Public Document Pack

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 25 July 2023	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Havering Residents' Group (2)	Labour Group (1)
Dilip Patel	Philip Ruck (Vice-Chair)	Mandy Anderson (Chairman)
Viddy Persaud	James Glass	
Joshua Chapman	Vacancy	

Trade Union Observers

(No Voting Rights) (2)

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

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

Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.

Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.

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

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

Reporting means:-

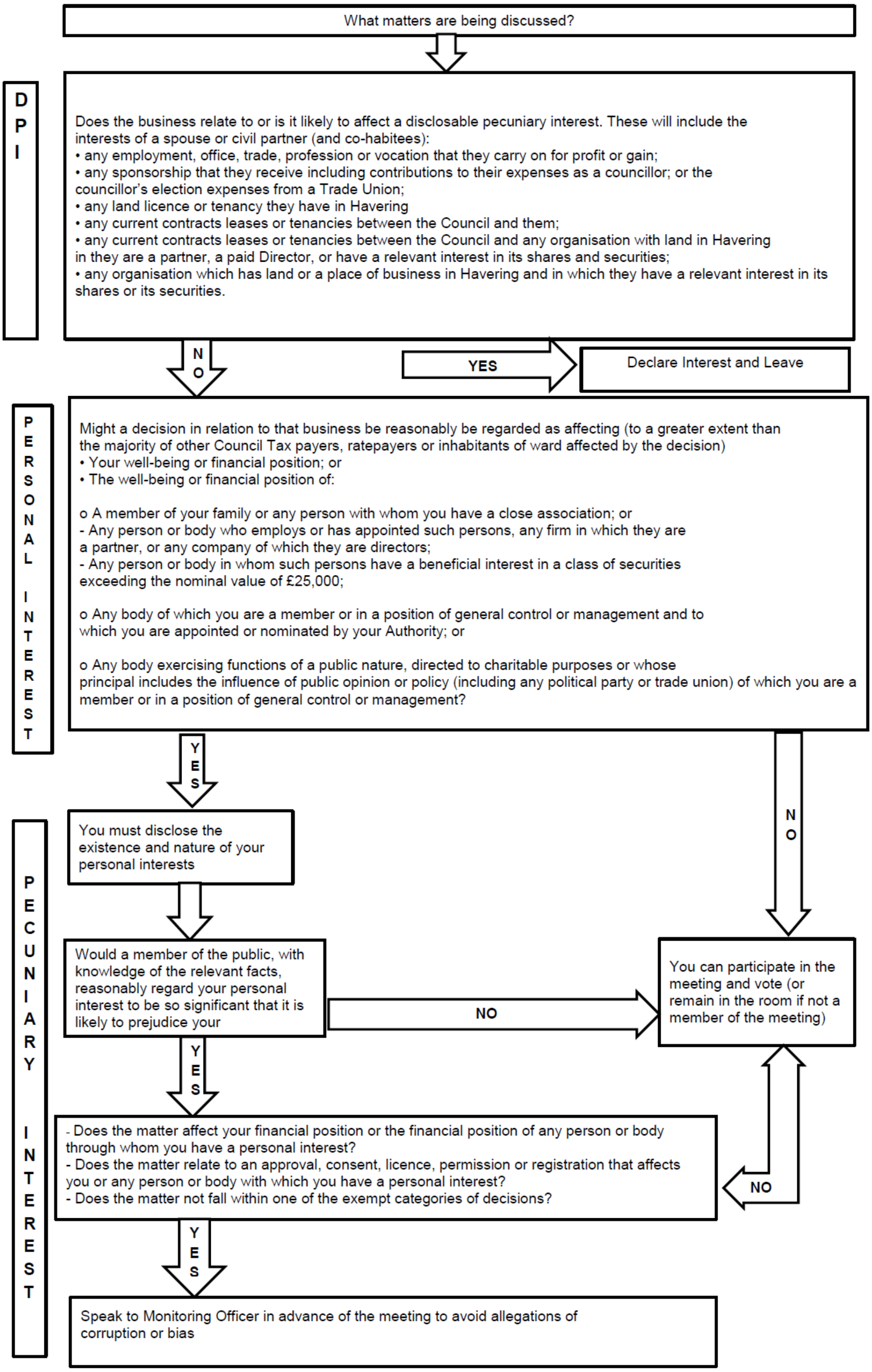
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

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

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

4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 21 March 2023 and authorise the Chairman to sign them.

5 23/24-25/26 BUSINESS PLAN & 22/23 ANNUAL REPORT (Pages 5 - 44)

Report and appendix attached.

6 ADMISISON OF URBASER LTD TO THE PENSION FUND (Pages 45 - 50)

Report attached

7 DRAFT CLIMATE RISK POLICY & ACTION PLAN (Pages 51 - 80)

Report and appendices attached.

8 INVESTMENT STRATEGY UPDATE (Pages 81 - 92)

Report and appendix attached

9 PENSION FUND ACCOUNT 22/23 (Pages 93 - 134)

Report and appendix attached.

10 EXCLUSION OF THE PUBLIC

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

11 PENSION FUND PERFORMANCE MONITORING QUARTER END MARCH 2023

(Pages 135 - 188)

Report and public appendix A and exempt appendices B and C attached

Zena Smith
Head of Committee and Election Services

This page is intentionally left blank

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
21 March 2023 (7.04 - 9.34 pm)

Present:

COUNCILLORS

Conservative Group	Dilip Patel and Viddy Persaud
Havering Residents' Group	Julie Wilkes, Philip Ruck (Vice-Chair) and James Glass
Labour Group	Mandy Anderson (Chairman)
Trade Union Observers:	Derek Scott

All decisions were taken with no votes against.

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

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

Apologies were received from Councillors Robert Benham for the inability to attend the meeting.

276 **DISCLOSURE OF INTERESTS**

There were no declarations of interest.

277 **MINUTES OF THE MEETING 13/12/22**

The minutes of the meeting 13 December 2022 were accepted as a true and accurate record and signed by the Chairman.

278 **MINUTES OF THE LOCAL PENSION BOARD 07/02/23**

The Local Pension Board minutes of 07/02/23 were noted.

279 **EXCLUSION OF THE PUBLIC**

It was agreed that the public should be excluded from the meeting on the grounds that it was likely that, in view of the nature of the business to be transacted or the nature of proceedings, if members of the public were present during these items there would be disclosure to them of exempt information within the meaning of paragraph 3 and 5 of schedule 12A to the Local Government Act 1972.

280 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2022**

The Committee were presented with a report that provided an overview of how the Fund's investments were performing, how the individual Investment Managers were also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ended **31 December 2022**.

It was explained that significant events had occurred after the production of the report and there were addressed further. The Fund increased in value by **£4.53m** over the quarter; however, it underperformed the tactical benchmark by -4.46% and outperformed the strategic benchmark by 5.68%.

Hymans discussed the Fund's performance and various issues that arose from the monitoring of the other managers.

The Committee **agreed** the recommendations.

281 **INVESTMENT STRATEGY UPDATE - CONSIDERATIONS**

The Committee were presented with a report that included a paper produced by the Fund Investment Advisor. Exempt Appendix A set out a follow up on the Fund's Actuarial valuation as at 31 March 2022, reviewing if any changes were necessary to the current Investment Strategy Statement.

The Committee **agreed** the recommendations.

282 **DRAFT CLIMATE RISK POLICY**

The Committee were presented with a report that set out the proposed content of a draft climate transition plan and policy for discussion before the final version would be submitted for approval at a later meeting.

Hymans discussed the outline structure and content of the proposed climate policy and gathered views and feedback with the aim of finalising the policy at the following Committee meeting in July 2023.

The Committee **agreed** the recommendations.

283 **REVIEW OF OVERPAYMENT WRITE OFF POLICY**

The Committee were presented with a report that ensured that it was good practice to ensure the Authority had a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member.

It was explained that the policy was introduced in March 2019 enabling overpayments of pension of less than £250 net following the death of a pensioner or dependant member, where there was no ongoing dependant pension payable, to be automatically written off. This ensured that any overpayments were treated in a fair and equitable manner and it would prevent the administration team seeking individual write off approvals. It was agreed that the policy would be reviewed annually.

Furthermore, during 2021/22, the overpayments written off in line with the policy totalled £4,321.89, which fell within the expected average of £5,000 in any financial year.

The Committee **agreed** the recommendations.

284 PENSIONS ADMINISTRATION BUDGET 2023/24

The Committee were presented with a report on the administration of the Havering Local Government Pension Scheme (LGPS) and it was provided via a shared service agreement with Lancashire County Council (LCC) who delegated the function to the Local Pensions Partnership Administration (LPPA). The report detailed the LPPA's proposed budget for 2023/24 of £0.533m, an overall increase of 2.66% from 2022/23.

The Committee **agreed** the recommendations.

285 REVIEW OF VOTING AND ENGAGEMENT ACTIVITY JUNE 2022

The Committee were presented with a report that was produced by the Fund's Investment Advisor (Hymans), and presented with a summary of the Fund's investment mangers' Voting an Engagement activities over the 12-month period to **30 June 2022.**

The Committee **agreed** the recommendations.

286 ACTUARIAL VALUATION REPORT AS AT 31 MARCH 2022

The Committee were presented with a report that provided the 2022 Actuarial Valuation Report and was prepared by the Fund's Actuary in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
The report set out an actuarial valuation of the assets and liabilities of the pension fund as at 31 March 2022 and also set out the minimum contributions to be paid by each employer from 1 April 2023 to 31 March 2026 as determined by the Fund's Actuary.
The Committee **agreed** the recommendations.

287 **SERVICE REVIEW OF THE PENSION FUND CUSTODIAN OCTOBER 2021 TO 30 SEPTEMBER 2022**

The Committee were presented with a report that reviewed the performance of the Custodian, Northern Trust, for the period 1 October 2021 to 30 September 2022.

The Committee **agreed** the recommendations.

288 **VARIOUS ADMISSIONS INTO HAVERING PENSION FUND**

The Committee were presented with various admissions into the Havering Pension Fund. Approval for Kindred, May Harris Multi Services and Mears Group were sought for admission into the Havering Pension Fund.

The Committee **agreed** the recommendations on all 3 reports.

____

Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 25 July 2023

Subject Heading:	**2023/24-2025/26 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2022/23**
SLT Lead:	**Dave McNamara**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager (Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	**A Business plan demonstrates compliance against Myners' principles for effective decision making**.
Financial summary:	**Any associated costs met by the Pension Fund**

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

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

SUMMARY

This report sets out the work undertaken by the Committee during 2022/23 and the plan of work for the forthcoming three years, attached as **Appendix A**. This will form the basis of a rolling Pension Fund Business Plan 2023/24 – 2025/26.

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

RECOMMENDATIONS

That the Committee:

1) Note the report on the work of the committee for 2022/23 and the updated three year rolling 2023/24 - 2025/26 Business Plan (Appendix A refers)

2) Consider any additions to the work plan for the Committee for 2023/24 and beyond (Section 3 within this report refers),

REPORT DETAIL

1. Background

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

1.2 The new Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles but the Committee agreed to still publish and explain compliance against these principles. This was published with the new Investment Strategy Statement in July 2020.

1.3 To meet best practice it is appropriate to continue to prepare a report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan.

1.4 In line with the Council's Constitution – Part 4 Rules of Procedure Ordinary meetings of the Council will receive reports for the previous year activity from the Chair of the Pensions Committee; this meeting is scheduled for the 12 July 2023.

1.5 In order to meet the Councils democratic report clearance deadlines for the Full Council meeting on the 12 July 2023, the Business Plan/Report of the work of the Committee was agreed by the Chair of this Committee in advance of this Committee meeting. The Committee is therefore recommended to note the report on the work of the committee for 2022/23 and that it will be referred to the Full Council meeting for consideration.

1.5 The Business Plan, compiled in line with CIPFA guidance "Principles for Investment Decision Making & Disclosure in the LGPS" suggests that the Business Plan is submitted to the committee for consideration and should contain:

a) Major milestones & issues to be considered by the Committee
b) Financial estimates – investment and administration of the Fund
c) Appropriate provision for training
d) Key targets & methods of measurement
e) Review level of internal & external resources the committee needs to carry out its functions
f) Recommended actions to put right any deficiencies.

2. Training

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

a) To consider and agree the Investment Strategy Statement for the Pension Fund and subsequently monitor and review performance
b) Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
c) To appoint and review the performance of advisers and investment managers for pension fund investments
d) To take decisions on those matters not to be the responsibility of the Executive under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning The Local Government Pension Scheme.

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

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

2.4 A joint training strategy that incorporates Pension Committee member training with LPB members to keep officer time and training costs to a minimum, was developed and previously agreed by the Pensions Committee on the 24 November 2015 and the LPB on the 6 January 2016. The current policy requires updating in order to incorporate guidance following the Good Governance review and the conclusion of The Pensions Regulator (TPR) New Code of Practice. Once guidance has been published a report will be presented to the Pensions Committee and a new training strategy will then be developed.

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

2.6 During 2022/23 the Pension Fund subscribed to the LGPS Online Learning Academy (LOLA) v1 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 current Code of Practice 14. LOLA v1 has been upgraded and the fund will adopt version 2 during 2023/24 to ensure that members continuous knowledge and development.

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

3. Work Plan for 2023/24 and beyond

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

a) Continued development of Climate Risk Policy – setting objectives, approach, implementation and monitoring/ reporting
b) Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance
c) Implementation of the interim and long-term Investment strategy
d) Consider Local investment (ongoing considerations at present)
e) Potential consideration of Private Equity investment (consider alongside local investment)

f) London CIV Pooling progression/Continued consideration of transfer of assets to the London CIV (particularly Multi Asset Credit, Index linked assets)
g) Equity portfolio review – including review of emerging market allocation and reflecting net-zero related commitments
h) Climate related engagement
i) Annual Governance review of London CIV
j) Consideration of reallocating into Private Debt/Infrastructure close ended funds
k) Planning for Hymans/SAB Good Governance guidance compliance - once guidance is issued
l) Planning for TPR New Code of practice compliance once issued
m) New training policy to reflect Good Governance and TPR compliance
n) Administration issues i.e. ongoing work associated with the McCloud ruling – readiness for Pensions Dashboard
o) New Employer admissions
p) Covenant Risk Review
q) SAB developments
r) Consideration of LGPS Regulation changes and consequential policy, as applicable
s) Topical issues discussed as appropriate
t) Continued training and development
u) Consideration of LGPS Regulation changes and consequential policy, as applicable
v) Topical issues discussed as appropriate
w) Potential member inductions for new Pension Committee members
x) Continued training and development

3.2 The above list is not exhaustive and Members are asked to consider if there are any other areas of work that they require to be included.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs of providing the administrative and financial support and associated costs are reimbursed to the Administrating Authority by the Fund.

There is a considerable risk of poor decision making if Members of the Committee are not adequately trained and it is therefore essential that resources are made available to fulfil appropriate training requirements. Training costs are met from the Pension Fund directly or via the Advisor Fee.

Legal implications and risks:

The Councils constitution provides at Part 4.5 para 2(h) that the meeting of full Council shall:

(h) receive reports for the previous year from the Chairmen of the Overview and Scrutiny Committees, the Audit Committee and the Pensions Committee:
(i) except in the year when there are Borough Elections, at the first ordinary meeting in the Municipal Year; and
(ii) in the year when there are Borough Elections, at the last ordinary meeting before those elections;

The Report at Appendix A is therefore the proposed version to be presented to Council.

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

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

Human Resources implications and risks:

None arising directly.
Equalities implications and risks:

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

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

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

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

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

BACKGROUND PAPERS

None

Havering
LONDON BOROUGH

HAVERING PENSION FUND

2023/26 BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2022/23

INTRODUCTION

This is the Business Plan for the London Borough of Havering Pension Fund (the 'Fund'). Havering Council is an Administering Authority under Local Government Pension Scheme (LGPS) Regulations and as such has delegated authority for this to the Pensions Committee.

The Business Plan sets out the work undertaken by the Committee during 2022/23 and the plan of work for the forthcoming three years. The Business Plan is reviewed and updated annually.

This is the first report of the newly elected Pensions Committee, following the local elections in May 2022. It also includes the work undertaken for the period 1st January 2022 to 31 March 2022 by the previous committee, which was omitted from last year's report due to its earlier production to meet Council reporting deadlines before the May elections.

The Business Plan, in line with CIPFA guidance "Principles for Investment Decision Making & Disclosure in the LGPS" outlines:

- Key Targets and Methods of Measurement
- Review level of internal & external resources
- Financial Estimates
- Major milestones and issues considered and to be considered
- Appropriate provision for Training
- Any recommendations actions to put right any deficiencies.

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

KEY TARGETS & METHODS OF MEASUREMENT

The Fund invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund consists of 56 employers with active members, of which the London Borough of Havering is the largest. The other employers in the Fund are made of up of 41 Scheduled bodies (Academies and Further Education bodies) and 14 Admitted bodies (13 outsourced contracts and one resolution body).

Pension Fund – Funding

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2022/23 based on data as at 31 March 2022. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years with the results of the 2022 valuation effecting employer contribution rates from 1 April 2023.

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process, the Fund reviews its funding and investment strategies to ensure that an appropriate contribution plan is in place. The Fund also monitors the funding position at the midway point between triennial valuations. which will be at 30 September 2023. The purpose of the funding update is to assess whether the funding plan is on track and take actions if necessary. A comparison of funding levels can be seen below:

Table 1 - Comparison of funding levels:

Ongoing funding basis	**31 March 2019**	**31 March 2022**
	£m	**£m**
Assets	733	920
Liabilities	1,054	1,149
Surplus/(deficit)	**(321)**	**(229)**
Funding level	**70.0%**	**80.0%**

Improvement to the funding position is mainly attributable to better than expected investment returns.

Investment Strategy Development & Performance Monitoring:

The Investment Strategy Statement (ISS) was updated on the 29 July 2020 to reflect the decisions and progression of the implementation of the investment strategy made by the Committee since its launch.

Following the 29 July 2020 meeting, the Committee considered and agreed further developments/implementation in the investment strategy at its meetings on the 1 October 2020, 16 March 2021, 20 July 2021 and 14 September 2021. Implementation of this ISS has largely been met with no significant movement during 2022/23.

Following the Fund's Actuarial Valuation as at March 2022 a review of the current ISS was carried out to ensure that it remained appropriate to meet its long term objectives, this being to ensure that the assets are invested to secure funding for member's benefits. Conclusion of the review identified the need to shift towards “increased income” investments as part of any investment strategy changes. An outline of these considerations was presented to the Committee at its meeting on the 21 March 2023.

Following on from those discussions, the ISS will be presented to the Committee for ongoing updates during 2023 and beyond.

The Fund has continued to fund capital calls for the Private Debt and Infrastructure mandates during the year to 31 March 2023. Amounts paid and waiting to be called are as follows:

Table 2 – Capital Calls paid and outstanding

Investment Manager	Mandate	Amount Paid £000	Commitments outstanding* £000
Stafford II	Infrastructure	nil	2,803
Stafford IV	Infrastructure	8,092	10,671
LCIV Renewables	Infrastructure	2,591	16,482
Churchill II	Private Debt	1,250	1,483
Churchill IV	Private Debt	8,062	6,987
Permira PCS4	Private Debt	3,528	4,860
Permira PCS5	Private Debt	12,521	32,250
JP Morgan	Infrastructure	12,000	nil
Total		**48,044**	**75,536**

*Includes recallable income

Asset Allocations

The asset allocations as at 31 March 2023 are shown against the long-term target below together with individual fund manager benchmarks:

Table 3 – Asset Allocations

Asset Class		Target Allocation %	Actual Allocation 31 March 2023 %	Benchmark and Target
Equities		**40.0**	**38.6**	
Legal & General Investment Management (LGIM) Passive Global Equity	LCIV aligned	5.0	3.9	FTSE All World Equity Index
LGIM Passive Emerging Markets	LCIV aligned	5.0	4.1	FTSE World Emerging Markets
LGIM Future World Fund	LCIV aligned	10.0	10.5	FTSE AW ex CW Climate Balanced Factor Index
Baillie Gifford Global Alpha Paris Aligned Fund	LCIV	15.0	15.2	MSCI ACWI by 2- 3 % p.a. over a rolling 5 five year period Plus have a weighted average greenhouse gas intensity that is lower than MSCI ACWI EU Paris Aligned Requirement index
State Street Passive Equity Progressive Paris Aligned Fund (PEPPA)	LCIV	5.0	4.9	Developed EX-Korea Large Midcap Net Zero 2050 Paris aligned ESG Index
Multi-Asset		**20.0**	**20.4**	
Baillie Gifford (Diversified Growth Fund)	LCIV	7.5	7.4	Bank Base Rate +3.5%
Ruffer Absolute Return	LCIV	12.5	13.0	Preserve and grow capital (LIBOR +4% p.a.)
Real Asset		**20.0**	**19.1**	
UBS UK Property	Non LCIV	6.0	5.7	Match MSCI All Balanced Funds Weighted Average Index
CBRE Global Property	Non LCIV	4.0	3.9	CPI +5%% p.a. (net of fees)
Stafford II & IV Global Infrastructure	Non LCIV	3.5	4.1	CPI +5%% p.a. (net of fees)

Asset Class		Target Allocation %	Actual Allocation 31 March 2023 %	Benchmark and Target
JP Morgan Infrastructure	Nov LCIV	4.0	4.1	CPI +5%% p.a. (net of fees)
Renewable Energy Infrastructure	LCIV	2.5	1.3	CPI +5%% p.a. (net of fees)
Bonds and Cash		**20.0**	**21.9**	
Royal London Index Linked Bonds	Non LCIV	5.0	3.0	40% FTSE Index Linked over 5 Year index.
Royal London Multi Asset Credit	Non LCIV	7.5	6.8	• 50% ICE BAML, BB-B Index • 50% Credit Suisse US Leveraged Loan Index GBP Hedged
Churchill II & IV Private Debt	Non LCIV	3.0	4.1	Outperform cash + 4% p.a
Permira PCS4 & PCS5 - Private Debt	Non LCIV	4.5	4.9	Outperform cash + 4% p.a
Currency Hedging	Russell	0.0	0.1	Hedge100% of EUR,USD and AUD currency (non-equity)
Cash	n/a	0.0	3.0	n/a
TOTAL		**100.0**	**100.0**	

Capital commitment calls will continue to be met during 2023/24 and beyond.

