Public Document Pack

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 26 July 2022	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Havering Residents' Group (2)	Labour Group (2)
Robert Benham Dilip Patel Viddy Persaud	Julie Wilkes Philip Ruck (Vice-Chair)	Mandy Anderson (Chairman) Matthew Stanton

Trade Union Observers
Derek Scott

For information about the meeting please contact:
Christine Elsasser 01708 433675
christine.elsasser@onesource.co.uk

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

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

Reporting means:-

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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

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

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

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

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

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

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

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

YES ↓

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

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

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

YES ↓

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

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

YES ↓

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

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING - 15 MARCH 2022 (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 15 March 2022 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE QUARTER ENDING MARCH 2022 (Pages 5 - 52)

Report and appendices attached.

6 PENSION FUND ACCOUNT 2021/22 (Pages 53 - 94)

Report and appendices attached.

7 TCFD REPORTING (Pages 95 - 102)

Report and appendices attached.

8 CLIMATE RISK PLAN (Pages 103 - 130)

Report and appendices attached.

Zena Smith
Democratic and Election Services Manager

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Council Chamber - Town Hall
15 March 2022 (7.00 - 9.08 pm)

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman) and Osman Dervish

Residents' Group Stephanie Nunn

Labour Group

Independent Residents Group

All decisions were taken with no votes against.

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

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

Apologies for inability to attend the meeting were received by Councillor Jason Frost and Keith Darvill. Councillors Martin Goode and Ron Ower attended the meeting remotely.

238 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

239 **MINUTES OF THE MEETING**

The minutes for the meeting held on 25 January 2022 were agreed as a correct record.

240 **PENSIONS ADMINISTRATION BUDGET 2022/23 AND SERVICE LEVEL AGREEMENT REVIEW**

The Committee were presented with Pensions Administration Budget 2022/23 and Service Level Agreement Review report. The Havering Local Government Pension Scheme (LGPS) was provided via a shared service agreement with Lancashire County Council (LCC) who delegate the function to the Local Pensions Partnership Administration (LPPA). The report detailed the LPPA's proposed budget for 2022/23 of £0.519m, an overall increase of 3% from 2021/22.

It was explained that the LPPA were also proposing a change to the service level agreements (SLA) currently in place. This would be the first change to the SLA following the commencement of the shared service agreement in November 2017.

The Committee **agreed** the recommendations.

241 **BUSINESS PLAN – PC ANNUAL REPORT 2021-22**

The Committee were presented with the Business Plan – Annual Report 2021-22. The report set out the work undertaken by the Committee during 2021/22 and the plan of work for the forthcoming three years, attached as Appendix A and would form the basis of a rolling Pension Fund Business Plan 2022/23 – 2024/25.

It was explained that this would be the last year of the current Pensions Committee term of office due to the Local Borough Elections being held in May 2022. Therefore the Committee's achievement only were covered from the period 1st April 2021 to 31 December 2021 to meet Council reporting deadlines. The report also explained why a Business Plan was needed and what it should contain.

This is the last year of the current Pensions Committee term of office due to the Local Borough Elections being held in May 2022, therefore the Committee's achievements.

The Committee **agreed** the recommendations.

242 **PENSION FUND PERFORMANCE MONITORING QUARTER END DECEMBER 2021**

The Committee were presented with the Pension Fund Performance Monitoring Quarter End December 2021 report. The report provided an overview of Fund investment performance, Manager Monitoring and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending 31 December 2021.

It was explained that the significant events (Russian invasion of the Ukraine) that occurred after the production of the report would be addressed verbally at the meeting.

Previous to the volatility now seen in the markets, Funds had grown in value by 3.04% over the quarter but had underperformed in both their tactical and strategic benchmark. The general position of the Fund was considered along with other matters, including any current issues, as advised by Hymans.

The Committee agreed to exclude the Public from all relevant parts of Appendices B and C on the grounds of paragraph 3 of Schedule 12A to the Local Government Act 1972.

A fund manager from Royal London Asset Management attended the meeting and gave an overview of asset classes and funds held in the fund. Hymans' was also on hand and discussed the fund's performance. Hymans and Officers discussed with Members any issues arising from the monitoring of the other managers.

The Committee **agreed** the recommendations.

243 **PUBLIC SERVICE PENSIONS ACT 2013 - SECTION 13 REPORT**

The Committee were presented with the Public Service Pensions Act 2013 – Section 13 report. The Government Actuary Department (GAD) had been appointed by the Department of Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 88 Funds in the Local Government Pension Scheme (LGPS) in England and Wales.

This report was published as three documents: the executive summary (Appendix A), the report (Appendix B) and appendices (Appendix C).

It was explained that GAD were content that the Havering Fund had a reasonable funding plan in place and there were no concerns identified in the report that would require any action from the Committee.

The Committee **agreed** the recommendations.

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Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 26 July 2022

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2022**
CLT Lead:	**Dave McNamara**
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 being met and to keep the committee updated with Pension issues and developments.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 March 2022

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 how the fund's investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local

Government Pension Scheme (LGPS) updates for the quarter ending **31 March 2022**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund reduced in value by **3.03%** over this quarter, it underperformed the tactical benchmark by -2.51% and outperformed the strategic benchmark by 1.79%.

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:

Russell Investments

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 Currency Hedge Manager: Russell Investments (Appendix C – **Exempt**)
4) Consider the quarterly reports sent electronically, provided by each fund manager.
5) Note the analysis of the cash balances.

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. Where 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:

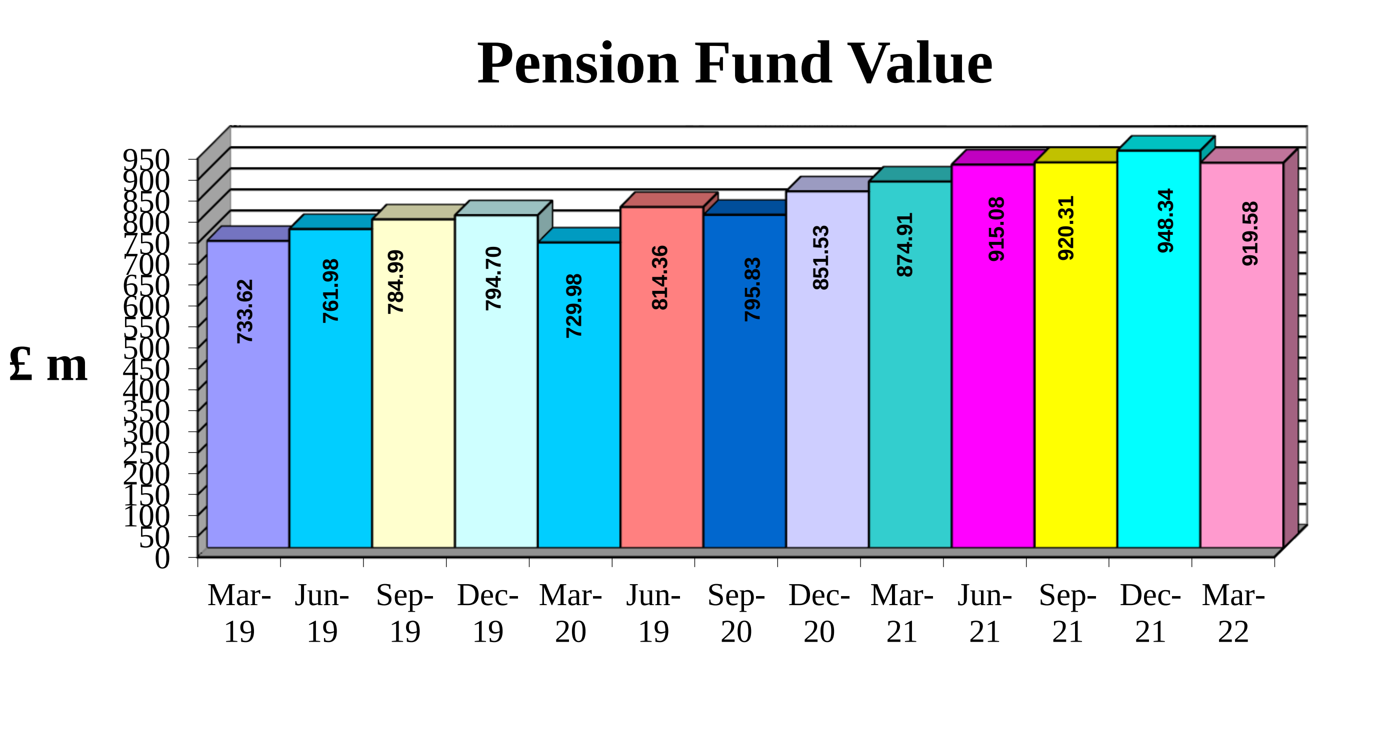
e. **Tactical Benchmark -** Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark 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 31 March 2022 was **£919.58m** compared with £948.33m at the 31 December 2021; a **decrease of** (**£28.75m) (3.03%)**. This contraction can be attributable to a decrease in asset values of (£32.20m) partly offset by an increase in cash of £3.45m. This was primarily driven by the Fund's allocation to the LCIV Global Alpha fund Paris aligned Fund and its concentration in growth stocks that have been hit hard by rising yields over this period. The Fund's RLAM bond would normally hedge the investment portfolio from a fall in public equities but increasing inflationary pressures and rising interest rate expectations have also had a negative impact on fixed rate bonds and index linked bonds. Internally managed cash stands at **£14.260m,** 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 31.03.22	12 Months to 31.03.22	3 Years to 31.03.22	5 years to 31.03.22
	%	%	%	%
Fund	-3.23	4.59	8.75	6.88
Benchmark	0.72	8.08	7.87	6.36
*Difference in return	-2.51	-3.49	0.88	0.53

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 31.03.22	12 Months to 31.03.22	3 Years to 31.03.22	5 years to 31.03.22
	%	%	%	%
Fund	-3.23	4.59	8.75	6.88
**Benchmark	-5.02	6.74	4.93	4.88
*Difference in return	1.79	-2.14	3.82	2.00

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 **£14.260m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	2019/20 31 Mar 20	2020/21 31 Mar 21	2021/22 31 Mar 22
	£000's	£000's	£000's
Balance B/F	**-13,698**	**-23,056**	**-15,963**
Benefits Paid	38,880	38,874	37,632
Management costs	1,107	1,420	1,720
Net Transfer Values	-2,789	14,251	333
Employee/Employer Contributions	-47,508	-48,049	-49,112
Cash from/to Managers/Other Adj.	1,154	723	11,173
Internal Interest	-202	-126	-43
Movement in Year	**-9,358**	**7,093**	**1,703**
Balance C/F	**-23,056**	**-15,963**	**-14,260**

b. Members agreed the updated cash management policy at their committee meeting on 17 September 2019. Main points are - target cash level to be £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 reports 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 Currency Hedge manager Russell Investments,** 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: £1.36m Stafford IV, £1.62m Permira, £0.81m London Collective Investment Vehicle (LCIV) Renewables Fund, £1.2m Churchill II and £2.54m Churchill IV fund.

8.2 London Collective Investment Vehicle (LCIV) - In line with Central Governments' policy, it has been a mandatory requirement to pool assets since 2016. The LCIV is the appointed asset pool manager for the Fund and governance of our investments is now the responsibility of LCIV. It is crucial that regular communication and contact is upheld and activity updates will be covered here as follows:

8.2.1 LCIV meetings (since the last report)

a. Shareholder meeting took place on the 24 March 2022. The Shareholder Annual General Meeting (AGM) is scheduled for the 14 July 2022 and the Chair of this Committee will be in attendance.

b. LCIV Conference to be held on 5- 6th September 2022 – Invitations should be issued in due course.

c. Meet the manager meeting 17 June 2022 – Passive Equity Progressive Passive Fund (PEPPA) – discussion with Standard & Poor (S&P) and the Fund Manager State Street Global Assets (SSGA) on how the fund can help client funds achieve their investment objective alongside a climate objective.

d. Discussion meeting 25 May 2022 – Pathway to net Zero. LCIV have a target to reduce the Pools carbon intensity by 35% by 2025 (relative to 2020) and 60% by 2030 across funds invested via LCIV. As at December 2021 the LCIV had decarbonised by 4.5% based on data measurements recommended by the Taskforce for Climate Related Financial Disclosures (TCFD)

e. Business update meetings (currently held virtually) – take place monthly. Meetings held on the 17 March 2022, 21 April 2022, 19 May 2022 and 17 June 2022.

f. Each meeting includes an update from LCIV Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows:

g. **Russian Exposure** – Set out the Russian exposure within the sub funds, those funds that affect the Havering Fund, albeit small, are the Baillie Gifford Global Alpha Paris Aligned Fund (0.7%) and the Baillie Gifford Diversified Growth Fund (0.85%). These equity holdings cannot be traded currently due to government restrictions.

h. **Financial Reporting Council (FRC) Stewardship Code updates** – Updates provided on those sub funds have been successful in their application to the Code. All bar one of the sub funds invested in by Havering Fund has been approved. The manager not yet approved will reapply in April 2022.

i. **LCIV Stewardship new publications** - Responsible Investment Policy 2022, Responsible Investment and Stewardship Outcomes Report 2021 and Voting Guidelines 2022.

j. **Engagement Overview 2021-** Engagement is a means to influence and reshape corporate policies and strategies with regard to Environmental, Social and Governance (ESG) issues. LCIV presented a summary of stewardship engagements undertaken during 2021. There was 696 engagement meetings and their Stewardship partner (Hermes EOS) covered 1,855 Environmental, Social and Governance (ESG) topics across 440 companies.

k. **Assessment of Value (AOV) 2021 -** AOV Report is a Financial Conduct Authority (FCA) requirement, which requires reporting against a set of seven core criteria. Overall ratings for each sub fund is assessed against the criteria, where applicable. Those sub funds invested in by the Havering Fund have been assessed as **normal,** which is considered to deliver value for money. Some sub funds have been assessed as "**Enhanced Monitoring"** – not all criteria deliver value for money or "**On watch"** – action being taken to improve value for money.

l. **Fund Accounting** – Authorised Contractual Scheme (ACS) Annual report and audited Financial Statements 31 Dec 2021 approved, clean audit report received. Annual Internal Controls report published. The 2022 review will be included in the papers for the AGM on the 14 July 2022

m. **Deep dive reviews** – LCIV, as part of their on-going monitoring process, carry out in-depth reviews on its sub fund managers. The manager for the Global Alpha Paris Aligned Fund, which the Havering Fund invests, is scheduled for July 2022; any concerns following the deep dive will be reported back to members.

n. **Cyber Security –** Received Presentation from the newly appointed Chief Technology & Security officer at the June meeting on how they are working towards an external accreditation Cyber Essentials and then moving on to Cyber Essentials+. Some testing on staff and arising awareness already undertaken.

o. **Medium Term activity** to focus on product roadmap, Net Zero Strategy, Property mandate(s) and high-level impact investing paper.

p. **New/Changes to Sub Fund Launches:**

- *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 and Fund development is in progress. 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:* UK Housing Fund (Property) – Stage 1 (Client Demand) – SIG meetings held since 22 March 2022 and Fund development is in progress. Officers will not be involved in the SIG as the Fund is currently fully allocated to its Property target asset allocation but would consider a lift and shift of an existing manager if the commercial terms were favourable.
- *Change:* LCIV MAC Fund – Fund restructured with an additional manager appointed to co-manage with existing manager – realignment expected by 30 June 2022.
- *Change*: Global Equity Core Fund – Name change to Global Equity Quality fund. Objective moved to generate total return over a long-term period and has had ESG enhancement. Expected completion July/August 2022.
- *Change:* LCIV Global Bond Fund – Further integration of ESG criteria to its investment process. Fund restructure completed and realignment expected July 2022.
- *Change:* LCIV Global Alpha Paris Aligned Fund – FCA application submitted for approval to amend the benchmark
- *Change:* The London fund – Extension to close agreed by the London Fund Advisory Committee to 31 March 2023.

q. **LCIV Staffing Updates**

- Mike O'Donnell announced on the 5 April 2022 of his intention to move on from his role of Chief Executive, providing the Board with 12 months' notice. The role was advertised in May and panel interviews of prospective candidates are currently taking place and an announcement of the successful candidate should be made later this year which will facilitate a smooth transfer.
- New appointments to the following teams: Fund Accounting, Risk & Compliance, Governance and Client
- Two new investment analysts started in March 2022.

