discontinued at the end of the Year and LCIV have identified SONIA as the most suitable replacement and has put in place a transition plan. Where Libor was used as a benchmark in the past this will be replaced over the four months from September 2021 and both reported on during 2021 (For Havering this will impact the LCIV absolute Return Fund Benchmark). LCIV have reported Sonia and Libor in parallel over the last twelve months and the returns very closely replicated each other.
   ii. **New /Changes to Sub Fund Launches:**
   - New: Passive Equity Progressive Paris Aligned Fund (PEPPA) (previously known as Low Carbon Fund – Stage 5 (Fund Preparation). Expected launch date is September 2021. Havering has made a commitment to this fund and is the seed investor, funding mandate is scheduled for December 2021.

- New: Sterling Credit Fund – Stage 1 (Client demand). Survey was issued in December to ascertain client demand. The Seed Investor Group (SIG) have been meeting since 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.
- New: LCIV Alternative Credit Fund – Stage 2 (Mandate Development). Fund to be created to support fallout from future MAC Fund Restructure. Mandate discussion in progress.
- Change: LCIV Global Bond Fund – Transitioned into a more climate aware version to meet client demand. FCA submission on target for the end of September. This not a part of this Fund's investment strategy.
- Change: LCIV Renewable Infrastructure Fund – Commitments made to Blackrock UK Renewable Income Fund and Foresight Energy Infrastructure Partners Fund
- Change: LCIV MAC Fund – Looking to add an additional manager, currently on hold pending borough Pension Committee decision cycles

g. LCIV Staffing Updates

i. LCIV have appointed a Head of Public markets – Rob Treich joined on the 6th September 2021
ii. Head of Private markets returns from Maternity Leave
iii. Head of Responsible Investment will go maternity leave in November, plans in place for cover.

8.3 LGPS GENERAL UPDATES:

8.3.1 LGPS Knowledge & Skills

a. Charted Institute of Public Finance & Accountancy (CIPFA) have released two publications in August 2021 covering LGPS Knowledge and Skills:

i. **Code of Practice on LGPS Knowledge & Skills 2021** –.This Code of Practice is applicable to all individuals responsible for the management of the LGPS or who have a decision-making, scrutiny or oversight role.

ii. **LGPS Knowledge & Skills Framework –**It is designed to be used by LGPS officers and the scheme's decision-making bodies (such as LGPS pension committees) as a framework in the assessment of knowledge and skills, the delivery and recording of training, and ultimately the development of knowledge and understanding of all those with a responsibility to manage and administer their LGPS fund. A separate framework remains in place for local pension board members

b. The update to the CIPFA Knowledge and Skills Framework and the separate Code of Practice reflect changes to the operation of the LGPS at both national and local levels. They include the impact of the England and Wales LGPS Scheme Advisory Board's Good Governance Review, recent regulatory changes and other requirements of the DLUHC, the establishment of pension boards and asset pools, and the changing responsibilities and skills required by decision makers, managers and advisors.

c. CIPFA have updated the key areas of knowledge creating eight key areas instead of the original six with some of the topics within each of these core technical areas expanded. They have introduced levels of knowledge within each section, which for Committee members are:
   i. **An awareness** i.e. recognition that the subject matter exists
   ii. **A general understanding** i.e. understanding the basics in relation to the subject matter
   iii. **A strong understanding** i.e. a good level of knowledge in relation to the subject matter (but not necessary at a detailed level).

d. There is a separate framework for LGPS Senior Officers/Managers covering the same core areas of knowledge.

e. Overall, pension committee members need to have a less detailed knowledge of the specifics and take a more general view that is strategic and concentrates on the principals involved.

f. By continuing to adopt the CIPFA Framework, the Administrating Authority will be able to demonstrate that they are complying with the requirements of CIPFA's Code and the other legal and best practice requirements as set out previously in this Framework.

g. Officers to ask the Committee to consider whether it would be more timely to relaunch the framework matrices following the local elections in May 2022 to ensure that the post-election pension committee starts the new term of office with the refreshed learning and development requirements .

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.