Overweight allocation to cash or asset allocations will be considered for reinvestment or settlement of capital calls.

In line with the ISS, when the Fund allocation deviates by 5 percentage points or more from the strategic allocation, the assets will be rebalanced back to within 2.5 percentage points of the strategic asset allocation.

As at 31 March 2023 the total value of assets with the London CIV is £373m which represents 42% of assets under direct management (2021/22 46%). The London CIV has a business arrangement with LGIM to deliver the passive global mandate; this can be classified as being held within the London CIV for pooling purposes so the allocation increases to £538m. Overall allocation to LCIV is 61% (2021/22 64%). Reduction relates to fall in market values and some asset allocation rebalancing.

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Department of Levelling Up, Housing and Communities (DLUHC) timelines.

Fund Performance

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

Strategic Benchmark - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit.

Tactical Benchmark - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

The Fund uses the performance measurement services from Northern Trust, to provide comparative statistics on the performance of the Fund for its quarterly monitoring.

The overall net performance of the Fund as at 31 March 2023 against both benchmarks is shown below:

Table 4 – Fund Performance

	1 year to 31.03.23 %	3 Years to 31.03.23 %	5 years to 31.03.23 %
Fund Return	(3.59)	7.99	5.09
Tactical Benchmark	**0.73**	**8.41**	**5.97**
Performance	(4.32)	(0.42)	(0.89)
Fund Return	(3.59)	7.99	5.09
Strategic Benchmark	**(24.53)**	**(5.67)**	**(1.31)**
Performance	20.94	13.67	6.40

Source: Northern Trust
Totals may not sum due to geometric basis of calculation and rounding

Investment Strategy - Climate Considerations:

The Committee recognises the long-term financial risks and opportunities presented by climate change and during 2021/22 had already taken steps to address climate risk in a number of ways, mainly moving some of its equity investments to low carbon aligned portfolios and commenced investing in renewable energy infrastructure. The Committee will continue to include climate considerations as part of investment decision making.

The Committee's Business Plan for 2022/23, agreed at its Pensions Committee meeting on the 15 March 2022, included the development of a broader climate risk management action plan. The progress made in developing this plan is outlined as follows:

a. 26 July 2022 Pensions Committee meeting - the Committee received a presentation setting out the possible next steps in developing the Fund's plans for addressing climate risk within its portfolio. This plan will be used to establish a baseline position enabling the Fund to frame objectives and targets for change.

b. 20 September 2022 Pension Committee meeting - the Committee was presented with a baseline assessment of several carbon metrics, which identified gaps in data and set out those asset types where data is harder to collect and measure. Assessing the Fund's current position against a series of standard metrics will address ongoing reporting requirements.

c. 13 December 2022 Pensions Committee considered the indicative plans/actions and timescales in developing the Fund's plans for embedding climate risk management into the Fund.

d. 6 March 2023 - An education session on climate metrics was delivered to the Committee, in preparation for the discussions on setting objectives and goals for inclusion in the climate risk policy.

e. 21 March 2023 Pensions Committee discussed and agreed the draft outline of the Climate Risk Policy content and agreed to fully develop the policy, which is being presented at this committee meeting. The Policy will set out the Committee's approach to addressing climate related risks, its goals and any associated actions for delivery. The Committee will then monitor exposure to climate related risks within its portfolios on an annual basis

Comments on Fund performance from the Fund's Investment Advisors:

The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term.

The current funding approach implies a target investment return of 3.5% p.a. (as stated in the latest actuarial valuation date as at 31 March 2022). This target investment return is a slight increase from the 3.3% p.a. stated in the previous actuarial valuation (as at 31 March 2019).

Over the 12-month period to 31 March 2023, the Fund delivered negative returns in absolute terms and underperformed the tactical benchmark. However, over this period returns were comfortably ahead of the strategic benchmark. Over longer time periods of 3 years and 5 years to 31 March 2023 the Fund experienced strong asset growth, with investment performance returns of 8.0% p.a. and 5.1% p.a. respectively – marginally underperforming the tactical benchmark but comfortably ahead of the target investment return and strategic benchmark. Therefore, over longer time periods the Fund remains ahead of the longer term returns sufficient to support affordable and stable levels of contributions.

The negative investment performance (in absolute terms) over the 12-month period was primarily driven by the Fund's active equity, multi-asset credit and index-linked gilt allocations. High inflation and significant and rapid interest rate rises negatively impacted these allocations, causing valuations to fall.

The primary contributor to the Fund's underperformance relative to the tactical benchmark over the 12-month period was its multi-asset allocation. The multi-asset mandates have material exposure to global equity and credit markets, both of which underperformed the 'Cash Plus' style benchmark these mandates are measured against.

The Committee took further steps to develop the Fund's Climate Plan, building on the actions already taken to address climate risk. The Committee agreed key actions to embed climate risk management into the Fund's investment strategy over 2023, such as; completing a climate metrics baseline assessment of the Fund's existing investments, drafting and developing a climate risk management policy and agreeing a net zero target date (and the climate metrics to monitor progress towards this over time).

Implementation of the previously agreed changes in the investment strategy have continued over the year and have seen the allocation to the corporate bonds mandate wound down and a further allocation to private debt added in order to maintain the Fund's strategic benchmark allocation.

Additionally, towards the end of the Fund year (following the Fund's 2022 actuarial valuation) the Committee agreed some changes to the Fund's investment strategy in order to further improve the efficiency of the strategy and aim to capture investment opportunities. The

Committee agreed to fully disinvest from the LCIV Diversified Growth Fund and, as an interim step, invest the proceeds with a further 2.5% to infrastructure and 5.0% to a new investment grade credit allocation. When deemed appropriate, the Committee have agreed that the 5.0% credit allocation be transferred to a longer-term target increase in multi-asset credit and private debt – with a 2.5% increase to each allocation. Implementation of these changes will begin during the 23/24 Fund year.

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

Cyclical coverage of manager monitoring is set out in **Annex B.**

INTERNAL & EXTERNAL RESOURCES

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

Following the outcome of the Local Elections in May 2022, new committee members were appointed to the Pensions Committee, which reflects the political balance of the Council. The structure of the Committee (those responsible for decision making during the year to 31 March 2023, are as follows:

Labour Group
Cllr Mandy Anderson (Chair)
*Cllr Matthew Stanton (up until December 2022)

Conservative Group:
Cllr Robert Benham
Cllr Dilip Patel
Cllr Viddy Persaud

Havering Residents' Group
Cllr Julie Wilkes
Cllr Philip Ruck (Vice-Chair)
*Cllr James Glass (from December 2022)

Other
Union Members (Non-voting) x 2 - Derek Scott (Unison) and Vacant (GMB)
Admitted/Scheduled Body Representative (voting) (currently vacant)

*Due to a Councillor changing political parties an adjustment was made to the political allocation of representatives who sit on the Pensions Committee from December 2022. This resulted in the Labour Group losing one seat (Cllr Matthew Stanton) and the Havering Residents Group gaining one seat (Cllr James Glass).

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

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership Administration (LPPA) to undertake their pension's administration.

The Pensions Committee is supported by the Administrating Authority's Finance and Administration Services (oneSource) and the associated costs are reimbursed to the Administrating Authority by the Fund.

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

Pensions Administration - The LPPA is responsible for all aspects of the Fund administration including calculating benefits, processing joiners and leavers, record amendments, end of year returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. LPPA engagement team is responsible for communications and training for Scheme employers and pension scheme members.

At a Pensions Committee meeting held on the 21 March 2023, members reviewed and agreed the 2023/24 budget for the Pensions Administration contract.

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

The financial information can be seen in Financial Estimates section.

Accountancy and Investment support - The Pensions and Treasury team within the oneSource Finance Service supports the Pension Fund and consists of an establishment of 2.4 full time equivalent posts (3 officers). They ensure that members of the committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

As part of the succession planning two graduates, on a six monthly rotation, were introduced into the section during 2022/23.

FINANCIAL ESTIMATES

The financial accounts of the Havering Pension Fund for 2022/23 is included in the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

In line with the Chartered Institute of Public Finance & Accountancy (CIPFA) LGPS Management Costs guidance, Management costs are shown split between three cost categories as follows:

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

	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Administration & Processing*	674	745	728	735	735	735
Other Fees (Levies)	8	10	8	10	10	10
Other Costs (Interest)	27	20	70	30	30	30
Income	0	0	(79)	0	0	0
TOTAL	**709**	**775**	**727**	**775**	**775**	**775**

Please note the following regarding the above figures:

- Administration & processing costs include the Pension Administration Contract LPPA, Project & Contract manager, payroll & legal charges and ad hoc project costs.
- 2022/23 increase in interest payments reflects the late processing of pension payments whilst our administrator LPPA undertook transition of data to their new system and an increase in interest rates
- 2022/23 Income relates to a one-off exercise to clear down income held in the balance sheet in relation to pension recoveries. Future income will offset payments to pension benefits.
- No allowances for inflation after 2023/24

2. Investment Management expenses

These costs will include any expenses incurred in relation to the management of Fund assets.

Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change.

	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Fund Manager Fees	3,954	3,500	4,109	4,000	4,000	4,000
Performance Related Fees	117	120	121	120	120	120
Transaction costs	97	80	310	300	300	300
Custodian Fees	42	40	42	40	40	40
Performance Measurement services	31	35	36	35	35	35
Other Investment Fees	0	15	10	15	15	15
TOTAL	**4,241**	**3,790**	**4,628**	**4,510**	**4,510**	**4,510**

Please note the following regarding the above figures:

- Fund Manager Fees are charged according to the fund value; therefore, an average figure from the last two years has been applied for estimates 2023/24 onwards
- Transaction costs include costs newly identified as transaction costs

3. Governance and Oversight

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

	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Financial Services	178	165	210	220	220	220
Actuarial Fees	19	100	130	25	25	25
Audit Fees	78	60	(14)	60	60	60
Member Training (inc. LPB)	1	10	3	10	10	10
Advisor Fees	72	75	86	75	75	75
London CIV	119	120	118	120	120	120
Local Pension Board	3	5	4	5	5	5
Pensions Committee	35	35	33	35	35	35
Other Fees	19	5	1	5	5	5
TOTAL	**524**	**575**	**585**	**555**	**555**	**555**

Page 27

Please note the following regarding the above figures:

- Work on the 2022 valuation was undertaken in 2022/23 – higher actuarial costs during a valuation year is expected.
- 2022/23 credit on audit fees relates to a prior year accrual not offset by invoice due in following year. Incompletion of prior year audits causing delays for accurately predicating audit fees. Audit fees subject to approval by Public Sector Audit Appointments (PSAA).

	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
OVERALL MANAGEMENT TOTAL	**5,474**	**5,140**	**5,940**	**5,840**	**5,840**	**5,840**

MAJOR MILESTONES & ISSUES CONSIDERED/TO BE CONSIDERED

Pension Committee meetings 2022/23
The Committee met a number of times during 2022/23 and **Annex A** sets out the coverage of matters considered and members in attendance.

Timetables are indicative and some reports may be rescheduled to an alternative date to avoid overloading content at meetings.

Annex A has been compared against the indicative work plan set for 2021/22 to demonstrate what was achieved and is set out below:

Planned Work	Achieved	Additional work to business plan	Comments
15 March 22*			
Overall Monitoring Report on Pension Fund to end of Dec 21 (Royal London)	Yes		
Business Plan/Report on the work of the Pensions Committee 2021/22	Yes		
GAD Section 13 results	Yes		
		Agreed Pensions Administration Budget 2022/23 and noted changes to Service Level Agreement	Not scheduled but as this has been submitted annually will be future Business Plan
26 July 22			
Overall Monitoring Report on Pension Fund to end of Mar 22 Russell (Currency	Yes		
Pension Fund Accounts 2021/22	Yes		
Climate Plan and ISS Update	Yes		
TCFD reporting	Yes		
20 September 22			
Overall Monitoring Report on Pension Fund to end of Jun 22: UBS (Property)	Yes		
Pension Fund Annual Report for 2021/22	Yes		Presented at Nov meeting
Review Emerging Markets Equity Investing	No		Report not needed - deferred to 2023/24

		Agreed further steps required for progressing with development of a Climate Risk Plan	

Planned work	Achieved	Additional work to business plan	Comments
8 November 22			
Annual review of Custodian	Yes		21 Mar meeting
Annual review of Adviser	Yes		13 Dec meeting
Annual review of Actuary	Yes		
Review of Governance Policy	Yes		
Whistleblowing Annual Assessment	Yes		
Risk Register Review	Yes		3 Dec meeting
Data Improvement Plan Review	No		Not due for review
Overpayment policy following Death	Yes		21 Mar meeting
Funding Strategy Statement Update	Yes		
13 December 22			
Overall Monitoring Report on Pension Fund to end of Sep 22: Stafford (Infrastructure)	Yes		
Good Governance review - outcomes and implementation planning	No		Report was dependent on receiving guidance from DLUHC - will roll forward to 2023/24
TPR New Code of Practice	No		Report was dependent on new code being issues – will roll forward to 2023/24
Annual review of Fund Managers Voting & Engagement	Yes		21 March meeting
		Local Pension Board Annual Report	This is annual so will be added to future work plans

Planned work	Achieved	Additional work to business plan	Comments
21 March 23			
Overall Monitoring Report on Pension Fund to end of Dec 22: Churchill (Private Debt)	Yes		Met with JP Morgan – officer changed FM in error
2022 Valuation results	Yes		
Investment Strategy Statement Review	Yes		Not the ISS but investment strategy proposals
		Discussed and agreed the outline structure and content of Draft Climate Risk Policy	
		Agreed the Pensions Administration Budget 2023/24	Not scheduled will add to work plan
		Agreed Admission to the fund: Mears Group – Housing Repairs May Harris – cleaning Whybridge School Kindred FM – Cleaning Broadford School	Not possible to predict when new employers will join so won't be scheduled as part of the business plan

*please note that previous business plan excluded this meeting due to earlier production of the report, in order to meet reporting requirements prior to the local election in May 22

PENSION COMMITTEE MEETINGS 2022/23

ANNEX A

Date	Good Governance Framework category		Topic	Attended By	Duration of meeting
15 Mar 22*	Governance	Service Delivery- Budgets	Agreed Pensions Administration Budget 2022/23 and noted changes to Service Level Agreement	Cllr John Crowder (Chair) Cllr Osman Dervish Cllr Stephanie Nunn	2 hours 10 minutes
	Governance	Service Delivery - Business Planning	Agreed the rolling 2022/23 – 2024/25 Business Plan/Annual Report on the work of the Pensions Committee and agreed additional resources for Pensions Administration		
	Investment	Monitoring of Investments	Noted the Pension Fund Performance Monitoring report for the quarter ending 31 December 22, received presentations from the Fund's Bond Manager Royal London		
	Funding	Actuarial Valuations	Noted the results of Public Service Pension Act 2013 – Section 13 report for 2019 Fund Valuations		
26 Jul 22	Investment	Monitoring of Investments	Noted the Pension Fund Performance Monitoring Report for quarter ending March 22: received presentations from the Fund's Currency Hedging Manager Russell	Cllr Mandy Anderson (Chair) Cllr Viddy Persaud Cllr Dilip Patel Cllr Julie Wilkes Cllr Matthew Stanton Derek Scott (Trade Union Rep)	2 hours 25 minutes
	Accounting	Annual Report & Accounts	Noted Pension Fund Accounts 2021/22		
	Investment	Responsible Investment	Agreed the next steps required for progressing with development of a Climate Risk Plan		
	Investment	Responsible Investment	Agreed **T**askforce for **C**limate, related **F**inancial **D**isclosures (TCFD) report for 31 March 22		

PENSION COMMITTEE MEETINGS 2022/23 ANNEX A					
Date	**Good Governance Framework category**		**Topic**	**Attended By**	**Duration of meeting**
20 Sep 22	Investment	Monitoring of Investments	Noted the Pension Fund Performance Monitoring Report for quarter ending 30 June 22: received presentations from the Fund's Property Manager UBS	Cllr Mandy Anderson (Chair) Cllr Robert Benham Cllr Viddy Persaud Cllr Julie Wilkes Cllr Matthew Stanton	1 hour 25 minutes
	Investment	Responsible Investment	Agreed further steps required for progressing with development of a Climate Risk Plan		
8 Nov 22	Governance	Review of Effectiveness	Noted Annual review of Actuary & agreed contract extension to July 2025	Cllr Mandy Anderson (Chair) Cllr Robert Benham Cllr Viddy Persaud Cllr Dilip Patel Cllr Julie Wilkes Cllr Matthew Stanton Derek Scott (Trade Union Rep)	1 hour
	Governance	Policy Review	Agreed Governance Policy & Compliance Statement following review		
	Accounting	Annual Report & Accounts	Agreed the Pension Fund Annual Report 31 March 22		
	Governance	Breaches	Noted the results of Whistleblowing Annual Assessment and noted no possible breaches reported		
	Funding	Policy	Agreed the Draft Funding Strategy Statement 2022 for consultation		
13 Dec 22	Investment	Monitoring of Investments	Noted the Pension Fund Performance Monitoring Report for quarter ending 30 September 22: received presentations from the Fund's Infrastructure Manager Stafford	Cllr Mandy Anderson (Chair) Cllr Philip Ruck (Vice chair) Cllr Viddy Persaud Cllr Dilip Patel Cllr Julie Wilkes	1 hour 50 minutes
	Governance	Review of Effectiveness	Noted Annual review of Investment Consultant		
	Investment	Responsible Investment	Agreed further steps required for progressing with development of a Climate Risk Plan		
	Investment	Risk Management	Agreed updated Risk Register		

PENSION COMMITTEE MEETINGS 2022/23

ANNEX A

Date	**Good Governance Framework category**		**Topic**	**Attended By**	**Duration of meeting**
	Accounting	Annual Report & Accounts	Noted Local Pension Board Annual Report 31 March 2022		
21 Mar 23	Investment	Monitoring of Investments	Noted the Pension Fund Performance Monitoring Report for quarter ending 31 December 2022: received presentations from the Fund's Infrastructure Manager JP Morgan	Cllr Mandy Anderson (Chair) Cllr Philip Ruck (Vice- Chair) Cllr Dilip Patel Cllr Viddy Persaud Cllr Julie Wilkes Cllr James Glass Derek Scott (Trade Union Rep)	2 hours 35 minutes
	Funding	Actuarial Valuations	Noted the 2022 Valuation results		
	Investment	Strategy Review	Agreed proposed changes to Investment Strategy		
	Investment	Responsible Investment	Discussed and agreed the outline structure and content of Draft Climate Risk Policy		
	Pension Administration	Processes	Agreed the continuation of the Policy for the overpayment of pensions following death		
	Governance	Service Delivery - Budgets	Agreed the Pensions Administration Budget 2023/24		
	Investment	Responsible Investment	Noted the Review of Voting & Engagement Activity for the year to June 22		
	Governance	Review of Effectiveness	Noted Service review of the Pension Fund Custodian for the year to September 2022		
	Funding	New Employer	Agreed Admission to the fund: Mears Group – Housing Repairs May Harris – cleaning Whybridge School Kindred FM – Cleaning Broadford School		

- *please note that previous business plan excluded this meeting due to earlier production of the report, in order to meet reporting requirements prior to the local election in May 22
- Three members constitute a quorum.
- Target dates for issuing agendas were met.

Pension Committee meetings 2023/24 and onwards

To assist members to make effective decisions, the Business Plan sets out an indicative timetable for reports to be submitted to the committee which will cover cyclical reports, as shown in **Annex B.**

In addition to the annual cyclical work programme there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond and will be added to the meeting cycle as appropriate and are set out below:

- Continued development of Climate Risk Policy – setting objectives, approach, implementation and monitoring/ reporting
- Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance
- Implementation of the interim and long-term Investment
- Consider Local investment (ongoing considerations at present)
- Potential consideration of Private Equity investment (consider alongside local investment)
- London CIV Pooling progression/Continued consideration of transfer of assets to the London CIV (particularly Multi Asset Credit, Index linked assets)
- Equity portfolio review – including review of emerging market allocation and reflecting net-zero related commitments
- Climate related engagement
- Annual Governance review of London CIV
- Consideration of reallocating into Private Debt/Infrastructure close ended funds
- Planning for Hymans/SAB Good Governance guidance compliance - once guidance is issued
- Planning for TPR New Code of practice compliance once issued
- New training policy to reflect Good Governance and TPR compliance
- Administration issues i.e. ongoing work associated with the McCloud ruling – readiness for Pensions Dashboard
- New Employer admissions
- Covenant Risk Review
- SAB developments
- Consideration of LGPS Regulation changes and consequential policy, as applicable
- Topical issues discussed as appropriate
- Continued training and development and Launch of LOLA v2.0

KEY REPORTING DATES / INDICATIVE WORK PLAN 2023/24

ANNEX B

	25 JULY 2023	12 SEPTEMBER 2023	7 NOVEMBER 2023	12 DECEMBER 2023	19 MARCH 2024
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of Mar 23: LCIV (pooling manager) ▪ Pension Fund Accounts 2022/23 ▪ Climate Risk Policy ▪ ISS Update ▪ Business Plan/Report on the work of the Pensions Committee 2022/23	▪ Overall Monitoring Report on Pension Fund to end of Jun 23: Churchill (Private Debt) ▪ Pension Fund Annual Report for 2022/23 ▪ Climate risk policy – implementation plan	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review ▪ Overpayment policy following Death ▪ FSS review ▪ Cash Policy Review	▪ Overall Monitoring Report on Pension Fund to end of Sep 23: CBRE (Property) ▪ Annual review of Fund Managers Voting & Engagement ▪ TCFD report 2022/23 ▪ Triennial mid-point valuation ▪ Local Pension Board Annual Report 31 March 23	▪ Overall Monitoring Report on Pension Fund to end of Dec 23: Permira (Private Debt) ▪ Pensions Administration Budget 24/25
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

KEY REPORTING DATES / WORK PLAN 2024/25

	JULY 2024	SEPTEMBER 2024	NOVEMBER 2024	DECEMBER 2024	MARCH 2025
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 24: LGIM Passive Equities) ▪ Business Plan/Report on the work of the Pensions Committee 2023/24 ▪ Pension Fund Accounts 2023/24	▪ Overall Monitoring Report on Pension Fund to end of June 24 – Royal London (Bonds) ▪ Pension Fund Annual Report for 2023/24	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review ▪ Overpayment policy following Death ▪ Communications Strategy 2024 – 2027 ▪ Pension Fund charging Policy Review	▪ Overall Monitoring Report on Pension Fund to end of September 24 Russell (Currency) ▪ Annual review of Fund Managers Voting & Engagement ▪ TCFD report 2023/24 ▪ Local Pension Board Annual Report 31 March 24	▪ Overall Monitoring Report on Pension Fund to end of December 24: UBS (Property). • Pensions Administration Budget 24/25
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

Page 36

ANNEX B (continued)

KEY REPORTING DATES / WORK PLAN 2025/26

	JULY 2025	SEPTEMBER 2025	NOVEMBER 2025	DECEMBER 2025	MARCH 2026
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 25: Stafford (Infrastructure) ▪ Business Plan/Report on the work of the Pensions Committee 2024/25 ▪ Pension Fund Accounts 2024/25	▪ Overall Monitoring Report on Pension Fund to end of June 25 – Churchill (Private Debt) (Bonds) ▪ Pension Fund Annual Report for 2024/25	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review ▪ Pensions Administration Strategy Review ▪ Overpayment policy following Death	▪ Overall Monitoring Report on Pension Fund to end of September 25 CBRE (Property) ▪ Annual review of Fund Managers Voting & Engagement ▪ TCFD report 2024/25 ▪ Local Pension Board Annual Report 31 March 25	▪ Overall Monitoring Report on Pension Fund to end of December 25: LCIV (Asset Pooling) • Pensions Administration Budget 25/26
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

Page 37

PROVISION OF TRAINING

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

A joint training strategy for the PC/LPB was agreed by the Pensions Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016. The Training Strategy will be reviewed once guidance has been issued for the anticipated Good Governance Review and TPR New Code of Practice.