8.3 LGPS GENERAL UPDATES:

8.3.1 Governments White Paper on Education

a. April 2022 – Government issued a White Paper on Education, which sets out a vision for the future of schools in England with proposals affecting LGPS funds, and the local authority schools and academies.

b. All remaining Local Authority schools are expected to become Academies or be in the process of doing so by 2030. They are expected to be part of a multi academy Trust (MAT) with at least 10 schools rather than standalone single academy trusts.

c. There are 42 schools currently with the Havering Fund that may need to convert, which could affect existing resources to facilitate on boarding and administer. There is likely to be cost implications for the Administration contract due to increased levels of employers and employees to manage.

d. The impact of the proposals in the white paper is likely to be significant to LGPS funds and the Fund will continue to liaise with the Funds Actuary (Hyman) as this policy is developed.

8.3.2 Training Requirements

a. The need to demonstrate adequate levels of knowledge and skills for Officers and members of Pensions Committee (PC) and Local Pension Board (LPB) are set out in various documents, one of which is the Havering Council Constitution

b. Committee procedure rules, Paragraph 18 – A member appointed to the Pensions Committee shall have received, or shall within six months of appointment receive, training appropriate to its membership. If a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed

c. To meet this rule the Fund will subscribe to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans) – this is an online platform designed to support the training needs of Pensions Committees, Local Pension Boards and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and The Pension Regulator's Code of Practice 14. Each module contains short 'video on demand' presentations of 20 minutes or less with supplemental learning materials and quizzes.

d. The Fund will receive regular progress reports allowing it to easily evidence member's development.

e. In addition to an induction training session, it is expected that members will complete the online training over a six month period or sooner in support of meeting the Committee procedure rules.

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

Q1 2022 Investment Monitoring Report

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

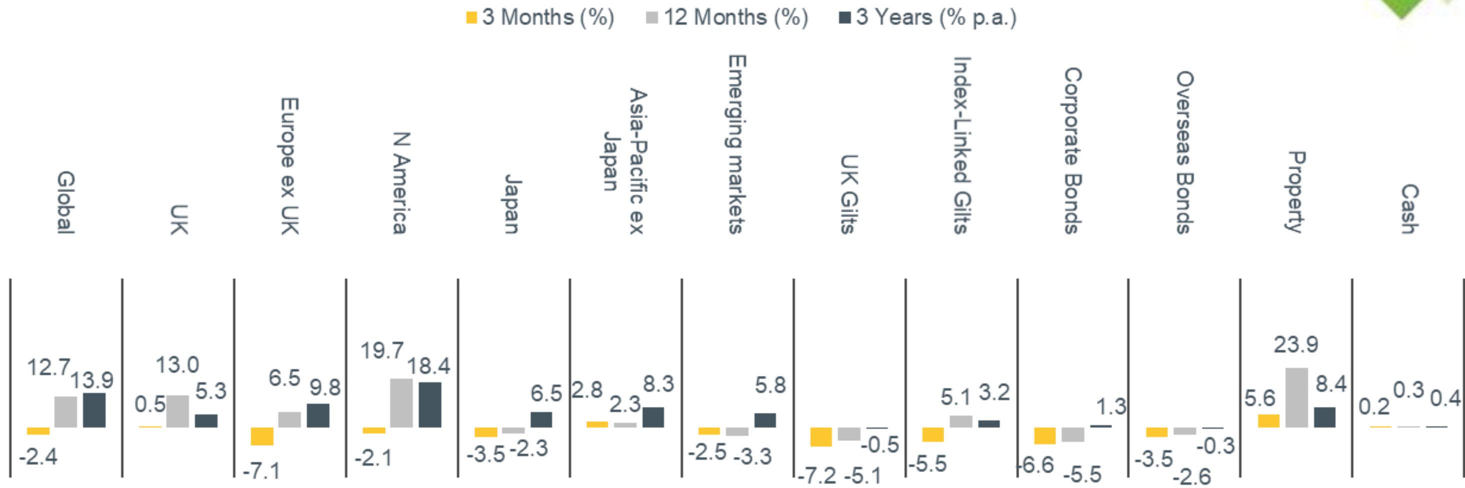
HYMANS ROBERTSON

Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes. As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a relatively robust pace of growth over 2022 and 2023 by post-Global Financial Crisis standards.

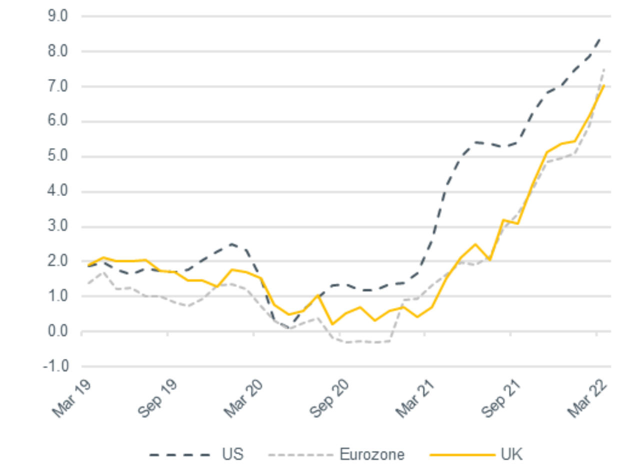
The inflation backdrop has seen central banks turn more hawkish this year, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a. and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted plans to reduce the size of its balance sheet.

Global sovereign bond yields rose significantly to reflect increased rate rise expectations with UK 10-year gilt yields rising 0.7% p.a., to 1.6% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.5% p.a., to 4.4% p.a., as real yields rose to a lesser extent then their nominal counterparts.

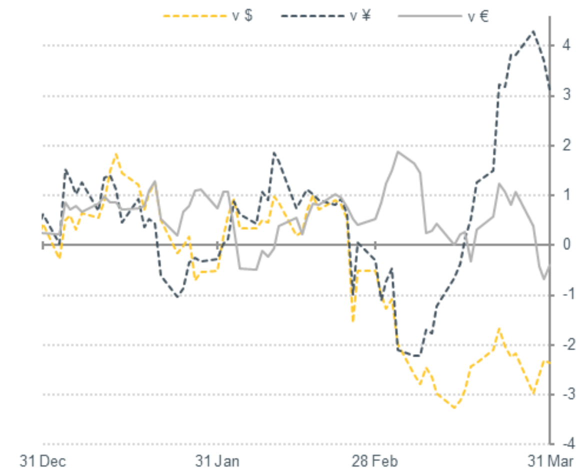
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



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

Global investment-grade spreads increased by 0.3% p.a., while US and European speculative-grade spreads increased 0.3% p.a. and 0.7% p.a., respectively. Larger increases in European spreads perhaps allude to the greater exposure of European corporates and consumers to higher energy prices.

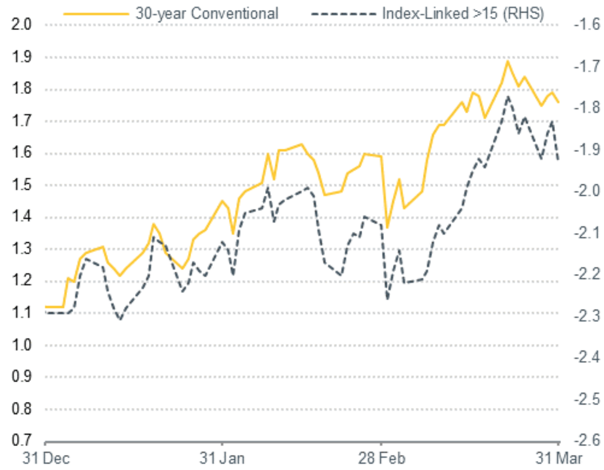
Commodity prices surged to extreme levels and faster expected monetary tightening in the US contributed to a rally in the dollar, whilst safe-haven appeal drove gold prices higher.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation have all contributed to global equities falling 4.6% this year, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuations of stocks with earnings growth further in the future, such as those in the technology sector. The consumer discretionary sector also underperformed as markets considered the impact of inflation on real consumer incomes. Surging oil and gas prices sees the energy sector lead the year-to-date performance rankings.

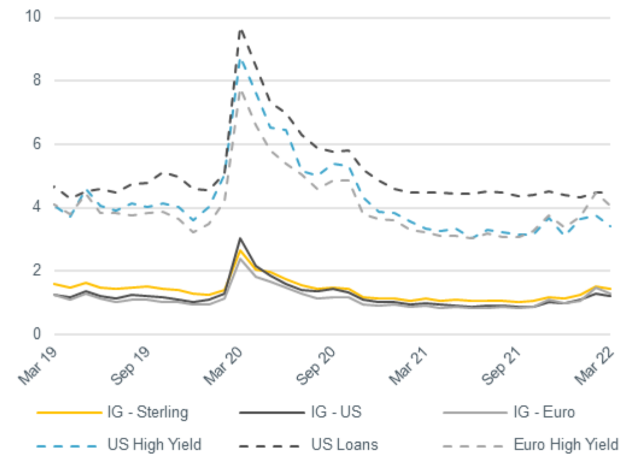
The UK AND Asia – Pacific ex Japan were the only regions to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.

A 18.0% rise in the MSCI UK AREF capital value index over the 12 months to the end of March is largely attributable to a 36.8% rise in industrial capital values. Return on the All-Property Index, including income, was 23.9% in the 12 months to end-March.

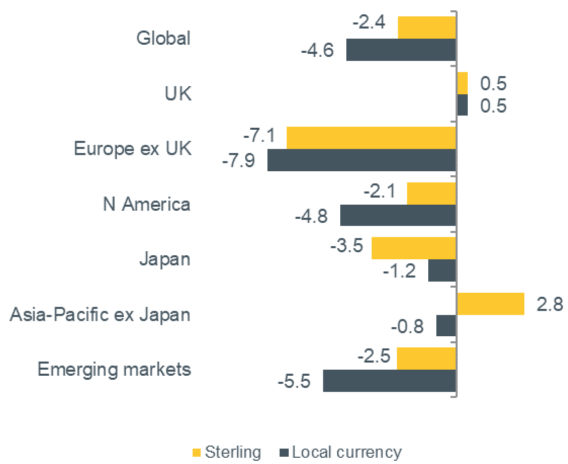
Gilt yields chart (% p.a.)



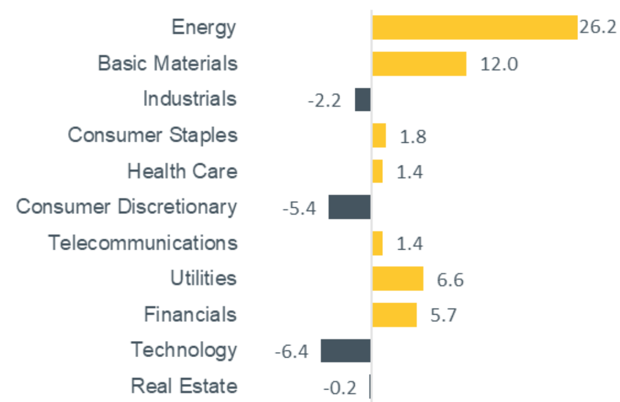
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



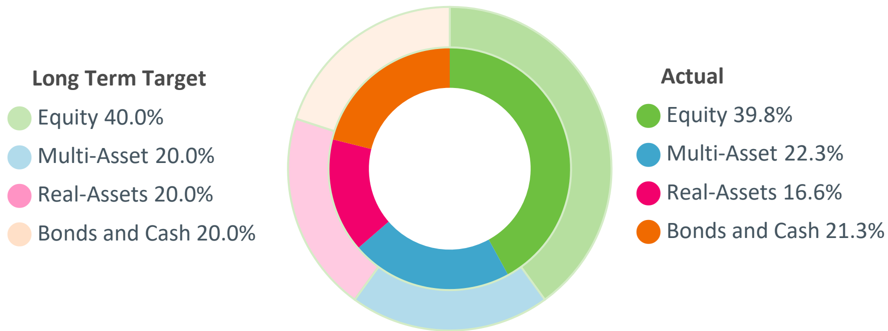
Global equity sector returns (%) [2]

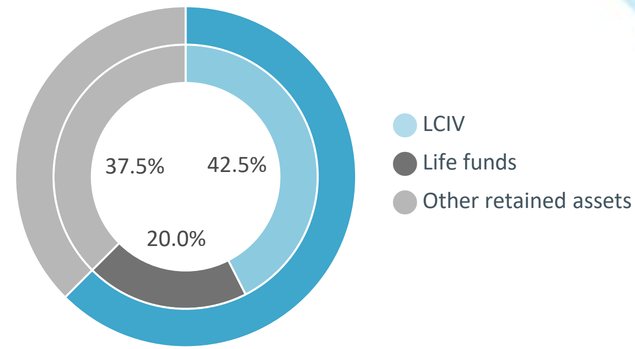


Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

- The Fund's investment strategy 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 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.
- Further commitments were made to infrastructure and private debt in 2021 in order to retain exposure to these asset classes as the existing investments mature and begin repaying capital to investors. The new commitments will continue 'ramping up' and calling more capital in 2022.

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, SSGA	20.0	LGIM	20.0		
Multi-Asset	20.0	Baillie Gifford, Ruffer	20.0				
Property	10.0					UBS, CBRE	10.0
Infrastructure	10.0	Various	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**	**-**	**42.5**	**-**	**20.0**	**-**	**37.5**

Current Investment Implementation

- The total value of the Fund's assets fell by c. £28.8m over the quarter to c. £919.6m as at 31 March 2022.
- This was primarily driven by the Scheme's allocation to the LCIV Global Alpha Growth Paris Aligned Fund. In a quarter where global equity delivered negative returns, growth stocks underperformed most notably due to the impacts of rising yields over the period.
- The Fund's RLAM mandates also fell in value, following increased inflationary pressures and rising interest rate expectations. Yields rose significantly to reflect this causing the Index-Liked Gilts asset value to fall. Further more, credit spreads further widened over the quarter, negatively impacting the RLAM MAC and Corporate bond mandates.
- The Fund remains underweight to JP Morgan and underweight to infrastructure as a whole. An additional £12m has been committed to JP Morgan (to be funded from the LCIV Global Alpha Growth Paris Aligned fund). This was drawn down shortly after quarter-end.