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

London Borough of Havering Pension Fund

Q3 2021 Investment Monitoring Report

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

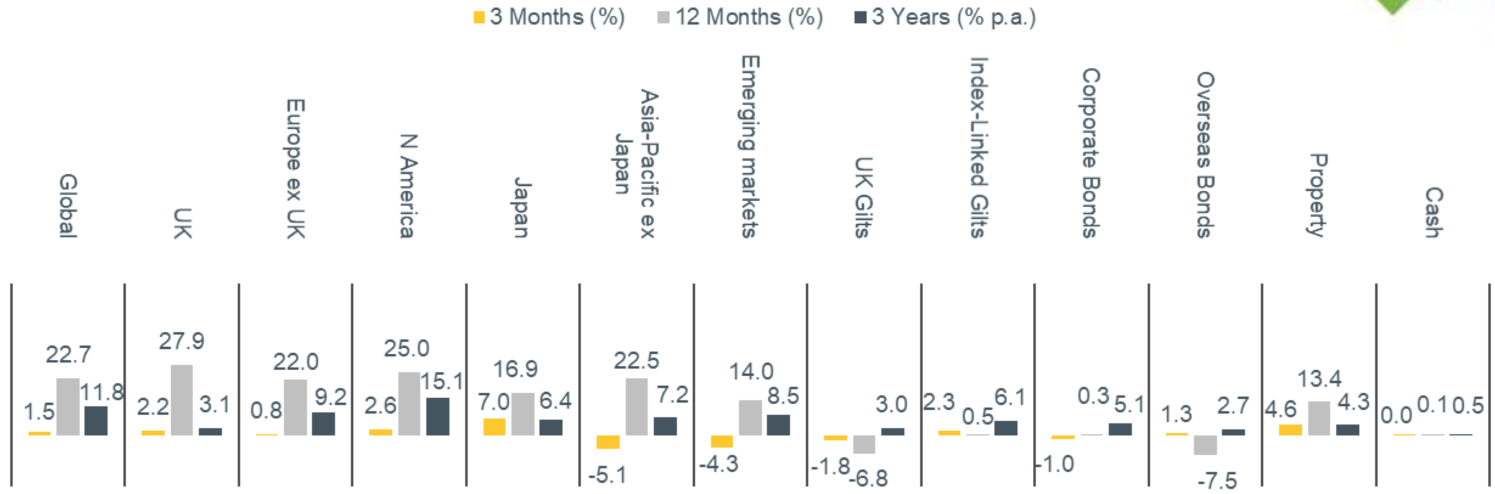
HYMANS ROBERTSON

Growth momentum continued to ease as the initial impact of re-opening late last year fades. However, the pace of growth in the major advanced economies is forecast to remain strong over the next couple of years, with consensus forecasts global growth of 5.7% in 2021 and 4.4% in 2022.

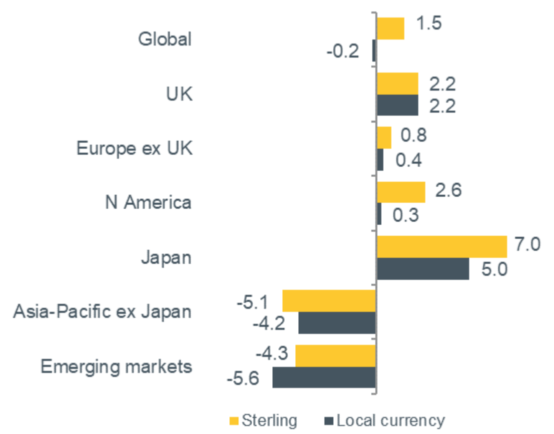
Global equities gave up earlier gains as strong earnings growth was offset by easing economic momentum and the prospect of fading monetary support. Strong rises in energy prices lifted the energy sector, while the prospect of higher interest rates buoyed the financial sector. The defensive growth characteristics of the technology and healthcare sectors saw them outperform, while consumer discretionary, basic materials and industrials all underperformed in Q3.

Japanese markets materially outperformed, rallying on expectations of further stimulus and economic reopening as COVID cases declined. UK markets also outperformed, driven primarily by their above average exposure to the energy sector, while emerging markets were pulled lower by weak performance from China, where announcements of tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and high energy prices

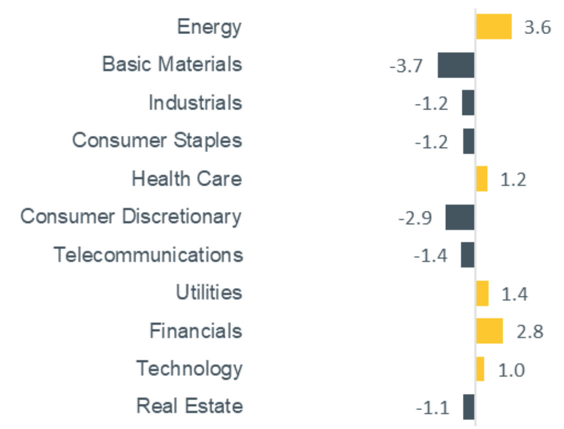
Historic returns for world markets [1]



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 in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

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Market Background

The total return on the MSCI Monthly Property index was 13.4% in the year to September, which includes a 5.5% income return. A 7.5% rise in capital values over the 12 months to end of September is attributable to buoyant industrial sector where capital values have risen 24%.

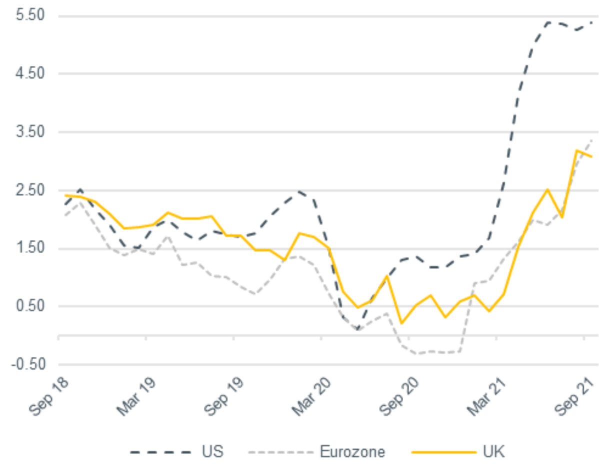
Global investment-grade spreads were little changed in Q3 and global developed market speculative-grade spreads rose 0.3% p.a. Defaults and leverage levels continue to fall, interest coverage is rising, and liquidity remains plentiful. Fears surrounding the potential default of Evergrande, a heavily indebted Chinese property developer, seem to have been contained within Chinese and Asian credit markets for now.

UK 10-year gilt yields rose 0.3% p.a., with steep rises coming in the wake of the Bank of England's September meeting. Having fallen earlier in the quarter, on the back of easing economic momentum, equivalent US and German yields rose back to end-June levels in September.