The PC of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. The updated June 2021 Knowledge and Skills framework for committee members was adopted as part of the training programme following the Local Borough elections in May 2022.

As set out in the Council's constitution, committee procedure rules, a member appointed to the PC 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. Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

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

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

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

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

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

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

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

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

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

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

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

Training and development took place during 2022/23 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in **Annex C.** Training will be recorded following the May 2022 elections to demonstrate continuous development and training during their full term of elected office on the PC.

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

The Fund has also subscribed to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans). This is an online platform designed to support the training needs of PC, LPB and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14. Each module contains short 'video on demand' presentations of 20 minutes or less with supplemental learning materials and quizzes.

The Fund receives regular progress reports, allowing it to easily evidence member's development and progress as at 31 March 2023 can be seen in the table below:

LOLA Modules Summary						**Annex C**
Name	**Module 1 Introduction to the LGPS**	**Module 2 LGPS Governance & Oversight Bodies**	**Module 3 Administration & Fund Management**	**Module 4 Funding & Actuarial Matters**	**Module 5 Investments**	**Module 6 Current Issues**
Pensions Committee						
Cllr Mandy Anderson	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Robert Benham	In progress					
Cllr Dilip Patel	Complete	Complete				
Cllr Viddy Persaud	Complete	Complete	Complete	Complete	Complete	In progress
Cllr Philip Ruck	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Matthew Stanton	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Julie Wilkes	Complete	Complete	Complete	Complete	Complete	Complete
Cllr James Glass	Complete	Complete	Complete	Complete	Complete	Complete
Derek Scott	Complete	Complete	Complete	Complete	Complete	Complete
Local Pensions Board						
Andrew Frater	Complete	Complete	Complete	Complete	Complete	Complete
Denise Broom	In progress					
Dionne Weeks	Complete	In progress				
Joanne Sladden	Complete	Complete	In progress			
Mark Holder	Complete	Complete	Complete	Complete	Complete	
Yasmin Ramjohn	Complete	Complete	Complete	Complete		

PENSION COMMITTEE TRAINING (May 2022 Election – 31 March 2023

Annex C

Date	Good Governance/CIPFA Framework category		Topic	Attended By	Duration
23 Jun 2022	Guidance	Training	Introduction to Pensions	Cllr Mandy Anderson (Chair)	1 hour
11 Jul 2022	Guidance	Training	LCIV Induction for new Pension Committee Chairs	Cllr Mandy Anderson (Chair)	1 hour
19 Jul 2022	Guidance	Training	New Pension Committee induction	Cllr Mandy Anderson (Chair) Cllr Dilip Patel Cllr Viddy Persaud Cllr Julie Wilkes Cllr Philip Ruck Cllr Matthew Stanton	1 hour 30 mins
5/6 Sept 2022	Investment	Strategy Implementation – Asset pooling	LCIV Annual Strategy Conference	Cllr Mandy Anderson (Chair) Derek Scott (Union Rep)	12 hours
20 Oct 2022	Guidance	Training	LGA Fundamentals Day 1	Cllr Mandy Anderson (Chair)	7 hours
10 Nov 2022	Guidance	Training	LGA Fundamentals Day 2	Cllr Mandy Anderson (Chair)	7 Hours
5 Dec 2022	Funding	Actuarial Valuations	2022 Valuation results	Cllr Julie Wilkes Cllr Viddy Persaud Derek Scott (Union Rep)	2 hours
15 Dec 2022	Guidance	Training	New member induction	Cllr James Glass	1 hour
19/20 Jan 2023	Guidance	Training	Local Government Conference 2023	Cllr Mandy Anderson (Chair) Derek Scott (Union Rep)	12 hours
6 Mar 2023	Investment	Responsible Investment	Education session on Climate Metrics	Cllr Mandy Anderson (Chair) Cllr Philip Ruck Cllr Viddy Persaud Cllr Stephanie Nunn Derek Scott (Union Rep)	1 hour

PENSION COMMITTEE TRAINING (May 2022 Election – 31 March 2023 Annex C				
Date	**Good Governance/CIPFA Framework category**	**Topic**	**Attended By**	**Duration**
Plus Committee meeting attendance (Annex A):				
15 Mar 22*			Cllr John Crowder (Chair) Cllr Osman Dervish Cllr Stephanie Nunn	2 hours 10 minutes
26 Jul 22			Cllr Mandy Anderson (Chair) Cllr Viddy Persaud Cllr Dilip Patel Cllr Julie Wilkes Cllr Matthew Stanton Derek Scott	2 hours 25 minutes
20 Sep 22			Cllr Mandy Anderson (Chair) Cllr Robert Benham Cllr Viddy Persaud Cllr Julie Wilkes Cllr Matthew Stanton	1 hour 25 minutes
8 Nov 22			Cllr Mandy Anderson (Chair) Cllr Robert Benham Cllr Viddy Persaud Cllr Dilip Patel Cllr Julie Wilkes Cllr Matthew Stanton Derek Scott	1 hour
13 Dec 22			Cllr Mandy Anderson (Chair) Cllr Philip Ruck (Vice chair) Cllr Viddy Persaud Cllr Dilip Patel Cllr Julie Wilkes	1 hour 50 minutes

PENSION COMMITTEE TRAINING (May 2022 Election – 31 March 2023 Annex C				
Date	**Good Governance/CIPFA Framework category**	**Topic**	**Attended By**	**Duration**
21 Mar 23			Cllr Mandy Anderson (Chair) Cllr Philip Ruck (Vice- Chair) Cllr Dilip Patel Cllr Viddy Persaud Cllr Julie Wilkes Cllr James Glass Derek Scott	2 hours 35 minutes

This page is intentionally left blank

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	The admission of Urbaser Limited in to the London Borough of Havering Pension Fund for the provision of Integrated Recycling, Waste Collection and Street Cleansing Contract to the London Borough of Havering
SLT Lead:	Dave McNamara Section 151 Officer
Report Author and contact details:	Caroline Guyon Pensions Projects and Contracts Manager 01708 432185 caroline.guyon@havering.gov.uk
Policy context:	Local Government Pension Scheme Regulations 2013. Schedule 2 part 3
Financial summary:	The Pension Fund Actuary has assessed the level of Indemnity and Urbaser Limited will secure a bond. The employer contribution rate has been set initially at 43.0%.

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

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

SUMMARY

The purpose of this report is to request the London Borough of Havering Pension Committee agree to the proposed closed agreement admission of Urbaser Limited into the London Borough of Havering Pension Fund ("the Fund") under the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of street cleansing staff from Havering Council to Urbaser Limited for the provision of street cleansing services.

RECOMMENDATIONS

That the admission of Urbaser Limited into the London Borough of Havering Pension Fund as an admitted body to enable approximately 64 members of staff who will transfer from Havering Council to continue membership of the LGPS be agreed, subject to:

(a) All parties signing up to an Admission Agreement, and
(b) Urbaser Limited securing a bond in an approved form to protect the pension fund.

REPORT DETAIL

1. Urbaser Limited succeeded in winning the contract to provide Integrated Recycling, Waste Collection and Street Cleansing Services to Havering Council. The contract with Havering is for a minimum of eight years (subject to another eight years extension) and is due to commence on 22 October 2023.

2. The contracts of employment of the affected staff will transfer when the street cleansing service transfers from Havering Council to Urbaser Limited on 22 October 2023. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 ("TUPE") protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal Guidance 2013. 64 employees are a member of the LGPS as at 31 January 2023.

3. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.

4. The Pension Regulations require the LGPS Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.

5. Following guidance from MHCLG, where a transferee admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the transferee admission body. The terms on which the admission is permitted are noted in the Admission Agreement for the purposes of these Regulations.

6. Urbaser Limited falls within the definition contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and as such is eligible to become a transferee admission body. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the transferee admission body, provided the transferee admission body and the scheme employer undertakes to meet the relevant requirements of the regulations through an Admission Agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.

7. The London Borough of Havering will seek to sign appropriate transferee Admission Agreements to allow Urbaser Limited to be admitted to the Fund. When the Admission Agreement is formed Urbaser Limited will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 43.0% of pensionable pay but will be re-assessed at the transfer date based on the actual profile of staff in post at the transfer date.

IMPLICATIONS AND RISKS

Financial implications and risks:

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund's Actuary. Urbaser Limited's employer contribution rate has been initially set at 43.0%. Urbaser Limited are allocated a share of assets to ensure they are fully funded at the transfer date.

There is a pass through agreement in place between the Council and Urbaser Limited. The pensions liability clause (covered within the Contract between the Council and Urbaser) means that the Council agrees to reimburse Urbaser in respect of the employer contributions under the Admission Agreement

The Fund's actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Urbaser Limited by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £5.641m. Urbaser Limited will seek to secure a bond in an approved form.

There are risks to the letting authority (Havering Council) if the indemnity levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for reviews and ensure this is included in the Admission Agreement. Indemnity reviews are to be carried out by the Fund's actuary.

The letting authority also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in place regular reviews of Urbaser Limited's employer rates. Any deficit not met by Urbaser Limited at the end of the contract will be met by the letting authority.

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.

Urbaser Limited are an existing transferee admitted body within other Local Government Pension Funds, so have experience of the implications of being a Scheme Employer.

Hymans Robertson have carried out an assessment which shows (at 31 January 2023) Urbaser Limited are a low risk employer for the Pension Fund. This will be reviewed on an annual basis.

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

Legal implications and risks:

Local Authorities are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the Pension Fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Local Authorities are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) to an independent provider of public services (Urbaser Limited) those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS) where they are classified as non-teaching staff

In the case of the Havering Council employees transferring to the new street cleansing contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (Havering) and the employing/admission body (Urbaser Limited) allowing the transferring employees to remain a member of the Local Government Pension Scheme. The Council and the contractor have applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the indemnity level.

The admittance of Urbaser Limited into the Havering Pension Fund will ensure the current employees enjoy their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employee on transfer.

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

Human Resources implications and risks:

Admitted body status will allow the Havering Council employees (who will transfer to the new provider on 22 October 2023) continued membership eligibility of the LGPS.

Equalities implications and risks:

The proposed admission of Urbaser Limited into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the Havering Council employees who will be compulsorily transferred to Urbaser Limited to continue to enjoy pension protection when transferred to the new employer

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

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

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

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the

Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will ensure that disabled people with sensory impairments are able to access the strategy.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 25 July 2023

Subject Heading:	**DRAFT CLIMATE POLICY AND ACTION 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:	**Exempt from publication**

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 proposed draft climate policy and action plan. The Policy sets out the targets to be set by the Committee and the approaches that will be taken to achieve the net zero ambition included within the policy.

Appendix B to this report outlines some of the considerations associated with the commitments included in the Climate Policy.

RECOMMENDATIONS

That the Committee:

1. Agrees the Climate Policy and Action Plan as proposed in Appendix A, which includes the objectives to be set, targets to be assessed and the actions that the Committee will take.

2. Note the considerations associated with the climate policy commitments and action plan as outlined in Appendix B.

3. Agree to attend a workshop to determine progress against objectives and further development of the Action Plan.

REPORT DETAIL

1. Hymans will discuss with the Committee the Climate Policy and Action Plan and will outline some of the considerations associated with the commitments included in the climate policy.

2. BACKGROUND

a. The Committee on the 29 July 2020 agreed 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. 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".*

c. Climate factors were a major consideration in developing the ISS, and in particular have already implemented the following:

- 16 March 2021- agreed to invest 2.5% in a *London Collective Investment Vehicle (LCIV) renewable energy infrastructure fund

- 14 September 2021 – agreed to switch assets from the LCIV Global Alpha Fund (15%) 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

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

e. The Climate Risk Management Plan follows on from the climate risk workshop held on 24 November 2021.

f. At the Pension Committee meeting on the 26 July 2022, the Committee received a presentation from Hymans, the Fund's Investment Consultant, which included the possible next steps in developing the Fund's plans for addressing climate risk within its portfolio.

g. At the Pension Committee meeting on the 20 September 2022, the Committee was presented with a baseline assessment of several carbon metrics which identified gaps in data and set out those asset types where data is harder to collect and measure. Assessing the Fund's current position against a series of standard metrics will address ongoing reporting requirements.

h. The Pensions Committee on the 13 December 2022 considered the indicative plans/actions and timescales in developing the Fund's plans for embedding climate risk management into the Fund.

i. An education session on climate metrics was delivered to the Committee on the 6 March 2023, in preparation for the discussions on setting objectives and goals for inclusion in the climate risk policy.

j. The Pensions Committee on the 21 March 2023 discussed the proposed outline structure and content of the proposed climate policy and agreed to further consider the final policy at this meeting.

k. Officers met with the Cabinet member for the Climate agenda on the 17 May 2023 to ensure that the cabinet member was aware of the committee actions and current achievements.

l. The Committee is requested to discuss the Climate Policy and Action Plan as proposed in **Appendix A.**, which includes the objectives to be set, targets to be assessed and the actions that the Committee will take.

m. The policy will be revised on an ongoing basis as the Funds action plan to achieve these objectives is developed and it is suggested that the Committee may benefit from attending a workshop, at a date to determined, to hold in-depth discussions about progress of actions against objectives and to gain a better understanding of ongoing analysis as it becomes available.

IMPLICATIONS AND RISKS

Financial implications and risks:

Climate related risks and broader ESG factors are a source of financial and reputational risk. The Committee have agreed a climate risk management plan is a necessary part of its fiduciary duty.

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.

The Department of Levelling Up, Housing and Communities (DLUHC) has completed its consultation on the implementation of Task Force on Climate related Financial Disclosures (TCFD) reporting for Local Government Pension Schemes. Guidance is expected to be published in due course with reporting requirements expected to start on 1 April 2023 and the first Climate risk annual report due December 2024.

The Committee’s current approach to addressing climate risk will mean that the TCFD requirements will largely be met but can be tested against the final requirements once these are published.

The Fund will make use of the free LCIV Climate Analytics reporting service, which aims to inform the development of decarbonisation strategies, internal risk management, and support climate-related disclosures

There will be a cost to the Pension Fund for the work carried out by Hymans to develop the Climate Risk plan, this was presented to the Committee and agreed at the 13 December 2022 meeting (exempt from publishing the costs on the grounds that the financial information is commercially sensitive).

Legal implications and risks:

The Authority does have a broad discretion under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations

2016 (SI 2016/946), after taking proper advice, to formulate an investment strategy which must include the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;

Therefore, the climate risk issues are relevant matters for the Committee to consider. However, there no other apparent implications 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

This page is intentionally left blank

Draft Climate Policy and Action Plan

The Pensions Committee ("the Committee") of the London Borough of Havering Pension Fund ("the Fund") has developed this climate risk policy and action plan. This policy will be revised on an ongoing basis as the Fund's action plan to achieve these objectives is developed and will be supported by ongoing quantitative analysis. This policy sets out the targets set by the Committee as well as the detail on the approaches that will be taken to achieve the net zero ambition included in the policy.

Introduction

The Committee considers that climate change represents a material financial risk with the potential to disrupt economic, financial and social systems. However, the potential impact on the Fund is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems. Risks to the Fund arising from climate change include, but are not limited to:

- Economic risks: risks that the assumptions made in valuing the liabilities are inappropriate;
- Demographic risks: risks that demographic experience is different to that assumed as a consequence of climate related impacts;
- Asset risks: risks that the performance of the Fund's assets is lower than assumed due to investments being affected directly by the physical impacts from climate change, the repricing or assets to reflect future physical risks or the transition to a lower carbon economy.

As a responsible asset owner, the Committee recognises the need to address the systemic risks posed by climate change, including the risks it poses to the Fund's investments and its beneficiaries, thereby impacting the Committee's fiduciary duties. The Committee has an ambition for the Fund to achieve net zero financed emissions by 2050 at the latest. This recognises that future improvements in the availability and quality of climate data (particularly for unlisted investments), and in the availability of available sustainable investment options, are factors in achieving progress. This ambition is made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

To support the ambition, the Committee has developed this document as a framework for achieving net zero financed emissions, i.e. emissions produced by the investments held in the Fund. This framework is designed to guide as well as communicate the Committee's investment decisions enabling the Fund to align with the goals of the Paris Agreement and contribute to real economy change.

A key objective is achieving positive real-world change and a significant reduction in emissions over time, whilst also maintaining a balance with the Fund's wider risk / return objectives and its fiduciary duty to pay all member benefits.

This policy sets out the Committee's approach to addressing climate related risks within the Fund and is intended to deliver strong long-term financial returns, in line with its overall funding objectives, as the impacts of climate change materialise. This document is designed to be dynamic and evolve as best practice changes. The Fund's transition plan may be adjusted over time as new information emerges and circumstances change. By remaining open to new ideas and approaches, the Fund can strengthen its ability to reach its net zero goals.

Objectives and Actions

The Committee has determined that there are four There are four core elements associated with the action plan, split between portfolio level and asset level targets and actions. The key targets and actions within each element are summarised in the following table:

Objective Area	Targets the Committee will assess	Actions the Committee will take
Portfolio emissions	• Ambition to reduce financed emissions to net zero by 2050 at the latest • Interim target to reduce scope 1 and 2 emissions on listed equities by 50% compared to the 2022 baseline level by 2030	• This will be achieved through a combination of capital allocation and engagement. • Engagement with the London CIV will be a key focus, with the development of compelling decarbonisation solutions a priority. • Strategies employed must have clear decarbonisation pathways.
Climate solutions and opportunities	• 10% asset allocation by 2030, with potential to consider further increasing allocations past 2030 • Positive impact to deforestation, biodiversity loss, social factors and climate adaptation are key factors included in decision-making	• Consider extending allocation to renewable energy • Consider local investment with positive social impact • Emphasise climate solutions in new allocations to private market assets
Alignment	• Minimum 50% alignment of listed assets aligned with an appropriate net zero pathway by 2030 • At least 75% of heavy emitting sectors aligned with a net zero pathway by 2030 • 50% of real assets aligned with net-zero by 2030	• Focus on engagement with investment managers (including LCIV) initially. • Mandate alignment will be considered alongside engagement; in particular any new commitments to unlisted assets
Engagement	• Engage collaboratively, via the investment managers, with the most misaligned companies (at the portfolio level) in heavy emitting sectors. • Deforestation, biodiversity loss, social factors and climate adaptation are key engagement topics • Emissions data available and robust for all asset classes by 2025	• Identify key exposures through portfolio monitoring and raise issues with manager • Engage to support improving data availability and quality

Data, Asset Class Coverage and Emissions

The Fund's ambition is to be net zero by 2050 across the **entire** investment portfolio. However, existing limitations on data mean that only part of the strategy can be assessed quantitatively. Further, of the assets that can already be measured, estimates are heavily relied upon. Over time, it is expected that the coverage and quality of data will improve. The table below sets out the Committee's current assessment of data quality

Mandate	Allocation	Comment on data coverage
Listed equities	40.0%	Close to 100% coverage and data based on reported information from underlying companies
Multi-asset	12.5%	As above for listed equity component. Estimates required across remaining assets
Property	10.0%	c.40% coverage available and data reliant on estimates
Infrastructure	12.5%	Data available of across all assets, though estimates necessary
Global credit	5.0%	
Private debt	7.5%	c.60% coverage available, though heavily reliant on estimates
Multi-asset credit	7.5%	Data available covering the full investment, though heavily reliant on estimates
Gilts	5.0%	Fully reliant on estimates

Committee will engage with its investment managers, including the LCIV, to ensure that it obtains appropriate climate reated data and reporting. Committee may also employ other third parties to provide additional reporting and analysis where necessary.

For the asset classes listed above there is a reasonable quality of data on scope 1 and 2 emissions and so the current targets and assessment of alignment will concentrate on these. However, given the significance of scope 3 emissions, Committee expects that consideration will be given to such emissions in reporting, analysis and the implementation of strategy.