The Fund paid the following capital calls during the quarter:

- c.£0.9m to the Churchill Senior Loan Fund IV funded from existing cash.
- c.£0.1m to the LCIV Renewable Energy Infrastructure Fund funded from existing cash.
- c.£0.9m to the Churchill Senior Loan Fund II funded from existing cash.
- c.£1.3m to the Churchill Senior Loan Fund IV funded from RLAM corporate bonds.
- c.£0.3m to the LCIV Renewable Energy Infrastructure Fund funded from existing cash.
- c.£1.4m to Stafford SISF IV funded from existing cash.

Asset Allocation

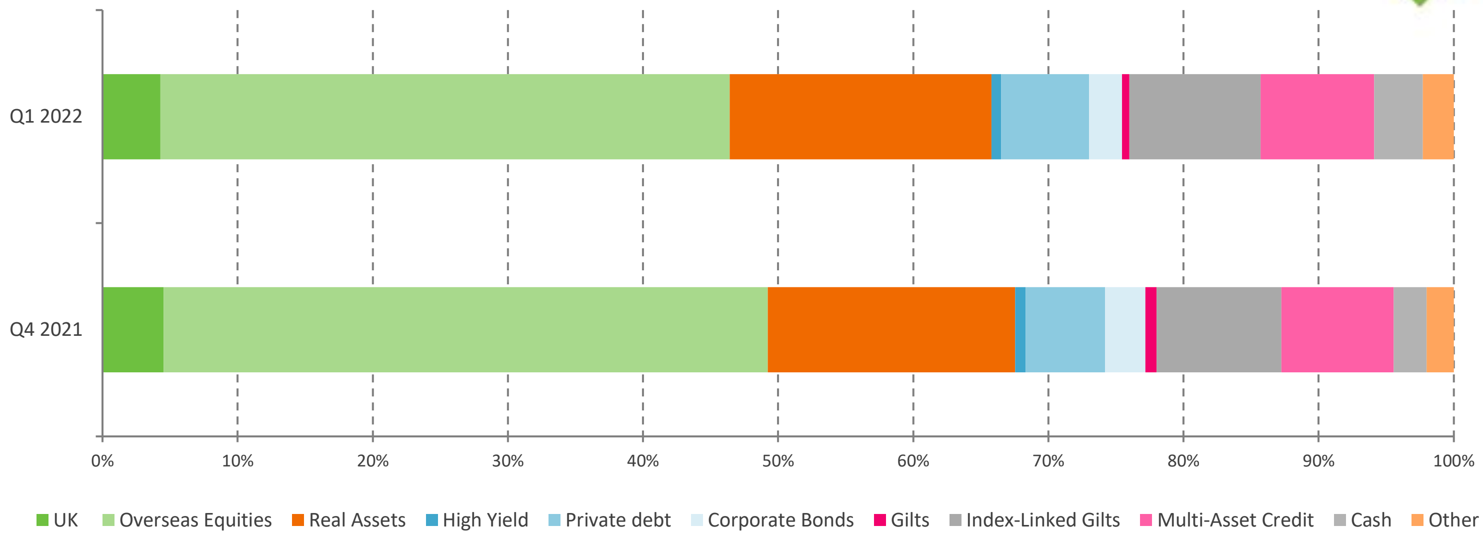
Manager		Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q4 2021	Q1 2022			
Equity		**398.3**	**366.2**	**39.8%**	**40.0%**	**-0.2%**
LGIM Global Equity	LCIV aligned	35.8	35.0	3.8%	5.0%	-1.2%
LGIM Emerging Markets	LCIV aligned	38.8	37.8	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV aligned	96.6	93.4	10.2%	10.0%	0.2%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	179.7	155.3	16.9%	15.0%	1.9%
LCIV PEPPA Passive Equity	LCIV	47.3	44.7	4.9%	5.0%	-0.1%
Multi-Asset		**205.3**	**204.8**	**22.3%**	**20.0%**	**2.3%**
LCIV Absolute Return Fund	LCIV	114.3	119.4	13.0%	12.5%	0.5%
LCIV Diversified Growth Fund	LCIV	91.0	85.4	9.3%	7.5%	1.8%
Real-Assets		**144.8**	**152.4**	**16.6%**	**20.0%**	**-3.4%**
UBS Property	Retained	57.5	62.1	6.8%	6.0%	0.8%
CBRE	Retained	30.1	32.3	3.5%	4.0%	-0.5%
JP Morgan	Retained	23.3	23.3	2.5%	4.0%	-1.5%
Stafford Capital Global Infrastructure SISF II	Retained	21.7	20.3	3.0%	3.5%	-0.5%
Stafford Capital Global Infrastructure SISF IV	Retained	5.3	7.5			
LCIV Renewable Energy Infrastructure Fund	LCIV	6.9	6.9	0.8%	2.5%	-1.7%
Bonds and Cash		**200.0**	**196.2**	**21.3%**	**20.0%**	**1.3%**
RLAM Index Linked Gilts	Retained	43.5	40.4	4.4%	5.0%	-0.6%
RLAM Multi-Asset Credit	Retained	64.1	63.3	6.9%	7.5%	-0.6%
RLAM Corporate Bonds	Retained	28.1	22.4	2.4%	0.0%	2.4%
Churchill Senior Loan Fund II	Retained	18.6	20.9	2.3%	3.0%	-0.7%
Churchill Senior Loan Fund IV	Retained	5.3	7.8	0.8%	0.0%	0.8%
Permira	Retained	26.4	26.5	2.9%	4.5%	-1.6%
Cash at Bank	Retained	13.1	16.5	1.8%	0.0%	1.8%
Currency Hedging P/L	Retained	0.8	-1.5	-0.2%	0.0%	-0.2%
Total Fund		**948.3**	**919.6**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

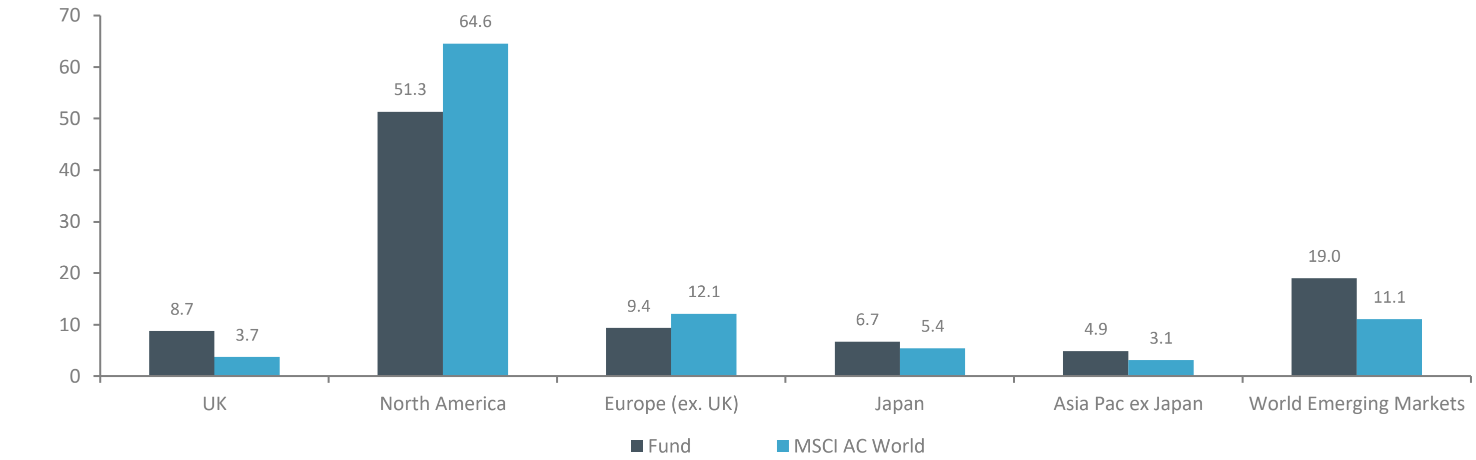
Asset Allocation

- 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 decreased over the quarter to c.46.4% as at 31 March 2022 (c.49.2% at 31 December 2021) – this was primarily driven by the fall in equity values over the quarter.
- The allocation to private debt increased to c.6.5% as at 31 March 2022 (c.5.9% as at 31 December 2021) – this was due to the Fund's private debt assets performing positively over the quarter, coupled with the fall in value of other assets.
- The allocation to real assets continued to increase to c.19.4% as at 31 March 2022 (c.18.3% as at 31 December 2021) – this movement was driven by capital calls from Stafford over the quarter and economically sensitive infrastructure assets significantly recovering in the first quarter of the year.

Asset Class Exposures



Regional Equity Allocation



Source: Investment Managers, Datastream

- 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 LGIM mandates continued to broadly track their respective benchmarks over the quarter.
- The LCIV Global Alpha Growth Paris Aligned Fund significantly underperformed its benchmark. The Global Alpha Fund's bias towards 'growth' stocks and bias away from 'value' stocks continued to negatively impact its performance over a period when the 'growth' style has been out of favour, due to faster and further increases in interest rates. More specifically, overweights to consumer discretionary goods and I.T. dragged on the mandate's performance.
- The LCIV PEPPA mandate delivered negative absolute returns. The largest sectoral allocation to I.T. (23.3%) and the largest regional allocation to the US (65.8%) detracted from overall mandate performance over the quarter.
- The majority of the Fund's property and infrastructure mandates performed positively in both absolute and relative terms, as both infrastructure and property assets recovered over the quarter. The UBS and CBRE mandates' majority sector weighting to Industrials contributed positively to overall Fund returns.
- The RLAM mandates delivered negative absolute negative due to interest rates rising and credit spreads widening over the quarter.
- 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	-2.4	-2.4	**0.0**	12.7	12.7	**-0.1**	13.8	13.8	**0.0**	12.7	12.7	**0.0**
LGIM Emerging Markets	-2.5	-2.5	**0.0**	-3.6	-3.3	**-0.3**	5.5	5.7	**-0.2**	6.6	6.7	**-0.2**
LGIM Future World Fund	-3.4	-3.4	**0.0**	-	-	-	-	-	-	0.5	0.5	**0.0**
LCIV Global Alpha Growth Paris Aligned Fund	-13.6	-2.4	**-11.4**	-8.6	14.1	**-19.9**	12.1	14.1	**-1.7**	13.9	12.9	**0.9**
LCIV PEPPA Passive Equity	-5.5	-5.8	**0.3**	-	-	-	-	-	-	-5.5	-5.8	**0.3**
LCIV Absolute Return Fund	4.4	1.1	**3.3**	7.3	4.1	**3.0**	10.2	4.5	**5.5**	5.8	4.7	**1.0**
LCIV Diversified Growth Fund	-6.1	1.0	**-7.0**	3.3	3.7	**-0.3**	3.6	3.8	**-0.2**	4.1	4.0	**0.1**
Income												
UBS Property	8.7	5.6	**2.9**	25.7	23.1	**2.1**	9.7	8.1	**1.5**	7.8	8.3	**-0.5**
CBRE	7.4	3.0	**4.3**	16.2	12.1	**3.7**	9.1	7.9	**1.2**	8.3	7.6	**0.6**
JP Morgan	4.5	3.0	**1.5**	9.2	12.1	**-2.6**	9.9	7.9	**1.9**	8.3	7.6	**0.6**
Stafford Capital Global Infrastructure SISF II	3.6	3.0	**0.6**	11.6	12.1	**-0.4**	8.1	7.9	**0.2**	6.2	7.6	**-1.4**
Stafford Capital Global Infrastructure SISF IV	15.5	3.0	**12.2**	28.1	12.2	**14.3**	-	-	-	21.9	9.6	**11.3**
LCIV Renewable Energy Infrastructure Fund	-5.2	3.0	**-8.0**	-	-	-	-	-	-	-0.1	8.8	**-8.1**
Protection												
RLAM Index Linked Gilts	-6.4	-6.4	**0.0**	5.0	4.8	**0.1**	-	-	-	3.7	3.7	**0.0**
RLAM Multi-Asset Credit	-2.9	-2.9	**0.0**	0.7	-1.4	**2.2**	6.0	5.0	**1.0**	7.8	7.0	**0.8**
RLAM Corporate Bonds	-10.1	-10.3	**0.3**	-6.1	-7.6	**1.7**	-	-	-	1.1	0.3	**0.8**
Churchill Senior Loan Fund II	4.2	1.1	**3.1**	10.9	4.1	**6.5**	5.4	4.5	**0.8**	4.2	4.5	**-0.3**
Churchill Senior Loan Fund IV	3.7	1.1	**2.6**	-	-	-	-	-	-	3.7	1.1	**2.6**
Permira	1.7	1.1	**0.6**	6.2	4.1	**2.0**	-	-	-	3.4	4.4	**-1.0**
Total	-3.2	-0.7	**-2.5**	4.6	8.1	**-3.2**	8.8	7.9	**0.8**	8.1	-	-

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.

Please note the 3 month performance figure for the LCIV PEPPA Passive Equity mandate reflects performance over the period since inception in early 2022 to 31 March 2022.

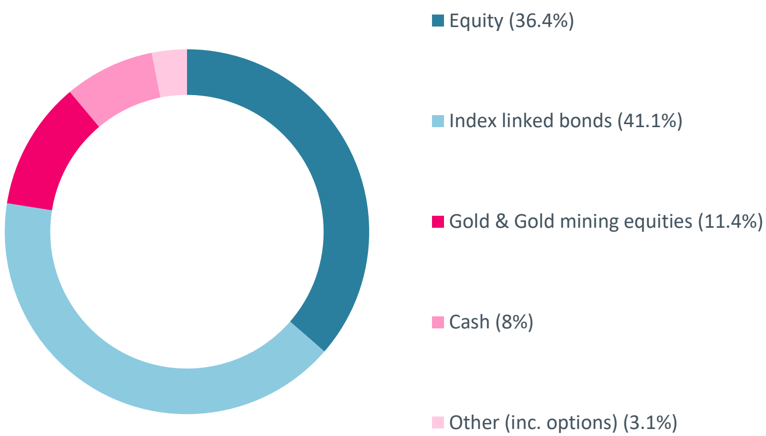
Manager Analysis

- 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 SONIA + 4% p.a.
- The sub-fund returned an impressive 4.4% during a difficult quarter for growth markets, outperforming its benchmark by 3.3%. The sub-fund has also continued to outperform its benchmark over the longer periods of 12 months, 3 years and since inception.
- Despite the sub-fund's largest allocations to equity and index-linked bonds, performance was positive. This was due to the sub-fund's holdings in interest rate options, which offset the fall in value experienced by index-linked bonds over a period when gilt yields rose faster than inflationary expectations.
- The greatest contributor to the sub-fund's overall performance was its 11.4% allocation to gold and gold mining equities. With increased economic uncertainty around increasing interest rates and upwards inflationary pressures (as well as events in Russia and Ukraine), the demand and price of gold increased over the first quarter of 2022, positively impacting the sub-fund's performance over the period.