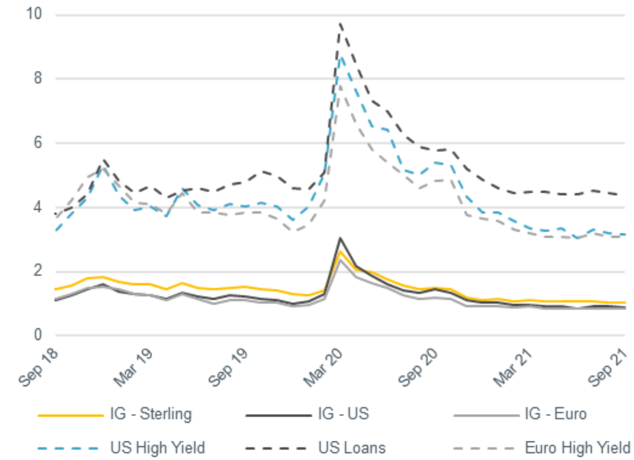
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose from 3.5% p.a. to 3.9% p.a. as real yields fell and nominal yields rose. 10-year US implied inflation was little changed over Q3.

The trade-weighted dollar has risen around 1.5% while equivalent measures for the sterling and euro eased 0.9% and 0.4% respectively.

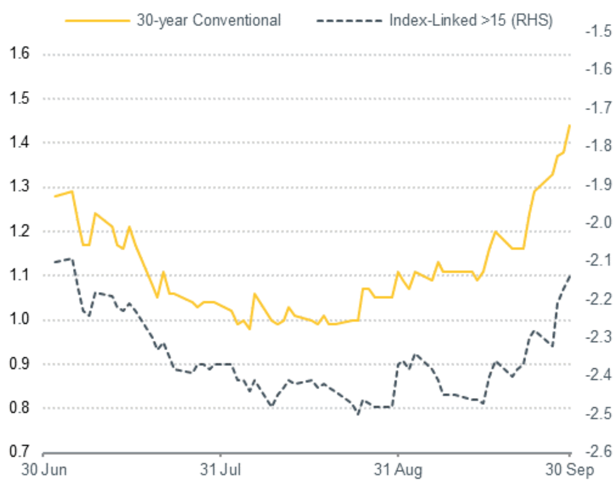
Annual CPI Inflation (% p.a.)



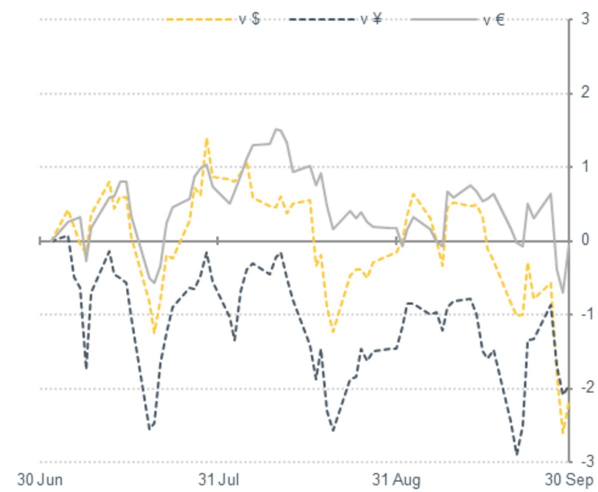
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



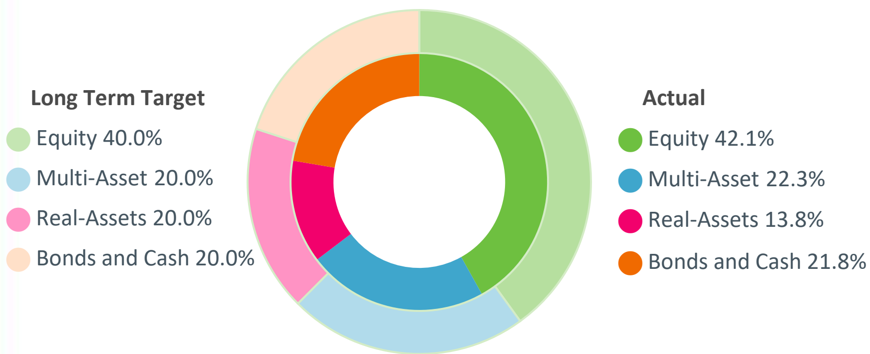
Sterling trend chart (% change)

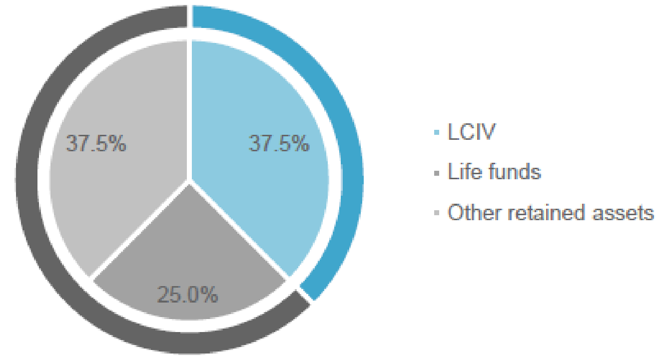


Source: DataStream, Barings and ICE

- The Fund's investment approach is implemented through the London Collective 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 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 have now been implemented and are reflected in the Fund's allocation.

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	15.0	LGIM	25.0		
Multi-Asset	20.0	Baillie Gifford, Ruffer	20.0				
Property	10.0					UBS, CBRE	10.0
Infrastructure	10.0	BlackRock Stonepeak, Foresight, Quinbrook	2.5			JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds	12.5					RLAM	12.5
Total	**100.0**	**-**	**37.5**	**-**	**25**	**-**	**37.5**

HYMANS ROBERTSON

Current Investment Implementation

- The total value of the Fund's assets rose by c.£6.1m over the quarter to c.£920.3m as at 30 September 2021 as property markets maintained recent momentum.
- The Fund's investment in LGIM Fundamental Equity was transitioned into the LGIM Future World fund during the quarter, with the investment topped up with proceeds from the LCIV Global Alpha Growth fund to bring it up to the target 10%.
- The LCIV Global Alpha investment was transitioned into the recently launched Paris Aligned variant of the fund during the quarter.
- The Committee have agreed to make an additional £12m investment in JP Morgan infrastructure. This is expected to be implemented in Q4 2021.
- The Committee have agreed to make an additional £10m investment in the UBS fund, to be funded from internally held cash, to bring the allocation back up towards target. This investment will take place in Q4 2021.