While lack of data on other asset classes is an issue, it does not stop the Committee pursuing engagement activity and considering capital allocation into climate opportunities or solutions. Engaging with investment managers to develop good quality data is a primary goal for the Committee.

Baseline assessment

The Committee has collated data provided by each of its investment managers to establish a baseline position for the Fund against a series of initial metrics covering carbon emissions, exposure to fossil fuels and exposure to climate solutions. This position as at 31 March 2022 is set out in detail below.

Mandate	WACI (tCO2e / £m)	% of Portfolio with Fossil Fuel Ties	Exposure to Green Revenues / Climate Solutions
Equity	153	2%	2%
Multi-asset	339	15%	0%
Property	41	0%	n/a
Infrastructure	63	20%	33%
Bonds	132	5%	10%

*Asset class figures based on a weighted average of the underlying mandates for which data was available

The Committee will monitor progress against this baseline. Committee will also consider the introduction of additional metrics that align with its broader objectives.

Investment process

As an asset owner, there are two primary levers to move the investment portfolio towards a net zero emissions position - capital allocation and engagement. The Committee believes that a combination of both is likely to give the best chance of meeting their net zero goals although these considerations must be embedded within a broader investment process, with key considerations set out below.

Framing objectives

Committee will set objectives recognising that the broader goal is one of systemic change and the broader decarbonisation of global economic activities.

The Committee will be informed by an ongoing assessment of the Fund's exposure to climate related risks and opportunities and will use such assessments to frame appropriate goals or seeking additional information to allow the Committee to better understand how an objective may be set. When setting any objective, the Committee will also set out the actions it proposes to take in pursuit of the objective.

Objectives will be set on the understanding that there are gaps in the data, the likelihood that methodologies will change over time and on the understanding that the Committee's sphere of influence is limited to those it directly engages with. However, the Committee will seek to use its influence and that of its key stakeholders to push for change that will best allow it to achieve its goals.

Journey planning

The Committee will undertake analysis to asses the Fund's carbon position. This analysis will focus on the Fund's asset, sector, and regional allocations, comparing these to the levels required to reach the Fund's net-zero ambitions. This analysis will be built up to a portfolio level position. This approach is in line with the IIGCC's Supplementary Guidance on Target Setting for a Net Zero Investment Framework, which recommends science-based net zero journeys at the portfolio level using a sectoral and regional approach.

The Committee recognises the importance of interlinked issues such as biodiversity loss and the social implications of transitioning to a low carbon economy. Considering this and building a nature positive investment strategy will be developed alongside the focus on reducing financed emissions.

Risk management

Committee will seek to understand exposure to physical and transition risks within portfolio, working with its managers to ensure that reporting on such exposures are provided.

Committee will work with its investment managers to define a set of acceptable standards with regard to how underlying managers account for and manage these risk exposures. Underlying managers will need to meet these standards on appointment and regular assessment will ensure that these standards are being upheld. Committee will managers compliance with these standards.

Identifying opportunities

The Committee considers two aspects to improving the current net zero pathway through capital allocation:

- **Reducing emissions** - Improve the current (and any future) mandates by allocating to more efficient companies within sectors and engagement relative to sector laggards or by engaging with laggards with the expectation of change. This includes recycling the proceeds of existing private assets into future products with better climate credentials
- **Remove emissions** - Increase allocations to assets that remove or avoid emissions with an initial focus on both natural capital and the displacement of emissions through technological advancement.

In both cases, Committee recognises that investment may be made in companies which are taking direct action (actors), or companies which support others in emissions removal (facilitators). The Committee will consider the following actions to better implement these options across the investment strategy:

- Ensuring that mandates have an aligned climate expectation, even where not formally stated as a mandate objective
- Setting minimum expectations around measurement and reporting of climate risk within mandates
- Considering allocating capital to mandates that emphasise climate solutions in line with the framework

The Committee will take an incremental approach to capital allocation changes as the data and opportunities evolves, balancing their fiduciary duties at all times.

The Committee intends to encourage LCIV to create compelling investment products that actively support the Fund's decarbonisation objective.

Active stewardship

Committee engagement with LCIV and investment managers

The Committee's primary means of engagement is with LCIV and its investment managers. Through this engagement, and using its influence to encourage LCIV and the investment managers in their own underlying engagement activities, the Committee believe that they have a significant influence on the decarbonisation actions of the organisations they finance.

The Committee will review the stewardship activity of LCIV and its investment managers on at least an annual basis. The Committee will establish clear expectations for its managers and LCIV and challenge any stewardship activity which falls below expectations. The Committee will report on this activity annually.

LCIV / investment manager engagement with underlying companies

LCIV and the Fund's investment managers have engagement programmes with the underlying companies in which they invest on the Fund's behalf. The Committee believe that through this engagement, portfolio companies can be encouraged to align to the decarbonisation pathways for the sectors in which they operate and set an appropriate strategy to align with these pathways. The goal being that cumulative emissions remain within the carbon budgets established for sectors and companies.

Stewardship is critical for investors to manage portfolio risk and real-world impact, especially in asset classes that are traded via secondary markets. Voting and engagement with companies enable investors to have significant influence on company strategy, operations, long-term sustainability and viability. The Committee believes that engagement is preferable to divestment, although the option to divest when engagement is unlikely to be effective or has failed should also be considered.

Measuring and accountability

A key part of the action needed to fulfil this plan is to measure, assess and report on the progress made against the targets set. The Committee has established the baseline by assessing the current investment strategy against across a range of climate related metrics. The Committee will ensure that such metrics are reassessed on at least an annual basis to support reporting on progress.

The Committee will undertake a periodic recalibration of its net zero journey plan and reassess its objectives and associated actions. To inform ongoing engagement activity the Committee will undertake at least one sector deep dive each year to inform engagement activity and monitor progress against targets.

Govenance and reporting

The roles and expectations of the relevant stakeholders in relation to the Fund's climate ambitions are set out below.

Stakeholder	Role	Expectations
Committee	Ultimate responsibility to ensure the relevant actions are being taken to work towards the Fund's climate ambitions	Ensure it has sufficient knowledge and skills to address climate considerations in its decision making Agree appropriate objectives based on discussion with other stakeholders and monitor progress against the key metrics on an annual basis Scrutinise and challenge the actions taken by others to ensure that the objectives are being met Report on the actions taken in line with regulatory requirements
Officers	Support the Committee in ensuing that the Fund takes appropriate actions	Ensure climate issues are being appropriately addressed throughout the investment process Ensure LGPS best practice is being captured and reflected in decision making, collaborating with others where possible Engage with managers, LCIV and advisers as necessary to ensure that climate ambitions are being achieved
Investment adviser	Support the Committee/ Officers in developing and implementing the Fund's climate ambitions	Provide education and advice to the Committee on the development of climate related objectives and an appropriate strategy to meet the objectives Provide analysis on climate related risks and opportunities, including in relation to both mandates and managers, and advise the Committee on any actions that can be taken in light of such analysis Support the Committee in its engagement and dialogue with other stakeholders
London CIV/	Primary pooling partner with responsibility for the development, implementation and oversight of appropriate asset strategies	Embed the consideration of climate change into all product development, particularly the alignment of strategies with decarbonisation pathways Exercise active stewardship, including voting, over underlying assets to ensure that climate ambitions are appropriately communicated and challenged Provide the necessary information to allow the Committee to assess progress against its objectives

Other investment managers	Manage the Fund's assets in a manner aligned with Committee expectations	Ensure that climate considerations are embedded into product management Exercise active stewardship, including voting, over underlying assets to ensure that climate ambitions are appropriately communicated and challenged Provide the necessary information to allow the Committee to assess progress against its objectives

HYMANS ROBERTSON

London Borough of Havering Pension Fund

Climate Risk Policy - considerations

- Simon Jones, Partner
- Mark Tighe, Investment Consultant

June 2023

Executive Summary

Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper to outline some of the considerations associated with the commitments included in the Fund’s draft climate plan. This paper should be read in conjunction with the draft climate plan.
- This paper the following sections:
    - Net-zero target date – providing some implications associated with different net-zero target dates, and rationale behind suggesting the Fund adopt a 2050 ambition
    - Other climate related targets – giving an overview and providing comment on the other climate related targets included in the policy
    - Further sections – covering the remaining sections in the policy
- 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.

Net-zero target date

Example net-zero goals and considerations

Timeframe	2030	2035	2040	2045	2050	2060
Sovereign examples	Barbados, Maldives	Finland	Iceland	Sweden, Germany	US, EU, Japan, UK	China, Russia and India (2070)
Pension examples	South Yorkshire	BT	London Borough of Lambeth	Environment Agency	Scottish Widows, NEST	None
Asset considerations	• Very limited universe of asset classes/stocks • Intensive use of offsetting required		• Increasing investment universe, large number of exclusions • Use of offsetting required • Significant engagement and advocacy required	• Wide investment universe, some exclusions • Promote climate-strategy innovation • Strong engagement and advocacy	• Wide investment universe, limited exclusions • Adoption of climate-driven investment strategies • Proactive engagement	• Unlimited investment universe • Climate-passive investment strategies • “Free riding”
Implications	• Lower financial returns • Reduced diversification, increased risk • Limited contribution to financing the decarbonisation process • Use of scarce offsetting capacity • Offsetting costs		• Returns dependent on rate of low carbon adoption • Reduced diversification, increased risk • Short-term volatility and execution costs likely higher • Limited opportunity to support climate solutions providers	• Potentially enhanced medium term financial returns from evolving markets • May capture higher proportion of climate opportunities • Short-term volatility and execution costs likely higher • Opportunity to support climate solutions providers	• Market aligned financial returns • Balance progressive reduction in carbon emissions with support for climate solutions providers	• Potential for higher short-term and future financial returns from unwanted holdings • Potentially higher risk
Required changes to strategy	• Significant change to all areas of the strategy	• Change to equity and income portfolios to further limit carbon exposure • Increased focus on carbon offsetting investments	• Some changes to equity portfolio likely required • Climate metrics required for illiquid and property assets required to determine changes • Increased focus on carbon offsetting investments	• Limited change in short-term • Carbon offsetting should be considered • Longer-term change dependent on rate of wider low carbon adoption	• Limited change in short-term • Longer-term change dependent on rate of wider low carbon adoption	• No change

Page 68

Source: ClimateWatch

HYMANS ROBERTSON

Suggested 2050 target date

- Committee has previously expressed a desired to set a net zero ambition for the Fund. At this time, we suggested the Fund frame this ambition as being net-zero by 2050
- We view 2050 as an appropriate date for the Fund to target as it strikes a balance between:
  - Positioning the Fund to benefit from opportunities that will arise during the transition to a low carbon economy by creating an expectation of action
  - Reducing exposure to stranded asset risk and other risks associated with the transition by compelling the Fund to consider whether its actions are consistent with its long-term ambition
  - Maintaining a broad investment universe which allows time for corporates to develop and implement climate transition plans
  - Retaining the opportunity to help finance the decarbonisation process and use Fund capital to support climate solutions providers
- The UK, and the majority of other major economies, have a target net-zero date of 2050
- The London Borough of Havering has a 2040 carbon neutral target (though note this target is for operations rather than financed emissions / carbon footprint of investments as is being suggested for the Fund)
- We consider the expected actions required to achieve net-zero by 2050 across the portfolio overleaf

Expected action required to achieve 2050 target

	Current Target	Action required short-term (1-3 years)?	Action required medium-term (3-7 years)?	Comments
Listed equities	40.0%	Yes	Possibly	• Material actions have been taken in recent years which have reduced emissions • Actions over the medium-term will depend on the rate of progress across key regions/sectors the Fund is exposed to • Primary focus of action will be on ensuring effective engagement by LCIV and LGIM to drive change
Multi-asset growth	12.5%	Yes	Likely	• The LCIV Absolute Return Fund has relatively high emissions so action likely over the medium term • Primary focus of action will be on ensuring effective engagement by LCIV to drive change
Property	10.0%	Possibly	Possibly	• Limited monitoring metrics currently available • Carbon footprint of commercial UK property receiving external attention and likely to reduce in the coming years • Need to ensure that managers are addressing climate issues in building management
Infrastructure	12.5%	Unlikely	Possibly	• Limited monitoring metrics currently available and heavy reliance on estimates • Data currently available suggests relatively low emissions • Need to ensure that actions are being taken within infrastructure funds • Potential route for gaining exposure to climate solutions
Private debt	7.5%	No	Yes	• Limited Metrics currently available and heavy reliance on estimates, though this is expected to improve in time • Allocation likely to be reviewed in the medium term to assess the alignment with a net-zero portfolio • Reinvestment of capital can be subject to stronger climate ambition • Likely to see emergence of “impact debt” strategies which should be considered by Committee
Gilts	5.0%	No	Unlikely	• UK ahead of other governments in making plans for achieving net zero. Currently rated ‘almost sufficient’ • UK achieves its net zero target by 2050, then investments in government debt should at least move closer towards net zero by this time • Potential for broader policy engagement
Multi-asset credit	7.5%	No	Likely	• Current metrics are broadly in line with benchmark • Mandate with more focus on ESG characteristics may be considered in future
Investment Grade Credit	5.0%	No	Possibly	• Expected to be retained for the shorter term, with proceeds to be directed towards private market assets over time.

Other climate related targets

Portfolio level

	Targets	Comments	Actions required
Portfolio emissions	• Ambition to reduce financed emissions to net zero by 2050 at the latest • Interim target to reduce scope 1 and 2 emissions on listed equities by 50% compared to the 2022 baseline level by 2030	• 2050 suggested target as discussed on previous slides • Financed emissions are the greenhouse gas (GHG) emissions linked to the Fund's investment activities. This is essentially the carbon footprint of the Fund's investments • Suggested interim 50% listed equity reduction target broadly aligned with net-zero by 2050 and focused on an asset class with greater data quality and coverage already available	• Combination of capital allocation and engagement. Extent of capital allocation changes will be determined in future years depending on rate of progress / low carbon adoption • Engagement with the London CIV will be a key focus, with the development of compelling decarbonisation solutions a priority • Focus on clear decarbonisation pathways across investments (even where not included as a formal objective)
Climate solutions and opportunities	• 10% asset allocation to climate solutions by 2030, with potential to consider further increasing allocations past 2030 • Positive impact to deforestation, biodiversity loss, social factors and climate adaptation are key factors included in decision-making	• Renewable energy infrastructure is a growing element of the exposure to climate solutions although other avenues can be considered • Local investment also being considered which may result in a positive social impact investment • Timberland/reducing deforestation may also be considered in future	• Consider extending allocation to renewable energy • Consider local investment with positive social impact • Emphasise climate solutions in new allocations to private market assets

Page 72

Asset level

	Targets	Comments	Actions required
Alignment	• Minimum 50% alignment of listed assets aligned with an appropriate net zero pathway by 2030 • At least 75% of heavy emitting sectors aligned with a net zero pathway by 2030 • 50% of real assets aligned with net-zero by 2030	• Further analysis of portfolios will be needed to understand exposures, but this can be undertaken incrementally • Need to categorise investments into those which are aligned, aligning or not aligned • Heavy emitting sectors require greater rate of change and therefore key to ensure the majority of exposure to these sectors is aligned with a net-zero pathway by 2030	• Focus on engagement with investment managers (including LCIV) initially • Mandate alignment will be considered alongside engagement; in particular any new commitments to unlisted assets
Engagement	• Engage collaboratively, via the investment managers, with the most misaligned companies (at the portfolio level) in the heavy emitting sectors • Deforestation, biodiversity loss, social factors and climate adaptation are key engagement topics • Emissions data available and robust for all asset classes by 2025	• Focus has to be on dialogue with key managers as their actions are critical • Need to be able to assess whether managers are doing their job well, so an evaluation framework is necessary • Data coverage and availability will be crucial in accurately assessing net-zero progress so aiming to have a complete picture by 2025	• Identify key exposures through portfolio monitoring and raise issues with manager • Engage to support improving data availability and quality

Further sections

Data, Asset Class Coverage and Emissions

- This section gives an assessment of the data availability for each asset class within the Fund's strategy. In particular, the current reliance on estimates, or lack of any data, across the portfolio is highlighted
- A comment is also included on the different "scopes" of emissions and significance of scope 3 emissions, despite the difficulties in accurately measure scope 3 emissions at this stage (see appendix for definitions of the different scopes)
- We expect improvements in the quality and coverage of data in the coming years and Committee have their part to play in accelerating this process by continuing to engage with, and put pressure on, managers to make improvements
- The baseline assessment of the portfolio on a range of climate related metrics is also included in this section. This assessment is as at 31 March 2022 (where data at that date was available)

Investment process (1)

- This section is focused on the steps the Committee will take in building strategy and how climate considerations are integrated. Issues to highlight are set out below:
- Framing objectives
  - Recognise that the goal is system change and that the Fund is a participant in the broader system. Fund level decarbonisation is a necessary step
  - Objectives will evolve as more information becomes available and data gets better
  - Objectives should be associated with actions and we have sought to reflect this in having an action oriented plan.
- Journey planning
  - Framing strategy will necessitate ongoing analysis of investment portfolios to ensure that Committee has an appropriate understanding. There are several Net Zero frameworks that can be used to support this analysis.
  - Assessing portfolios individually will build up a portfolio level picture, but can be undertaken incrementally.
  - The consideration of net zero also necessitates the consideration of associated issues, such as deforestation and nature in addition to the idea of a “Just Transition”. This can be incorporated into an evolving approach
- Risk Management
  - Aligned to the expected requirements of TCFD, assessing risk will be an expectation of committee
  - Risk arises from physical and transition sources, and there should be a means of understanding these exposures where possible and managing these risks.
  - Having an appropriate risk management framework in place to assess risk will be an important action

Investment process (2)

- Identifying opportunities
  - The climate transition will inevitably create investment opportunities as the need for decarbonisation gain pace.
  - Understanding where potential winners and losers may arise will be an important consideration and having a clear basis for evaluating opportunities may also be helpful
  - We think it sensible to focus on strategies that encourage decarbonisation (i.e.. Emissions reducers) and those which remove emissions, noting that the latter may be more nature based in the immediate short term
- Active stewardship
  - Stewardship is expected to comprise two elements
  - Engagement with managers/LCIV is directly within the Committees control. There is an expectation that such engagement will take place regularly
  - Engagement with underlying entities is outwith the Committees direct control. Understanding and challenging the actions of others should be the focus of Committees activity
  - Framing clear expectations and desired outcomes at both levels may be sensible
- Measuring and accountability
  - Expect that data will be captured annually and metrics updated and assessed against targets
  - Metrics can be changed as understanding develops
  - The overall plan should be re-evaluated periodically – every three years would seem to be an appropriate frequency
  - A sector level deep dive can be undertaken to inform engagement activity. This approach has proven helpful with other clients

Governance and reporting

- The final section is focused on the key stakeholders and the expectations that Committee should have of them. This includes the responsibilities of the Committee itself
- Key stakeholders also include advisers, officers, investment managers and the London CIV
- Expectations can be set for each party (theses can be changed/refined) with Committee then able to scrutinise whether expectations have been met
- It is anticipated that reporting on governance and having an appropriate climate governance framework will be a key element of the TCFD regulations

HYMANS ROBERTSON

Glossary

Green revenue	Revenue generated by economic activities relating to the transition to net zero, which typically meet the requirements of the EU Taxonomy on Sustainable Finance
Scope 1 emissions	All direct greenhouse gas emissions
Scope 2 emissions	Indirect emissions from consumption of electricity or heat
Scope 3 emissions	All other indirect emissions in the value chain of the company, including both upstream and downstream emissions
Material sectors	Companies undertaking activities material to the transition to net zero, specifically Nomenclature of Economic Activities (NACE) code categories A-H and J-L. These categories include sectors such as mining and quarrying, manufacturing and construction.
Paris-aligned benchmarks	Benchmarks such as the Paris Aligned Benchmark or Climate Transition Benchmark in which companies are weighted based on degree of alignment with net zero goals and which aim to deliver a material reduction in emissions intensity vs relevant market cap indices (-50%/-30% respectively) and 7% year-on-year reductions in carbon footprint

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.

PENSIONS COMMITTEE 25 July 2023

Subject Heading:	**INVESTMENT STRATEGY UPDATE – INFRASTRUCTURE**
CLT Lead:	**Dave McNamara**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager (Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review the Investment Strategy Statement
Financial summary:	Implementation of the investment strategy will be met from restructuring existing mandates

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

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

SUMMARY

This report includes a paper produced by the Fund Investment Advisor, as set out in Appendix A (exempt), and follows on from the Investment Strategy changes agreed at the last committee meeting on the 21 March 2023

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

RECOMMENDATIONS

That the Committee is asked to agree:

1. An additional 1.5% allocation to the target allocation to the JP Morgan Infrastructure Investments Fund
2. An additional 1.0% allocation to the target allocation to the LCIV Renewable Infrastructure Fund.

REPORT DETAIL

1. Background

a) The Committee agreed the current Investment Strategy Statement (ISS) at its meeting on the 29 July 2020 and have on a number of occasions since then proceeded with the implementation and development of that ISS.

b) Following the Fund's Actuarial valuation as at March 2022 a review of the current ISS was carried out to ensure that it remained appropriate to meet its long term objectives, this being to ensure that the assets are invested to secure funding for member's benefits.

c) Officers discussed the outcome of this review at a meeting in October 2022 in which it was suggested that employer contributions could be reduced subject to an adjustment to the investment strategy. It was also acknowledged of a need to shift towards "increased income" investments as part of any investment strategy changes and the progression of this strategy was later discussed in February 2023.

d) Hymans, the Fund's Investment Advisor subsequently produced the Investment Strategy Considerations paper, which was agreed at the Pensions Committee meeting on the 21 March 2023. Included within those recommendations was an agreement to increase to the target infrastructure asset allocation by 2.5%, up from 10% to 12.5%. A further commitment to increase the infrastructure target asset allocation by 2.5% will equate to c£22.4m.

e) Appendix A to this report sets out how the additional 2.5% will be allocated across the current Fund Managers, what additional commitments will be made and how this will be funded.

f) This paper is exempt as it contains information pertaining to the financial or business affairs of Fund's investment managers.