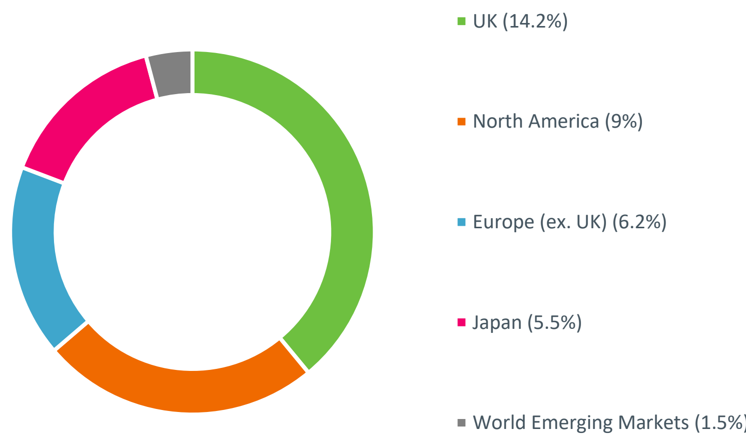
LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	4.4	7.3	10.2	5.8
Benchmark	1.1	4.1	4.5	4.7
Relative	3.3	3.0	5.5	1.0

Asset Allocation



Regional Equity Allocation



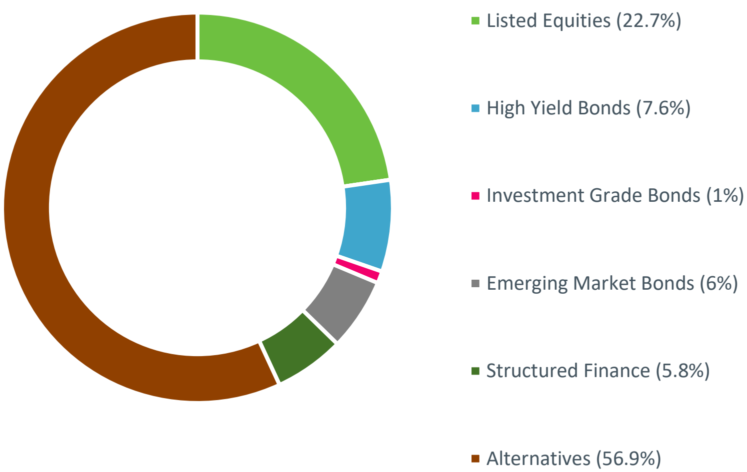
Source: Investment Managers, LCIV, Northern Trust
Absolute Return Fund inception date: 13/09/2010

- 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).
- The sub-fund returned -6.1% over the quarter, underperforming its benchmark by 7.0%. However, over the longer period, the sub-fund remains ahead of its benchmark by 0.1% since inception.
- The negative return over the quarter can be attributed to the sub-fund's 23% allocation to listed equities, which were the biggest detractors to the sub-fund's performance, contributing -2.2% to overall sub-fund performance over the quarter. Furthermore, the sub-fund's exposure to Chinese stocks also continued to negatively impact returns due to the ongoing Chinese real estate crisis.
- Of the 56.9% allocation to Alternatives, the 4.2% allocation to commodities were the greatest contributor to the sub-fund's overall performance. As the conflict between Russia and Ukraine continues and the subsequent impact of this on oil prices, it is expected that the sub-fund's holding in commodities will continue to return positively. Furthermore, the sub-fund's 22.0% allocation to infrastructure also contributed positively to overall performance.

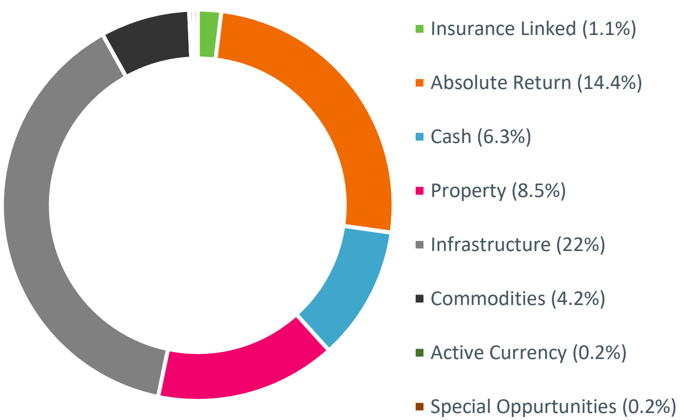
LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	-6.1	3.3	3.6	4.1
Benchmark	1.0	3.7	3.8	4.0
Relative	-7.0	-0.3	-0.2	0.1

Asset Allocation



Alternatives Asset Allocation



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 4.5% to date when the impact of currency fluctuations is included and only 4.0% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

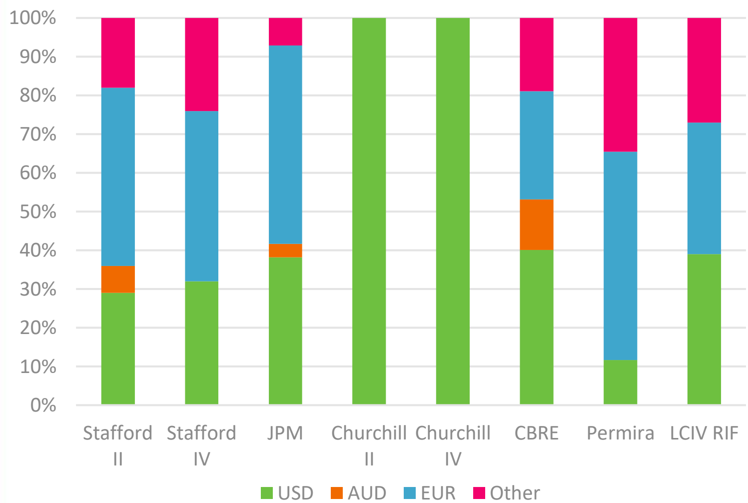
Q1 2022 Performance

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	3.6	-1.6	2.0	3.0	-1.0
Stafford IV	15.5	-1.3	14.2	3.0	10.9
JPM	4.5	-1.5	3.0	3.0	0.0
Churchill II	4.2	-2.8	1.4	1.1	0.3
Churchill IV	3.7	-2.9	0.8	1.1	-0.3
CBRE	7.4	-2.0	5.3	3.0	2.3
Permira	1.7	-0.6	1.1	1.1	0.1
LCIV RIF	-5.2	-1.2	-6.5	3.0	-9.2

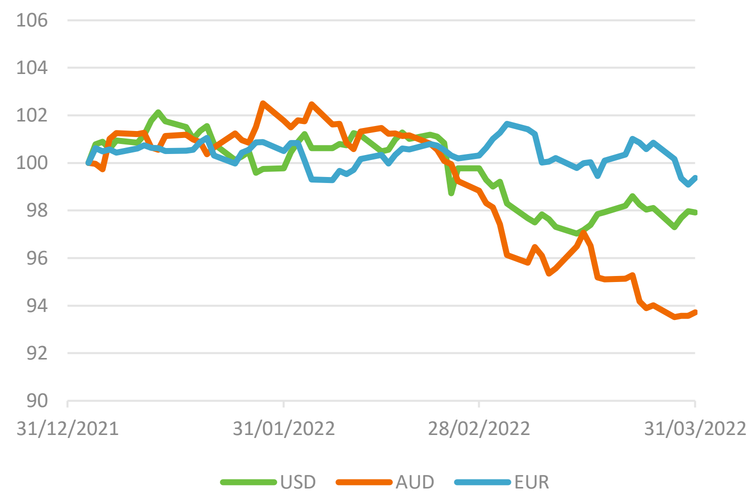
Performance Since Mandate Inception*

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	6.2	-0.2	6.0	7.6	-1.6
Stafford IV	21.9	-0.5	21.4	9.6	10.8
JPM	8.3	-1.1	7.2	7.6	-0.4
Churchill II	4.2	-1.2	3.0	4.5	-1.5
Churchill IV	3.7	-0.4	3.3	1.1	2.2
CBRE	8.3	-1.3	6.9	7.6	-0.6
Permira	3.4	1.0	4.4	4.4	0.0
LCIV RIF	-0.1	-0.1	-0.2	8.8	-8.2

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 December 2021)



Source: Northern Trust, Investment managers
** Performance shown since 31 December 2019 which was the first month end after inception.*
*** As at Q4 2021. LCIV RIF as at 30 September 2021 (latest available).*

Private Markets Investments

- 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 31 March 2022.
- It has been agreed that an additional £12m will be allocated to JP Morgan and this will be funded from the Baillie Gifford Global Alpha Growth Paris Aligned fund. This was drawn down shortly after quarter-end.
- There are outstanding commitments of approximately £55m to the remaining funds which will be funded from the RLAM corporate bond mandate and the LCIV Diversified Growth Fund alongside capital being returned from other mandates.

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**	**Churchill Middle Market Senior Loan Fund IV**	**Permira Credit Solutions IV Senior Fund**
Commitment Date	25/04/2018	18/12/2020	30/06/2021	12/2018	29/09/2021	12/2018
Fund Currency	EUR	EUR	GBP	USD	USD	EUR
Gross Commitment	€28.5m	€30m	£25m	$31.0m	$26.5m	£36 m
Gross Commitment (GBP estimate)	£24.1m	£25.4m	-	£23.5m	£20.1m	-
Net Capital Called During Quarter (Payments Less Returned Capital)	-	£1.4m	£0.4m	£0.9m	£2.3m	-
Net Capital Drawn To Date	£18.8m	£11.5m	£6.9m	£19.3m	£6.4m	£26.6m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£10.2m	£0.1m	-	£3.5m	-	£2.6m
NAV at Quarter End	£20.3m	£7.5m	£6.9m	£20.9m	£7.8m	£26.5m
Net IRR Since Inception	8.7% p.a. (v. 8-9% target)	-	-	7.25%**	-	9.3%*
Net Cash Yield Since Inception	4.5% p.a. (v. 5% target)	-	-	-	-	-
Number of Holdings	22 funds	8 funds	-	95 investments	78 investments	80 investments*

**as at 31/12/2021 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

Capital Markets Outlook

Asset Class	Market Summary
Equities	• Equity valuations remain stretched versus historical averages, albeit with wide regional disparities. Earnings growth will inevitably slow sharply from an expected 54% in 2021. However, demand and revenue growth remain strong and there is evidence that businesses expect to be able to pass on most of their higher costs.
Investment Grade Credit	• Global investment grade spreads have risen considerably since the start of the year and, om a ratings-consistent basis, are now slightly above long-term median levels. Corporate fundamentals are also in decent shape, however high current and forecast inflation, and its corrosive effect on nominal fixed income coupons, sees us retain a degree of caution.
Emerging Market Debt	• While yields and spreads are now touching attractive levels, rising developed market sovereign yields and general Emerging Market risk aversion, may mean the technical picture remains challenged in the near term.
Liquid Sub-Investment Grade Debt	• Slowing economic growth raises the risk of default and downgrades, but cash balances, income and capital leverage metrics are in robust shape, bolstered by the scale of refinancing in recent years at extremely low rates and a recovery in earnings. Negative fund flows have driven credit spreads wider, particularly within European high yield markets, where spreads have risen above long-term median levels whilst US credit spreads remain below long-term medians.
Private Lending	• Fundamentals have improved post-COVID, but inflation and labour cost impacts are now the prevailing concerns. Valuations have moved to unattractive due to the increase in traded loan spreads. There remains a very high level of activity in the market with most managers achieving high levels of deployment, which is expected to taper as 2022 progresses.
Core UK Property	• UK core property market fundamentals continue to show improvement and rental growth offers the prospect of at least some inflation protection. UK property yields are very low versus history but, as with equities, demanding valuations are offset to some extent by the current and projected level of real government bond yields.
Long Lease Property	• Whilst yields remain very low versus history, the long lease property market benefits from a greater degree of explicit inflation-linkage than core markets and is seeing very strong investor demand.
Conventional Gilts	• The path of cash rates currently implied by instantaneous forward nominal yields, rising to 2.25% p.a. over the next 10 to 15 years, does not look unreasonable. Implied cash rates falling beyond 15 years makes us wary of longer-term forward yields.
Index-Linked Gilts	• Given elevated inflation forecasts, near-term implied inflation does not look unreasonable relative to fundamentals. From 2030, index-linked gilts will be re-referenced to CPIH, which is typically 1% p.a. lower than RPI. This suggests a substantial inflation risk premium is embedded in the gilt market at longer maturities, especially the 10-20Y part of the curve. Beyond 25 years, inflation pricing doesn't look particularly demanding.

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

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 vs. 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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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 26 JULY 2022

Subject Heading:	**PENSION FUND ACCOUNTS 2021/22**
SLT Lead:	**Dave McNamara**
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 2022

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 Authority's Statement of Accounts for the year to 31st March 2022 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 2022 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 financial years – 2020/21 and 2021/22 and then reviewed once it's established audit completion dates have improved or not.

1.2. Following this review the Ministry of Housing, Communities and Local Government (MHCLG) now the Department of Levelling Up, Housing and Communities (DLUHC) 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 2022.**

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 no code changes in 2021/22 that affect the Pension Fund.

1.7. Key movements to note from the 2021/22 accounts are:

- The Net Assets of the Fund has increased to **£920m** for 2021/22 from £874m in 2020/21, a net increase of **£46m**.
- The net increase of **£46m** is compiled of profit on investments and change in the market value of assets of £25m, investment income of

£15m, net additions of cash of £11m and offset by management expenses of (£5m). Further details are included within the Fund Account and Net Asset Statement included in this report.

1.8. At the time of writing this report, the Pension Fund Accounts 2021/22 are still subject to audit by our external auditor's Ernst and Young LLP (EY) as part of the overall audit of the Authority's Statement of Accounts. Consequently the 2020/21 Pension fund accounts have also yet to be finalised. The delays are not attributable to the Pension Fund but outstanding issues awaiting resolution on the Authority's Statement of Accounts.

1.9. The Authority's Statement of Accounts for 2021/22 are to be presented to the Audit Committee on the **28 July 2022** for approval. 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 2021/22 Pension Fund Annual Report. The statutory publication date for the 2021/22 Pension Fund Annual Report is **1 December 2022**.

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 EY.

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 2022. Draft accounts must be published by the 1 August 2022.

The Pension Fund accounts was completed by the 31 May 2022, in line with original deadlines set out in the 2015 Accounts and Audit Regulations, to ensure that best practice was maintained.

At the time of writing this report, the Fund has not received an Audit Plan so no confirmation of costs or date of audit commencement is known, although it is anticipated that the audit will commence around September/October time.

As an indication of costs, prior audit fee charges can be seen below:

	2019/20 Fees	2020/21 Fees
	£	£
Total Fees	**42,472**	**51,810**

The 2020/21 Pension fund accounts have yet to be finalised by our external auditors. The delays are not attributable to the Pension Fund but issues awaiting resolution on the Authority's Statement of Accounts.