The following capital calls were paid during the quarter:

- c.£0.3m to Stafford SISF II funded from existing cash on account.
- c.£0.6m to Stafford SISF IV funded from existing cash on account.
- £1.9m to LCIV renewable infrastructure funded from the Baillie Gifford Diversified Growth fund.

Asset Allocation

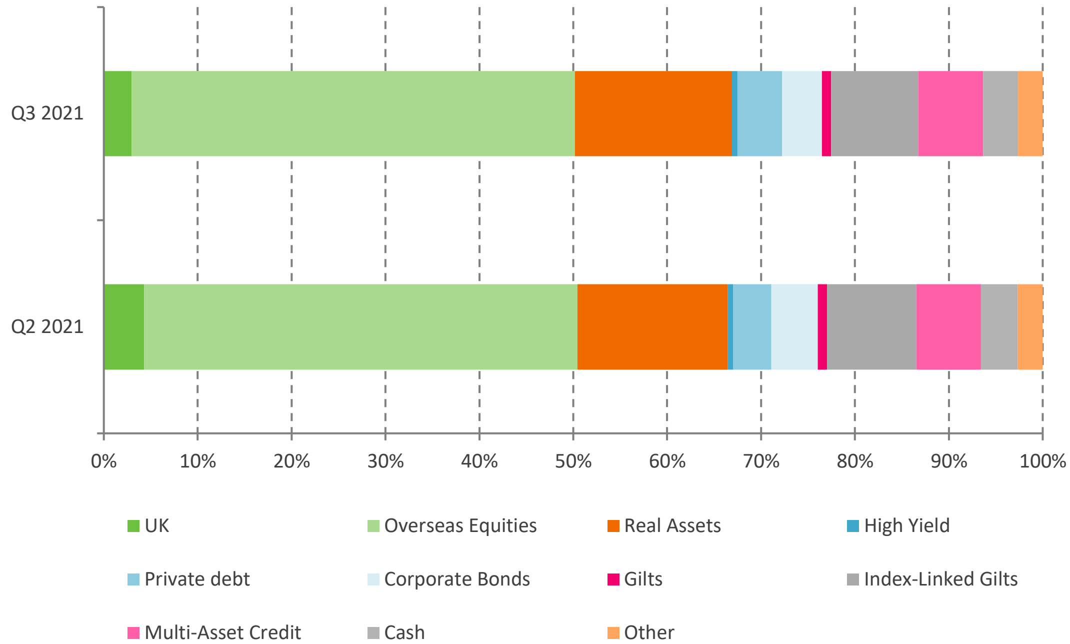
Manager		Valuation (£m) Q2 2021	Valuation (£m) Q3 2021	Actual Proportion	Benchmark	Relative
Equity		**390.4**	**387.0**	**42.1%**	**40.0%**	**2.1%**
LGIM Global Equity	LCIV aligned	76.7	77.8	8.5%	10.0%	-1.5%
LGIM Fundamental Equity	LCIV aligned	67.9	0.0	0.0%	0.0%	0.0%
LGIM Emerging Markets	LCIV aligned	41.2	39.4	4.3%	5.0%	-0.7%
LGIM Future World Fund	LCIV aligned	0.0	89.8	9.8%	10.0%	-0.2%
LCIV Global Alpha Growth Fund	LCIV	204.6	0.0	0.0%	0.0%	0.0%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	0.0	180.1	19.6%	15.0%	4.6%
Multi-Asset		**204.3**	**204.9**	**22.3%**	**20.0%**	**2.3%**
LCIV Absolute Return Fund	LCIV	112.0	112.6	12.2%	12.5%	-0.3%
LCIV Diversified Growth Fund	LCIV	92.3	92.3	10.0%	7.5%	2.5%
Real-Assets		**119.8**	**127.4**	**13.8%**	**20.0%**	**-6.2%**
UBS Property	Retained	42.6	44.3	4.8%	6.0%	-1.2%
CBRE	Retained	27.9	29.7	3.2%	4.0%	-0.8%
JP Morgan	Retained	23.8	23.4	2.5%	4.0%	-1.5%
Stafford Capital Global Infrastructure SISF II	Retained	21.2	22.0	3.1%	3.5%	-0.4%
Stafford Capital Global Infrastructure SISF IV	Retained	4.3	6.2			
LCIV Renewable Energy Infrastructure Fund	LCIV	0.0	1.9	0.2%	2.5%	-2.3%
Bonds and Cash		**199.7**	**201.0**	**21.8%**	**20.0%**	**1.8%**
RLAM Index Linked Gilts	Retained	40.3	41.3	4.5%	5.0%	-0.5%
RLAM Multi-Asset Credit	Retained	63.1	63.8	6.9%	7.5%	-0.6%
RLAM Corporate Bonds	Retained	38.3	32.2	3.5%	0.0%	3.5%
Churchill	Retained	19.6	20.1	2.2%	3.0%	-0.8%
Permira	Retained	17.5	23.9	2.6%	4.5%	-1.9%
Cash at Bank	Retained	20.7	20.7	2.2%	0.0%	2.2%
Currency Hedging P/L	Retained	0.3	-1.0	-0.1%	0.0%	-0.1%
Total Fund		**914.2**	**920.3**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

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 overall allocation to equities has remained broadly unchanged over the quarter to c.50.2% at 30 September 2021 (c.50.4% at 30 June 2021). Despite a reduction in the allocation to UK equities, the relative allocation to overseas equities further increased.
- The allocation to real assets increased to c.16.7% of Fund assets as at 30 September 2021 (c.16.0% as at 30 June 2021).

Asset class exposures



Source: Investment Managers, Datastream

- The table sets out the performance of each mandate against their respective benchmarks.
- Please note the early stage performance of the Fund's private market investments can be very volatile using this method of performance measurement. This is to be expected and should not provide cause for concern.
- The Bond mandates outperformed their respective benchmarks over the quarter, with the majority continuing to outperform their benchmarks over longer time periods.
- With exception to the Fund's newly added infrastructure mandates, the best performing allocation over the quarter was the CBRE mandate with a 4.2% relative return over the quarter as property markets performed strongly. The MSCI Monthly index returned 13.4% in the year to September 2021 – including a 5.5% income return. Capital values have also risen over the 12 months to September 2021 by 7.5%.
- 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
Equity												
LGIM Global Equity	1.5	1.5	**0.0**	22.6	22.7	**-0.1**	11.8	11.8	**0.0**	12.9	13.0	**0.0**
LGIM Emerging Markets	-4.4	-4.3	**-0.1**	13.8	14.0	**-0.1**	-	-	-	9.4	9.5	**-0.2**
LGIM Future World Fund	-	-	-	-	-	-	-	-	-	-3.4	-3.4	**0.0**
LCIV Global Alpha Growth Paris Aligned Fund	-1.0	1.5	**-2.5**	20.4	22.7	**-1.9**	17.2	11.7	**5.0**	16.9	13.4	**3.1**
Multi-Asset												
LCIV Absolute Return Fund	0.5	1.0	**-0.5**	13.6	4.1	**9.2**	7.2	4.6	**2.5**	5.4	4.8	**0.6**
LCIV Diversified Growth Fund	1.1	0.9	**0.2**	11.7	3.6	**7.8**	5.0	3.9	**1.0**	4.7	4.0	**0.6**
Real-Assets												
UBS Property	3.6	4.5	**-0.8**	13.1	13.2	**-0.1**	5.1	4.1	**1.0**	6.5	7.3	**-0.7**
CBRE	6.5	2.2	**4.2**	7.8	8.1	**-0.2**	-	-	-	6.5	6.6	**-0.1**
JP Morgan	1.1	2.2	**-1.1**	3.3	8.1	**-4.4**	-	-	-	6.6	6.6	**0.1**
Stafford Capital Global Infrastructure SISF II	2.3	2.2	**0.2**	2.7	8.1	**-5.0**	5.6	6.6	**-1.0**	6.4	6.8	**-0.3**
Stafford Capital Global Infrastructure SISF IV	24.7	2.2	**22.1**	-	-	-	-	-	-	39.6	5.2	**32.7**
LCIV Renewable Energy Infrastructure Fund	-0.6	2.0	**-2.5**	-	-	-	-	-	-	-0.6	2.0	**-2.5**
Bonds and Cash												
RLAM Index Linked Gilts	2.5	2.3	**0.2**	0.6	0.2	**0.4**	-	-	-	6.2	5.9	**0.3**
RLAM Multi-Asset Credit	1.2	0.8	**0.4**	7.8	5.1	**2.6**	-	-	-	8.5	7.6	**0.8**
RLAM Corporate Bonds	-1.4	-1.9	**0.5**	-0.4	-2.2	**1.8**	-	-	-	7.1	6.6	**0.4**
Churchill	4.0	1.0	**3.0**	4.7	4.1	**0.7**	-	-	-	3.1	4.6	**-1.4**
Permira	1.6	1.0	**0.6**	3.1	4.1	**-1.0**	-	-	-	2.6	4.4	**-1.8**
Total	0.6	1.1	**-0.5**	14.5	11.4	**2.7**	8.9	7.5	**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 Equity mandate was managed by SSGA prior to November 2017 and we have retained the performance history. Performance figures for CBRE, Stafford and JP Morgan have been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell. The LCIV Global Alpha Paris Aligned fund includes performance from the non-Paris aligned variant for the first part of the quarter.

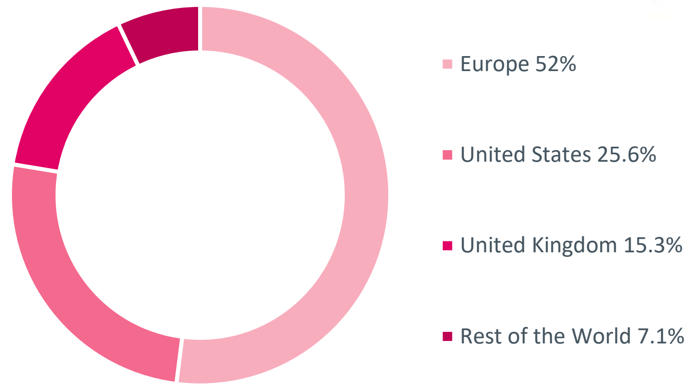
RLAM – Bond mandates

- 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.
- During the quarter, credit spreads were little changed with continued declining default rates and leverage levels. Real yields also continued to fall over the quarter meaning the mandate has contributed positive relative returns.

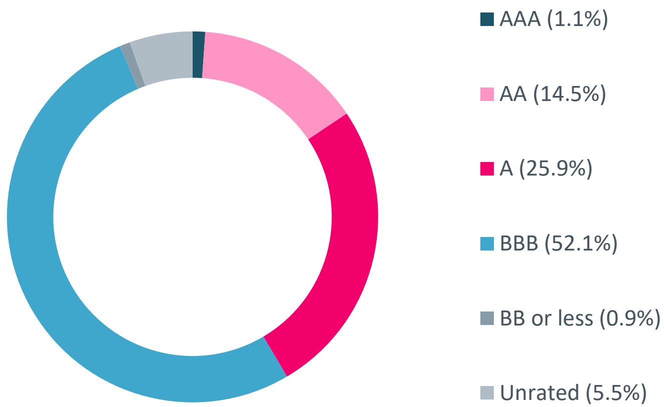
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
RLAM ILGs	2.5	0.6	6.2
Benchmark	2.3	0.2	5.9
Relative	0.2	0.4	0.3
RLAM MAC	1.2	7.8	8.5
Benchmark	0.8	5.1	7.6
Relative	0.4	2.6	0.8
RLAM Corporate Bonds	-1.4	-0.4	7.1
Benchmark	-1.9	-2.2	6.6
Relative	0.5	1.8	0.4

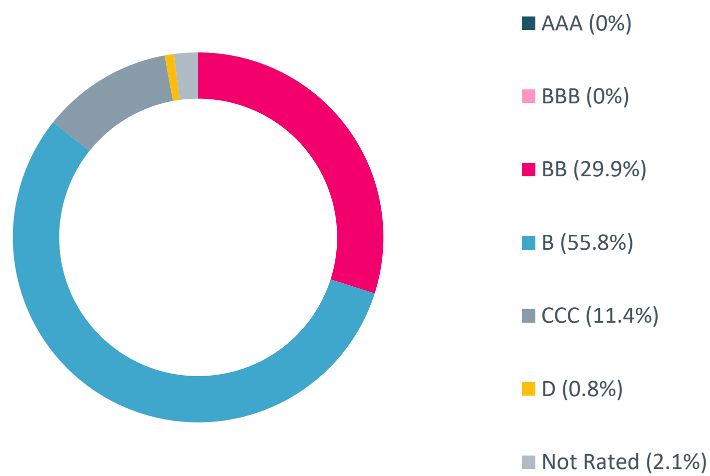
Regional Allocation (MAC)



Credit allocation (Corporate Bonds)



Credit allocation (MAC)



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

Private Debt

- The strategic allocation to the Churchill and Permira private debt mandates is 3% and 4.5%, respectively – with both currently being underweight to their benchmark allocation.
- Over the quarter, both the Churchill and Permira private debt mandates outperformed their respective benchmarks and contributed positively to overall return. However, Permira contributed a relative return of 0.6% over the period compared to Churchill's relative return of 3.0%.
- Over longer periods of 12 months and since inception, Churchill has continued to outperform Permira.
- As at 30 September 2021, Churchill is invested in a much broader range of sectors compared to Permira.

Churchill II Fund Performance

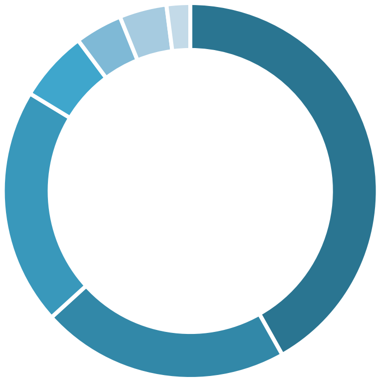
	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
Churchill	4.0	4.7	3.1
Benchmark	1.0	4.1	4.6
Relative	3.0	0.6	-1.4

Churchill II Sector Allocation

Permira IV Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
Permira	1.6	3.1	2.6
Benchmark	1.0	4.1	4.4
Relative	0.6	-1.0	-1.8

Permira IV Sector Allocation*



Source: Northern Trust, RLAM, Permira
** As at 30 June 2021*

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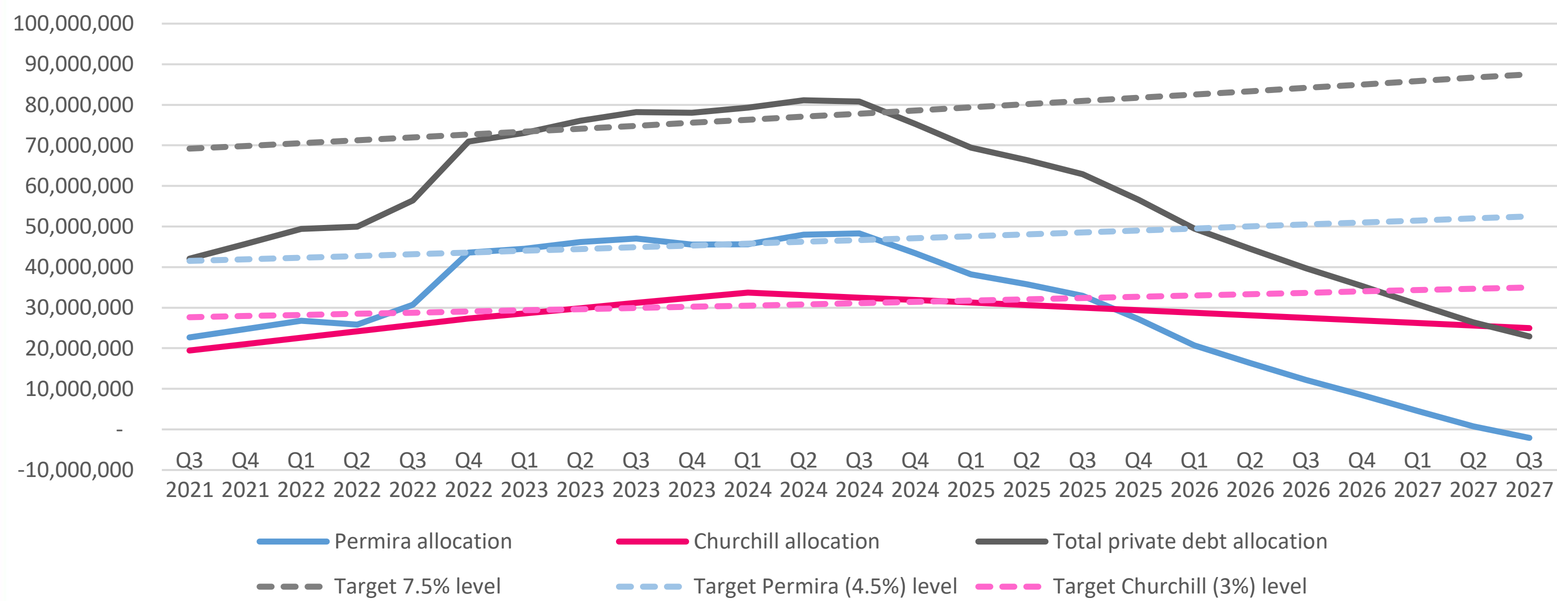
Private Debt (continued)

- As can be noted, the Churchill portfolio is significantly more diverse with a larger number of investments to date.
- During the quarter and since quarter-end, Permira completed 4 new investments and 3 follow-on investments totalling 395m EUR (c.£339m) and 126m EUR (c.£108m), respectively. The majority of these investments have been in the technology sector.
- Churchill completed 2 new investments and 1 follow-on investment during the quarter totalling $9.2m.
- Due to the nature of investment in private debt, where capital is committed up front and then called and subsequently distributed over a period, it is difficult to maintain a set allocation. However, this can be managed by re-upping into future vintages and recycling the cash to maintain exposure.
- The cashflow forecast chart right shows the projected allocation to private based on projections provided by the managers. The forecast includes the recent commitments to new vintages of Churchill and Permira funds and, as can be seen, the target 7.5% allocation is expected to be broadly maintained from Q2 2022 – 2025. It should be noted however that this is based on estimated projections and actual experience is likely to differ significantly.

Private Debt Overview

	Churchill II	Churchill IV	Permira IV	Permira V
Total commitment	$31m (c.£23m)	$26.5m (c.£19m)	£36m	£43m
Capital called to date	$27.3m	-	£17.6m	-
Cumulative distributions to date	$1.6m	-	£1.6m	-
Number of investments	85	-	35	-
Number of realised investments	33	-	6	-
Realised IRR	7.4%	-	9.6%	-
Realised gross multiple of invested capital	1.07x	-	1.16x	-

Private Debt Cashflow Forecast



Source: Churchill, Permira

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.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is **5.2%** to date when the impact of currency fluctuations is included and only **4.7%** when currency movements are stripped out by the Russell currency overlay mandate. This is indicates that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

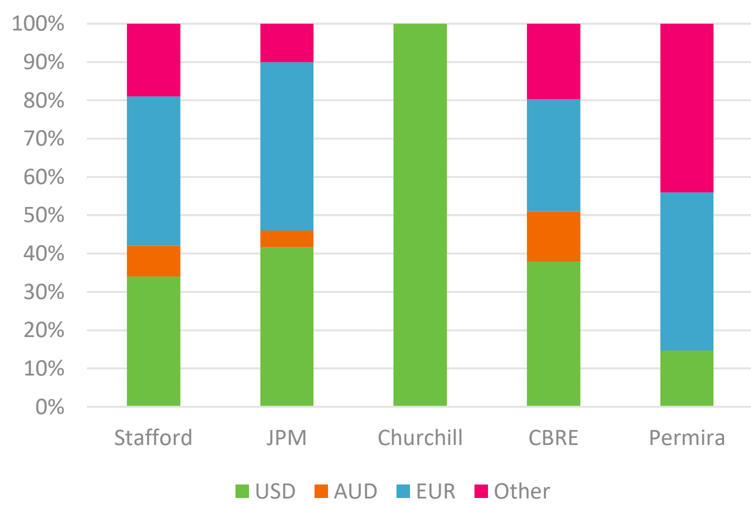
Q3 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	2.3	-0.1	2.2	2.2	0.0
Stafford IV	24.7	-0.4	24.3	2.2	21.7
JPM	1.1	-0.3	0.8	2.2	-1.4
Churchill	4.0	-1.6	2.4	1.0	1.4
CBRE	6.5	0.0	6.5	2.2	4.2
Permira	1.6	-0.1	1.5	1.0	0.5

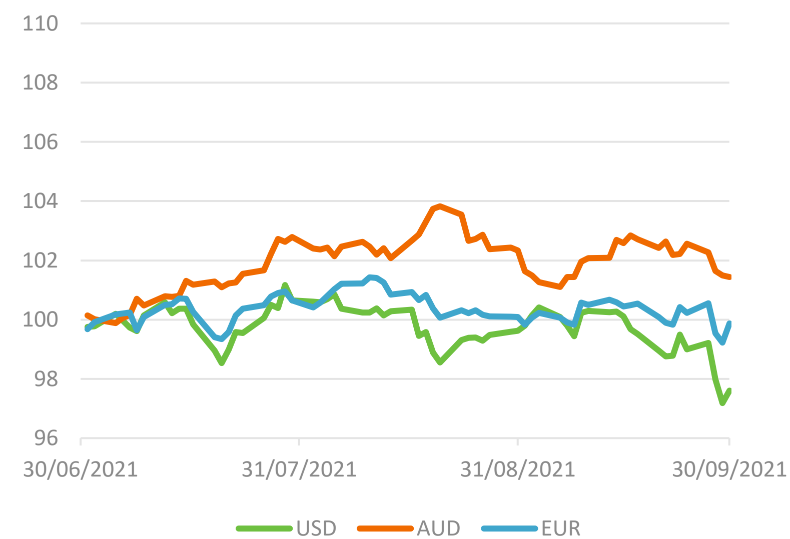
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	6.4	1.5	7.9	6.8	1.1
Stafford IV	39.6	0.9	40.5	5.2	33.5
JPM	6.6	0.6	7.2	6.6	0.6
Churchill	3.1	3.1	6.2	4.6	1.6
CBRE	6.5	1.1	7.6	6.6	0.9
Permira	2.6	1.2	3.8	4.4	-0.6

Hedged currency exposure as at quarter end**



Sterling performance vs foreign currencies (rebased to 100 at 30 September 2021)



Source: Northern Trust, Investment managers
**Performance shown since 31 December 2019 which was the first month end after inception*
*** As at Q2 2021 and Permira is shown as at Q4 2020*

- Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 30 September 2021.
- The Fund made a commitment of 2.5% of Fund assets (£25m) to the LCIV renewable energy infrastructure fund during the quarter. The first capital call was paid in Q3 2021.
- The Committee agreed to increase the JP Morgan commitment by £12m to retain the allocation to infrastructure. This increase is expected to be implemented in Q4 2021.
- There are outstanding commitments of approximately £35m to the remaining funds which will be primarily funded from the RLAM corporate bond mandate.

Mandate	**Infrastructure**			**Private Debt**	
Vehicle	**Stafford Infrastructure Secondaries Fund II**	**Stafford Infrastructure Secondaries Fund IV**	**LCIV Renewable Energy Infrastructure Fund**	**Churchill Middle Market Senior Loan Fund II**	**Permira Credit Solutions IV Senior Fund**
Commitment Date	25/04/18	18/12/20	30/06/21	12/18	12/18
Fund currency	EUR	EUR	GBP	USD	EUR
Gross commitment	£26m	£18m	£25m	£23.4m	£36 m
Net capital called during quarter (Payments less returned capital)	£1.4m	£3.1m	-	£0.4m	-
Net capital drawn to date*	£22.7m	-	-	£19.7m	c. £17.6m
Distributions/returned capital to date (includes income and other gains)*	£5.4m	-	-	£0.9m	£1.6m
NAV at quarter end*	£20.2m	£1.8m	-	£19.9m	£17.8m
Net IRR since inception (in fund currency)*	7.3% p.a. *(vs. 8-9% target)*	-	-	-	10.4%
Net cash yield since inception (in fund currency)*	5.0% p.a. *(vs. 5% target)*	-	-	-	-
Number of holdings*	30 funds, 306 underlying assets	3 investments		88 investments	31 investments

**as at 30/06/2021 (latest available), Stafford which is shown as at 31 March 2021 **refers to the IRR of realised investments in the portfolio*

Source: Investment Managers. All non-GBP figures have been converted into GBP.

Capital Markets Outlook

Asset Class	Market Summary
Equities	• The earnings recovery shows little sign of flagging yet, but valuation multiples based on cyclically-adjusted earnings remain stretched versus history. Perhaps the only lens through which global equity valuations do not look exceptional is that of real yields.
Investment Grade Credit	• Spreads in investment-grade markets remain well below long-term median levels given strong technical support from central bank purchases, improving fundamentals and robust corporate earnings. Current valuations warrant caution as recent fundamental improvements are already reflected in spreads and future downside risks remain. Long-duration, low spread, investment-grade credit markets are susceptible to potential rate rises, particularly if inflation turn out to be less transitory than thought. We continue to have a preference for ABS which offer an attractive spread premium and provide insulation against interest-rate volatility.
Liquid Sub-Investment Grade Debt	• The rebound in growth and earnings is improving the fundamental backdrop with leverage levels falling and interest coverage increasing. Defaults and distress levels continue to decline, and defaults are expected to remain below long-term average levels over 2021 and 2022. However, our cautious view is predicated on spreads which are well below long-term median levels and are already fully pricing in the more favourable environment. We have a preference for loans over high yield given the more attractive valuations.
Private Lending	• A post-Covid rebound in earnings has improved fundamentals with most managers taking assets off watchlists. Valuations remain neutral, relative to traded loan spreads, but given loan spreads are below long-term median levels we retain some caution. There remains a very high level of activity in the market with most managers achieving high levels of deployment over the quarter, which is expected to continue in Q4.
Core UK Property	• The fundamentals for the UK property market have improved of late, principally from a stronger occupier market. The recovery in transaction activity continues to gather pace although it remains too early to conclude that this will be sustained despite tentative improvements in fundamentals.
Long Lease Property	• On an absolute basis, valuations appear less attractive than wider property market but are supported by marginally stronger fundamentals as are less exposed to the most troubled sectors. Improved market fundamentals may create a more bullish outlook for the sector, although it is still at an early stage.
Conventional Gilts	• The pace at which markets now imply interest rates will rise over the next few years does not feel unreasonable. Although the risks still seem skewed to an even faster pace, which would be bad for bond markets. The shorter end of the gilt market looks reasonable, however longer-dated yields remain expensive.
Index-Linked Gilts	• We see inflation pricing at terms between 10 and 30 years as being the most expensive. In the context of near-term inflation risks, implied inflation up to 10 years is perhaps less expensive than at first glance.

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.

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

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