IMPLICATIONS AND RISKS

Financial implications and risks:

Any changes made to the asset allocation will be funded from reducing or reallocating of assets within existing mandates held by the fund.

A further commitment to increase the infrastructure target asset allocation by 2.5% will equate to c£22.4m. In the short term and whilst current capital commitments continue to be drawn down only £13m will be reallocated. This will be funded from the LCIV Diversified Growth Fund

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

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

Legal implications and risks:

The proposals do not appear to be a revision of the Investment Strategy but an outworking of the principles within it and therefore there do not appear to be any legal implications in approving the recommendations.

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

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

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

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

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

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

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

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

BACKGROUND PAPERS

None

London Borough of Havering Pension Fund

Page 85

Infrastructure allocation

- Simon Jones, Partner
- Mark Tighe, Investment Consultant
- Meera Devlia, Investment Analyst

June 2023

This report includes information relating to the financial or business affairs of investment managers being considered for investment.

HYMANS ROBERTSON

Executive Summary

Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper is to follow up on the ‘Investment Strategy Update Considerations’ paper presented at the 21 March 2023 Pensions Committee meeting and provide considerations and recommendations for the agreed additional 2.5% allocation to infrastructure assets.
- This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Summary of Recommendations

Within this paper, we make the following recommendations regarding the previously agreed 2.5% increase to the Fund’s infrastructure allocation:

1. An additional 1.5% allocation to the target allocation to the JP Morgan Infrastructure Investments Fund
2. An additional 1.0% allocation to the target allocation to the LCIV Renewable Infrastructure Fund.

Based on current capital commitments, we expect that will require a c£13m investment to be made in the JP Morgan Fund. We expect that existing capital commitments will broadly deliver the overall target allocation at this time although propose that this be revisited in 12 months.

Current allocations

As at 31 March 2023	Actual	Current Target
JP Morgan	4.1%	4.0%
Stafford	4.1%	3.5%
LCIV Renewables	1.3%	2.5%
Total	**9.5%**	**10.0%**

- Committee has previously agreed to allocate a further 2.5% (c.£22.4m as at 31 March 2023) to infrastructure, increasing the target allocation to 12.5%.
- As at 31 March 2023, the Fund was slightly below target allocation although there are undrawn commitments to both Stafford and LCIV of c£11m and c£17m respectively. Based on current valuations, the immediate drawing of these amounts would be equivalent to increasing the actual allocation to c12.5% (Stafford increasing to 5.1% and LCIV to 3.2%).
- Whilst capital continues to be drawn gradually, we anticipate the outstanding Stafford commitment to be full during 2023 and the LCIV allocation to be fully drawn during 2024. We also note that Stafford will continue to return capital over this time for reinvestment and hence the allocation is likely to reduce.
- Based on the latest cashflow forecasts provided by Stafford, the current target allocation is expected to be broadly retained over the next 12 months.

- In order to determine how to implement the target strategy, the Committee needs to consider two steps:
    - First, what the target underlying split between the three infrastructure managers should be, recognising that the existing managers offer diversification between sectors and investment approach. As agreed with Committee, we have not considered a further mandate.
    - Second, based on the agreed target split and the current and expected allocations, consider what additional investments may need to be made in order to achieve the target allocations.
- Stafford invest in secondary market funds whilst both LCIV and JP Morgan are making direct/primary investments in infrastructure. The nature of the JP Morgan and LCIV funds are also ‘evergreen’ so will allow the investments to be broadly retained over time, rather than requiring continual re-commitments.
- The JP Morgan and LCIV allocations both facilitate pooling, the former through a specific LGPS fee arrangement and the latter directly through the pooling company. Stafford are not included within a pooling arrangement at present.
- We believe there is merit in retaining an allocation to Stafford to obtain diversification but that there are also merits in gaining more direct exposure to infrastructure assets. Accordingly, we have focused on the to directly invested mandates and consider their respective characteristics overleaf.

Key characteristics comparison

	JP Morgan Infrastructure Investments Fund	LCIV Renewable Infrastructure Fund
NAV	$29,488m	£353.3m
Main Regions (Top 3)	Europe (45.3%), US (38.6%), UK (8.3%)	UK (23.0%), Europe (14.0%), Asia Pacific (13.0%)
Main Sectors (Top 3)	Renewable Energy (38.9%), Utilities (34.5%), Aviation/Maritime (26.6%)	Onshore Wind (14.0%), Solar PV (8.0%), Offshore Wind (7.0%)
Number of Investors	1,217	13
Number of Investments	20 portfolio companies (810 underlying assets)	5 funds, each with several underlying investments
Fund inception	1 July 2007	29 March 2021
Cash Yield	6.3%	Still within 4-year ramp up period - performance not yet formally assessed and performance figures not currently produced.
Target Return	8%-12% (Net)	7%-10% (Net)
Fees (p.a.)	0.65%	0.05% LCIV management fee plus management fee for underlying investment managers – these range between 0.9%-1%
Investment Manager	JP Morgan	LCIV
Structure	Open-Ended	Open-Ended
Lock-Up	4 years	5 years

JP Morgan Infrastructure Investments Fund and LCIV Renewable Infrastructure Fund information is as at 31 December 2022..

Comments on fund characteristics

	Comments
Regional	• Both funds are global and primarily invested are developed economies i.e. the UK, US and Europe and Australia. • The benefit of these regions having already established financial regulations and there being a lower risk of political and/or economic instability negatively impacting investments in these regions and subsequent performance.
Sectoral	• Both funds have majority sectoral allocations to renewable energy. • This is expected with the LCIV Renewable Infrastructure Fund’s allocation, which, more granularly, includes solar photovoltaics, on/off-shore wind, electric vehicle charging etc. Similarly, the JP Morgan Infrastructure Investments Fund’s allocation to renewable energy includes mostly solar energy and on-shore wind.
Diversity of investments	• Although the LCIV fund is concentrated on a specific sector (renewable energy), the fund consists of investment in underlying funds – as at March 2023 there were 5 underlying fund investments. This adds a significant level of diversification • The JP Morgan fund is relatively concentrated for the size of the fund, with only 20 company investments. However, these company investments comprise of a range of underlying assets
Cash yield and target return	• The JP Morgan Infrastructure Investments Fund has been able to report an actual since inception cash yield of 6.3%. However, the LCIV Renewable Infrastructure Fund is in its ramp up period and as such, is not yet formally reporting a cash yield figure • The JP Morgan Infrastructure Investments Fund also has a slightly higher target return, though we would view both funds in the same risk/return region
Liquidity and fund structure	• Both funds have a lock up period – the JP Morgan Infrastructure Investments Fund with 4 years from investment and the LCIV Renewable Infrastructure Fund with 5 years from investment. • Both funds are open-ended and will reinvest capital rather than return this to investors. This means the Fund’s allocation will be broadly maintained and is advantageous from a governance/operational perspective

Recommendation

As at 31 March 2023	Actual	Current Target	Proposed Target
JP Morgan	4.1%	4.0%	5.5%
Stafford	4.1%	3.5%	3.5%
LCIV Renewables	1.3%	2.5%	3.5%
Total	**9.5%**	**10.0%**	**12.5%**

- We remain supportive of all the Fund's infrastructure investments and would be comfortable in continuing to allocation to all. We propose increasing the target allocation to JP Morgan by 1.5% and to the LCIV Renewable Fund by 1%.
- We believe there is merit in retaining a degree of diversification in approach, noting that JP Morgan offer exposure to non-renewable infrastructure which are subject to ongoing management action in order to decarbonise activities. This was previously discussed by JP Morgan with Committee.
- We also note that consideration should be given to the pace of capital deployment, with LCIV taking time to draw down whilst capital allocated to JP Morgan is likely to be drawn quickly.
- As noted, both JP Morgan and LCIV allocations provide pooling benefits and increasing the target allocation to these vehicles is thus consistent with the overall pooling objective.
- In the immediate short term, we do not believe it necessary to make a further commitment to the LCIV Renewables Fund as the current committed capital will be largely sufficient to achieve the proposed target.
- Allocations to Stafford are likely to remain temporarily above the proposed target allocation although the return of capital will serve to correct this. We believe it will be appropriate to consider reupping into a future Stafford vehicle during 2024 once drawdowns have been completed.
- In the short-term, a further commitment can be made to the JP Morgan Fund. We propose an allocation of £13m in order to meet the proposed target to be funded from the LCIV DGF. Alongside the proposed commitment to the LCIV Global Bond Fund and existing capital commitments, this will see the DGF allocation reduced to nil in line with expectations.
- We look forward to discussing this with Committee.

Risk Warning

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

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 25 JULY 2023

Subject Heading:	**PENSION FUND ACCOUNTS 2022/23**
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 2023

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 2023 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 2023 and consider if there are any issues that need to brought to the attention of the Audit Committee.

REPORT DETAIL

1 Background

1.1. The Accounts and Audit (amendment) Regulations 2022 (SI 2022/708) came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years, until the 2027/28 accounts have been completed. The deadline for the Council to produce and publish draft accounts has reverted back to the 31st May for the 2022/23 accounts, after having been temporally extended to 31 July for the 2020/21 and 2021/22 accounts, as per the Accounts and Audit Regulations 2015.

1.2. The Pension Fund draft accounts have been produced and published in line with the Accounts and Audit Regulation 2015 meeting the deadline of 31 May.

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

1.4. There were no code changes in 2022/23 that affect the Pension Fund accounts.

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

1.6. Key movements to note from the 2022/23 accounts are:

- The Net Assets of the Fund has decreased to **£896m** for 2022/23 from £920m in 2021/22, a net decrease of (**£24m)**.

- The net decrease of (**£24m)** is compiled of loss on investments and change in the market value of assets of (£45m), investment income of £17m, net additions of cash of £10m and offset by management expenses of (£6m). Further details are included within the Fund Account and Net Asset Statement included in this report.

1.7. The Authority's full Statement of Accounts for 2022/23 are to be presented to the Audit Committee in due course 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.

1.8. At the time of writing this report, the Pension Fund Accounts 2020/21, 2021/22 and 2022/23 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.

1.9. The audit of the Pension Fund Accounts 2020/21 has been completed but not formally signed off due to issues awaiting resolution on the Authority's Statement of Accounts. There was an Audit results report presented to the Audit committee on the 18 April 2023 confirming no material comments or adjustments required to the Pension Fund accounts for 2020/21.

1.10. Audits for the Authority and Pension Fund accounts for 2021/22 and 2022/23 have not yet commenced and unlikely to start until resolution and sign off of the 2020/21 accounts.

1.11. A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2022/23 Pension Fund Annual Report. The statutory publication date for the 2022/23 Pension Fund Annual Report is **1 December 2022**. If the audit has not been completed it will still be published as unaudited as was the case in prior years

1.12. 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 once issued.

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.

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.

Fees consist of charges for core fees (as agreed by the Public Sector Audit Appointment (PSAA)) plus any additional charges/fee variations. Due to the continued delays to the audit, it is not possible to provide full audit costs as these are not known until the level of work has been determined.

As an indication of costs, prior audit fee charges for the Pension Fund and the known core fees can be seen below:

	2019/20 Fees	2020/21 Fees	2021/22 Fees	22/23 Fees
	Actual	Estimated	Estimated	Estimated
	£	£	£	£
Total Fees	**40,512**	**55,000**	**16,170**	**24,795**

The 2020/21 Pension fund accounts have yet to be finalised by our external auditors so fees are estimated and include anticipated additional charges as indicated in communications with EY.

2021/2022 and 2022/23 fees are estimated and include core fees only as no indications have been received as to level of potential additional charges.

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

Legal implications and risks:

The Accounts and Audit (amendment) Regulations 2022 (SI 2022/708) came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years, until the 2027/28 accounts have been completed. The deadline for the Council to produce and publish draft accounts has reverted back to the 31st May for the 2022/23 accounts as per the Accounts and Audit Regulations 2015.

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

This page is intentionally left blank

Pension Fund

Pension Fund Account for the year ended 31 March 2023

2021/22 £000		Notes	2022/23 £000
	Dealings with members, employers and others directly involved in the fund		
49,112	Contributions receivables	7	53,111
4,204	Transfers in from other pension funds	8	3,029
53,316			**56,140**
(37,551)	Benefits	9	(42,530)
(4,618)	Payments to and on account of leavers	10	(3,908)
(42,169)			**(46,438)**
11,147	Net additions (withdrawals) from dealings with members		9,702
(5,474)	Management expenses	11	(5,940)
5,673	**Net additions/(withdrawals) including fund management expenses**		**3,762**
	Returns on investments		
14,977	Investment income	12	16,484
25,198	Profit and losses on disposal of investments and changes in the market value of investments	14a	(44,577)
40,175	**Net returns on investments**		**(28,093)**
45,848	**Net increase (decrease) in the net assets available for benefits during the year**		**(24,331)**
874,235	Opening net assets of the Fund at start of year		920,083
920,083	**Closing net assets of the Fund at end of year**		**895,752**

Net Asset Statement for the year ended 31 March 2023

£000			£000
150	Long Term Investments	14	150
907,290	Investment Assets	14	879,324
(2,220)	Investment Liabilities	14	(272)
905,220	**Total net investments**		**879,202**
15,612	Current Assets	21	16,962
(749)	Current Liabilities	22	(412)
920,083	**Net assets of the Fund available to fund benefits at end of the reporting period**		**895,752**

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 Accounts

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 2022/23 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-22		31-Mar-23
56	**Number of employers with active members**	**55**
	Number of employees in scheme	
4,783	London Borough of Havering	4,800
1,810	Scheduled bodies	1,819
82	Admitted bodies	73
6,675	**Total**	**6,692**
	Number of pensioners and dependants	
6,110	London Borough of Havering	6,285
406	Scheduled bodies	454
32	Admitted bodies	36
6,548	**Total**	**6,775**
	Deferred pensioners	
5,680	London Borough of Havering	5,621
966	Scheduled bodies	1,093
43	Admitted bodies	36
6,689	**Total**	**6,750**
19,912	**Total number of members in pension scheme**	**20,217**

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 2023. Employer contributions are set based on triennial actuarial funding valuations. Current employer contribution rates range from 16.5% to 41.0% 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 2022/23 financial year and its position at year end as at 31 March 2023. 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 and the financial statements for 2022/23 have been prepared on a going concern basis as follows:

The one year investment returns for 2022/23 was -3.59% and the three year period was 7.99%. Asset values have decreased by £24,3m over the year to 31 Mach 2023, however from time to time the Fund experiences economic downturns and a long-term view must be taken of investment returns. There is sufficient flexibility in the investment strategy to be able to respond to short term market fluctuations. The Fund is comparatively low risk with smaller proportion of its assets held in volatile equities.

The Fund was assessed as 80% funded as at 31 March 2022 valuation, a significant improvement on the funding level of 70% at 31 March 2019 and includes a recovery period necessary to make good any potential increases in the funding deficit. It is important to remember that that the Fund does not need to be 100% funded to be a going concern, it simply needs to be able to meet benefit obligations each month as they fall due. The Fund held cash of £28m at the Balance Sheet date, equivalent to 3% of the Fund Assets. In addition, the Fund held £628m in Level 1 and Level 2 investment assets which could be realised within 3 months if required. Based upon review of its operational cash flow projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any of these investments.

In the three financial years to 31 March 2023, the number of employing bodies increased from 51 to 56 and current active members increased from 6,410 to 6,692 and the number of pensioners increasing from 6,410 to 6,775.

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

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%	18
		0.1% p.a. increase in the Pension Increase Rate (CPI) could result in an increase of 2%	17
		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	42
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 £251m, which represents 28% of the total Fund value of £895m.	Sensitivity Analysis shows that the £251m valuation could decrease or increase within the range of £233m and £270m

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 2023 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 LGPSin due course.

The Fund has valued its assets based on the 31 March 2023 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.

Markets were disrupted by Geopolitics, banking instability, global inflationary pressures and accompanying central bank rate rises have increased market volatility. As a result, asset returns have lagged expectation while members received a higher than anticipated benefit increase of 10.1% in April 2023. However, these impacts were more than offset by a material increase in expected future returns due to rising interest rates which decreased the value placed on the Fund's liabilities.

7 Contributions Receivable

By category

2021/22 £000		2022/23 £000
	Employees' contributions	
	Normal:	
6,541	London Borough of Havering	7,012
1,489	Scheduled Bodies	1,714
75	Admitted Bodies	99
	Additional contributions:	
6	London Borough of Havering	6
8,111	**Total Employees' Contribution**	**8,831**
	Employers' contributions	
	Normal:	
16,341	London Borough of Havering	17,590
5,606	Scheduled bodies	5,625
329	Admitted bodies	468
	Deficit funding:	
18,302	London Borough of Havering	18,569
-	Scheduled bodies	750
-	Admitted bodies	3
	Augmentation	
344	London Borough of Havering	1,275
50	Scheduled bodies	-
29	Admitted bodies	-
41,001	**Total Employers' Contributions**	**44,280**
49,112	**Total Contributions Receivable**	**53,111**

The London Borough of Havering deficit funding figure reflects additional contributions made by the Authority to the Pension Fund. These consist of £12.650m (21/22 £12.650m) secondary contributions and £5.920m (21/22 £5.652m) voluntary planned contributions.

By authority

2021/22 £000		2022/23 £000
41,534	London Borough of Havering	44,452
7,145	Scheduled bodies	8,089
433	Admitted Bodies	570
49,112	**Total Contributions Receivable**	**53,111**

8 Transfers in from Other Pension Funds

2021/22 £000		2022/23 £000
4,204	**Individual transfers**	3,029
4,204	**Total Transfers In from Other Pension Funds**	**3,029**

9 Benefits Payable

By category

2021/22 £000		2022/23 £000
	Pensions	
30,620	London Borough of Havering	32,674
1,324	Scheduled Bodies	1,547
936	Admitted Bodies	202
32,880	**Pension Total**	**34,423**
	Commutation and Lump Sum Retirements	
3,609	London Borough of Havering	6,205
336	Scheduled Bodies	560
(22)	Admitted Bodies	181
3,923	**Commutation and Lump Sum Retirements Total**	**6,946**
	Lump Sum Death Benefits	
575	London Borough of Havering	985
173	Scheduled Bodies	176
748	**Lump Sum Death Benefits Total**	**1,161**
37,551	**Total Benefits Payable**	**42,530**

By authority

2021/22 £000		2022/23 £000
34,804	London Borough of Havering	39,864
1,833	Scheduled Bodies	2,283
914	Admitted Bodies	383
37,551	**Total Benefits Payable**	**42,530**

10 Payments To and On Account of Leavers

2021/22 £000		2022/23 £000
81	Refunds to members leaving service	79
4,537	Individual transfers	3,829
4,618	**Payments to and on Account of Leavers**	**3,908**

11 Management Expenses

2021/22 £000		2022/23 £000
709	Administrative Costs	727
4,241	Investment Management Expenses	4,628
443	Oversight and Governance Costs	595
78	Oversight and Governance Costs - External Audit costs	(14)
3	Local Pension Board	4
5,474	**Management Expenses**	**5,940**

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

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 14a).