Audit costs will be met from the Pension Fund and final costs will not be known until audits are finalised.

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 2022

2020/21 £000		Notes	2021/22 £000
	Dealings with members, employers and others directly involved in the fund		
47,418	Contributions receivables	7	49,112
4,896	Transfers in from other pension funds	8	4,204
52,314			53,316
(38,804)	Benefits	9	(37,551)
(44,630)	Payments to and on account of leavers	10	(4,618)
(83,434)			(42,169)
(31,120)	Net additions (withdrawals) from dealings with members		11,147
(4,428)	Management expenses	11	(5,474)
(35,548)	**Net additions/(withdrawals) including fund management expenses**		**5,673**
	Returns on investments		
15,539	Investment income	12	14,977
165,548	Profit and losses on disposal of investments and changes in the market value of investments	14a	25,198
181,087	**Net returns on investments**		**40,175**
145,539	Net increase (decrease) in the net assets available for benefits during the year		**45,848**
728,696	Opening net assets of the Fund at start of year		874,235
874,235	**Closing net assets of the Fund at end of year**		**920,083**

Net Asset Statement for the year ended 31 March 2022

£000			£000
150	Long Term Investments	14	150
858,410	Investment Assets	14	907,290
(263)	Investment Liabilities	14	(2,220)
858,297	**Total net investments**		**905,220**
16,403	Current Assets	21	15,612
(465)	Current Liabilities	22	(749)
874,235	**Net assets of the Fund available to fund benefits at end of the reporting period**		**920,083**

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 2021/22 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

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

The membership profile is detailed below:

31-Mar-21		31-Mar-22
56	**Number of employers with active members**	**56**
	Number of employees in scheme	
4,650	London Borough of Havering	4,783
1,697	Scheduled bodies	1,810
79	Admitted bodies	82
6,426	**Total**	**6,675**
	Number of pensioners and dependants	
6,014	London Borough of Havering	6,110
369	Scheduled bodies	406
29	Admitted bodies	32
6,412	**Total**	**6,548**
	Deferred pensioners	
5,179	London Borough of Havering	5,680
791	Scheduled bodies	966
50	Admitted bodies	43
6,020	**Total**	**6,689**
18,858	**Total number of members in pension scheme**	**19,912**

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 2022. Employer contributions 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 of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

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

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

2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2021/22 financial year and its position at year end as at 31 March 2022. 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 one-year return for 2021/2022 of 4.59% and the three year period since the 2019 valuation of 8.75% is greater than the actuary's long term target return for the Fund of +3.3% pa. The returns over all time periods were ahead of the long term absolute return deemed sufficient to support an affordable and stable level of contributions. The next actuarial valuation is based on data as at 2022, which will include a recovery period necessary to make good any potential increases in the funding deficit. The Fund's cash flow remains robust. The Fund held cash of £32m at the Balance Sheet date, equivalent to 3.6% of the Fund Assets. In addition, the Fund held £714m 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
m

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:	
		0.1% p.a. decrease in the Real Discount Rate could result in an increase of 2%	29
		0.1% p.a. increase in the Pension Increase Rate (CPI) could result in an increase of 2%	26
		0.1% p.a increase in the Salary Increase Rate could result in a 0% increase	2
		1 Year increase in member life expectancy could result in a 4% increase	60
Level 3 Investments (Note 16a)	Level 3 investments can be determined by Fund Managers in accordance with guidelines and principles set out in the International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Level 3 investments total £206m, which represents 22% of the total Fund value of £920m.	Sensitivity Analysis shows that the £206m valuation could decrease or increase within the range of £89m and £120m

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 2022 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.

The Fund has valued its assets based on the 31 March 2022 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.

Global growth forecasts continued to slide since March 2022 whilst inflation forecasts edged higher as existing inflation and supply chain issues are worsened by the ongoing Russia- Ukraine conflict and Chinese COVID lockdowns. Global Markets remain volatile, it is expected that higher energy and food prices, alongside financial market, and trade disruption to negatively impact global growth going forward. We believe the Fund is well positioned to manage uncertainties created by the invasion and for the purposes of these financial statements this is considered a non- adjusting event.

7 Contributions Receivable

By category

2020/21 £000		2021/22 £000
	Employees' contributions	
	Normal:	
6,268	London Borough of Havering	6,541
1,442	Scheduled Bodies	1,489
73	Admitted Bodies	75
	Additional contributions:	
6	London Borough of Havering	6
7,789	**Total Employees' Contribution**	**8,111**
	Employers' contributions	
	Normal:	
14,716	London Borough of Havering	16,341
5,545	Scheduled bodies	5,606
311	Admitted bodies	329
	Deficit funding:	
18,677	London Borough of Havering*	18,302
	Augmentation	
341	London Borough of Havering	344
37	Scheduled bodies	50
2	Admitted bodies	29
39,629	**Total Employers' Contributions**	**41,001**
47,418	**Total Contributions Receivable**	**49,112**

*The 2021/22 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £5.652m voluntary planned contributions.

By authority

2020/21 £000		2021/22 £000
40,008	London Borough of Havering	41,534
7,024	Scheduled bodies	7,145
386	Admitted Bodies	433
47,418	**Total Contributions Receivable**	**49,112**

8 Transfers in from Other Pension Funds

2020/21 £000		2021/22 £000
4,896	**Individual transfers**	4,204
4,896	**Total Transfers In from Other Pension Funds**	**4,204**

9 Benefits Payable

By category

2020/21 £000		2021/22 £000
	Pensions	
30,798	London Borough of Havering	30,620
1,692	Scheduled Bodies	1,324
881	Admitted Bodies	936
33,371	**Pension Total**	**32,880**
	Commutation and Lump Sum Retirements	
3,577	London Borough of Havering	3,609
344	Scheduled Bodies	336
394	Admitted Bodies	(22)
4,315	**Commutation and Lump Sum Retirements Total**	**3,923**
	Lump Sum Death Benefits	
976	London Borough of Havering	575
110	Scheduled Bodies	173
32	Admitted Bodies	-
1,118	**Lump Sum Death Benefits Total**	**748**
38,804	**Total Benefits Payable**	**37,551**

By authority

2020/21 £000		2021/22 £000
35,351	Havering	34,804
2,146	Scheduled bodies	1,833
1,307	Admitted Bodies	914
38,804	**Total Benefits Payable**	**37,551**

10 Payments To and On Account of Leavers

2020/21 £000		2021/22 £000
70	Refunds to members leaving service	81
40,438	Group Transfer*	-
4,122	Individual transfers	4,537
44,630	**Payments to and on Account of Leavers**	**4,618**

*20-21 College Transfer settlement

11 Management Expenses

2020/21 £000		2021/22 £000
601	Administrative Costs	709
3,412	Investment Management Expenses	4,241
398	Oversight and Governance Costs	443
16	Oversight and Governance Costs - External Audit costs	78
1	Local Pension Board	3
4,428	**Management Expenses**	**5,474**

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 £0.116m (2020/21 £0.102m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.097m in respect of transaction costs (2020/21 £0.067m).

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

2021-22	Management fees	Performance Related fees	Transaction cost	2021/22 Total
	£000	£000	£000	£000
Bonds	147	-	-	147
Fixed Interest Unit Trust	128	-	-	128
Diversified Growth Funds	598	-	15	613
Infrastructure	598	-	-	598
Global Equity	1,637	-	82	1,719
Other Investments				
Pooled Property	513	117	-	630
Private Equity and Joint Venture	314	-	-	314
Derivatives -Forward Currency Contracts	19	-	-	19
	3,954	**117**	**97**	***4,168**
Custody fees				42
Performance Measurement fees				31
Other Investment fees				-
Investment Management Expenses				**4,241**

*Includes £2.238m charged for assets in the London CIV asset pool (£2.086m In 2020/21)

11a Investment Management Expenses continued

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 fund	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**	***3,328**
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)

12 Investment Income

2020/21 £000		2021/22 £000
8,101	Pooled Investments - unit trusts and other managed funds	9,542
1,881	Income from Bonds*	1,339
1,887	Pooled Property Investments	2,580
3,841	Income form Derivatives (Foreign Exchange Gains/(losses))	2,294
126	Interest on Cash Deposits	43
(297)	Other Income**	(821)
15,539	**Investment Income**	**14,977**

***** Income includes Index linked Interest of £0.208m (2020/21 £0.137m).

** Management expenses to offset against gross income from dividends

14 Analysis of Investments

2020/21		2021/22
£000		£000
	Investment Assets	
150	**Long Term Investments**	150
150		**150**
	Bonds	
39,001	Fixed Interest Securities	22,977
36,897	Index-Linked Securities	39,097
75,898		**62,074**
	Pooled Investment	
61,822	Fixed Interest Unit Trust	63,252
87,978	Diversified Growth Fund	85,428
44,536	Infrastructure	56,760
477,416	Global Equity	473,469
671,752		**678,909**
	Other Investments	
68,986	Pooled Property	93,775
36,825	Private Equity and Joint Venture	55,134
1,148	Derivatives - Forward Currency Contracts	50
106,959		**148,959**
3,321	Cash deposits Managers	16,985
480	Investment income due	363
3,801		**17,348**
858,560	**Total Investment Assets**	**907,440**
	Investment Liabilities	
	Derivative Contracts	
(262)	Forward Currency Contracts	(2,218)
(1)	Income receivable	(2)
(263)	**Total Investment Liabilities**	**(2,220)**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2021	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 2022
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	39,001	18,071	(31,277)	(1,988)	(830)	22,977
Index-linked Securities	36,897	39,955	(39,380)	1,625	-	39,097
Pooled Investment Vehicles	671,902	88,999	(94,293)	12,451	-	679,059
Other Investments	105,811	29,213	(2,280)	16,165	-	148,909
Derivatives – forward currency contracts	886	127,525	(127,525)	(3,054)	-	(2,168)
Cash Deposits (fund managers)	3,321	-	-	(1)	13,665	16,985
	857,818	**303,763**	**(294,755)**	**25,198**	**12,835**	**904,859**
Other Investment Balances	479	-	-	-	(118)	361
	858,297	**303,763**	**(294,755)**	**25,198**	**12,717**	**905,220**

	Market Value at 31 March 2020	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**

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 £0.096m (2020/21 £0.067m). 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 2022 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2021		Manager	Mandate	Value 31 March 2022	
£000	**%**			**£000**	**%**
Investments managed by London CIV asset Pool:					
150	0.01	London CIV	Equities Unquoted	150	0.02
111,270	12.96	Ruffer	Pooled Absolute Return Fund	119,358	13.19
191,042	22.27	Baillie Gifford	Pooled Global Alpha Growth Fund	-	0.00
-	-	Baillie Gifford	Pooled Global Alpha Growth Paris Aligned Fund	155,312	17.16
87,978	10.25	Baillie Gifford	Pooled Diversified Growth Fund	85,428	9.44
-	-	State Street Global Advisors	Pooled Passive Equity Progressive Paris Aligned (PEPPA)	44,694	4.94
-	-	Foresight, Blackrock, Quinbrook & Stonepeak	Pooled Infrastructure Renewables	6,916	0.76
390,440	**45.49**			**411,858**	**45.50**
PLUS Life Fund Investments aligned with London CIV asset pool:					
175,105	20.41	Legal & General Investment Management	Passive Global Equities/ Emerging Markets/Future World	166,105	18.35
565,545	**65.90**	**London CIV Total**		**577,963**	**63.85**
Investments managed outside of the London CIV asset Pool:					
38,731	4.51	Royal London Index Linked Bonds Fund	Investment Grade Bonds	40,456	4.47
37,958	4.42	Royal London Gov Corp' Bond Fund	Investment Grade Bonds	22,257	2.46
61,822	7.20	Royal London Multi Asset Credit Pooled Fund	Fixed Interest Unit Trust	63,251	6.99
41,034	4.78	UBS Property	Pooled Property	61,467	6.79
27,793	3.24	CBRE	Global Pooled Property	32,308	3.57
19,118	2.23	Stafford Capital SISF II	Overseas Pooled Infrastructure	20,304	2.24
1,557	0.18	Stafford Capital SISF IV	Overseas Pooled Infrastructure	7,487	0.83
23,861	2.78	JP Morgan	Overseas Pooled Infrastructure	23,302	2.57
19,138	2.23	Churchill II	Overseas Pooled Private Debt	20,855	2.30
-	-	Churchill IV	Overseas Pooled Private Debt	7,756	0.86
17,687	2.06	Permira PCS4	Overseas/UK Pooled Private Debt	26,524	2.93
2,666	0.31	Russell Investments	Currency Management	(1,538)	(0.17)
1,387	0.16	Other	Other	2,828	0.31
292,752	**34.10**			**327,257**	**36.15**
858,297	**100.00**	**Total Fund**		**905,220**	**100.00**

14b. (Continued)

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

Market Value 31 March 2022	% of Total Fund	Security	Market Value 31 March 2022	% of Total Fund
£000			£000	
191,042	21.85	London CIV Baillie Gifford Global Alpha Fund	-	-
-	-	London CIV Baillie Gifford Global Alpha Paris Aligned Fund	155,312	17.16
111,270	12.73	London CIV Ruffer Absolute Return Fund	119,358	13.19
-	-	LGIM Future World Fund	93,296	10.31
87,978	10.06	London CIV Diversified Growth Fund	85,428	9.44
61,822	7.07	Royal London Multi Asset Credit Pooled Fund	63,251	6.99
-	-	UBS Property	61,467	6.79
71,550	8.18	LGIM All World Equity Index	-	-
64,316	7.36	LGIM FTSE RAFI AW 3000 Index	-	-
587,978	**67.25**	**Total Fund**	**578,112**	**63.86**

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 2022, the value of quoted equities on loan was £1.586m (31 March 2021 £3.233m) 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 2022 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	17,087	EUR	(17,234)	-	(147)
	GBP	22,386	USD	(22,994)	4	(612)
	GBP	2,046	AUD	(2,198)	-	(152)
	USD	113	GBP	(110)	3	-
	EUR	1,603	GBP	(1,590)	13	-
Up to Two months	GBP	15,950	EUR	(16,132)	-	(182)
	GBP	23,042	USD	(23,745)	-	(703)
	GBP	2,138	AUD	(2,307)	-	(169)
	USD	354	GBP	(346)	8	-
	EUR	938	GBP	(933)	5	-
	AUD	333	GBP	(316)	17	-
Up to Three months	GBP	17,171	EUR	(17,391)	-	(220)
	GBP	20,492	USD	(20,523)	-	(31)
	GBP	2,693	AUD	(2,695)	-	(2)
	USD	643	GBP	(643)	-	-
	EUR	332	GBP	(332)	-	-
	AUD	204	GBP	(204)	-	-
Open forward currency contracts at 31 March 2022					**50**	**(2,218)**
Net forward currency contracts at 31 March 2022						**(2,168)**
Open forward currency contracts at 31 March 2021					1,148	(262)
Net forward currency contracts at 31 March 2021						**886**

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
Pooled Unquoted investments	Level 2	Developed using market data	No material difference between the value of assets & liabilities and their fair value	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

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 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
Overseas Pooled instruments Infrastructure Funds (JP Morgan)	Level 3	Estimated fair values are determined by the Advisor at valuation date and independently appraised and adjusted on a quarterly basis.	Three valuation techniques can be used, the market, income or cost approach. The appropropiatness of each approach depends on the type of asset or business being valued.	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.