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

2022/23	Management fees	Performance Related fees	Transaction cost	2022/23 Total
	£000	£000	£000	£000
Bonds	197	0	0	179
Fixed Interest Unit Trust	18	0	0	18
Diversified Growth Funds	286	0	210	496
Infrastructure	770	0	0	770
Global Equity	1,501	0	100	1,601
Other Investments				
Pooled Property	667	121	0	788
Private Equity and Joint Venture	657	0	0	657
Derivatives - Forward Currency Contracts	31	0	0	31
	4,109	**121**	**310**	**4,540**
Custody fees				42
Performance Measurement fees				36
Other Investment fees				10
Investment Management Expenses*				**4,628**

*Includes £1.954m charged for assets in the London CIV asset pool (£2.086m In 2020/21)

Investment Management Expenses continued

11a

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 fund	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)

12 Investment Income

2021/22 £000		2022/23 £000
9,542	Pooled Investments - unit trusts and other managed funds	13,682
1,339	Income from Bonds*	600
2,580	Pooled Property Investments	1,928
2,294	Income form Derivatives (Foreign Exchange Gains/(losses))	12
43	Interest on Cash Deposits	262
(821)	Other Income**	0
14,977	**Investment Income**	**16,484**

***** Income includes Index linked Interest of £0.210m (2021/22 £0.208m).
** Management expenses to offset against gross income from dividends

14 Analysis of Investments

2021/22		2022/23
£000		
	Investment Assets	
	Bonds	
22,977	Fixed Interest Securities*	351
39,097	Index-Linked Securities	26,737
62,074		**27,088**
	Pooled Investment	
150	Long Term Investments	150
63,252	Fixed Interest Unit Trust	60,434
85,428	Diversified Growth Fund	66,469
56,760	Infrastructure	84,509
473,469	Global Equity	459,768
679,059		**671,330**
	Other Investments	
93,775	Pooled Property	85,821
55,134	Private Equity and Joint Venture	81,161
148,909		**166,982**
50	Derivatives - Forward Currency Contracts	1,575
4,985	Cash deposits Managers	12,066
12,000	Amounts receivable for sales	362
363	Investment income due	71
17,398		**14,074**
907,440	**Total Investment Assets**	**879,474**
	Investment Liabilities	
(2,218)	Derivatives - Forward Currency Contracts	(24)
-	Amounts payable for purchases	(248)
(2)	Income receivable	-
(2,220)	**Total Investment Liabilities**	**(272)**
905,220	**Total Net Investments**	**879,202**

* Account was sold down dueing 2022/23

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2022	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value at 31 March 2023
	£000	£000	£000	£000	£000
Fixed Interest Securities	22,977	16,151	(33,428)	(5,349)	351
Index-linked Securities	39,097	30,683	(29,755)	(13,288)	26,737
Pooled Investment Vehicles	679,059	30,813	(23,784)	(14,757)	671,331
Other Investments	148,909	27,978	(4,433)	(5,472)	166,982
Derivatives – forward currency contracts	(2,168)	21,772	(12,412)	(5,641)	1,551
	887,874	**127,397**	**(103,812)**	**(44,507)**	**866,952**
Cash Deposits (fund managers)	16,985			(56)	12,066
Other Investment Balances	361			(14)	184
	905,220			**(44,577)**	**879,202**

	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**

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 £0.310m (2021/22 £0.096m). 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 2023 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2022		Manager	Mandate	Value 31 March 2023	
£000	%			£000	%
Investments managed by London CIV asset Pool:					
150	0.02	London CIV	Equities Unquoted	150	0.02
119,358	13.19	Ruffer	Pooled Absolute Return Fund	115,888	13.18
155,312	17.16	Baillie Gifford	Pooled Global Alpha Growth Paris Aligned Fund	135,620	15.43
85,428	9.44	Baillie Gifford	Pooled Diversified Growth Fund	66,469	7.56
44,694	4.94	State Street Global Advisors	Pooled Passive Equity Progressive Paris Aligned (PEPPA)	43,994	5.00
6,916	0.76	Foresight, Blackrock, Quinbrook & Stonepeak	Pooled Infrastructure Renewables	11,185	1.27
411,858	**45.50**			**373,306**	**42.46**
PLUS Investments aligned with London CIV asset pool:					
166,105	18.35	Legal & General Investment Management (LGIM)	Passive Global Equities/ Emerging Markets/Future World	164,266	18.68
577,963	**63.85**	**London CIV Total**		**537,572**	**61.14**
Investments managed outside of the London CIV asset Pool:					
40,456	4.47	Royal London Index Linked Bonds Fund	Investment Grade Bonds	27,257	3.10
22,257	2.46	Royal London Gov Corp' Bond Fund	Investment Grade Bonds	0	0.00
63,251	6.99	Royal London Multi Asset Credit Pooled Fund	Fixed Interest Unit Trust	60,434	6.87
61,467	6.79	UBS Property	Pooled Property	51,148	5.82
32,308	3.57	CBRE	Global Pooled Property	34,673	3.94
20,304	2.24	Stafford Capital SISF II	Overseas Pooled Infrastructure	19,937	2.27
7,487	0.83	Stafford Capital SISF IV	Overseas Pooled Infrastructure	16,387	1.86
23,302	2.57	JP Morgan	Overseas Pooled Infrastructure	37,000	4.21
20,855	2.30	Churchill II	Overseas Pooled Private Debt	21,761	2.48
7,756	0.86	Churchill IV	Overseas Pooled Private Debt	15,288	1.74
26,524	2.93	Permira PCS4	Overseas Pooled Private Debt	30,961	3.52
-	0.00	Permira PCS5	Overseas Pooled Private Debt	13,151	1.50
(1,538)	(0.00)	Russell Investments	Currency Management	5,905	0.67
2,828	0.31	Other	Other	7,728	0.88
327,257	**36.15**			**341,630**	**38.86**
905,220	**100.00**	**Total Fund**		**879,202**	**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 2023	% of Total Fund
£000			£000	
155,312	17.16	London CIV Baillie Gifford Global Alpha Paris Aligned Fund	135,620	15.43
119,358	13.19	London CIV Ruffer Absolute Return Fund	115,888	13.18
93,296	10.31	LGIM Future World Fund	93,404	10.62
85,428	9.44	London CIV Diversified Growth Fund	66,469	7.56
63,251	6.99	Royal London Multi Asset Credit Pooled Fund	60,434	6.87
61,467	6.79	UBS Property	51,148	5.82
578,112	**63.86**	**Total Fund**	**522,963**	**59.48**

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager 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 2023, the value of quoted equities on loan was £37.387m (31 March 2022 £1.586m) 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 2023 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	30,068	USD	(37,132)	52	(0)
	USD	1,796	GBP	(1,455)	0	(3)
	GBP	27,298	EUR	(30,807)	206	(0)
	GBP	2,089	AUD	(3,711)	78	(0)
	EUR	2,147	GBP	(1,895)	0	(7)
	AUD	22	GBP	(13)	0	(1)
Up to Six months	GBP	4,562	AUD	(8,184)	123	0
	GBP	45,517	EUR	(51,580)	74	(3)
	EUR	3,332	GBP	(2,939)	0	(3)
	GBP	62,992	USD	(76,705)	1,042	(0)
	USD	1,291	GBP	(1,049)	0	(7)
Open forward currency contracts at 31 March 2023					**1,575**	**(24)**
Net forward currency contracts at 31 March 2023						**1,551**
Open forward currency contracts at 31 March 2022					50	(2,218)
Net forward currency contracts at 31 March 2022						**(2,168)**

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 investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
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

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 Equity and Joint Venuture 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.

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Overseas/UK Pooled instruments Private Private Equity and Joint Venuture (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 2023.

	Assessed valuation range (+/-)	Value at 31 March 2023	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property funds	7.00	85,821	91,828	79,813
Pooled Unit Trusts	7.30	165,670	177,764	153,576

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 2023	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	356,428	271,555	251,491	879,474
Total Financial Assets	**356,428**	**271,555**	**251,491**	**879,474**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	(272)	0	(272)
Total Financial Liabilities	**0**	**(272)**	**0**	**(272)**
Net Financial Assets	**356,428**	**271,283**	**251,491**	**879,202**

16a. Fair Value Hierarchy continued

	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	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	(2,969)	-	-	(2,969)
Total Financial Liabilities	**(2,969)**	-	-	**(2,969)**
Net Financial Assets	**509,478**	**204,936**	**205,669**	**920,083**

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 2022	Purchases	Sales	Unrealised gains / losses	Realised gains / losses	Market Value 31 March 2023
	£000	£000	£000	£000	£000	£000
Infrastructure	56,760	24,834	(5,543)	7,044	1,413	84,509
Pooled Property	93,775	-	(401)	(7,954)	401	85,821
Private Equity and Joint Venture	55,134	27,978	(4,032)	1,134	947	81,161
Total	**205,669**	**52,812**	**(9,975)**	**225**	**2,761**	**251,491**

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

There were no transfers between levles

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 2022				31 March 2023		
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	-	-
22,977	-	-	Bonds -Fixed Interest Securities	351	-	-
39,097	-	-	Bonds - Index linked securities	26,737	-	-
50	-	-	Derivative contracts	1,576	-	-
678,909	-	-	Pooled investment Vehicles	671,180	-	-
55,134	-	-	Private Equity and joint venture	81,161	-	-
93,775	-	-	Property	85,821	-	-
-	16,985	-	Cash	-	12,325	-
-	363	-	Other Investment Balances	-	71	-
-	15,612	-	Debtors	-	16,156	-
890,092	**32,960**	-	**Financial Assets Total**	**866,976**	**28,552**	**0**
			Financial Liabilities			
(2)	-	-	Other Investment Balances	-	-	-
(2,218)	-	-	Derivative contracts	(24)	-	-
-	-	(749)	Creditors	-	-	(411)
(2,220)	-	**(749)**	**Financial Liabilities Total**	**(24)**	**-**	**(411)**
887,872	**32,960**	**(749)**	**Grand total**	**866,952**	**28,552**	**(411)**
920,083				**895,093**		

(b) Net Gains and Losses on Financial Instruments

2021/22 £000		2022/23 £000
	Financial assets	
25,198	Fair value through profit and loss	**(44,577)**
25,198	**Total**	**(44,577)**

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 2023 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Pooled Equities	520,353	14.40	595,284	445,422
Total Bonds	27,087	6.20	28,767	25,408
Pooled Overseas Unit Trusts	165,670	7.30	177,764	153,576
Global Pooled inc.UK	66,469	6.10	70,523	62,414
Pooled Property	85,821	7.00	91,828	79,813
Cash	13,802	0.50	13,871	13,733
Total	**879,202**		**978,037**	**780,366**

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**

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 2023 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	27,087	271	27,358	26,816
Cash and Cash Equivalents	13,802	138	13,940	13,664
Cash Balances	16,201	162	16,363	16,039
Total Change in Asset Value	**57,090**	**571**	**57,661**	**56,519**

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**

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 6.90% over a rolling 36 month period.

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

A 6.30% 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 2023 £000	Potential Market movement 6.30%	Value on increase £000	Value on Decrease £000
Overseas Pooled	145,046	9,138	154,184	135,908
Overseas Cash	5,366	338	5,704	5,028
Total change in assets available to pay benefits	**150,412**	**9,476**	**159,888**	**140,936**

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**

(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 2023 was £16.056m (31 March 2022 £14.260m).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 2023 the value of liquid assets was £644m, which represented 72% of the total Fund (31 March 2022 £714m, which represented 78% 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 2022/23

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 April 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term);
- where appropriate, ensure stable contribution rates;
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy; and
- use reasonable measures to reduce the risk of 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £920 million, were sufficient to meet 80% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2022 valuation was £229 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 2023 to 31 March 2026 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 2022 valuation report and FSS.

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 2022 valuation were as follows:

Financial assumptions	**31 March 2022 %**
Discount Rate for Period	3.5
Salary increases assumption	3.4
Benefit increase assumption (CPI)	2.7

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 Continuous Mortality Investigation (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 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	21.7 years	24.3 years
Future Pensioners*	22.6 years	25.8 years

** Aged 45 at the 2022 Valuation*

Copies of the 2022 valuation report and FSS are available on request from the Administrating Authority to the Fund.

Experience over the period since 31 March 2022
Markets were disrupted by the ongoing war in Ukraine, a short-term change in UK fiscal policy and global inflationary pressures. As a result, asset returns have lagged expectation while members received a higher than anticipated benefit increase of 10.1% in April 2023. However, these impacts were more than offset by a material increase in expected future returns due to rising interest rates which decreased the value placed on the Fund's liabilities. Therefore, Fund's funding level increased significantly in the year to 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2025. The FF will also be reviewed at that time.

20 Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities to disclose what IAS26 refers to as the acturial present value of promised retirement benefits.

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

31 March 2022	Year Ended	31 March 2023
£m		**£m**
1,435	Present Value of Promised Retirement Benefits	1,053
920	Fair Value of Scheme assets (bid Value)	896
515	**Net Liability**	**157**

The promised retirement's benefits at 31 March 2023 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. 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 2023 and 31 March 2022. It is estimated that the impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £513m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £10m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

31 March 2022	Year Ended (% p.a)	31 March 2023
% p.a.		**% p.a.**
3.20	Pension Increase Rate (CPI)	3.00
3.90	Salary Increase Rate	3.70
2.70	Discount Rate	4.75

Demographic assumptions

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

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% 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	21.4 years	24.0 years
Future Pensioners (assumed to be aged 45 at the latest valuation date)	22.3 years	25.5 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 2023	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	18
1 year increase in member life expectancy	4%	42
0.1% p.a. increase in the Salary Increase Rate	0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	17

Professional notes

These notes accompany the report titled 'Accounting Covering Report - 31 March 2023', which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21 Current Assets

2021/22 £000		2022/23 £000
676	Contributions due - employers	57
195	Contributions due - employees	218
117	Pension Fund Bank Account Balances	145
326	Sundry Debtors	386
14,167	Cash deposit with LB Havering	16,056
131	Holding Accounts	100
15,612	**Current Assets**	**16,962**

22 Current Liabilities

2021/22 £000		2022/23 £000
(301)	Benefits Payable	(33)
(293)	Sundry Creditors	(224)
(155)	Holding Accounts	(155)
(749)	**Current Liabilities**	**(412)**

23 Additional Voluntary Contributions

Market Value 2021/22 £000	AVC Provider	Market Value 2022/23 £000
810	Prudential*	749
148	Standard Life	88

Some employees made additional voluntary contributions (AVC's) of £30,080 (2021/22 £31,422) 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 2022/23 were £29,680 (2021/22 £29,022) to the Prudential and £400 (2021/22 £2,400) to Standard Life.

24 Agency Services

The Fund pays discretionary awards to the former employees of Havering. The amounts paid are not charged to the pension fund.

2021/22 £000		2022/23 £000
1,270	Payments on behalf of Havering Council	1,260

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 authority incurred costs of £0.946m (2021/22 £0.682m) 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 2022/23 contributed £37.434m (2021/22 £34.643m) 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 2023 cash holdings totalled £16,056m (2021/22 £14.167m), earning interest over the year of £0.226m (2021/22 £0.043m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2023 (2021/22 £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 2022/23 a total of £1.954m was charged to the Fund by the London CIV in respect of investment management services (2021/22 £2.238m).

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.

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 2023 were £75.50m. (31 March 2022 £117.36m). 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 £0.003m (2021/22 £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 £1.4m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Seven admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.75m.

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.

This page is intentionally left blank

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 25 July 2023

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2023**
CLT Lead:	**Dave McNamara**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund performance ("the Fund") 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 2023

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 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund increased in value by **£23.6m** over the quarter, it underperformed the tactical benchmark by -0.31% and the strategic benchmark by -2.12%.

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:

London Collective Investment Vehicle (LCIV) - Asset Pooling Manager

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 LCIV for an overview on the sub funds invested on their platform I (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 Fund will be included.

3. We welcome any feedback and suggestions that will help members gain a better understanding of the reports. Hymans report at Appendix A now includes a one-page summary highlighting key performance takeaways over the quarter.

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:

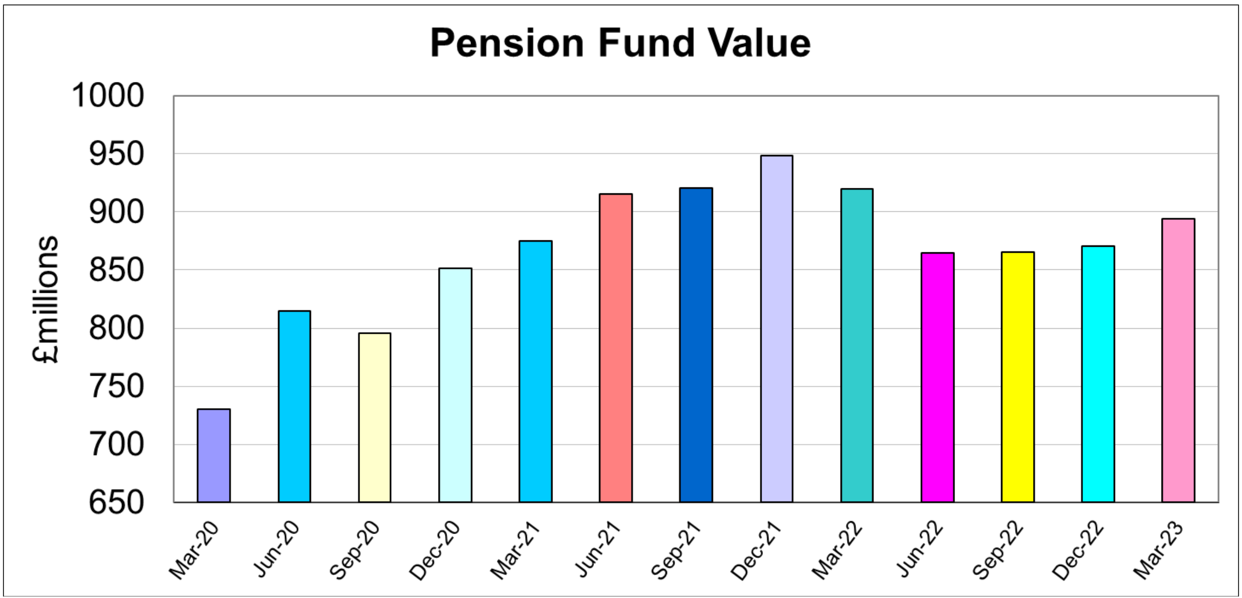
e. **Tactical Benchmark** - Each asset manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic 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 Mar 2023 was **£894.08m** compared with £870.47m at the 31 Dec 2022; an **increase of £23.61m**. This movement can be attributable to an increase in asset values of £19.59m and an increase in cash of £4.02m. Internally managed cash stands at **£16.2m** an 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 31/03/23	12 Months to 31/03/23	3 Years to 31/03/23	5 years to 31/03/23
	%	%	%	%
Fund	2.70	-3.59	7.99	5.09
Benchmark	3.01	0.73	8.41	5.97
*Difference in return	-0.31	-4.32	-0.42	-0.89

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 represents the expected rate at which the Fund’s liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period

Table 2: Strategic Performance

	Quarter to 31/03/23	12 Months to 31/03/23	3 Years to 31/03/23	5 years to 31/03/23
	%	%	%	%
Fund	2.70	-3.59	7.99	5.09
**Benchmark	4.81	-24.53	-5.67	-1.31
*Difference in return	-2.12	20.94	13.67	6.40

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 **£16.2m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2020/21 31 Mar 21**	**2021/22 31 Mar 22**	**2021/22 31 Mar 23**
	£000's	£000's	£000's
Balance B/F	**-23,056**	**-15,963**	**-14,260**
Benefits Paid	38,874	37,632	42,530
Management costs	1,420	1,720	1,547
Net Transfer Values	14,251	333	879
Employee/Employer Contributions	-48,049	-49,112	-53,120
Cash from/to Managers/Other Adj.	723	11,173	6,449
Internal Interest	-126	-43	-226
Movement in Year	**7,093**	**1,703**	**-1,941**
Balance C/F	**-15,963**	**-14,260**	**-16,201**

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 is held 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 **Asset Pooling Manager LCIV,** their report is attached at **Appendix C (Exempt).**

8. FUND UPDATES:

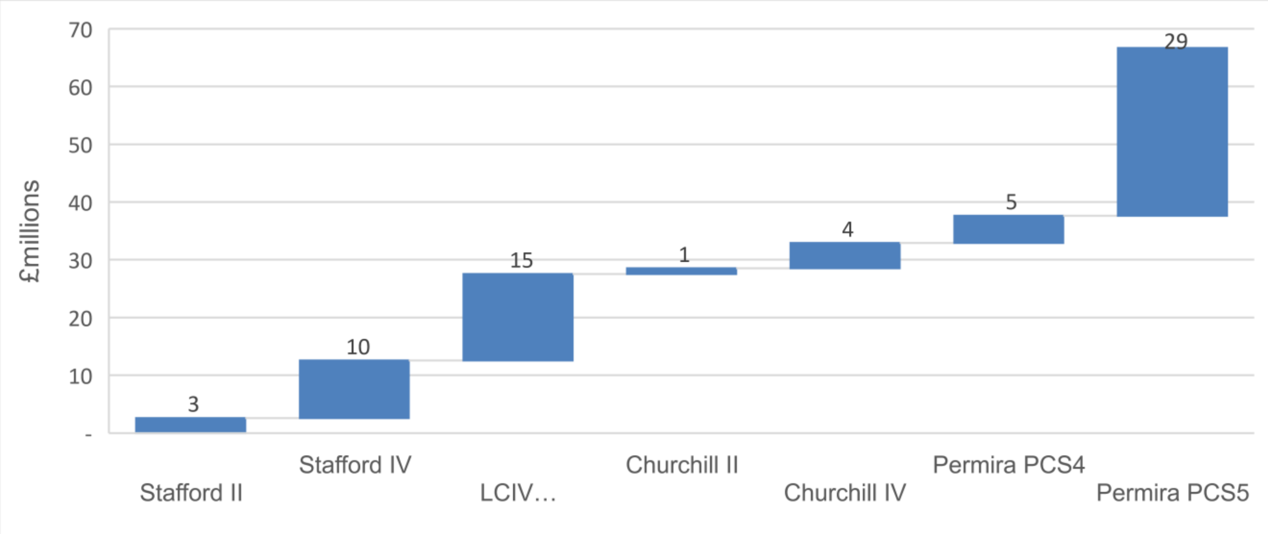
8.1 Changes made since the last report and forthcoming changes/events:

a. Since the last report, the Fund has continued to fund capital draw down requests, within the total fund commitments approved by this committee:
   - £0.33m Stafford II
   - £1.65m Stafford IV
   - £1.77m London Collective Investment Vehicle (LCIV) Renewables Fund
   - £0.51m Churchill II fund
   - £0.45m Churchill IV fund and
   - £1.55m Permira PCS4 fund

b. Capital Calls were funded with cash received from investment income which is held with the Custodian

c. At 30 June 2023 there was £67m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 30 June 2023



8.2 **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 the governance of our investments held with the LCIV is now their responsibility. It is therefore crucial that regular communication and contact is upheld and activity updates are reported and covered here as follows:

8.2.1 LCIV meetings (since the last report)

a. Shareholder meeting – 30 March 23 and 21 June 2023. Meetings are confidential and open to nominated shareholders only so not all LGPS clients are represented. Matters arising are usually reported to the General Shareholder meeting when all LGPS shareholders are represented.

b. Business Update Meetings (currently held virtually) – take place monthly. Meetings were held on the 23 March, 27 April and 25 May 2023.

c. Each business update 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:

- **Fund Monitoring Updates**: LCIV Diversified Growth Fund has been put on enhanced monitoring with a review due in June 2023. LCIV Absolute Return Fund review saw the score for 'Business Risk' reduced to 'amber'. LCIV also monitoring changes in the ownership structure.

- **Annual Performance Reviews:** In depth reviews continue to take place; LCIV Global Alpha Growth Paris Aligned Fund and LCIV Passive Equity Progressive Paris Aligned Fund are currently pending.

- **Fund Activity - New/Changes to Sub Fund Launches:**
  - *New:* UK Housing Fund (Property) – Stage 4 (fund Launch) – First close 31 March 2023 with CBRE.
  - *New:* Global Equity Value – Stage 1 (Initiation) First Seed Investor Group (SIG) held to explain investment proposition. Next SIG meeting due 8 June. Havering has no plans to invest in this fund
  - *New:* Sterling Credit – Stage 1 (Initiation) Next SIG due on13 June. Havering has no plans to invest in this fund
  - *Change:* LCIV Absolute Return Fund, moving to a fund of one to deliver fee savings. No operational impact for Havering under this arrangement.
  - *Change:* LCIV Renewable Fund – Macquarie has been added as the fifth manager for this fund, which will allow more shareholders to invest in this product
  - *Change:* Credit facility for private markets client funds being asked for feedback, LCIV seeking to move the drawdown time from 5 to 10 business days

- **Other Fund and Corporate Matters:**
  - Cost Transparency Working Group met on 28 April – working on fee saving methodology, review of Assessment of Value (AOV) and funding model.
  - Authorised Contractual Scheme (ACS) accounts approved for the year to December 2022 – no audit issues to note.
  - Shareholder consent has now allowed LCIV to recommence work on obtaining additional permissions, application with the Financial Conduct Authority (FCA) targeting Q3 2023 (December 23)
  - An Assessment of Value has been carried out on all LCIV sub-funds that have been with them for 1 year or more at 31 December 2022. The criteria are set by the FCA as set out below and funds are assigned star ratings: 3 Stars - Delivers value for money, 2 Stars – Delivers value but some criteria are to be monitored and 1 Star – Value not achieved.
    - Quality of Service
    - Performance
    - Costs
    - Economies of Scale
    - Comparable Market Rates

    - Comparable Services
    - Classes of Shares
  - Havering funds rated with 1 Star - LCIV Global Alpha Paris Aligned Fund (LCIV are in the process of carrying out in-depth review, currently on normal monitoring status. LCIV Diversified Growth Fund (Currently under enhanced monitoring status and further in-depth review is scheduled to take place in June 2023).

8.3 LGPS GENERAL UPDATES:

8.3.1 Guarantee for academy trusts outsourcing arrangements

a. On 17 May 2023, the Department for Education (DfE) published their policy for guaranteeing the outsourcing arrangements of academy trusts.

b. Education and Skills Funding Agency (ESFA) approval is no longer required by academy trusts seeking pass-through arrangements with their administering authorities for outsourcing contracts for employees covered by the DfE Guarantee policy.

c. A pass-through arrangement is a risk sharing mechanism between the new employer (outsourced contractor) and Letting Authority (academy trust), which typically means that the majority of the pensions risk is borne by the Letting Authority rather than the new employer. The trade-off for the risk sharing being that the letting authority receives a fairer price for the contract as that element of the pension risk does not need to be factored into the contract price.

d. Under a pass- through arrangement, if a contractor ceases to trade, then the LGPS liabilities will remain with the trust. Those liabilities remaining with the trust will now be automatically covered by the DfE guarantee, therefore providing the Fund with greater protection if the trust was also not able to meet its pension obligations.

8.3.2 Training Requirements - UPDATE

a. The Fund has subscribed 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.

b. In addition to an induction training session, it is expected that members will complete the LOLA training modules over a six-month period or sooner in support of meeting the Committee procedure rules. The six months' deadline will apply once members joining instructions have been issued. This was extended to April 2023 in light of some issues with initial joining instructions.

c. The Fund will receive regular progress reports allowing it to easily evidence member's development and progress as at 30 June 2023 can be seen in the table below:

LOLA Modules Summary						
Name	**Module 1 Introduction to the LGPS**	**Module 2 LGPS Governance & Oversight Bodies**	**Module 3 Administration & Fund Management**	**Module 4 Funding & Actuarial Matters**	**Module 5 Investments**	**Module 6 Current Issues**
Pensions Committee						
Cllr Anderson	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Benham*	In progress					
Cllr Patel	Complete	Complete	Complete	Complete	Complete	
Cllr Persaud	Complete	Complete	Complete	Complete	Complete	In progress
Cllr Ruck	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Stanton	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Wilkes	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Glass	Complete	Complete	Complete	Complete	Complete	Complete
Derek Scott	Complete	Complete	Complete	Complete	Complete	Complete

*Cllr Benham has now been replaced by Cllr Chapman and the table will be updated once joining instructions have been issued

d. Following feedback from users Hymans have added improvements to their LOLA platform – releasing v2.0. The key changes will see shortened and refreshed modules and will mirror and align the topics with their National Knowledge Assessment. Funds will also be able to add their own training documents and fund policies allowing users to have a one stop shop for key training material. Officers will be looking to subscribe to v2.0 during 2023.

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

This page is intentionally left blank

London Borough of Havering Pension Fund

Q1 2023 Investment Monitoring Report

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

HYMANS ROBERTSON

- This section outlines the key points included in this report.
- The tactical benchmark in the Fund Performance table represents the aggregate performance target of the Fund's assets and is a measure of relative outperformance / underperformance from the asset managers.
- The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.

Key Takeaways

Equity and credit assets performed well.	• Global growth figures were positive – due to resilient labour markets and falling energy prices. • All equity mandates performed positively in absolute terms. • The LCIV Global Alpha Growth Paris Aligned Fund underperformed due to sector positioning, despite growth stocks outperforming value stocks. • The LCIV Absolute Return Fund performed negatively in both absolute and relative terms, as would be expected in a more 'risk on' environment.
Overall fund performance was positive as the total Fund value increased by around 2.7%, significantly outperforming the strategic benchmark	• The Fund's performance of 2.7% was slightly behind the tactical benchmark of 3.0% • Fund performance remains comfortably ahead of the strategic benchmark (the proxy assumed growth of liabilities) over longer time periods.
USD and EUR denominated assets were negatively impacted as GBP appreciated. There were offsetting gains from the currency hedging programme.	• Many of the Fund's private market assets have either USD or EUR exposure. As a result, they demonstrated a weaker return when converted to GBP. However, currency hedging largely offset this.
Large negative relative returns were observed across some of the Fund's real asset and private debt mandates. However, there are no immediate concerns.	• The majority of these mandates are measured against inflation and 'cash plus' based benchmarks. Year on year core inflation and interest rates remain high with asset returns not having kept pace over the short term • Property capital value declines have just started to ease, after 8 consecutive months of decline and falling 17% over the last 12 months.

Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**2.7**	**-3.6**	**8.0**	**5.1**
Tactical Benchmark	3.0	0.7	8.4	6.0
Strategic Benchmark	4.8	-24.5	-5.7	-1.3

Fund Asset Valuation

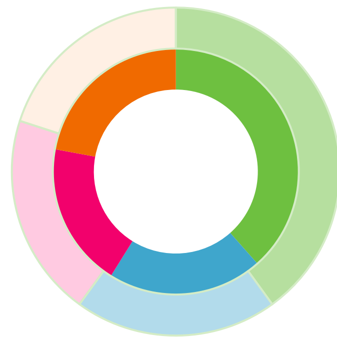
	Fund value (£m)
Q4 2022	**870.5**
Q1 2023	**894.1**

- The Fund's investment strategy is implemented through the London Collective Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- 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.
- The chart below 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 increased over the quarter to c.42.5% as at 31 March 2023 (c.40.8% as at 31 December 2022) – this was due to the LCIV Absolute Return Fund's equity allocation increasing from 12.7% to 22.7%. Furthermore, the Fund's overall allocation to equities increased (in GBP terms) as global equities rose over the quarter.
- The allocation to gilts fell to c.5.4% as at 31 March 2023 (c.10.4% as at 31 December 2022) – this was due to the LCIV Absolute Return Fund's allocation to government fixed income assets decreasing from 67.6% to 29.7%. The LCIV Absolute Return Fund's previous 67.6% allocation to government fixed income assets is now split between a 29.7% allocation to government fixed income assets and a 21.5% allocation to other fixed income assets.
- The allocation to real assets fell to c.20.3% as at 31 March 2023 (c.20.7% as at 31 December 2022) – this was due to the LCIV Diversified Growth Fund further decreasing its allocation to infrastructure from 13.7 to 10.7% over the quarter.
- The allocations to multi-asset credit, private debt and high yield assets remained relatively unchanged over the quarter.

Asset Allocation

Long Term Target

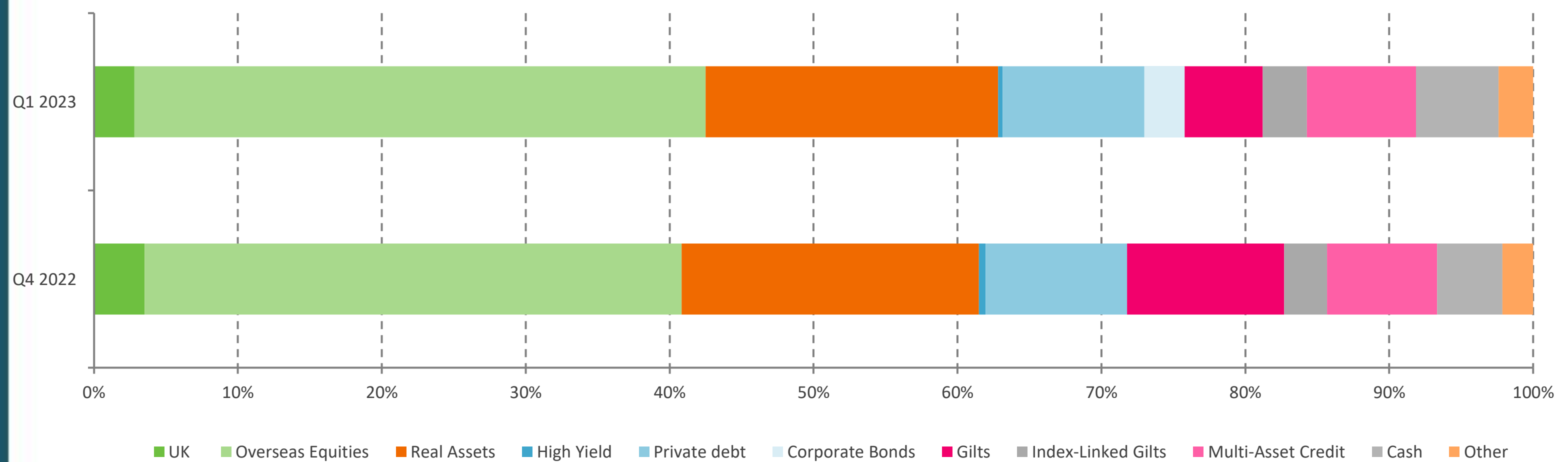
- Equity 40.0%
- Multi-Asset 20.0%
- Real-Assets 20.0%
- Bonds and Cash 20.0%



Actual

- Equity 38.5%
- Multi-Asset 20.4%
- Real-Assets 19.1%
- Bonds and Cash 22.1%

Asset Class Exposures



The total value of the Fund's assets increased by £23.6m over the quarter to £894.1m as at 31 March 2023.

The increase in valuation can be primarily attributed to the Fund's allocation to equities. Over the first quarter of 2023, global equities continued to rise as a result of lower energy prices and improved business sentiment, outweighing concerns regarding sustained inflationary pressures and associated high interest rates.

Despite volatility over the period, real gilt yields ended the quarter lower than they started, resulting in the Fund's RLAM Index linked Gilts mandate increasing in value.

Global sub-investment grade credit spreads tightened 0.1% p.a. to 0.5% p.a. over the quarter, positively impacting the RLAM MAC mandate.

Overall, the Fund's real assets rose in value over the quarter – with March 2023 being the first positive month, after 8 consecutive months of capital value declines.

The Fund's allocation to multi-asset mandates, specifically the LCIV Absolute Return Fund, fell in value over the period. This was due to defensive positioning, when wider equity and bond markets rallied, and allocations to GBP when Sterling appreciated over the quarter.

The Fund paid the following capital calls during the quarter:

- c.£1.8m to the Stafford SISF IV.
- c.£0.3m overall to the LCIV Renewable Energy Infrastructure Fund.
- c.£1.0m to the Churchill Fund IV.
- c.£0.8m to the Permira IV.
- c.£2.0m to the Permira V.

Asset Allocation

Manager		Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q4 2022	Q1 2023			
Equity		**330.4**	**343.9**	**38.5%**	**40.0%**	**-1.5%**
LGIM Global Equity	LCIV aligned	33.2	34.6	3.9%	5.0%	-1.1%
LGIM Emerging Markets	LCIV aligned	36.1	36.2	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV aligned	90.2	93.4	10.4%	10.0%	0.4%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	129.6	135.6	15.2%	15.0%	0.2%
LCIV PEPPA Passive Equity	LCIV	41.3	44.0	4.9%	5.0%	-0.1%
Multi-Asset		**187.2**	**182.4**	**20.4%**	**20.0%**	**0.4%**
LCIV Absolute Return Fund	LCIV	122.2	115.9	13.0%	12.5%	0.5%
LCIV Diversified Growth Fund	LCIV	65.0	66.5	7.4%	7.5%	-0.1%
Real-Assets		**167.3**	**170.3**	**19.1%**	**20.0%**	**-0.9%**
UBS Property	Retained	51.0	51.1	5.7%	6.0%	-0.3%
CBRE	Retained	35.3	34.7	3.9%	4.0%	-0.1%
JP Morgan	Retained	35.4	37.0	4.1%	4.0%	0.1%
Stafford Capital Global Infrastructure SISF II	Retained	20.2	19.9	4.1%	3.5%	0.6%
Stafford Capital Global Infrastructure SISF IV	Retained	15.8	16.4			
LCIV Renewable Energy Infrastructure Fund	LCIV	9.6	11.2	1.3%	2.5%	-1.2%
Bonds and Cash		**185.5**	**197.5**	**22.1%**	**20.0%**	**2.1%**
RLAM Index Linked Gilts	Retained	26.0	27.3	3.1%	5.0%	-1.9%
RLAM Multi-Asset Credit	Retained	58.6	60.4	6.8%	7.5%	-0.7%
Churchill Senior Loan Fund II	Retained	23.4	21.8	2.4%	3.0%	-0.6%
Churchill Senior Loan Fund IV	Retained	14.8	15.3	1.7%		
Permira IV	Retained	29.6	31.0	4.9%	4.5%	0.4%
Permira V	Retained	10.9	13.2			
Cash at Bank	Retained	19.1	22.8	2.5%	0.0%	2.5%
Currency Hedging P/L	Retained	3.2	5.9	0.7%	0.0%	0.7%
Total Fund		**870.5**	**894.1**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

- The Fund's assets returned 2.7% over the quarter, slightly underperforming its 3.0% benchmark return. All equity mandates delivered positive absolute returns as global equities performed positively over the quarter.
- The LCIV Global Alpha Growth Paris Aligned Fund marginally underperformed its benchmark index. Overweight allocations to financials and healthcare stocks dragged on the Fund's performance as both sectors returned negatively over the period. Similarly, the Fund's significant underweight to technology resulted in underperformance, as technology stocks rallied over the period.
- The RLAM Index Linked Gilts mandate also delivered positive absolute returns. Despite yields being volatile over the quarter, they ended the quarter down – after falling sharply in March 2023, amidst banking concerns in the US and Europe.
- There were mixed returns across the Fund's real assets, both in absolute terms and against their respective benchmarks, with the rate of capital value declines easing only in March 2023. Capital values have fallen by 17% over the last 12 months, with the most pronounced decline being in the industrial sector – to which the CBRE mandate has the largest allocation (46.1% as at 31 March 2023).
- The allocation to the LCIV Absolute Return Fund dragged relative returns as the fund was defensively positioned (i.e. aiming to provide protection against downside risk first, rather than asset growth) at the start of the quarter and as such, did not benefit from the rally in equity and bond markets in during the quarter.
- 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.
- 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

	Actual Proportion	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
		Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Equity	***38.5%***												
LGIM Global Equity	*3.9%*	4.3	4.4	**0.0**	-1.0	-0.9	**-0.1**	15.9	16.0	**-0.1**	11.3	11.4	**0.0**
LGIM Emerging Markets	*4.1%*	0.3	0.2	**0.1**	-4.3	-3.9	**-0.4**	9.1	9.4	**-0.3**	3.9	4.1	**-0.2**
LGIM Future World Fund	*10.4%*	3.6	3.7	**-0.1**	0.1	0.2	**-0.2**	-	-	-	0.3	0.4	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	*15.2%*	4.6	4.8	**-0.2**	-5.4	-1.0	**-4.4**	10.6	16.3	**-4.9**	12.1	11.6	**0.4**
LCIV PEPPA Passive Equity	*4.9%*	6.5	6.5	**0.0**	-1.6	-1.7	**0.1**	-	-	-	-4.9	-5.0	**0.1**
Multi-Asset	***20.4%***												
LCIV Absolute Return Fund	*13.0%*	-1.0	1.9	**-2.9**	1.3	6.3	**-4.7**	9.5	4.9	**4.4**	5.4	4.9	**0.5**
LCIV Diversified Growth Fund	*7.4%*	2.2	1.9	**0.3**	-8.5	6.0	**-13.7**	3.7	4.5	**-0.7**	2.6	4.2	**-1.5**
Real-Assets	***19.1%***												
UBS Property	*5.7%*	1.0	-0.2	**1.2**	-15.3	-14.5	**-1.0**	3.2	2.6	**0.6**	5.4	6.0	**-0.5**
CBRE	*3.9%*	-1.8	2.6	**-4.2**	7.3	15.1	**-6.7**	6.2	10.9	**-4.3**	8.0	9.3	**-1.2**
JP Morgan	*4.1%*	5.2	2.6	**2.6**	10.7	15.1	**-3.8**	6.0	10.9	**-4.5**	8.8	9.3	**-0.5**
Stafford Capital Global Infrastructure SISF II	*4.1%*	1.1	2.6	**-1.5**	20.3	15.1	**4.6**	7.1	10.9	**-3.5**	9.0	9.2	**-0.2**
Stafford Capital Global Infrastructure SISF IV		-3.6	2.6	**-6.0**	12.9	15.1	**-1.9**	-	-	-	17.8	12.0	**5.2**
LCIV Renewable Energy Infrastructure Fund	*1.3%*	7.7	2.6	**5.0**	39.0	15.1	**20.9**	-	-	-	20.7	13.7	**6.2**
Bonds	***22.1%***												
RLAM Index Linked Gilts	*3.1%*	4.8	5.0	**-0.1**	-32.6	-30.4	**-3.1**	-10.2	-9.2	**-1.0**	-10.2	-9.2	**-1.0**
RLAM Multi-Asset Credit	*6.8%*	3.2	3.1	**0.1**	-4.5	-1.4	**-3.1**	3.9	4.1	**-0.2**	6.6	6.2	**0.4**
Churchill Senior Loan Fund II	*2.4%*	-0.3	1.9	**-2.2**	12.1	6.3	**5.5**	5.2	4.9	**0.2**	6.0	4.9	**1.0**
Churchill Senior Loan Fund IV	*1.7%*	-1.2	1.9	**-3.1**	10.3	6.3	**3.8**	-	-	-	11.4	5.9	**5.1**
Permira IV	*4.9%*	2.1	1.9	**0.2**	6.1	6.3	**-0.2**	3.0	4.9	**-1.8**	4.1	4.9	**-0.8**
Permira V		2.1	1.9	**0.2**	-	-	-	-	-	-	2.8	5.0	**-2.1**
Total	*100.0%*	2.7	3.0	**-0.3**	-3.6	0.7	**-4.3**	8.0	8.4	**-0.4**	7.8	-	-

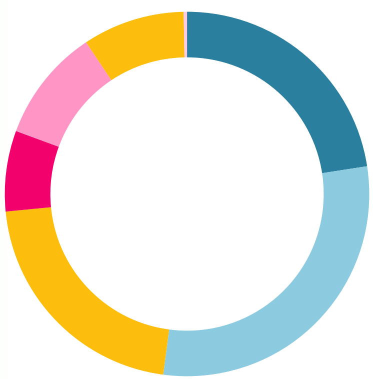
Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer into 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 and 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.

- The sub-fund is managed by Ruffer.
- The sub-fund's objective is to achieve low volatility and positive annual returns in all market conditions.
- Comparator benchmark is 3 month SONIA + 4% p.a..
- Over the quarter, the sub-fund returned -1.0%, underperforming its benchmark return of 1.9. The sub-fund continues to underperform its benchmark return over the period of 12 months but over longer periods, the sub-fund outperforms its benchmark return.
- Despite the sub-fund's largest allocations being to index-linked bonds and equity as at 31 March 2023, performance was negative in absolute and relative terms. This was due to the sub-fund's allocations being defensively positioned at the start of the quarter and not benefitting from the rally in equity and bond markets in January 2023. Furthermore, when more risk assets were allocated later in the quarter, equity and bond markets reversed.
- Positive contributors to the sub-funds overall performance were still allocations to equity and index linked bonds, despite not being large allocations over the period. Gold also contributed positively to performance – exacerbated by concerns in the banking sector, the allocation to gold was increased over the period.
- In addition, the sub-fund's allocation to GBP (c.60%) contributed negatively to overall performance, as GBP appreciated against JPY, AUD and USD.

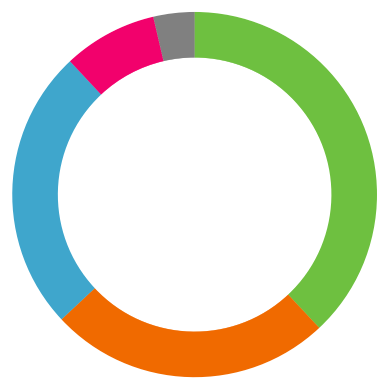
LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	-1.0	1.3	9.5	5.4
Benchmark	1.9	6.3	4.9	4.9
Relative	-2.9	-4.7	4.4	0.5

Asset Allocation



Regional Equity Allocation



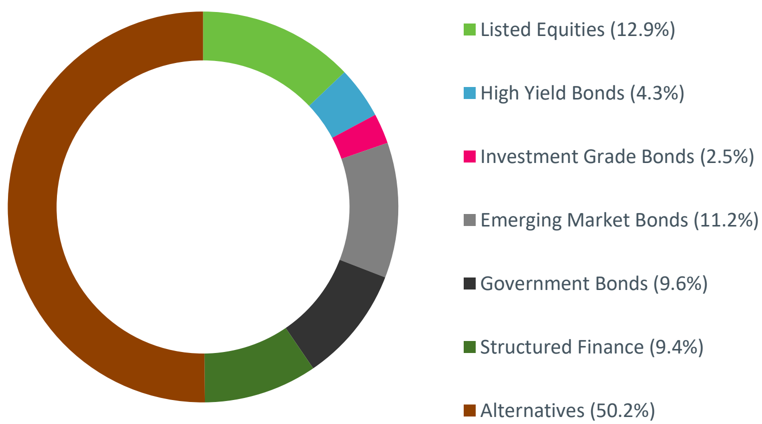
Source: Investment Managers, LCIV, Northern Trust.