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/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 impact on the valuations. Timing difference between the date of the last reported valuation and the date of the Fund's financial statements means that valuation may have increased or decreased by a significant amount.
Overseas/UK Pooled instruments Renewable Infrastructure	Level 3	Fair Values are calculated in whole or in part using techniques based on assumptions using Investment Association Statement of Recommended Practice (IA SORP)	Unobservable inputs are determined by the Investment Manager.	Use of estimates and changes in assumptions may have significant impact on the valuations. Timing difference between the date of the last reported valuation and the date of the Fund's 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 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property funds	4.65	93,775	98,135	89,414
Pooled Unit Trusts	7.60	111,894	120,398	103,390

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 2022	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	479,487	204,936	205,669	890,092
Loans and receivables	32,960	-	-	32,960
Total Financial Assets	**512,447**	**204,936**	**205,669**	**923,052**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(2,969)	-	-	(2,969)
Total Financial Liabilities	**(2,969)**	**-**	**-**	**(2,969)**
Net Financial Assets	**509,478**	**204,936**	**205,669**	**920,083**

16a. Fair Value Hierarchy continued

	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**

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 2021	Transfer Into Level 3	Purchases	Sales	Unrealised gains/ losses	Realised gains/losses	Market Value 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Property Funds	68,985	10,000	-	(94)	14,884	-	93,775
Infrastructure	44,536	14,274	1,257	(4,272)	1,105	(140)	56,760
Private Debt	36,825	17,993	1,220	(2,186)	1,331	(49)	55,134
Total	**150,346**	**42,267**	**2,477**	**(6,552)**	**17,320**	**(189)**	**205,669**

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 2021				31 March 2022		
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	-	-
39,001	-	-	Bonds -Fixed Interest Securities	22,977	-	-
36,897	-	-	Bonds - Index linked securities	39,097	-	-
1,148	-	-	Derivative contracts	50	-	-
671,752	-	-	Pooled investment Vehicles	678,909	-	-
36,825			Private Equity and joint venture	55,134	-	
68,986	-	-	Property	93,775	-	-
-	3,321	-	Cash	-	16,985	-
-	480	-	Other Investment Balances	-	363	-
-	16,403	-	Debtors	-	15,612	-
854,759	**20,204**	**-**	**Financial Assets Total**	**890,092**	**32,960**	**-**
			Financial Liabilities			
(1)	-	-	Other Investment Balances	(2)	-	-
(262)	-	-	Derivative contracts	(2,218)	-	-
-	-	(465)	Creditors	-	-	(749)
(263)	**-**	**(465)**	**Financial Liabilities Total**	**(2,220)**	**-**	**(749)**
854,496	**20,204**	**(465)**	**Grand total**	**887,872**	**32,960**	**(749)**
	874,235				**920,083**	

(b) Net Gains and Losses on Financial Instruments

2020/21 £000		2021/22 £000
	Financial assets	
165,548	Fair value through profit and loss	**25,198**
165,548	**Total**	**25,198**

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 2022/23, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Asset Type	Value as at 31 March 2022 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Pooled Equities	536,871	15.30	619,012	454,730
Total Bonds	62,074	7.00	66,419	57,729
Pooled Overseas Unit Trusts	111,894	7.60	120,398	103,390
Global Pooled inc.UK	85,428	6.30	90,810	80,046
Pooled Property	93,775	4.70	98,182	89,368
Cash	15,178	0.50	15,254	15,102
Total	**905,220**		**1,010,075**	**800,365**

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**

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 2022 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	62,074	621	62,695	61,453
Cash and Cash Equivalents	15,178	152	15,330	15,026
Cash Balances	14,260	142	14,402	14,118
Total Change in Asset Value	**91,512**	**915**	**92,427**	**90,597**

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**

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.

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 7.34% over a rolling 36 month period.

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

A 7.34% 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 2022 £000	Potential Market movement 7.34%	Value on increase £000	Value on Decrease £000
Overseas Pooled	110,762	8,130	118,892	102,632
Overseas Cash	1,169	86	1,255	1,083
Total change in assets available to pay benefits	**111,931**	**8,216**	**120,147**	**103,715**

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 pay benefits	**92,009**	**7,728**	**99,738**	**84,280**

(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 2022 was £14.260m (31 March 2021 £15.963m).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 2022 the value of liquid assets was £714m, which represented 78% of the total Fund (31 March 2021 £724m, which represented 83% 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 2021/22

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 March 2019 %
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 Continous Mortality Investigation (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 FSS 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 over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than reported at the previous formal valuations as at 31 March 2019.

It is important to note that the formal triennial valuation exercise is as 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The FSS will also be reviewed as part of the triennial funding valuation exercise.

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 March 2021	Year Ended	31 March 2022
£m		£m
1,557	Present Value of Promised Retirement Benefits	1,499
874	Fair Value of Scheme assets (bid Value)	920
683	**Net Liability**	**579**

The promised retirement's benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions
The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. It is estimated that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £113m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £9m.

Financial assumptions
The actuary's recommended financial assumptions are summarised below:

31 March 2021	Year Ended (% p.a)	31 March 2022
% p.a.		% p.a.
2.85	Pension Increase Rate	3.20
3.55	Salary Increase Rate	3.90
2.00	Discount Rate	2.70

Demographic assumptions

The longevity assumptions have changed since the previous IAS16 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current Pensioners	21.6 years	24.0 years
Future Pensioners (assumed to be aged 45 at the latest valuation date)	22.6 years	25.7 years

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

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:

Change in assumption at 31 March 2022	**Approximate % increase to promised retirement benefits**	**Approximate monetary amount (£m)**
0.1% p.a. decrease in the Discount Rate	2%	29
1 year increase in member life expectancy	4%	60
0.1% p.a. increase in the Salary Increase Rate	0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	26

Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2022, which 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

2020/21 £000		2021/22 £000
	Debtors:	
307	Contributions due from employers	676
79	Contributions due from employees	195
116	Pension Fund Bank Account Balances	117
-	Sundry Debtors	326
15,876	Cash deposit with LB Havering	14,167
-	Holding Accounts	131
16,378	**Current Assets**	**15,612**

22 Current Liabilities

2020/21 £000		2021/22 £000
	Creditors:	
(252)	Benefits Payable	(301)
(169)	Sundry Creditors	(293)
(44)	Holding Accounts	(155)
(465)		**(749)**

23 Additional Voluntary Contributions

Market Value 2020/21 £000	AVC Provider	Market Value 2021/22 £000
841	Prudential	810
144	Standard Life*	
	* Still awaiting valuation	

Some employees made additional voluntary contributions (AVC's) of £31,422 (2020/21 £31,030) 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 2021/22 were £29,022 (2020/21 £28,730) to the Prudential and £2,400 (2020/21 £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.

2020/21 £000		2021/22 £000
1,329	Payments on behalf of Havering Council	1,270

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 administered by the London Borough of Havering. During the reporting period, the council incurred costs of £0.682m (2020/21 £0.538m) 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 2021/22 contributed £34.643m (2020/21 £33.392m) 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 2022 cash holdings totalled £14,167m (2020/21 £15.837m), earning interest over the year of £0.043m (2020/21 £0.126m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2022 (2020/21 £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 2021/22 a total of £2.238m was charged to the Fund by the London CIV in respect of investment management services (2020/21 £2.086m).

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 2022 were £117.36m. (31 March 2021 were £50.62m). 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 £0.396m 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.

Four 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 £1.34m 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 £0.41m.

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

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 26 July 2022

Subject Heading:	**TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES – Report for year ending 31 March 2022**
CLT Lead:	**Dave McNamara**
Report Author and contact details:	***Debbie Ford Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	**Management of climate risks**
Financial summary:	**£2,000.00 for the report**

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

Appendix A to this report summarises the Funds current position concerning the 11 climate-related disclosures under the scope of the Taskforce on Climate-related Financial Disclosures (TCFD), for the year ending 31 March 2022.

The Committee's Business Plan for 2022/2023 includes the development of a broader climate action plan.

RECOMMENDATIONS

That the Committee:

Consider and agree the 31 March 2022 TCFD report as attached as **Appendix A.**

REPORT DETAIL

1. The Fund's Investment consultant (Hymans) have set out a summary of the Fund's current position with regards to the 11 climate-related disclosures under the scope of the TCFD framework for the year ending 31 March 2022, as attached at Appendix A

2. BACKGROUND

a. The TCFD was established in 2015 by the Financial Stability Board at the request of G20, to review how the reporting on climate-related issues in financial reporting could be improved. In June 2017, the TCFD published its final recommendations providing a framework to report on their climate-related risks and opportunities.

b. TCFD recommendations are structured around four themes, **Governance, Strategy, Risk Management** and **Metrics and Targets.** Across these four themes, there are 11 disclosures.

c. The United Kingdom has announced its intention to make TCFD aligned disclosures mandatory by 2025.

d. It is not yet mandatory for the Local Government Pension Scheme (LGPS) to produce a TCFD report but the former Committee were keen to comply with these requirements and opted for an early adoption. This is the Fund's second report under the TCFD framework, summarising the current position across the 11 disclosures. Future reports will continue to highlight actions taken over the year to improve the position in line with suggested actions developed as a result of this report and underlying analysis.

e. The 2022 report will be published as a standalone document; previously this was incorporated within the Pension Fund Annual Report.

f. The Department of Levelling Up, Housing and Communities (DLUHC) are expected to issue consultation on TCFD reporting for pension schemes in the autumn of 2022 – LGPS guidance on this is not expected until well into 2023.

g. The Committee has not formally adopted any climate related metrics for management of the Fund therefore there is no data reported against the theme for Metrics and Targets.

h. The Committee expects to consider this as part of the evolution of its approach to the management of climate related risks over the coming year as part of its Climate Risk Plan.

i. Elsewhere on the agenda is the Climate Risk Plan that will kick start the process of setting targets for the Fund.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Committee believe that climate change is a systemic risk and seek to manage that risk on behalf of their members. The Committee are supportive of initiatives they believe will in the long-term financial interest of the Fund's members. Early adoption of the TCFD is one such initiative, as greater disclosure will lead to engagement and a more structured approach to managing this risk.

Early planning will also help with speedy compliance of TCFD guidance once published by DLUHC.

Climate rated risks will also be incorporated within the Funding Strategy Statement (FSS) and the 2022 Valuation report. These risks will be similar to the TCFD report, and it will include how risks have been considered when setting the FSS and employer contribution rates.

The estimated cost of £2,000.00 of producing this report will be met from the Pension 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

Climate disclosures for the year ended 31 March 2022

The Pensions Committee ("the Committee") of the London Borough of Havering Pension Fund ("the Fund") believe that climate change is a systemic risk and seek to manage that risk with respect to the pension scheme on behalf of their members. The Committee are supportive of initiatives they believe will be in the long-term financial interest of the Fund's members. The Taskforce on Climate-related Financial Disclosures ("TCFD") is one such initiative, as the Committee believe greater disclosure will lead to more engagement and a more structured approach to managing this risk.

Whilst not falling under the scope of the requirements of the TCFD, the Committee are keen to comply with these requirements as best they can whilst taking a proportionate approach with respect to the size and available resources of the Fund. As such, the Committee has produced this report, their second under the TCFD framework, summarising the current position with regards to the 11 climate-related disclosures. Future reports will continue to highlight actions taken over the year to improve the position in line with the suggested actions developed as a result of this report and underlying analysis.

Governance

Disclosure A: Describe the Committee's oversight of climate related risks and opportunities.

The Committee has ultimate responsibility for the strategy employed to meet the Fund's objectives. These objectives and strategy are set out in the current Investment Strategy Statement (ISS) dated July 2020. In the development and implementation of strategy, the Fund is supported by Officers and Advisers who the Committee expect to raise climate related risks and opportunities for discussion as appropriate.

The Committee has established and published a Statement of Investment Beliefs which reflects the broad views of committee members on investment, ESG and climate matters. These beliefs are documented in the ISS and include recognition of the financial materiality of climate risk. The Committee did not review their beliefs during the year but expects Officers and Advisers to reference these beliefs in the management and evolution of the Fund. Beliefs did drive various strategic changes during the year as summarised later in this report.

Committee members are expected to undertake training on all matters relevant to the governance of the Fund. In November 2021, Committee members took part in a Climate Risk workshop. The workshop provided background on climate change for pension funds and provided guidance on identifying and assessing the climate-related risks across the Fund's investment portfolio. The workshop expanded on different ways of assessing exposure to climate-related risks and how this could be used in order to set relevant ESG targets and escalate management with investee companies on climate-related topics. During the workshop, the Committee also reviewed the action taken by the London Collective Investment Vehicle ('London CIV') to address climate risk.

The Committee also undertakes a high-level review of stewardship activity on an annual basis and considers the actions that its managers are taking to address climate risk within this review. The Committee determined that manager inaction in the exercise of stewardship was an issue to be monitored and focussed on this issue in its 2021/22 review. Through the Fund's review of voting and engagement, more specific actions of stewardship activity were identified from the Fund's investment managers' engagements, as well as further detail on their approach and policies towards climate-related risk. Furthermore, over the year the Committee has made a point to challenge the Fund's managers on their stewardship when attending quarterly Fund meetings.

The Committee's Business Plan for 2022/2023 includes the development of a broader climate action plan.

Disclosure B: Describe management's role in assessing and managing climate related risks and opportunities.

A number of parties involved in the management of the Fund are expected to assess climate related risks and opportunities and take steps to address these. In particular:

- Officers are expected to ensure that climate related issues are considered in their discussion with all Fund stakeholders. Over the year to 31 March 2022, Officers have engaged in a number of discussions on climate related risks and opportunities with the Fund's investment managers, the London CIV as pooling provider and the Fund's investment advisers. Officers report the outcome of such discussions and any actions arising to the Committee for decision as necessary.
- The LCIV is the Fund's pooling provider with responsibility for the development of appropriate solutions for the management and governance of Fund assets. During previous years, LCIV has sought to develop and introduce several pooled vehicles which directly manage climate related risks for its clients. LCIV has also engaged third-party stewardship provider, Hermes EOS, to provide input on voting and engagement and a data provider, Trucost, to provide fund level analytics, including the measurement of climate related metrics. During the year, Officers and Advisers engaged with the LCIV on the development of a new passive product in which the Fund ultimately invested and the parameters for stock lending and voting policy in relation to this product.
- The Investment Adviser is expected to raise climate related risks and opportunities in the development and delivery of advice. During the year, the Adviser addressed climate related risks in providing advice on the evolution of the Fund's equity strategy and identified a potential infrastructure opportunity linked to climate issues and provided input on climate related stewardship issues.
- Investment managers employed by the Fund are also expected to competently address climate related issues in their management of Fund issues. The Committee will ask questions of their managers on climate issues as part of regular meetings. The Committee, as a minimum, expect its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code.

Strategy

Disclosure A: Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.

The Committee has not formally specified time-horizons for the Fund although, given the Fund remains open to new members, the Committee regards climate risk as an issue that must be considered over all time horizons. Over the year, the Committee considered the potential for transition risks and the repricing of companies with high carbon intensity to affect financial outcomes from investments and has considered how such risks can be reflected in portfolios. These considerations were raised and addressed during consideration of the Fund's equity strategy

Opportunities have been identified during ongoing discussion with advisers and the LCIV, particularly with regard to the LCIV's development of a Renewable Energy Infrastructure Fund. In June 2021, the Committee committed £25m to this identified opportunity in the private market LCIV Renewable Infrastructure Fund. The open-ended Fund focuses on renewable energy infrastructure assets, investing in greenfield (i.e. a project which is not following a previous project on unused lands, where there is no need to remodel or demolish an existing structure) and brownfield (i.e. projects which are modified or upgraded) assets to provide a long-term and sustainable responsible investment solution to the Fund.

Disclosure B: Describe the impact of climate–related risks and opportunities on the organisation's business, strategy and financial planning.

Whilst climate related issues have been reflected in certain investment decisions and the evolution of the Fund's strategy (such as the integration of climate-related risk considerations in the Fund's equity allocation), the Committee has not undertaken a stand-alone review of how climate risks and opportunities should be addressed. Rather, in conjunction with Officers and Advisers, the Committee has phased the consideration of climate-issues into its strategy and business planning.

Over the year, the Committee took various steps to evolve the Fund's equity allocation with a particular view focus on addressing some transition related risks within the strategy. This included:

- Switching assets from the LCIV Global Alpha Fund to the LCIV Global Alpha Paris Aligned Fund variant, with climate related risks being addressed directly by the underling fund manager;
- The introduction of the multi-factor, climate tilted, LGIM Future World Fund which was selected as part of a strategy review when switching from a single factor equity fund;
- Investment into the, LCIV developed, LCIV Passive Equity Progressive Paris Aligned ("PEPPA") Fund which seeks to reduce exposure to carbon emissions and the associated climate transition risks, whilst maintaining expectations of returns from global developed market equities. The Fund's Officers were part of the seed investor group for the LCIV PEPPA Fund and provided feedback at various stages of the development process.

As a consequence, the Weighted Average Carbon Intensity ('WACI') of the Fund's equity assets reduced to 76% of that of global markets. Over 2022/23, the Committee will be reviewing its Emerging Market Equity exposure, noting this allocation is also a significant contributor to WACI of the Fund equity allocation.

The Committee has had a more detailed assessment of climate considerations and risks over the year. The Fund's Climate Risk Plan provides a plan for the Fund to address climate risk. The Fund's current position in this plan is to establish a baseline position for change, from then on, the Fund can expect to focus on specific areas and frame objectives and targets for change. Following this, the Fund will be able to develop and implement a plan to address climate-related risks and monitor and report these over time.

Disclosure C: Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2 degree or lower scenario.

The Committee has not undertaken any analysis on the impact of climate scenarios on the Fund. The Committee intends that climate-related scenario analysis will be undertaken as part of the Fund's ongoing triennial actuarial valuation being undertaken as at 31 March 2022 .

Risk Management

Disclosure A: Describe the organisation's processes for identifying and assessing climate-related risks.

At a simple level, the Committee's risk management process comprises identification, assessment, monitoring and control of risk. Climate risks are identified by the Committee with support from Officers and Advisors as appropriate. Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Fund. The Committee prioritise risks based on the size, scope and materiality of the risk event. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Fund, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action.

Disclosure B: Describe the organisation's process for managing climate-related risks.

Risks and opportunities are considered both in absolute terms and in relation to the risk appetite of the Fund. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk. The management of climate related risks take place at several levels withing the decision-making processes of the Fund:

- Within strategy management, the Committee will consider market and policy developments with particular regard to climate change and discuss how such factors may influence asset allocation. The Committee expects to develop its approach in this area through the use of scenario analysis;
- Within mandate selection, the Committee will consider how climate related risks may influence the design of a particular strategy, taking advice where appropriate. Over the year, the Committee has considered how

emissions and transition readiness influence the choice of equity indices for the Fund, with advice directly considering the

- Within manager selection and ongoing monitoring, the Committee will consider the actions managers are taking to address climate related risks in the management of a mandate. This includes questioning the managers' approach to climate risk, stewardship, governance and its level of engagement with investee companies as a positive influence for ESG action. During the year, the Committee formally met with five of their investment managers, with discussion on climate related risks forming an element of these discussions. The Committee's process for reviewing managers incudes receiving a briefing on manager activity and areas for discussion being highlighted.
- Within stewardship, the Committee includes discussions on governance and voting with the Fund's equity manager on a periodic basis. The Committee reviews stewardship activity, including voting on climate issues, on an annual basis and the effectiveness of its managers in exercising the responsibilities that have been delegated to them. The Committee reviewed the Fund's investment managers' voting and engagement activities over the 12-month period to 30 June 2021. The Fund had investments through two investment managers (LGIM and LCIV) across six mandates with equity exposure.

  Over the 12-month period, the majority of votes that were eligible to be exercised were voted on, on behalf of the Committee. Exercise rates for all six mandates was at least 97%. Climate change was the most frequent reason for engagement across all managers. The Fund will undertake this review of voting and engagement activities again in 2022/2023 for the last 12-month period.

Disclosure C: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Officers and Advisors raise new or updated risks at quarterly Committee meetings or other appropriate points in time, depending on urgency. Following this, where appropriate, training sessions are provided on the respective risks. This includes rating the likelihood and impact of the risk event to produce a reflection of the threat that the risk event poses to the Fund and then making a decision on the appropriate action (mitigation, control or acceptance) based on this and available courses of action.

Metrics and Targets

Disclosure A: Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Committee has not formally adopted any climate related metrics for management of the Fund. Committee expects to consider this as part of the evolution of its approach to the management of climate related risks during the year as part of its Climate Risk Plan. On an informal basis when considering individual investment solutions, the Committee has considered a range of metrics as part of their initial discussions including Weighted Average Carbon Intensity, Carbon footprint, exposure to materially impacted sectors and stewardship behaviours of managers.

Disclosure B: Disclose Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks.

The Committee has not collated data on climate metrics as at 31 March 2022 but aims to provide a full disclosure of metrics for the Fund in 2022/2023, as the Fund is still to formally define its climate related metrics for management and monitoring.

Disclosure C: Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The Committee has not yet set targets for the Fund. Over the year, the Fund will consider setting targets for a Net Zero ambition and respective date for achieving this and milestones towards it. In making commitments, the Committee will consider the forthcoming consultation on TCFD by the Department for Levelling Up, Housing and Communities.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **26 July 2022**

Subject Heading:	**CLIMATE RISK PLAN**
CLT Lead:	**Dave McNamara**
Report Author and contact details:	***Debbie Ford Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	**Develop the Fund's plan for addressing climate risk**
Financial summary:	No direct costs

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

Appendix A to this report sets out the next steps in developing the Fund's Plan for addressing climate risk within the Fund's investment portfolio.

The Committee's Business Plan for 2022/2023 includes the development of a broader climate action plan.

RECOMMENDATIONS

That the Committee:

Consider and agree the next steps in developing the Fund's plans for addressing climate risk as set out in Hymans Report at **Appendix A.**

REPORT DETAIL

1. The Fund's Investment consultant (Hymans) have set out the possible next steps in developing the Fund's plans for addressing climate risk in their report attached as Appendix A.

2. Hymans will discuss these possible next steps with the Committee and ascertain any additional actions that need to be taken to meet the Fund's requirements.

3. **BACKGROUND**

a. The Committee has established and published a Statement of Investment Beliefs and a Responsible Investment policy, which are included in the Fund's Investment Strategy Statement (ISS). This reflects the broad views of committee members on investment, Environmental, Social, Governance (ESG), and climate matters.

b. For those members new to the Pensions Committee I have included the link to the ISS for reference, which can be found on the Councils website by selecting the link as follows: - https://www.havering.gov.uk/downloads/download/368/pension_fund_investment_strategy_2017_statements

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

d. Climate factors were a major consideration in developing the ISS, which was agreed on the 29 July 2020 and in particular have implemented the following changes:

- 16 March 2021- agreed to invest in a *London Collective Investment Vehicle (LCIV) renewable energy infrastructure fund
- 14 September 2021 – agreed to switch assets from the LCIV Global Alpha Fund to the LCIV Global Alpha Paris Aligned variant
- 20 July 2021 – agreed to invest 10% of the Funds' assets into the Legal and General Investment Management (LGIM) Future World, which is an equity allocation with a climate-tilted focus.
- 03 December 2021 – Agreed to invest 5% of its passive equity investments the LCIV Passive Equity Progressive Aligned (PEPPA) Fund
-

e. * The LCIV is the Funds mandatory pooling agent that was initially established in 2015 as a voluntary collaborative venture by the London Local Authorities to pool/invest the assets of the London Local Government Pension Scheme. In line with Central Governments vision to reduce investment costs but maintain performance levels, it has been a mandatory requirement to pool assets since 2016.

f. The Fund included its first high-level report in the 2020/21 Annual report and Accounts in line with the Taskforce on Climate-related Financial Disclosures (TCFD). The second report appears elsewhere on this agenda.

g. The Committee's Business Plan for 2022/23, which was agreed at its meeting on the 15 March 2022, includes the development of a broader climate action plan

h. The committee attended a climate risk workshop in November 2021. This workshop provided background on the climate change for pension funds and provided guidance on identifying and addressing the climate-related risks across the Fund's investments portfolio. The workshop also expanded on different ways of assessing exposure to climate-related risks and how this could be used in order to set relevant ESG targets and escalate management with investee companies on climate-related topics.

i. The workshop also included a review of the action taken by the LCIV in how they are addressing climate risk.

j. LCIV has engaged a third party Trucost to provide Climate Reporting at the Fund level, including the measurement of climate related metrics. This climate reporting will be rolled out as an option for LCIV clients to purchase for use in climate reporting of investment portfolios not held with the LCIV.

k. The Climate Risk Plan follows on from the climate risk workshop. This Plan is to establish a baseline position for change and from then on, the Fund will focus on specific areas and frame objectives and targets for change. The Fund will be able to develop and implement a plan to address climate-related risks and monitor and report these over time

IMPLICATIONS AND RISKS

Financial implications and risks:

Climate related risks and broader environmental, social and governance (ESG) factors are a source of financial and reputational risk.

The Committee has established and published a Statement of Investment Beliefs, which reflects the broad views of committee members on investment, ESG and climate matters. These beliefs are documented in the Investment Strategy Statement and include financial materiality of climate risk.

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

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HYMANS ROBERTSON

London Borough of Havering Pension Fund

Climate risk plan

June 2022

- Simon Jones, Partner
- Mark Tighe, Associate Investment Consultant

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 develop the Fund’s plan for addressing climate risk. This paper follows on from the climate risk workshop the Committee held in November 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.

Committee belief

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

Climate risk plan

Build knowledge and understanding	Baseline position for change	Create focus areas and frame objectives/targets	Build and implement a plan	Monitor, evolve and report
November 2021 climate risk workshop	*Focus of today's discussion*			

Be prepared to learn from others

- Set minimum expectations
- Clearly defined goals
- Willing to advocate for change
- Prepared to work with others
- Accepting that tools and data will evolve
- Transparent in activity
- Investing in solutions

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TCFD update

TCFD and the LGPS

- DLUHC to issue consultation on TCFD reporting requirements – initially expected summer 2021, but now expected later in 2022. Consultation likely to cover the following areas:
  - **Scope and timing -** will require all funds to comply regardless of size
  - **Governance –** requirement to establish and maintain oversight and management of climate related risks and opportunities (roles and responsibilities/processes)
  - **Strategy –** identify short, medium and long term risks and opportunities, assess impact of climate related risks and opportunities including use of scenario analysis
  - **Risk –** clear process for identifying and assessing climate related risks – concise information on risk tools used and how risks have been identified and managed, both transition and physical
  - **Metrics and targets –** minimum of one absolute emissions metric, one emissions intensity metric or one additional climate change metric. One metric must be used as a target and reported annually
  - **Knowledge and understanding –** guidance and best practice on knowledge, requirement to take proper advice
  - **Disclosure –** annual report to be published and accessible through public website, potentially free standing. SAB will also publish a scheme wide report annually

Requirements structured around four themes…

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TCFD recommendations are structured around **four thematic areas** that represent core elements of how organisations operate**:**

- **Governance:** Disclose the Fund's governance around climate-related risks and opportunities
- **Strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the Fund where such information is material
- **Risk management:** Disclose how the Fund identifies, assesses, and manages climate-related risks
- **Metrics and targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

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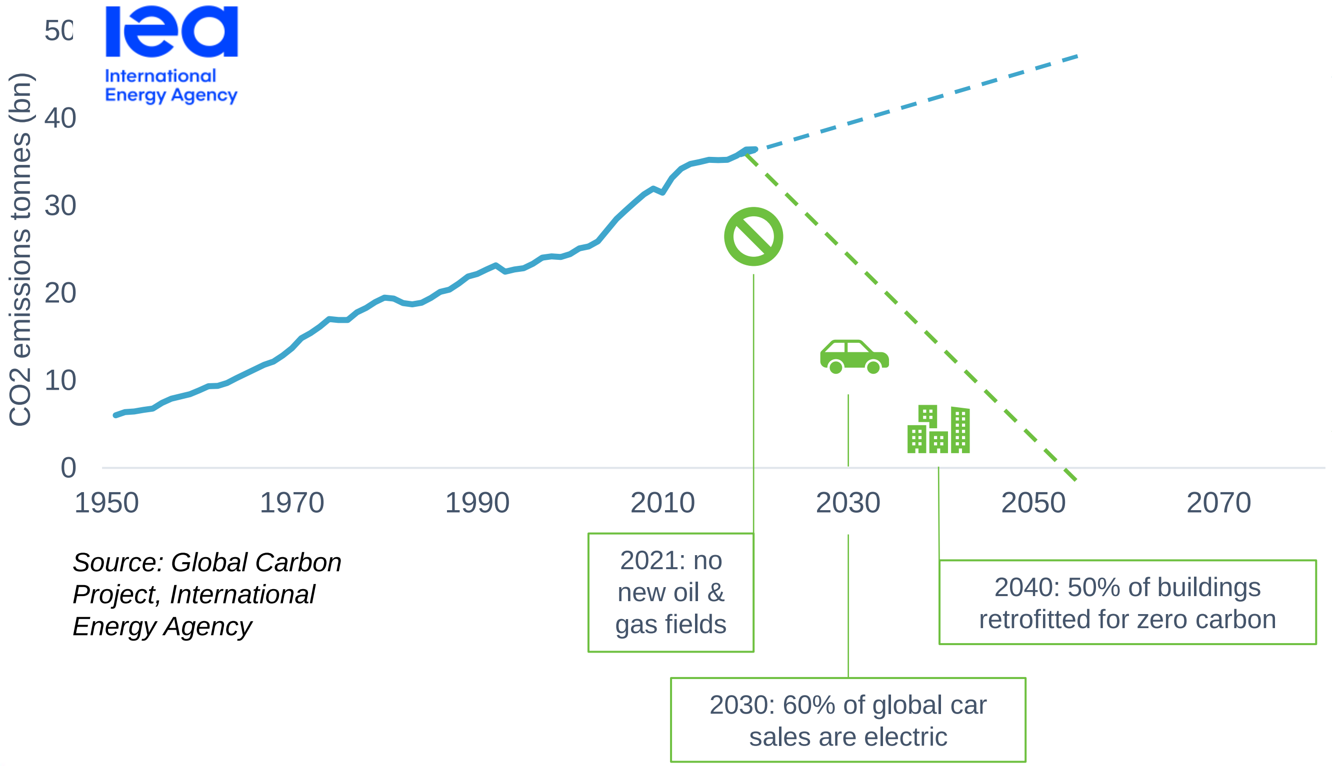
Taking next steps on climate change

What is "net zero"?

“Net zero” means reaching a state of the world where there is a balance between the greenhouse gases human activity discharges into the atmosphere and the emissions that can be safely absorbed by natural processes or which are otherwise removed. Policy pathways towards net zero will determine the nature of the climate risks faced by asset owners.

As shown in the chart below, carbon emissions have rapidly increased in the last 70 years and the change required to achieve net zero is huge, and is therefore likely to be a key driver of risk and return in future.



Source: Global Carbon Project, International Energy Agency

Limited policy action
>2 degree warming by 2100
Significant **physical** risks

Strong policy action:
<2 degree warming by 2100
Significant **transition** risks

Pathways create stranded assets

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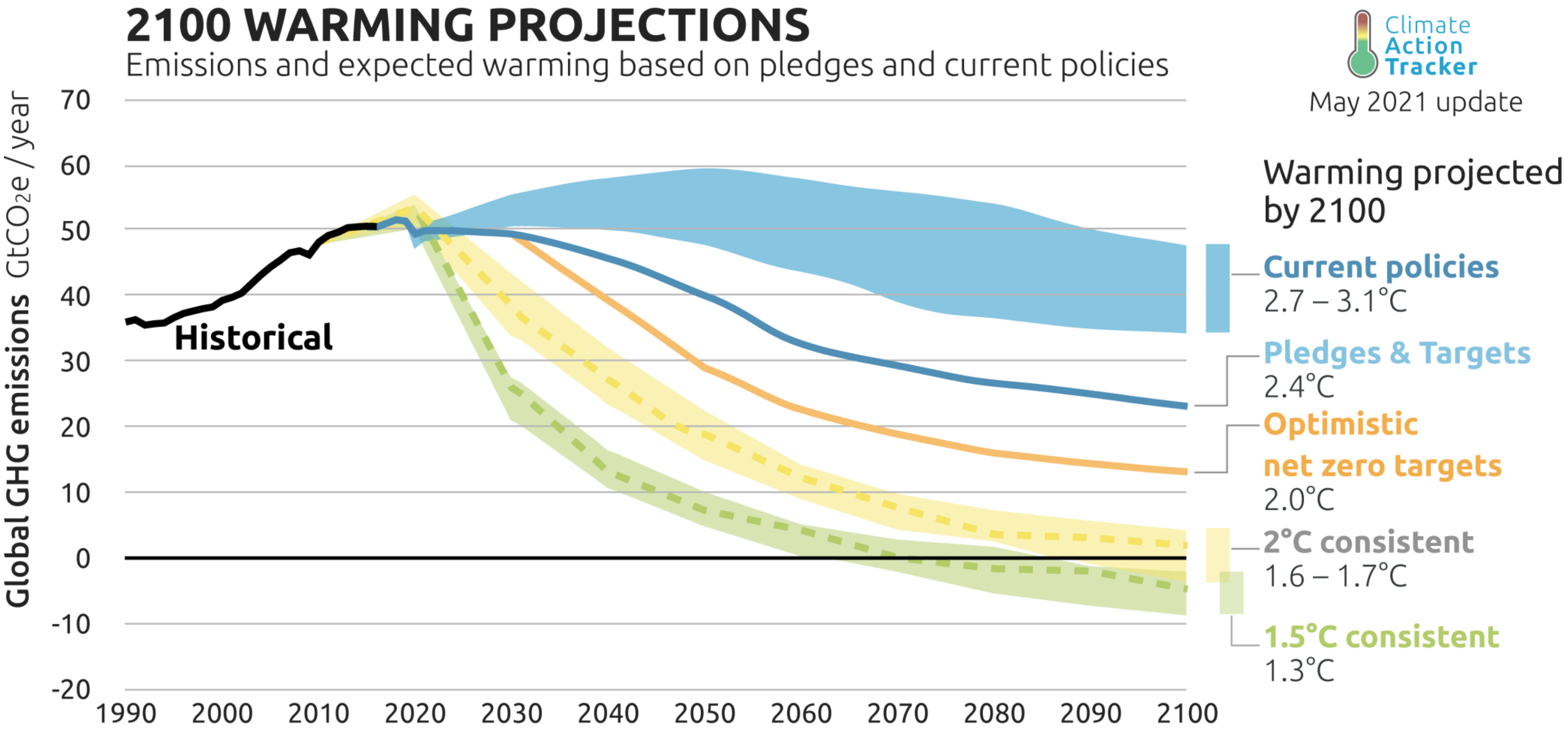
Global warming- the need for Net Zero targets



Source: Climate Action Tracker (May 2021 briefing)

Global carbon budget

The **IPCC** estimate that the world can emit:

- 400 GtCO2e for a 67% chance of staying below 1.5°
- 500 GtCO2e for a 50% chance of staying below 1.5°
- 1,150 GtCO2e for a 67% chance of staying below 2°

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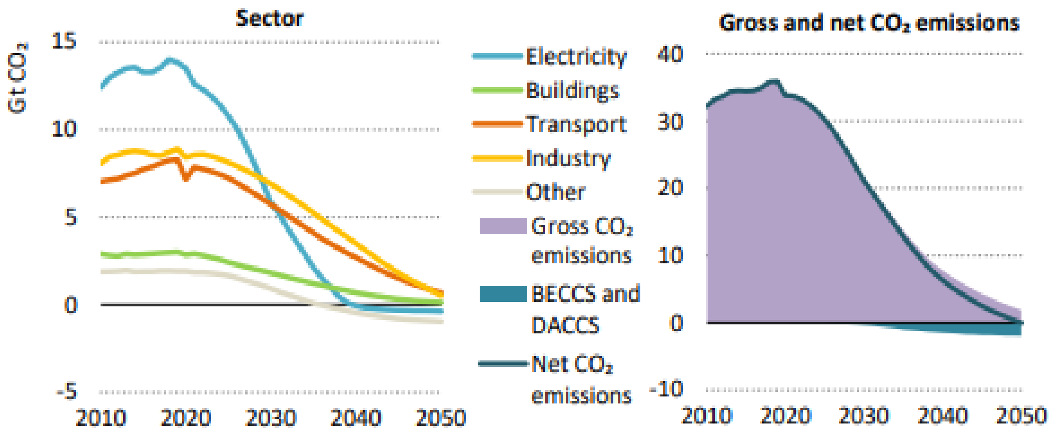
The **MSCI Net-Zero Tracker** report estimates that:

- Remaining carbon budget for publicly listed companies is c58 GtCO2e (scope 1 only)
- The estimated direct (scope 1) emissions of listed companies are currently 11 GtCO2e per annum
- At the current rate, listed companies will burn through their share of the global carbon budget for keeping temperature rise below 1.5°C by Nov 2026

Global net-CO2 emissions by sector and CO2 emissions for Net Zero pathway



Source: UN Emissions Gap Report

Alignment with goal of limiting temperature increases

Source: MSCI Net-Zero Tracker Report

Some key decarbonisation challenges

- The Committee must not lose sight of its primary obligation to pay benefits to the members of the Fund, including consideration of any associated risks
- Decarbonising a portfolio which is invested globally, across many sectors, is more challenging than decarbonising individual, carbon-light organisations
- Decarbonising whole economies without causing grave damage to individuals prosperity and standard of living will take many years; a balanced approach (a just transition) is required
- Switching to a low carbon portfolio over the short term will not necessarily support the global transition to net zero
- Measuring climate risk effectively remains challenging particularly in private markets
- Effective management of climate change will involve capturing opportunities as well as mitigating risks
- Effective engagement is harder than divestment, but more constructive
- Robust investment solutions are only now becoming available

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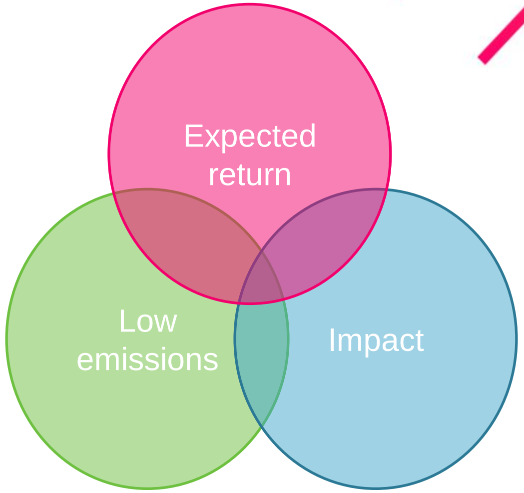

Achieving a good balance is key

Sustainable investment can be about more than limiting climate change

Local government pension scheme net zero targets

- Funds with stated targets are split as follows:
  - 2030 – 3 Funds
  - 2037 – 1 Fund
  - 2040 – 2 Funds
  - 2045 – 3 Funds
  - 2050 (or “2050 or earlier”) – 18 Funds

- 33 Funds have not set a net-zero target date
  - Of these, 8 have stated they expect to set a target date with the next 12 months
  - 3 have stated they are waiting for the government’s consultation on climate reporting (expected this summer) before deciding to set a target

Source: Local Government Chronicle – publication date 10 March 2022

Net zero framework overlaps with TCFD

Governance and strategy

- Commit to goal of net zero emissions by 2050 or sooner
- Define beliefs and set strategy/objectives for managers & others
- Undertake risk assessment in line with TCFD
- Publish clear action plan and disclose information in relation to net zero goal

Targets & Objectives

- Set medium term emissions reduction (<10 years)
- Set medium term climate solutions targets (<10 years) and define measurement basis
- Set asset class targets for % AUM in material sectors achieving or aligned to net zero
- Set engagement goal for % financed emissions in material sectors subject to stewardship

Implementation

- Use appropriate portfolio construction approaches to build climate aligned strategy
- Clear climate aligned engagement/voting plan with escalation
- Use of selective divestment based on cliamte related financial risks

Strategic Asset Allocation

- Update capital markets assumptions based on scenario analysis
- Use broader range of climate metrics to set objectives and strategy
- Set asset class mix with climate variants
- Review constraints to increasing alignment

Advocacy & Engagement

- Advocate for net zero policy, regulation, disclosure and shareholder rights
- Engagement with asset managers
- Engagement with other market actors

TCFD and Net Zero metrics

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Emissions metrics

- TCFD for absolute and intensity metrics
- Net zero – reduction targets covering equity, corporate debt and real estate
- Evidence of how the targets are determined

Alignment metrics

- TCFD expectation around measuring alignment with Net Zero/Paris trajectory
- Measure at an individual mandate level and determine allocations that are aligned/misaligned to net zero trajectory
- Identify individual holdings that are misaligned and engage with managers. Set target for engagement

Climate solutions

- No TCFD expectation around solutions, although could be an additional metric
- Need to define climate solutions and what is encompassed by this
- Net zero framework suggests a target for allocating to climate solutions. Consider as a potential ambition?

Key question to address: Should the Fund set a Net Zero ambition?

Summary and next steps

We suggest the next steps for Committee are as follows:

- Include basic TCFD reporting in the report & accounts for 2021/22, reflecting actions taken over the last year
- Continue to include climate considerations as part of investment decision making – in particular as part of the emerging market equity review later this year
- Assess the Fund’s current position against a series of standard metrics as at 31 March 2022 – this will address ongoing reporting requirements and allow a baseline position to be set
- Consider whether a net zero goal should be set, and if so, what date should be adopted
- Subject to the consultation requirements and Committee decisions, plan what additional actions need to be taken to meet Fund requirements

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Appendix: Current manager position

Current position: Equity/Multi-Asset

Mandate	Mandate integrates climate considerations	Manager a NZAMI signatory	Manager supports Climate Action 100+	Action needed
LGIM Global Equity	No	Yes	Yes	Yes. 5% remaining allocation should be revisited in future.
LGIM Emerging Markets	No	Yes	Yes	Yes. Review of Emerging Market allocation to take place in H2 2022 – climate considerations should be factored into review.
LGIM Future World Fund	Yes	Yes	Yes	No
LCIV Global Alpha Paris Aligned Fund	Yes	No (LCIV) Yes (Baillie Gifford)	Yes (LCIV) No (Baillie Gifford)	No
LCIV PEPPA Fund	Yes	No (LCIV) Yes (State Street)	Yes (LCIV) Yes (State Street)	No
LCIV Absolute Return Fund	Not explicitly	No (LCIV) No (Ruffer)	Yes (LCIV) Yes (Ruffer)	Not immediately. Fund has higher carbon and fossil fuel exposure than benchmark – this may need to be explored further in future
LCIV Diversified Growth Fund	Not explicitly	No (LCIV) Yes (Baillie Gifford)	Yes (LCIV) No (Baillie Gifford)	

Current position: Real Assets

Mandate	Mandate integrates climate considerations	Manager a NZAMI signatory	Manager supports Climate Action 100+	Action needed
UBS Triton Property	No	Yes	Yes	No. Has been ranked highest in its peer group in the Global Real Estate Sustainability Benchmark for the 5th consecutive year.
CBRE Global Property	No	No	No	Not immediately. Still meets the Fund's needs and performs in line with expectation.
JP Morgan Infrastructure	Not explicitly	Yes	Yes	Not immediately. C.25% of the portfolio is invested in renewable energy infrastructure.
Stafford Infrastructure	Not explicitly	Yes	No	No
LCIV Renewable Energy Infrastructure	Yes	No (LCIV) Yes (BlackRock) Yes (Stonepeak) No (Foresight) Yes (Quinbrook)	Yes (LCIV) Yes (BlackRock) No (Stonepeak) No (Foresight) No (Quinbrook)	No

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Current position: Credit Assets and Currency Overlay

Mandate	Mandate integrates climate considerations	Manager a NZAMI signatory	Manager supports Climate Action 100+	Action needed
Royal London Credit	No	Yes	Yes	Yes. Multi-asset credit funds with an ESG focus should be explored.
Churchill Private Debt	Not explicitly	No	Yes (parent company Nuveen)	No
Permira Private Debt	Not explicitly	No	No	No
Russell Currency Overlay	n/a	Yes	Yes	No

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.

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