- 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).
- Over the quarter, the sub-fund returned 2.2%, outperforming its benchmark return of 1.9%. However, over all longer periods of 12 months, 3 years and since inception, the sub-fund underperforms its benchmark returns.
- The positive return over the quarter can partially be attributed to the sub-fund's 12.9% allocation to listed equities – as equities rose over the quarter and in particular, growth stocks outperformed. The overall allocations to government bonds (20.8%) and credit (16.2%) also contributed significantly positively to performance as gilt yields fell over the period and bond markets rallied.
- Of the 50.2% allocation to alternatives, property, insurance linked securities and infrastructure contributed most significantly and equally to the sub-fund's performance.
- The Committee agreed at their March 2023 meeting that as a result of the ongoing evolution of the Fund's investment strategy, the allocation to the DGF has effectively become redundant, as direct diversification within the investment strategy has increased over time. As such, it was agreed for the Fund to fully redeem its position in the LCIV Diversified Growth sub-fund.

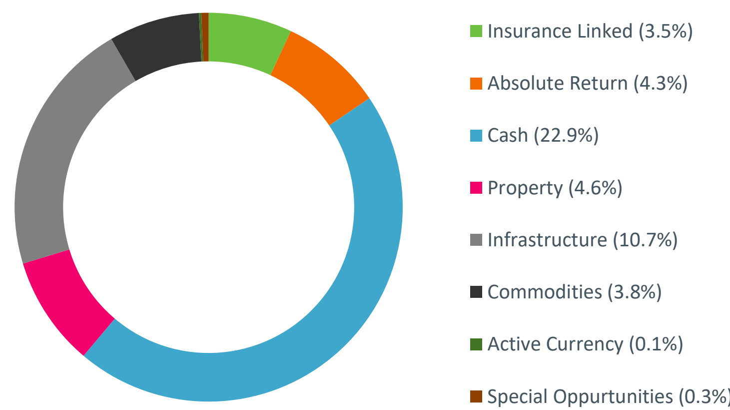
LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	**2.2**	**-8.5**	**3.7**	**2.6**
Benchmark	**1.9**	**6.0**	**4.5**	**4.2**
Relative	**0.3**	**-13.7**	**-0.7**	**-1.5**

Asset Allocation



Alternatives Equity Allocation



Source: Investment Managers, LCIV, Northern Trust.

Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 5.1% to date when the impact of currency fluctuations is included and only 4.6% 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.

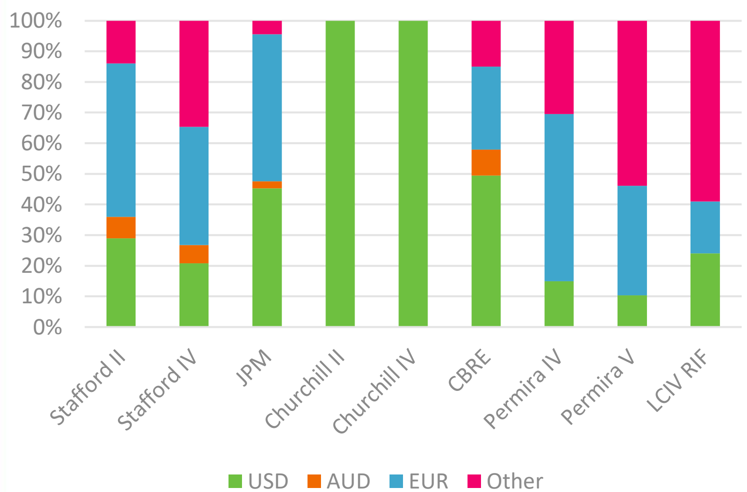
Q1 2023 Performance

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	1.1	1.7	2.7	2.6	0.2
Stafford IV	-3.6	1.2	-2.4	2.6	-4.8
JPM	5.2	1.9	7.1	2.6	4.4
Churchill II	-0.3	2.4	2.1	1.9	0.2
Churchill IV	-1.2	2.3	1.1	1.9	-0.8
CBRE	-1.8	2.0	0.2	2.6	-2.3
Permira IV	2.1	1.1	3.2	1.9	1.2
Permira V	2.1	1.4	3.5	1.9	1.6
LCIV RIF	7.7	0.7	8.4	2.6	5.7

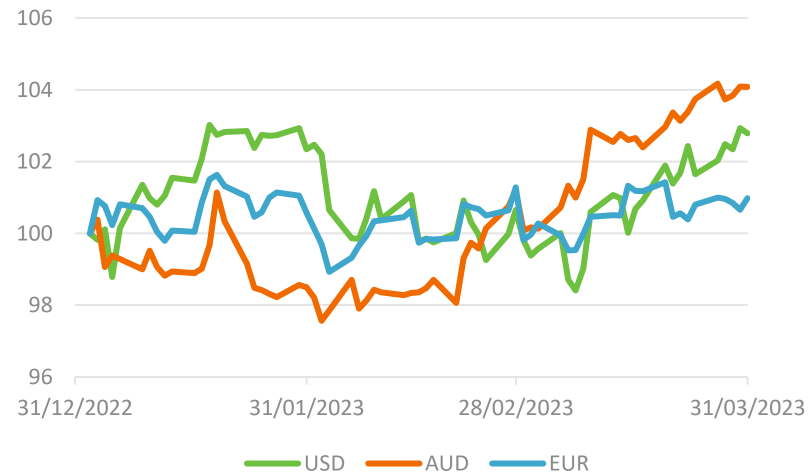
Performance Since Mandate Inception*

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	10.1	-1.2	8.9	9.2	-0.2
Stafford IV	20.3	-2.6	17.7	12.0	5.1
JPM	10.3	-1.6	8.6	9.3	-0.6
Churchill II	7.4	-2.8	4.6	4.9	-0.3
Churchill IV	11.4	-6.8	4.6	5.9	-1.3
CBRE	8.7	-1.3	7.4	9.3	-1.8
Permira IV	4.1	-0.4	3.8	4.9	-1.1
Permira V	2.8	-3.8	-1.0	5.0	-5.7
LCIV RIF	20.7	-1.1	19.6	13.7	5.2

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 December 2022)



Source: Northern Trust, Investment managers

*Since inception performance is since individual fund inception of inception of the currency hedging mandate, whichever is more recent. ** As at 31 December 2022 (latest available).

- 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 2023.
- The outstanding commitments to the remaining funds will be funded from the LCIV Diversified Growth Fund, other overweight positions 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 IV	Permira Credit Solutions IV Senior Fund	Permira Credit Solutions V Senior Fund
Commitment Date	25/04/2018	18/12/2020	30/06/2021	29/09/2021	12/2018	07/11/2022
Fund Currency	EUR	EUR	GBP	USD	EUR	EUR
Gross Commitment	€28.5m	€30m	£25m	$31m	£36.0m	£43.0m
Gross Commitment (GBP estimate)	£25.0m	£26.4m	-	£25.1m	-	-
Net Capital Called During Quarter (Payments Less Returned Capital)	-	£1.2m	£0.8m	£1.0m	£0.8m	£2.0m
Net Capital Drawn To Date	£26.3m	£15.4m	£7.9m	£15.7m	£31.1m	£12.7m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£13.1m	£0.9m	-	£1.3m	£4.4m	£0.2m
NAV at Quarter End	£19.9m	£16.4m	£11.2m	£15.3m	£31.0m	£13.2m
Net IRR Since Inception *	9.2% p.a. (v. 8-9% target)	14.8%	-	10.59%**	7.8%	48.0%
Net Cash Yield Since Inception*	7.8% p.a. (v. 5% target)	3.5%	-	-	-	-
Number of Holdings*	22 funds	14 funds	-	124 investments	84 investments	31

**as at 31 December 2022 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

HYMANS ROBERTSON

Global growth has surprised positively in Q1 with resilient labour market and falling energy prices, improving the outlook for consumers and businesses. Forecasted 2023 GDP growth was revised higher in most developed economies, while recession in the UK is now forecasted to be shorter and shallower than previously expected.

The European Central Bank (ECB), Bank of England (BoE) and Federal Reserve (the Fed) continued to announce rate hikes. The BoE and the Fed both raised policy rates by 0.25% p.a., to 4.25% p.a. and 5.0% p.a. respectively. The ECB raised rates by a larger 0.5% p.a., to 3.50% p.a.

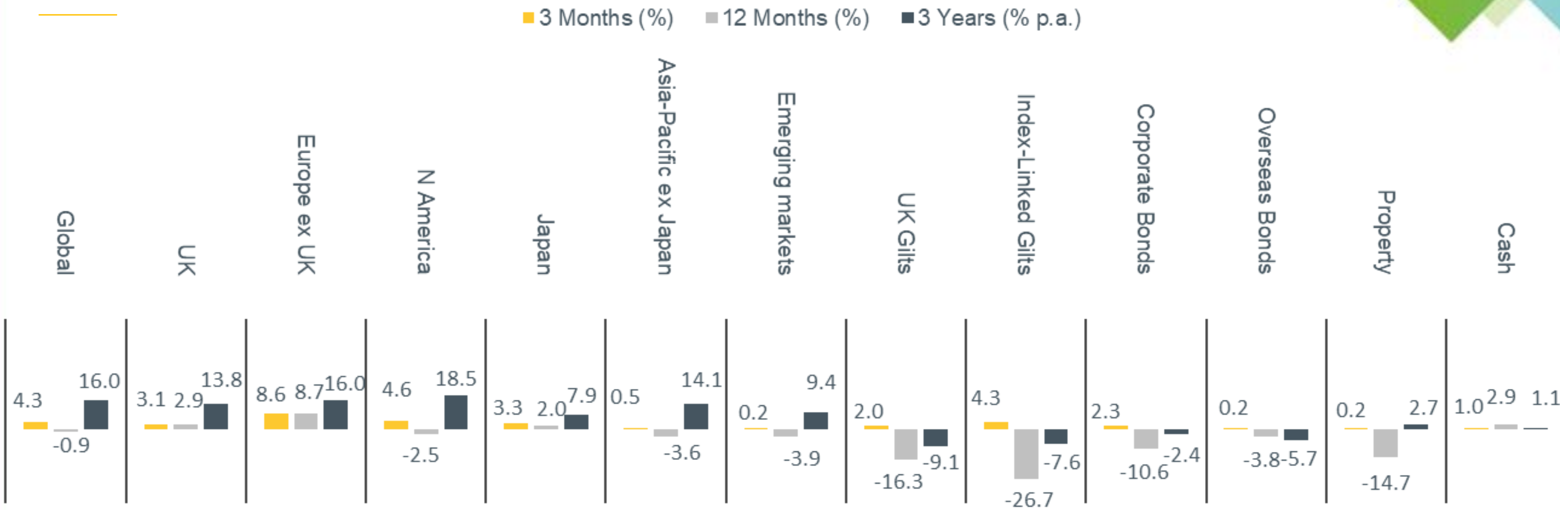
Year-on-year headline CPI inflation in the US and Eurozone fell to 6.0%, and 8.5%, respectively, as the UK measure rose to 10.4%. The equivalent core measures fell to 5.5% in the US as the UK and Eurozone measures rose to 6.2% and 5.6% respectively.

UK 10-year implied inflation is 3.8% p.a., 0.2% above end-December levels.

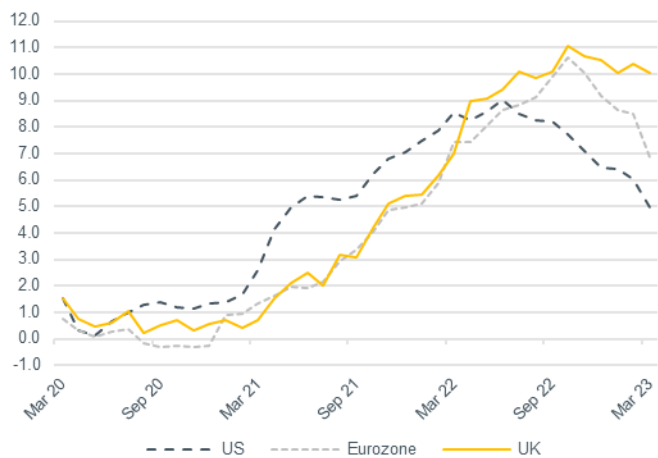
The US dollar gave back some of its February gains, falling 0.9% in trade-weighted terms over the quarter. Equivalent sterling, euro and yen measures rose 1.8%, 0.6% and 0.1%, respectively.

The MSCI UK Monthly Property Total Return Index ended consecutive falls and returned to positive territory in March, despite still declining -14.7% year-on-year. Capital values have also fallen 19% over the last 12 months, with the most pronounced declines being in the industrial sector.

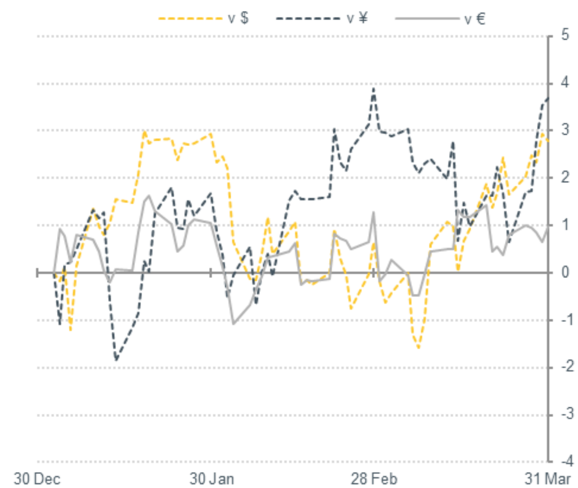
Historic returns for world markets [1]



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, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

HYMANS ROBERTSON

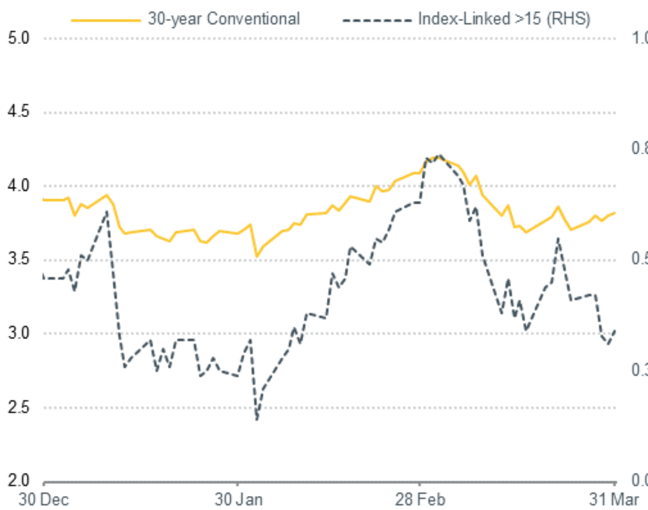
The S&P GSCI Commodity Spot Price Index ended March 5.9% below end-December levels, primarily driven by a decline in energy prices.

Bonds have been volatile over the quarter, rallying in January, posting losses in February and rallying again in March after investor flight to safety due to stresses in the banking sector. As a result, UK 10-year gilt yields ended the period at 3.5% p.a., 0.2% p.a. below end-December levels. Equivalent US yields fell 0.4% p.a., to 3.5% p.a., and Germans yields fell 0.3% p.a. to 2.3% p.a.

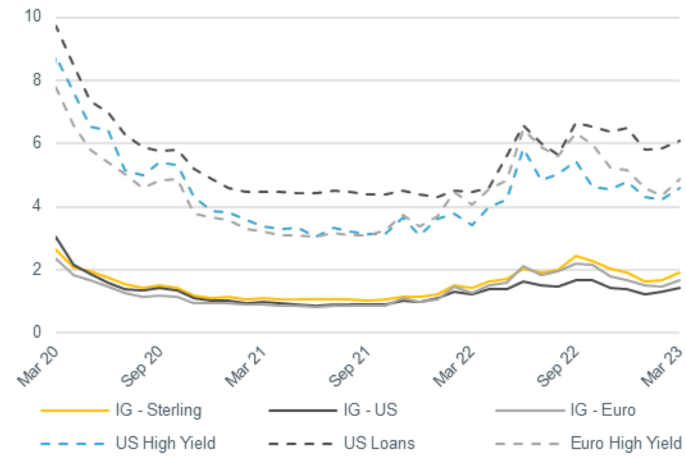
Credit had positive returns due to falling sovereign bond yields. Global investment grade credit spreads widened 0.1% p.a. to 1.5% p.a. while speculative grade credit spreads narrowed 0.1% p.a. to 5.0% p.a.

The FTSE All World Total Return Index rose 7.0%, buoyed by the support lent to stocks from resilient economic data which, together with high core inflation, led to investors reassessing interest rate expectations in higher for longer. The improvement in consumer and business sentiment in Europe, on the back of lower gas prices, led European equities to outperform. Growth stocks outperformed value stocks over the quarter, as falling bond yields supported the former while the latter were weighed down by stresses in the banking sector. By sector, energy, healthcare and financials were the worst underperformers.

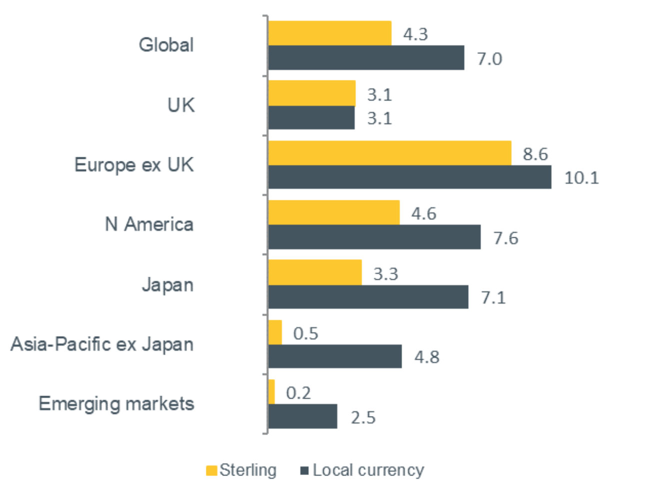
Gilt yields chart (% p.a.)



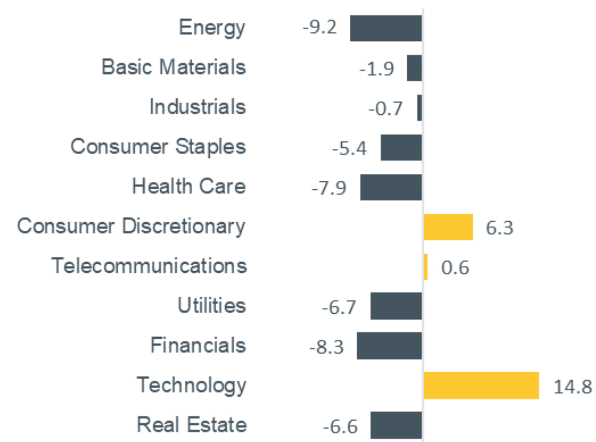
Investment and speculative grade credit spreads (% p.a.)



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.

Capital Markets Outlook

Asset Class	Market Summary
Equities	• Consensus global corporate earnings growth expectations for 2023 continue to see downward revisions and now sit at a negligible 0.6%. Although there are tentative signs that these earnings revisions are bottoming out, even with earnings forecasts at such low levels, we view the downside risks (higher inflation persists and interest rate stay higher for longer) as outweighing the upside. Valuation multiples are not especially demanding and in-line with historical averages, but given where real yields are, it is difficult to envisage multiple expansion being a significant driver of a market rally.
Investment Grade Credit	• Corporate balance sheets remain in reasonable shape and spreads are above long-term median levels but higher rates and slowing earnings growth are likely to weigh on debt affordability going forward. However, the impact on debt affordability will be less severe, and take longer to materialise, in investment- than speculative-grade markets. Attractive yields, peaking inflation, and anticipation of the end rate hiking cycles provides support for our overall assessment for investment grade.
Emerging Market Debt	• Emerging markets will not be immune to the global growth slowdowns despite emerging market growth showing more resilience to current global shocks. Peaking US yields will be welcome news to emerging markets, which have battled with a rising US dollar and treasury yields, helping to improve EM sentiment. Local currency emerging market yields remain high relative to history and the spread on hard currency debt over US treasuries is well-above long-term median levels.
Liquid Sub-Investment Grade Debt	• Speculative-grade default rates remain low versus longer term averages but expected to rise in 2023 due to increased pressures on margins. High yield spreads, around long-term median levels remain vulnerable to slowing growth and tightening lending conditions. Loan spreads are well above long-term median levels, reflecting the quicker transmission of higher interest rates to loan affordability and a more challenging technical backdrop.
Private Lending	• Leverage levels have come down in managers' pipelines and LTVs still remain low as PE funds have yet to write down assets. While defaults remain low, we expect these to rise with concerns on labour, input, and energy costs meaning EBITDA margins are likely being squeezed. Valuations, relative to the traded loan markets, remain unattractive despite some retrenchment in the secondary loan market.
Core UK Property	• Capital values continue to weaken into Q1 2023. However, the rate of decline is starting to ease as valuations begin to stabilise. Redemption levels remain high, but sales are progressing as transaction volumes have started to pick up. Rental growth remains positive, but rents aren't able to keep up with current inflation levels.
Conventional Gilts	• High inflation remains a fundamental challenge for nominal gilts while BoE asset sales and increased issuance pose a technical headwind. However, yields are attractive relative to longer term fair value and any cut to rates in 2023 is unlikely unless the recession proves much deeper than forecast. Quantitative tightening and low forward yields make us more cautious on both real and nominal longer-dated yields.
Index-Linked Gilts	• Based on implied inflation and allowing for high near-term forecast inflation and the re-referencing of RPI to CPIH, we prefer index-linked to conventional gilts at shorter terms, but conventional to index-linked gilts at longer-terms.

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

Source: Hymans Robertson

Risk Warning

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

Hymans Robertson LLP and our group companies have a wide range of clients some of which are fund managers, who may be parties in our recommendations to you in various circumstances including but not limited to manager selection, moving money to or from a manager or supporting retention of or disinvestment from a manager. We have a research team that advises on shortlisting fund managers in manager selection exercises and forming views on managers, which is separate from our client and other relationships with fund managers and therefore we do not believe there will be a conflict that would influence the advice given.

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.

HYMANS ROBERTSON

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank