Public Document Pack

Havering
LONDON BOROUGH

# RECONVENED PENSIONS COMMITTEE AGENDA

| 7.00 pm | Wednesday 24 January 2024 | Council Chamber - Town Hall |
|---|---|---|

Members 7: Quorum 3

**COUNCILLORS:**

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

**Trade Union Observers**

**(No Voting Rights) (1)**

Derek Scott

**Admitted/Scheduled Bodies Representative**

**(Voting Rights) (0)**

**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:-

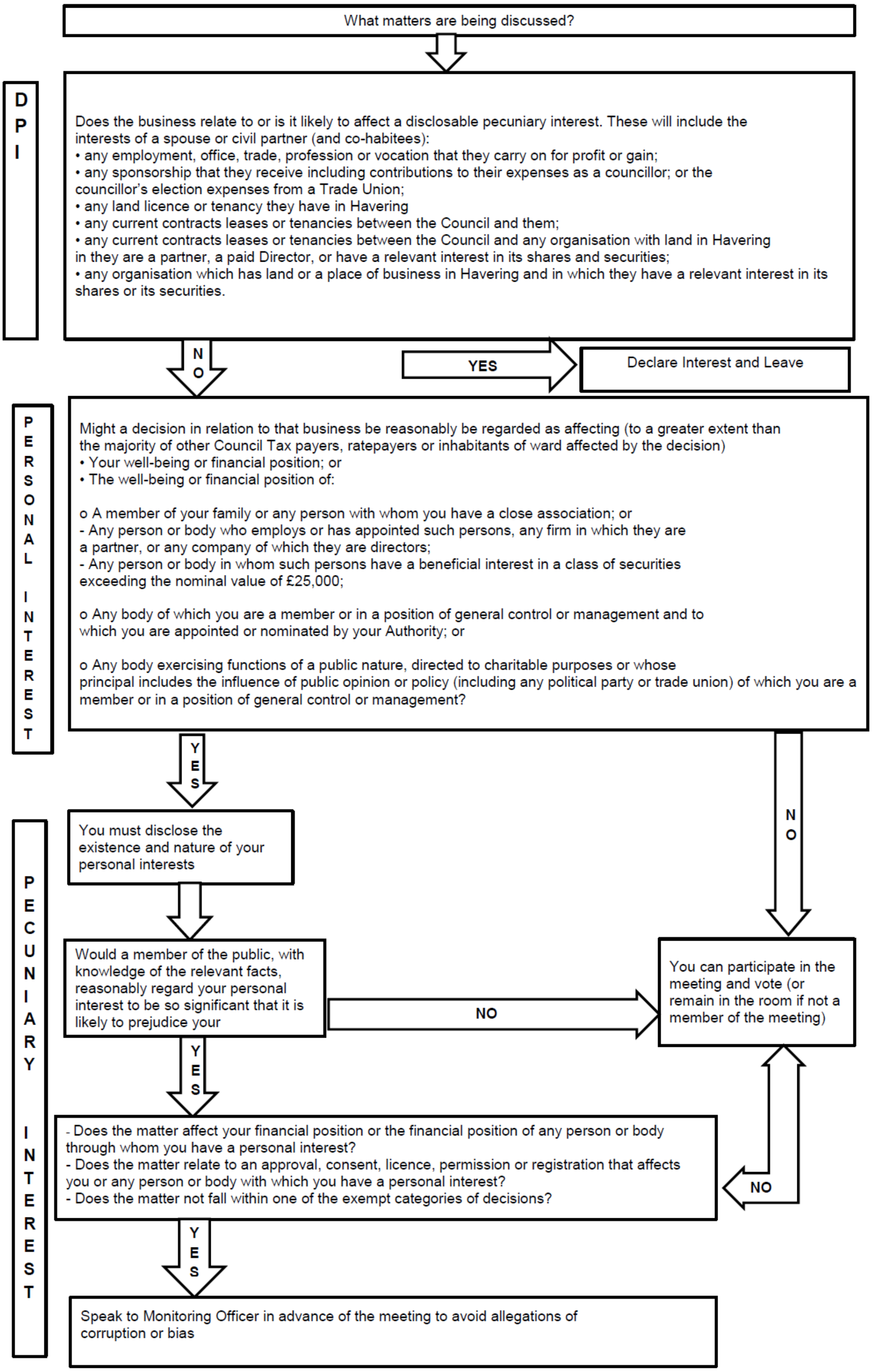
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, 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 7 - 10)

To approve as correct the minutes of the meeting held on 7 November 2023 and authorise the Chairman to sign them.

### 5 PENSION FUND VALUATION FUNDING UPDATE FROM MARCH 2022 TO SEPTEMBER 2023 (Pages 11 - 26)

Report and appendix attached

### 6 SERVICE REVIEW OF THE PENSION FUND CUSTODIAL & PERFORMANCE MONITORING SERVICE OCT 2022 TO SEP 2023 (Pages 27 - 34)

Report attached

### 7 EXCLUSION OF THE PUBLIC

To consider whether the public should be excluded from the relevenat parts 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 3 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.

### 8 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2023 (Pages 35 - 98)

Report and appendices attached

**Zena Smith**
**Head of Committee and Election Services**

**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE**
**Town Hall, Main Road, Romford**
**7 November 2023 (7.03 - 8.03 pm)**

**Present:**

**COUNCILLORS**

| | |
|---|---|
| **Conservative Group** | Dilip Patel, Viddy Persaud and Joshua Chapman |
| **Havering Residents' Group** | Philip Ruck (Vice-Chair), James Glass and Williams |
| **Labour Group** | Mandy Anderson (Chairman) |

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

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

There were no apologies for absence.

309 **DISCLOSURE OF INTERESTS**

There were no disclosures of interests.

310 **MINUTES OF THE MEETING**

The minutes of the previous meeting were agreed as a correct record and were signed by the Chairman.

311 **MINUTES OF THE LOCAL PENSION BOARD**

The minutes of the previous Local Pension Board meeting were not available.

312 **FUNDING STRATEGY STATEMENT**

The Committee was presented with a report on the Funding Strategy Statement (FSS).

It was explained to Members that the statement had been previously agreed in November 2022 and had to be updated due to legislation changes. It was explained that the DfE would act as a guarantor for academies but would have to be added to the Pension Fund as a pass through to allow this. Members noted the consultation is sent by email with the FSS attached with a summary of the changes and impacts. Members also noted the consultation period lasted until 31st December 2023 with the new version due to be published on 1st January 2024.

The Committee:

1. **Agreed** the draft updated Funding Strategy Statement
2. **Agreed** the associated draft Policy on pass-through
3. **Agreed** the draft versions as stated above be issued for consultation.
4. **Agreed** to delegate to the Statutory Section 151 officer in consultation with the Chair to approve the final version of the FSS.

313 **RISK REGISTER UPDATE**

The Committee was presented with an update on the Risk Register.

It was explained to Members that the risk register is a live document which undergoes constant reviews and updates and is a standing item on the Local Pension Board.

Members asked for the matrix of risks to be reviewed and simplified and also for an independent body, such as the Council's Internal Audit team to review the post-mitigation risk assessment scores to ensure they are correct.

Members noted a correction in the register under risk 2.2 which should ready "with the option to extend to 31 March 2026."

The Committee **approved** the updated Pension Fund Risk Register September 2023.

314 **GOVERNANCE COMPLIANCE REVIEW**

The Committee was presented with the Governance Compliance Review report.

Members noted the Council did not have to be compliant in all areas but would have to explain why it is not compliant and it would have to undergo bi-annual governance checks when new legislation is passed.

The Committee **considered** and **agreed** any issues as needing to be amended in the Governance Compliance Statement.

315 **PENSIONS FUND ANNUAL REPORT**

The Committee was presented with the Pension Fund Annual Report.

Members noted the report had to be published on 1st December 2023 and had to contain specific information. Members also noted that the SLAs had been relaxed during the migration to the new LPPA system and any pensions paid are based on set regulations not on the performance of the Fund itself.

The Committee:

1. **Agreed** the Draft 2022/23 Pension Fund Annual Report
2. **Noted** the compliance checklist
3. **Agreed** the Pension Fund Annual Report will be published electronically.
4. **Agreed** the Chair and the Statutory Section 151 officer be authorised to conclude the final version and sign so far as necessary, the annual report.

316 **WHISTLEBLOWING REQUIREMENTS OF THE PENSION ACT**

The Committee were presented with a report on the whistleblowing requirements of the Pension Act.

Members noted that in the year ending 30th September 2023 there had been 0 breaches reported.

The Committee **noted** the results of the annual review and that no possible breaches of law have been reported.

317 **INVESTMENT CONSULTANT REVIEW**

The Committee was presented with an Investment Consultant review.

It was explained to members that the service review had been undertaken by Hymans Robertson with 6 core strategic objectives and the performance is measured against them. Members noted there had only been 1 amber rating.

The Committee:

1. **Noted** the views of officers on the performance of the Investment Consultant (Hymans) against the strategic objectives and make any comment on the report which it considers appropriate.
2. **Agreed** to extend the Investment Consultancy contract for a further two years to the 31 March 2026

318 **ACTUARIAL SERVICE REVIEW**

The Committee was then presented with the Actuarial Service review also supplied by Hymans Robertson.

Members noted Hymans had been the Council's actuarial since April 2010 with the current contract running until 15 July 2025. Officers explained they were happy with the service offered by Hymans and there had been no performance issues.

The Committee **noted** the views of officers on the performance of the Fund's Actuary during the period 1 October 2022 to 30 September 2023.

319 **OVERPAYMENT POLICY REVIEW**

The Committee was presented with the overpayment policy review.

Members noted the policy was not statutory but was seen as good practise and was first introduced in 2019. Members noted any value less than £250 was uneconomical to pursue as it would cost more than the Council would get back. It was noted that the total amount written off was £1943.04 over 22 cases with an average of £88.32 per case.

The Committee **agreed** to the continuation of the Policy for the overpayment of pension following the death of a pensioner or dependant member for a further year.

320 **LOCAL PENSION BOARD ANNUAL REPORT**

The Committee was presented with the Local Pension Board Annual Report.

Members noted the costs for the Board had been much lower than expected but the 2023/24 figures were expected to be higher due to the recent appointment of an independent chairman.

The Committee:

1. **Noted** the 2022/23 Local Pension Board Annual Report
2. **Agreed** the Local Pension Board Annual Report to be published electronically.

**Chairman**

Havering
LONDON BOROUGH

**PENSIONS COMMITTEE** **12 DECEMBER 2023**

| | |
|---|---|
| **Subject Heading:** | **PENSION FUND VALUATION FUNDING UPDATE FROM 31 MARCH 2022 TO 30 SEPTEMBER 2023** |
| **CLT Lead:** | **Kathy Freeman** |
| **Report Author and contact details:** | ***Debbie Ford*** <br> ***Pension Fund Manager (Finance)*** <br> ***01708432569*** <br> ***Debbie.ford@havering.gov.uk*** |
| **Policy context:** | Pension Fund Interim Valuation in line with Funding Strategy Statement |
| **Financial summary:** | None directly as the report comments on the Pension Fund interim valuations since the last formal valuation in 31 March 2022. |

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

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

**SUMMARY**

This report provides Members with a report from the Fund's Actuary, Hymans Robertson, to illustrate the estimated Pension Fund's funding position as at 30 September 2023 and show how it has changed since the valuation as at 31 March 2022.

The estimated funding level has increased from 80% at last valuation date 31 March 2022 to 106% at 30 September 2023.

## RECOMMENDATIONS

That the Committee note the following:

1. The Havering Pension Fund interim funding position updated to 30 September 2023, as set out in Appendix A.

2. No action is required to change the funding plan.

## REPORT DETAIL

**1. Background**

1.1 In line with Local Government Pension Scheme 2013, the Fund's actuary carried out a triennial valuation as at 31 March 2022. The main purpose of the valuation is to estimate on-going employer liabilities, evaluate this against the Funds' assets and calculate the funding position. This is then used to set future employer contribution rates.

1.2 In line with the Funding Strategy Statement (FSS) the Administering Authority states that it will monitor the relative funding position, i.e. changes in the relationship between asset values and the liabilities and to report this to the Pensions Committee meetings. Hymans was asked to provide Members with a report to illustrate the development of the Pension Fund's funding position since 31 March 2022 to 30 September 2023, which is the mid-way point between the valuations. This report is attached as **Appendix A.**

1.3 In preparing the updated funding position as at 30 September 2023 no allowances have been made for the effect of changes in the membership profile since 31 March 2022, any early retirements or bulk transfers and any changes to the Local Government Pension Scheme benefits except where noted in the formal valuation report or Funding Strategy statement.

1.4 The results in Hymans report are based on projecting the results of the 2022 valuation and projecting this valuation forward to 30 September 2023 using approximate methods. The roll forward allows for:

- Estimated cash flows over the period,
- investment returns over the period
- changes in financial assumptions
- estimated additional benefit accrual

1.5 Employer contributions will not be reviewed until the next valuation as at 31 March 2025. The purpose of the funding update was to assess whether the funding plan is on track and take actions where necessary. No actions are required to change the current funding plan.

1.6 The updated funding position provides an illustrative funding position and not designed to meet regulatory requirements for valuations

## 2. Key items from the report

2.1 The funding level at the last formal valuation was 80.0%. As at 30 September 2023 the funding level has increased to 106%. See following table:

| **Ongoing funding basis** | **30 Sep 2023** | **31 Mar 2022** | **31 Mar 2019** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Assets | 891 | 920 | 733 |
| Liabilities | 842 | 1,149 | 1,054 |
| **Surplus/(deficit)** | **49** | **(229)** | **(321)** |
| Funding level | 106% | 80% | 70% |

2.2 Increased funding level has been driven by a fall in the liabilities. The fall in liabilities is a consequence of higher than expected real discount rate used to value the current cost of future pension obligations (accrued liabilities).

2.3 If the real discount rate used to value the accrued liabilities was lower, then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower, then the liabilities on the Ongoing basis at that date would increase by 18.3%.

# IMPLICATIONS AND RISKS

**Financial implications and risks:**

Volatility in the investment performance can have an immediate effect on the funding level and is a key risk of ensuring solvency of the fund going forward. The Pension Fund is seeking to achieve an improvement in the funding ratio over the longer term, typically twenty years as reflected in the actuarial valuation report. Short term volatility in investment performance may shift the Committee's attention from time to time but it will be important to remain focussed on the longer term objectives and strategy.

Members should note the reliance's and limitations set out in the funding update especially the sensitivities to changes in: longevity, data since the valuation, regulatory changes and real discount rate used to value accrued liabilities, for example, if the real discount rate at 30 September 2023 was 1.0% pa lower, then the liabilities on the Ongoing basis at that date would increase by 18.3%.

The Administering Authority has an active risk management programme in place and inter - valuation updates are carried out as a control mechanism to identify and provide early warnings if Fund assets are failing to deliver returns in line with those anticipated or there is a fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities, and pay and price inflation significantly more than anticipated.

The Fund's Funding plan is on track and therefore no action is required to change the funding plan.

The results in Hymans report are based on calculations run on 16 October 2023. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 16 October 2023 the results could be materially different if they were recalculated.

The next formal valuation date is 31 March 2025.

**Legal implications and risks:**

None arise from this report.

**Human Resources implications and risks:**

None arise from this report.

**Equalities implications and risks:**

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

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

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

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

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

**BACKGROUND PAPERS**

Background Papers List
None

This page is intentionally left blank

# London Borough of Havering Pension Fund

## Funding update report at 30 September 2023

This report is addressed to the Administering Authority of the London Borough of Havering Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the London Borough of Havering Pension Fund as at 30 September 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations.

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

# 1 Results

## 1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 30 September 2023.

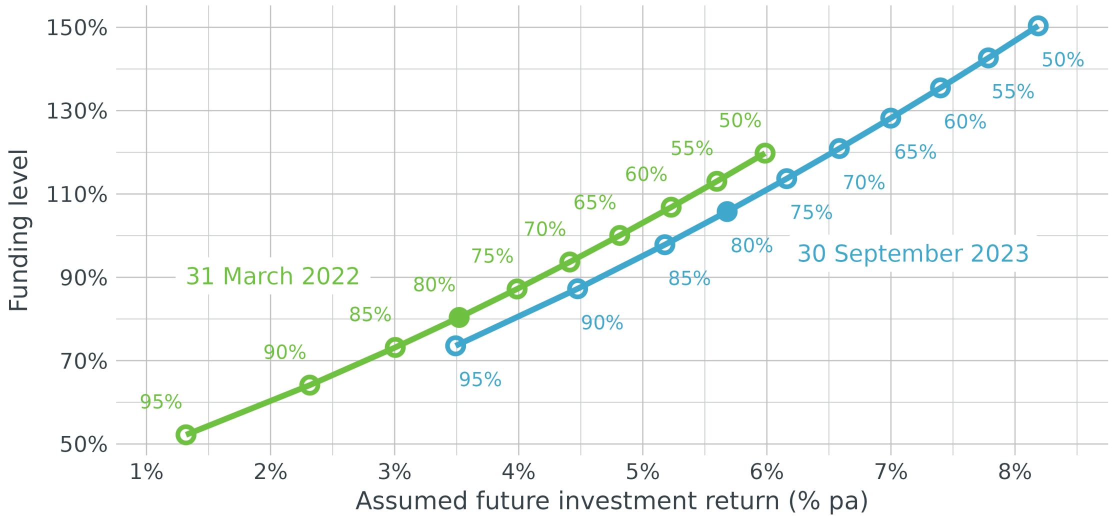
Please note that the asset value at 30 September 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2) and estimated investment returns (see section 3.3). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

| Monetary amounts in £m | Ongoing basis | |
|---|---|---|
| | 31 March 2022 | 30 September 2023 |
| **Assets** | 920 | 891 |
| **Liabilities** | | |
| **– Active members** | 397 | 283 |
| **– Deferred pensioners** | 225 | 144 |
| **– Pensioners** | 527 | 416 |
| **Total liabilities** | 1,149 | 842 |
| **Surplus/(deficit)** | (229) | 49 |
| **Funding level** | 80% | 106% |
| | | |
| **Required return assumption (% pa) for funding level to be 100%** | 4.8% | 4.9% |
| **Likelihood of assets achieving this return** | 65% | 87% |

## 1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 30 September 2023 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.




## 1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 30 September 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

# 2 Next steps

## 2.1 Understanding the results

The results at 30 September 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

# 3 Data and assumptions

## 3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

| 31 March 2022 | Number | Average age | Accrued benefit (£k pa) | Payroll (£k pa) |
|---|---|---|---|---|
| **Active members** | 6,270 | 52.9 | 20,666 | 124,258 |
| **Deferred pensioners** | 7,151 | 52.2 | 11,103 | |
| **Pensioners and dependants** | 6,598 | 70.0 | 33,587 | |

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

## 3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 September 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

| Estimated cashflows (£k) | 31 March 2022 to 30 September 2023 |
|---|---|
| **Employer contributions** | 53,002 |
| **Employee contributions** | 12,732 |
| **Benefits paid** | 59,091 |
| **Transfers in/(out)** | 0 |

## 3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

| Investment strategy | Actual/index | From | To | Return |
|---|---|---|---|---|
| **Whole fund** | Actual | 1 April 2022 | 31 August 2023 | (3.18%) |
| **Whole fund** | Index | 1 September 2023 | 30 September 2023 | (0.73%) |

The total investment return for the whole period is (3.88%).

## 3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

| Assumption | 31 March 2022 | 30 September 2023 |
|---|---|---|
| **Funding basis** | Ongoing | Ongoing |
| **Discount rate methodology** | Expected returns on the London Borough of Havering Pension Fund strategy over 20 years with a 80% likelihood | Expected returns on the London Borough of Havering Pension Fund strategy over 20 years with a 80% likelihood |
| **Discount rate (% pa)** | 3.5% | 5.7% |
| **Pension increase methodology** | Expected CPI inflation over 20 years with a 50% likelihood | Expected CPI inflation over 20 years with a 50% likelihood |
| **Pension increases (% pa)** | 2.7% | 2.3% |

Salary increases are assumed to be 0.7% pa above pension increases, plus an additional promotional salary scale.

### 3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

| Life expectancy from age 65 (years) | Ongoing basis | |
|---|---|---|
| | Male | Female |
| **Pensioners** | 21.7 | 24.3 |
| **Non-pensioners** | 22.6 | 25.8 |

# Appendix A - Technical information

## A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 30 September 2023 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 30 September 2023 include a total adjustment of 7.2% to reflect the difference between actual September CPI inflation values and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 30 September 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

## A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 18.3%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

## Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 16 October 2023 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 16 October 2023 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

Havering
LONDON BOROUGH

**PENSIONS COMMITTEE 12 December 2023**

| | |
|---|---|
| **Subject Heading:** | **SERVICE REVIEW OF THE PENSION FUND CUSTODIAL & PERFORMANCE MONITORING SERVICE 1 October 2022 to 30 September 2023** |
| **CLT Lead:** | **Kathy Freeman** |
| **Report Author and contact details:** | ***Debbie Ford*** <br> ***Pension Fund Manager (Finance)*** <br> ***01708432569*** <br> ***Debbie.ford@havering.gov.uk*** |
| **Policy context:** | Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer |
| **Financial summary:** | Costs for the custodial services for the period are 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 reviews the performance of the Custodial and Performance Measurement services provided by Northern Trust, for the period 1 October 2022 to 30 September 2023.

## RECOMMENDATIONS

It is recommended that the Committee notes the views of officers on the performance of the Custodian and makes any comment on the report which it considers appropriate (Table 1 and Section 3 refers).

## REPORT DETAIL

### 1. Background

1.1 Northern Trust was appointed to commence Custodial and Performance Measurement Services from 1 October 2019 until the 30 September 2023. A new contract was awarded via a direct award for a further three years commencing on 1 October 2023 and will expire on the 30 September 2026

1.2 The Pension Funds within oneSource and the London CIV (LCIV) now share the same custodian. Using a single provider across the LCIV and with other underlying LGPS will benefit from having opportunities for efficiencies e.g. having a single system for the transition process, cost benefits (economies of scale from the full breadth of the LCIV relationship) and reduced operational risk.

1.3 This period of review covers the custodial and performance measuring services delivered by Northern Trust for the period 1 October 2022 to 30 September 2023.

### 2. Review of the Custodian’s and Performance Measurement service

2.1 The Custodian operate a wide range of functions. This falls into the following main categories:

**(a) Investment Accounting and Reporting**
The Custodian produces accounting reports that are used for producing the Pension Fund Statement of Accounts and enable the Fund to comply with the International Financial Reporting Standards (IFRS), Statements of Recommended Practice (SORP) and Chartered Institute of Public Finance & Accounting (CIPFA) accounting guidance. These reports are accessed and downloaded from their client portal “passport”.

They keep a record of the book costs (valuations) and the holdings in the various asset classes for each of the investment managers' portfolio as well as at the total Fund level.

The Fund also subscribes to Northern Trust's additional specialist accounting reporting service which provides:

- a comprehensive suite of financial accounting reports to help facilitate compliance with SORP and assists the Fund in compiling its accounts and,
- includes completion of the relevant investment sections of the UK Office of National Statistic Returns (ONS), which is a statutory requirement.

**(b) Safe Keeping and Custody of assets**

This refers to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions are received appropriately.

**(c) Performance measurement**

This is a key part of the investment management process and forms an essential component of the reporting requirements of the Fund. Performance measurement enables the Pensions Committee, Investment Consultants and officers to understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targeted performance.

Northern Trust produce monthly and quarterly reports which include performance returns versus benchmarks for each manager and for the whole Fund over a number of time periods, extending from one month to inception. These reports enable the Fund to comply with CIPFA guidance "Preparing the Annual Report", which must include investment performance set out for each asset class and fund manager against the benchmarks set for one year, three years and five years.

2.2 Services are reviewed annually to ensure that the Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. Monitoring the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.

2.3 Officers have assessed the service against a set of criteria and adopted the RAG rating method to define Green (Favourable output), Amber (Neutral, may require further monitoring) Red (Unfavourable). Officers have shared the outcome of the service review with Northern Trust, which has been set out in the following table:

**Table 1**

| CRITERIA | ASSESSMENT | Rating |
|---|---|---|
| **Safe Keeping and Custody of Assets** | | |
| It is important that the Pensions Committee and officers have confidence that all assets are secure and properly accounted for. | Officers review the custodians audited System and Organisation Control (SOC1) report produced annually. No concerns were raised in their latest report covering the 12 months to 30 Sept 2022. The Sept 23 report will not be available until approximately 6 months after the period end date. | **GREEN:** Officers have confidence that the assets are accounted for correctly. |
| **Investment Accounting and Reporting** | | |
| It is important that accurate accounting records are maintained and appropriate reconciliations can be made against the Fund's investment managers records. | Officers run detailed reports from the custodian's website using their "passport" tool. These reports are reconciled to individual fund manager reports and any differences investigated. This provides assurances that accurate records are maintained. Officers also use the additional reporting functionality that contributes to reconciling the accounts. | **GREEN**: Officers are satisfied that accurate accounting records are maintained with no audit issues identified to date. |
| Prompt and responsive service | Reponses to queries are dealt with promptly. | GREEN: Officers are very satisfied and appreciative of the responsive service |
| Good communication and support | Officers communicate frequently with the custodian covering general day-to-day operations and to obtain assistance in ensuring investment instructions templates are completed correctly. | GREEN: Communications and support continue to be very satisfactory. |
| Provision of data for the Office of National Statistics (ONS) Returns | The Fund uses the custodians ONS service and they complete the investment sections within the return and answer/resolve any queries raised by ONS. These have been delivered within the required timescales. | GREEN: Officers are very satisfied with this service |

| CRITERIA | ASSESSMENT | Rating |
|---|---|---|
| **Performance Measurement** | | |
| It is important that the Pensions Committee and officers understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets. | Northern Trust performance measurement service produce monthly and quarterly reports setting out performance returns versus benchmarks for each manager and the whole fund over a number of time periods that cover 1 month, 3 months, 1 year, 3 years, 5 years and inception. Performance reports are available via the custodian's website using the "RADAR" tool. | **GREEN** Performance reports are received within specified timescales and officers are very satisfied with this service. |

## 3. Conclusion

3.1 Officers are satisfied with the provision of safekeeping and custody functions.

3.3 Officers are satisfied with the overall investment accounting and reporting functions.

3.4 Officers are satisfied with the performance monitoring service.

## IMPLICATIONS AND RISKS

**Financial implications and risks:**

As the Fund's asset pool provider London CIV use Northern Trust as their appointed custodian the Fund benefits from a reduced pricing structure offered for those funds that have assets invested on the London CIV platform.

Upon reviewing reconciliation and year-end processes, management recognised the potential key person risk for reconciling the accounts and decided, for service planning reasons, to expand the current contract to include the custodian's additional Specialist accounting reporting service. This additional service means that the custodian is able to produce the accounts and provide officers with access to the comprehensive suite of financial reports, which will further support the reconciliations of the accounts. Officers used this facility for the first time whilst closing the 2020/21 statement of accounts and confirmed that in-house reconciliations undertaken during the year were accurate

Northern Trust introduced a new pricing structure applicable from the 1 April 2023, offering a more beneficial pricing structure for the provision of custodial services.

See fee table below for fee breakdown:

**Table 2**

| Fee Breakdown | Oct 19 to Sept 20 | Oct 20 to Sept 21 | Oct 21 to Sept 22 | Oct 22 to Sept 23 | Total |
|---|---|---|---|---|---|
| | Actual £ | Actual £ | Actual £ | Actual £ | Actual £ |
| Custody Fee | 29,085 | 28,127 | 31,144 | 25,952 | 114,308 |
| Accounting Services | 0 | 5,000* | 10,013 | 10,000 | 25,013 |
| Performance Measurement Fees | 23,110 | 23,849 | 26,947 | 33,917 | 107,823 |
| **Total** | **52,195** | **56,976** | **68,104** | **69,869** | **247,144** |

* part year only – this service commenced 1 April 2021

Custody – fees cover transaction charges, administration costs, foreign exchange charges and data for use in ONS submissions.

Accounting Services – production of reports used for producing the Pension Fund Statement of Accounts. This additional service was procured from 1 April 2021

Performance Measurement - fees are applied against each manager's performance data and the index against which it is measured.

There is a risk that the Fund's value could be misstated if poor or incorrect data was provided by the custodian. This is mitigated by frequent reconciliations by the custodian to fund manager records and officer reconciliations. Accounting and reporting information is critical for year-end processes and these need to be produced in a timely manner to ensure accounts can be closed within statutory timeframes.

All custodian and performance measurement fees are met from the Pension Fund.

Officers also carry out reviews of Northern Trust Internal Control reports issued by their external auditor. These reports detail tests undertaken by the auditors, testing their internal control environments and key procedures. No material internal control issues were reported.

**Legal implications and risks:**

There are no apparent legal implications or risks arising from this report.

**Human Resources implications and risks:**

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

**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

This page is intentionally left blank

Havering
LONDON BOROUGH

**PENSIONS COMMITTEE** **12 December 2023**

| | |
|---|---|
| **Subject Heading:** | **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2023** |
| **CLT Lead:** | **Kathy Freeman** |
| **Report Author and contact details:** | ***Debbie Ford***<br>***Pension Fund Manager (Finance)***<br>***01708 432 569***<br>***Debbie.Ford@havering.gov.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 30 September 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 **30 September 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund decreased in value by **£5.2m** over the quarter, it underperformed the tactical benchmark by -1.56% and outperformed the strategic benchmark by 3.74% which is an indication that the funding level has increased despite the small dip in asset values.

The decrease in valuation can be primarily attributed to the Fund's allocation to the LCIV Global Alpha Paris Aligned Fund managed by Bailie Gifford specifically. This was then followed by the Fund's allocation to index-linked gilts which continued to decrease in value as real gilt yields rose over the longer terms as the BofE raised interest rates, despite the downward trend in UK inflation over the period

Equity and credit assets were up slightly this period. Long term real gilt yields rose, Fund liabilities are expected to have fallen in value as shown by outperformance on the strategic benchmark. Overall fund performance was marginally negative, but the Fund significantly outperformed the strategic benchmark. US Dollar and Euro denominated assets were negatively impacted as Sterling (GBP) appreciated, but the currency hedging programme helped to offset this. Mixed returns were observed across the Fund's real asset and private debt mandates, but there are no immediate concerns.

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:

**CBRE – Global Property 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 Fund Global Property Manager (CBRE) for an overview on the fund's performance (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 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 September 2023.

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.

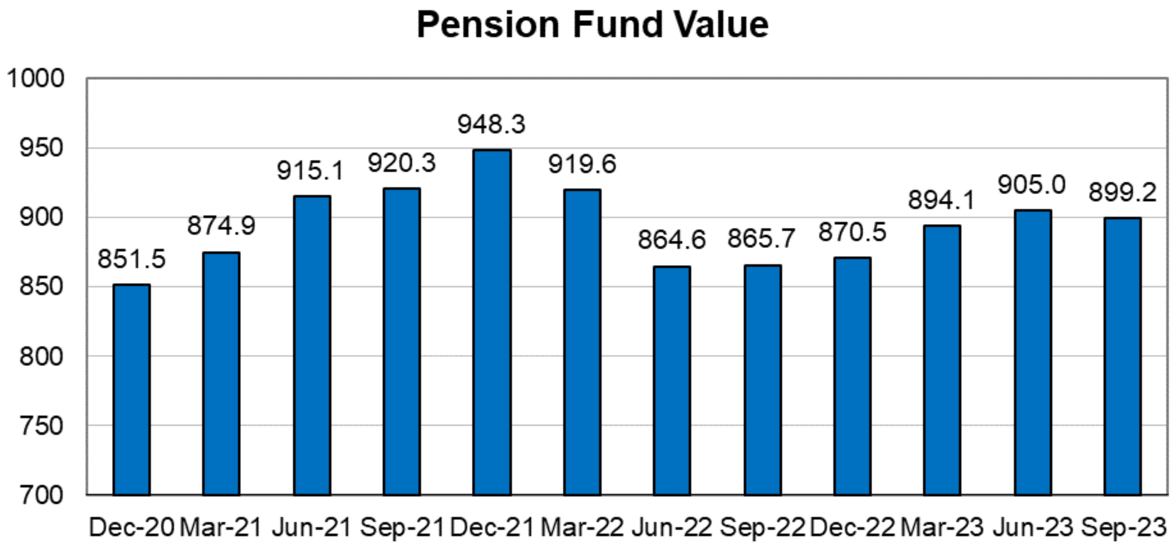
c. The Fund's assets are monitored quarterly to ensure that the long-term objective of the ISS is being delivered.

d. We measure returns against tactical and strategic benchmarks:

## 5. PERFORMANCE

a. As reported by the Fund's custodian Northern Trust, the total Fund asset value at 30 September 2023 was **£899.23m** compared with £904.98 at 30 June 2023; an **decrease of £5.75m**. This movement is attributable to a decrease in asset values (-£12.45m) and increase in cash (£6.70m).

Chart 1 – Pension Fund Asset Value




*Source: Northern Trust Performance Report*

b. The overall net performance of the Fund against the **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.

Table 1: Tactical Performance

| | **Quarter to 30/09/2023 %** | **12 Months to 30/09/2023 %** | **3 Years to 30/09/2023 %** | **5 years to 30/09/2023 %** |
|---|---|---|---|---|
| Fund | 0.53 | 2.83 | 3.15 | 4.36 |
| Benchmark | 1.03 | 6.98 | 6.04 | 5.88 |
| *Difference in return | -1.56 | -4.15 | -2.89 | -1.52 |

*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 30/09/2023 % | 12 Months to 30/09/2023 % | 3 Years to 30/09/2023 % | 5 years to 30/09/2023 % |
|---|---|---|---|---|
| Fund | 0.53 | 2.83 | 3.15 | 4.36 |
| Benchmark | -4.27 | -10.86 | -11.60 | -3.21 |
| *Difference in return | 3.74 | 13.69 | 14.75 | 7.57 |

*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 FORECAST

a. At the end of September 23, the cash balance stood at £22.8m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

| | ACTUALS TO 30/09/23 £000 | Forecast 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|---|---|---|---|---|
| Balance b/f | 16,201 | 16,201 | 25,338 | 30,008 |
| Benefits paid | (16,501) | (33,001) | (34,321) | (35,694) |
| BACS expenses* | (4,913) | (9,833) | (10,423) | (11,049) |
| Transfers in | 3,150 | 6,150 | 6,150 | 6,150 |
| Contributions received** | 21,004 | 42,004 | 43,264 | 44,562 |
| Sweep | 3,817 | 3,817 | | |
| Balance c/f | 22,758 | 25,338 | 30,008 | 33,977 |

* BACS expenses also includes grants i.e. lump sums made to members via payments team
** Contributions received from LBH are net of pension payroll deductions (e.g. HMRC)

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 a manager be brought back again for further investigation.

b. Fund Manager Reviews are included within Hymans performance report at **Appendix A.**

c. 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.

d. The fund manager attending this meeting is **CBRE** who are one of the Fund’s **Global Property Manager,** their report is attached at **Appendix C (Exempt).**

## 8. FUND UPDATES:

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

a. Since the last report, the Fund has completed £6.3m of capital draw down requests.

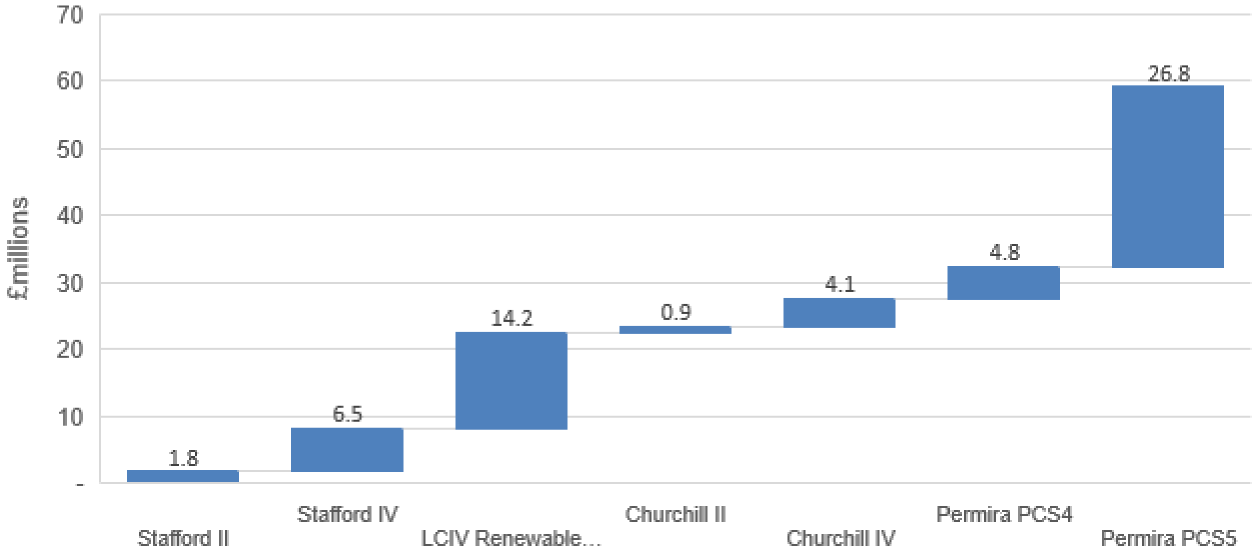
b. These Capital Calls were funded with cash received from investment income which is held with the Custodian

c. As agreed at the 25 July 23 Pensions Committee meeting, £13m was paid to JP Morgan to rebalance the portfolio. This was funded by a divestment from LCIV Diversified Growth Fund.

d. As agreed at the 12 September 2023 Pensions Committee meeting, £45m was invested in the LCIV Global Bond Fund on the 10 November 2023. This was funded by a full redemption of the LCIV Diversified Growth Fund. Residual cash balance from the full redemption of the LCIV Diversified Growth Fund will be held pending future investment decisions or to fund outstanding capital call requests.

e. At 31 October 2023 there was £59.1m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 October 2023




**8.2** The LCIV is the appointed asset pool manager for the Fund and the governance of our investments held with the LCIV is 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. The LCIV Annual Strategy & Responsible Investment Conference was held on the 4 & 5 September. Councillors Anderson, Glass and Derek Scott attended.

b. Business Update Meetings (currently held virtually) – take place monthly.

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 (DGF) remains on enhanced monitoring due to on-going performance issues. The Fund fully divested from this fund on 8 November 2023.

- **Annual Performance Reviews:** In depth reviews continue to take place; the LCIV Global Alpha Growth Paris Aligned Fund, the LCIV PEPPA fund and the LCIV Global Bond Fund are complete with no concerns to note. The LCIV Absolute Return Fund review is currently pending.

- **Fund Activity - New/Changes to Sub Fund Launches:**
    - *New*: UK Housing Fund (Property) – Second manager agreed due diligence being finalised – expected completion Q4 2023 (December). Third manager due diligence expected Q1 2024. Havering has no plans to invest in this fund
    - *New:* Global Equity Value – Stage 1 (Initiation) Seed Investor Group (SIG) in progress to define the mandate and client demand. Havering has no plans to invest in this fund
    - *New:* Buy and maintain Fund (formerly known as Sterling Credit) – FCA review in progress, FCA submission for approval expected to be submitted October 2023.Launch expected November 2023.Havering has no plans to invest in this fund.
    - *New:* Natural Capital/ Nature Based Solution – Reddington appointed as advisor to assist with the design, fund structuring, portfolio construction and initial selection of fund investments, Targeting an H1 2024 launch. Education session for officers held 7 November 2023. SIG meetings scheduled for 21 November and 5 December
    - *New*: Private Debt II Fund is also in the initial stages of launch with first SIG meeting held on 31 October. The Fund will consider this mandate when more details are available.

- **DLUHC Return September 2023.**
    - Each year the Department for Levelling Up, Housing and Communities (DLUHC) requests information from partner funds regarding their pooling intentions over the forthcoming three years.
    - LCIV have identified six funds whose pooling level is lower in 2023/24. Havering was identified as one of those funds, as it is showing an allocation that reduced from 62% to 60%. This reflects lower asset values and the transfer out of the LCIV DGF and a lower allocation to its replacement LCIV Global Bond. Officers have advised LCIV that this is a blip and should not be viewed as a reduction in our unwavering commitment to asset pooling.

## 8.3 LGPS GENERAL UPDATES:

### 8.3.1 Taskforce on Nature-related Financial Disclosures (TNFD)

a. The TNFD formally launched its framework and final recommendations on 18 September 2023. The TNFD is a market-led, science based initiative to help address nature loss. It sets out a risk management and disclosure framework to identify, assess and disclose nature-related issues. It should be noted that this about protecting the Fund's investments from risks related to habitat loss and loss of biodiversity.
b. TNFD reporting mirrors that of the Taskforce on Climate Related Financial Disclosures (TCFD) with recommended disclosures across the same four themes, **Governance, Strategy, Risk Management** and **Metrics and Targets.** Across these four themes, there are 14 disclosures (11 in the TCFD).
c. All 11 TCFD recommendations have been replicated in the TNFD recommendations. It is designed to align with the Taskforce on Climate Related Financial Disclosures (TCFD) reporting and is expected to play a key role in future regulatory frameworks.
d. TNFD is currently voluntary and the committee will be given an opportunity to assess its adoption at a future education session run by LCIV.
e. The Committee is reminded that TCFD started off voluntary, with the committee being an early adopter and expected to become mandatory for reports covering 2024/25.

### 8.3.2 McCloud Update

a. On 8 September, the Department of Levelling Up, Housing and Communities (DLUHC) announced the outcome of the consultation on McCloud issues. It also laid before Parliament "The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023", which came into force on 1 October 2023. The LGPS Regulations 2013 as amended to include the new definition of the underpin and extend it to those groups who were previously excluded but are now in scope. To remind the Committee the McCloud judgement is explained below:
   - McCloud judgement - In 2014, the LGPS changed from a final salary scheme (a pension based on your final salary when you leave) to a career average scheme (a pension which builds up based on what you earn each year). Older members who were within 10 years of retirement were protected from the changes. This means when a protected member takes their pension, the benefits payable under the career average scheme are compared with the benefits that would have been built up, had the final salary scheme continued and they receive the higher amount. This protection is called the underpin.
   - To remove the McCloud age discrimination, qualifying younger members will now receive the underpin protection too. This change will come into force on 1 October 2023. Underpin protection only

applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022. Pension built up after 1 April 2022 is based on the career average scheme only.

b. Statutory guidance is expected shortly, providing funds with more information on how to implement the new underpin including advice on prioritising cases.

**8.3.3 Autumn Statement and LGPS Next Steps on investment - UPDATE**

a. At the Pensions Committee meeting on the 12 September, officers informed the Committee of a consultation issued by DLUHC the *LGPS: Next steps on investments*, which had a closing date of 2 October 2023.

b. On the 22 November 2023, after receiving 152 responses, the Government issued its response to the consultation indicating its intention to implement the proposals as set in the consultation. They will:
   - Set out in revised investment strategy statement (ISS) guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.
   - Revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
   - Implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
   - Revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
   - Make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
   - Amend regulations to require funds to set a plan to invest 5% of assets in levelling up the UK, and to report annually on progress against the plan
   - Revise ISS guidance to require funds to consider investments to meet the governments ambition of a 10% allocation to private equity.
   - Amend regulations to require Funds to set objectives for investment consultants and correct the definition of investment in the 2016 regulations. The Fund already
   - DLUHC will work closely with the Scheme Advisory Board to develop changes to regulations and revised guidance.
   - DLUHC intend to monitor progress over the current valuation period (up to March 2025), based on annual reports, LGPS

statistics, the Scheme Annual report and other evidence. Monitoring to include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance

c. We will await guidance but officers will discuss with the Fund's Investment Consultant options for next steps and implications for the ISS.

d. In the Autumn statement the Chancellor:
    a. Confirmed that benefits will rise in line with September 2023 inflation figure of 6.7%. Pension increase from 1 April 2023 should therefore also be 6.7%.
    b. The British Business Bank (BBB) will establish Growth Fund which will draw upon the BBB's expertise and a permanent capital base of over £7 billion to give pension funds access to investment opportunities in the UK's most promising businesses – linked to above consultation response

**8.3.4 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 (KSF) 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, members have completed the LOLA training modules v1.0 in support of meeting the Committee procedure rules.

c. LOLA v1.0 consisted of 6 modules. Module 6 covered hot topics and LGPS updates and given the nature of Module 6 and the expectation that it will be refreshed regularly, this is not part of the mandatory learning required under the CIPFA Knowledge and Skills Framework.

d. All Pension Committee members have now completed Modules 1-5.

e. Changes were made to the LOLA platform, subsequently releasing v2.0, consisting of 8 modules. The key changes will see shortened and refreshed modules and will mirror and align the topics with their National Knowledge Assessment and more closely aligned with CIPFA KSF. 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. The Fund transitioned over to LOLA v2.0 on the **1 October 2023.**

f. Officers will provide the Committee with regular progress reports allowing it to easily evidence member's development and progress. Members are encouraged to complete the modules under LOLA v2. Progress will begin to be reported to members in due course, allowing some time for members to commence LOLA v2.0. New committee members yet to complete version 1.0 will now be required to undertake the LOLA v2 to meet the committee procedure rules.

## IMPLICATIONS AND RISKS

**Financial implications and risks:**

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund and employers in the Fund

**Legal implications and risks:**

None arising directly from consideration of the content of the Report.

**Human Resources implications and risks:**

There are no immediate HR implications.

**Equalities implications and risks:**

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

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

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

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

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

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

Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqHIA 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

## Q3 2023 Investment Monitoring Report

Simon Jones – Partner
Meera Devlia – Senior Investment Analyst
Jennifer Aitken – 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 were up slightly.** | • Due to weaker economic activity and the rise in government bond yields, large exposures to manufacturing and technology sector, global equities rose only slightly.<br>• The majority of the Fund's equity mandates delivered positive absolute returns.<br>• The LCIV Global Alpha Growth Paris Aligned Fund continued to underperform due to its relative sector positioning, when interest rates have continued to rise.<br>• Both the LCIV DGF and LCIV Global Alpha funds performed negatively in both absolute and relative terms due to the impact of rising real gilt yields on their portfolio holdings. |
| **Long term real gilt yields rose.** | • Headline inflation figures fell but central banks continued to raise interest rates, though more gradually than previously. The Funds IL gilt mandate fell in value.<br>• The value of the Fund's liabilities are also expected to have fallen in value due to the increase in gilt yields, as proxied by the return of the strategic benchmark. |
| **Overall fund performance was marginally negative, but the Fund significantly outperformed the strategic benchmark.** | • The Fund's performance of -0.5% was behind the tactical benchmark of 1.0%.<br>• Fund performance remains comfortably ahead of the strategic benchmark (the proxy assumed growth of liabilities) over longer time periods.<br>• This performance of the assets relative to the strategic benchmark over all time periods indicates the funding level of the Fund has improved significantly in recent times |
| **USD and EUR denominated assets were negatively impacted as GBP appreciated, but the currency hedging programme offset this** | • 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. |
| **Mixed returns were observed across the Fund's real asset and private debt mandates, but there are no immediate concerns.** | • Most of these mandates are measured against inflation and 'cash plus' based benchmarks.<br>• Property remains weak as capital value declines in the office and retail sectors persist. |

## Fund Performance

| | Last 3 months (%) | Last 12 months (%) | Last 3 years (%) | Last 5 years (%) |
|---|---|---|---|---|
| **Total Fund Performance** | **-0.5** | **2.8** | **3.2** | **4.4** |
| Tactical Benchmark | 1.0 | 7.0 | 6.0 | 5.9 |
| Strategic Benchmark | -4.3 | -10.9 | -11.6 | -3.2 |

## Fund Asset Valuation

| | Fund value (£m) |
|---|---|
| **Q2 2023** | **905.0** |
| **Q3 2023** | **899.2** |

- The Fund's assets returned -0.5% over the quarter, underperforming its 1.0% benchmark return.
- The majority of equity mandates delivered positive returns as sovereign bond yields increased and economic activity weakened,
- The LCIV GAGPA Fund returned negatively and underperformed its MSCI All Country World benchmark. This was due to the Fund's 'growth' stock orientation and the nature of these stocks' sensitivity to interest rates, over a period when the BoE continued to raise interest rates, amidst inflationary pressures.
- The LCIV Absolute Return Fund stabilised from last quarter. However, positive gains the Fund achieved in the second quarter from holdings in 'value' stocks and commodities were offset by its high allocation to inflation linked bonds, which fell over the quarter as interest rates rose.
- The LCIV DGF has continued to drag in absolute and relative returns. The Fund increased its allocation to government bonds over a period when real gilt yields rose – resulting in negative performance.
- The Fund's real assets returned mostly positively in absolute terms; despite capital values (once again, primarily in the office and retail sectors) declining over the quarter.
- The RLAM Index Linked Gilts mandate has continued to deliver negative absolute returns as long term real gilt yields continued to rise over the quarter.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate. Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

# Manager Performance

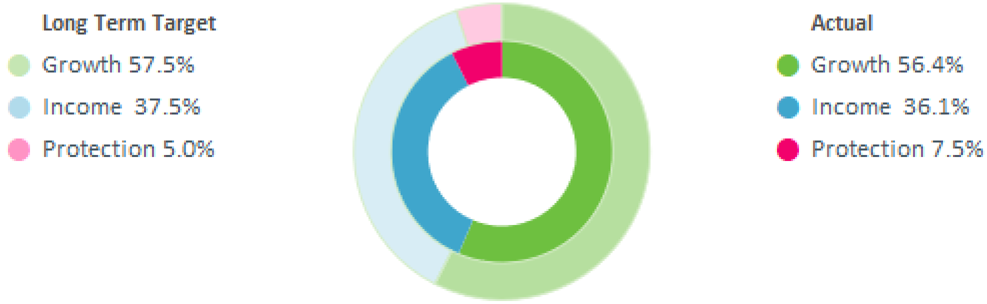
| | *Actual Proportion* | Last 3 months (%) | | | Last 12 months (%) | | | Last 3 years (% p.a.) | | | Since Inception (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative |
| **Growth** | **56.4%** | | | | | | | | | | | | |
| LGIM Global Equity | *4.0%* | 0.9 | 0.9 | **0.0** | 11.0 | 11.1 | **-0.1** | 9.4 | 9.5 | **-0.1** | 11.2 | 11.3 | **0.0** |
| LGIM Emerging Markets | *4.1%* | 2.6 | 2.6 | **0.0** | 1.5 | 1.6 | **-0.1** | 1.8 | 2.0 | **-0.2** | 3.6 | 3.8 | **-0.2** |
| LGIM Future World Fund | *10.7%* | 1.2 | 1.2 | **0.0** | 10.7 | 10.9 | **-0.1** | - | - | - | 1.6 | 1.7 | **-0.1** |
| LCIV Global Alpha Growth Paris Aligned Fund | *14.9%* | -4.3 | 0.6 | **-4.9** | 4.5 | 11.5 | **-6.3** | -1.0 | 9.9 | **-10.0** | 11.4 | 11.5 | **-0.1** |
| LCIV PEPPA Passive Equity | *5.2%* | 0.5 | 0.4 | **0.1** | 15.5 | 13.2 | **2.0** | - | - | - | 0.0 | -1.2 | **1.3** |
| LCIV Absolute Return Fund | *11.9%* | -0.8 | 2.3 | **-2.9** | -3.7 | 8.1 | **-10.9** | 4.2 | 5.6 | **-1.4** | 4.4 | 5.0 | **-0.6** |
| LCIV Diversified Growth Fund | *5.6%* | -2.1 | 2.1 | **-4.1** | -0.6 | 7.7 | **-7.7** | -1.5 | 5.2 | **-6.4** | 2.0 | 4.4 | **-2.3** |
| **Income** | **36.1%** | | | | | | | | | | | | |
| UBS Property | *5.7%* | 0.6 | -0.4 | **1.0** | -12.5 | -14.3 | **2.1** | 4.1 | 3.2 | **0.9** | 5.3 | 5.7 | **-0.4** |
| CBRE | *3.8%* | 2.1 | 1.6 | **0.5** | -11.6 | 11.6 | **-20.7** | 7.6 | 11.6 | **-3.5** | 6.9 | 9.4 | **-2.2** |
| JP Morgan | *4.3%* | 6.4 | 1.6 | **4.8** | 3.4 | 11.6 | **-7.3** | 9.6 | 11.6 | **-1.8** | 9.2 | 9.4 | **-0.2** |
| Stafford Capital Global Infrastructure SISF II | *4.5%* | 1.3 | 1.6 | **-0.3** | 1.0 | 11.6 | **-9.5** | 7.7 | 11.6 | **-3.5** | 7.9 | 9.2 | **-1.2** |
| Stafford Capital Global Infrastructure SISF IV | | 3.3 | 1.6 | **1.8** | 7.5 | 11.6 | **-3.6** | - | - | - | 17.0 | 11.6 | **4.8** |
| LCIV Renewable Energy Infrastructure Fund | *1.4%* | -4.0 | 1.6 | **-5.4** | 31.3 | 11.6 | **17.7** | - | - | - | 13.2 | 12.8 | **0.3** |
| RLAM Multi-Asset Credit | *6.9%* | 1.2 | 1.9 | **-0.7** | 8.8 | 10.7 | **-1.7** | 1.0 | 1.6 | **-0.6** | 6.5 | 6.2 | **0.2** |
| Churchill Senior Loan Fund II | *2.4%* | 7.0 | 2.3 | **4.6** | -0.2 | 8.1 | **-7.7** | 9.5 | 5.6 | **3.6** | 6.7 | 5.3 | **1.3** |
| Churchill Senior Loan Fund IV | *1.9%* | 6.9 | 2.3 | **4.6** | -1.7 | 8.1 | **-9.1** | - | - | - | 11.8 | 6.8 | **4.7** |
| Permira IV | *5.2%* | 1.7 | 2.3 | **-0.5** | 8.0 | 8.1 | **-0.1** | 5.4 | 5.6 | **-0.2** | 4.6 | 5.4 | **-0.8** |
| Permira V | | 1.6 | 2.3 | **-0.7** | 6.9 | 8.1 | **-1.2** | - | - | - | 5.5 | 7.6 | **-1.9** |
| **Protection** | **7.5%** | | | | | | | | | | | | |
| RLAM Index Linked Gilts | *2.4%* | -11.4 | -6.4 | **-5.4** | -24.9 | -16.2 | **-10.3** | -18.9 | -16.0 | **-3.5** | -14.4 | -11.7 | **-3.0** |
| **Total** | | -0.5 | 1.0 | **-1.5** | 2.8 | 7.0 | **-3.9** | 3.2 | 6.0 | **-2.7** | 7.7 | - | - |

*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.*

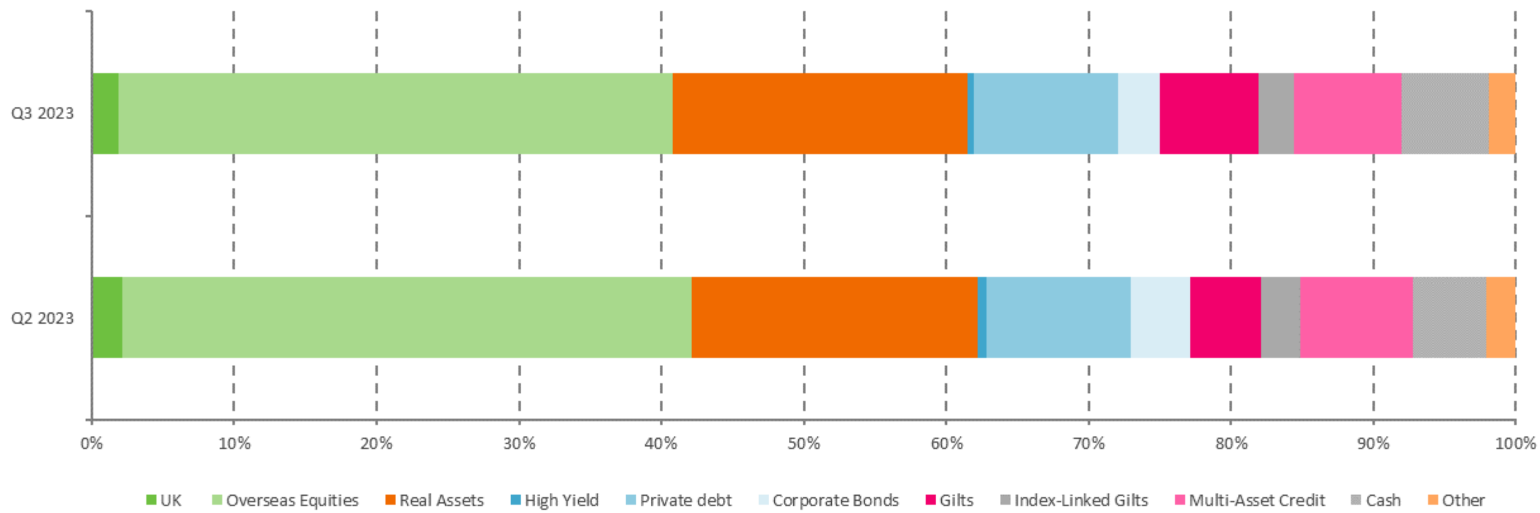
**Includes cash at bank and currency hedging*

- 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 61.0% 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 decreased over the quarter to c.40.8% (c.42.5% as at 30 June 2023) – this was due to both the LCIV Absolute Return Fund and LCIV DGF Fund's equity allocation decreasing from 15.2% to 11.5% and 13.3 to 10.6%, respectively, over the quarter.
- The allocation to gilts has increased over the quarter to c.7.0% (5% as at 30 June 2023) – this was primarily due to the LCIV Absolute Return Fund's allocation to government bonds increasing from 26.6% to 42.7% and the LCIV DGF Fund's allocation to government bonds increasing from 23.9% to 33.1% as yields have increased.
- The allocation to corporate bonds decreased to 2.9% (4.2% as at 30 June 2023) – this was due to the LCIV Absolute Return Fund's allocation to inflation linked bonds decreasing from 34.5% to 23.9%.
- The allocations to multi- asset credit, private debt, real assets and high yield assets remained relatively unchanged over the quarter.

## Asset Allocation




## Asset Class Exposures




HYMANS ROBERTSON

# Current Investment Implementation

The total value of the Fund's assets decreased by £5.8m over the quarter to £899.2m as at 30 September 2023.

The decrease in valuation can be primarily attributed to the Fund's allocation to the LCIV GAGPA Fund specifically. This was then followed by the Fund's allocation to index-linked gilts which continued to decrease in value as real gilt yields rose over the longer terms as the BofE raised interest rates, despite the downward trend in UK inflation over the period.

Despite the interest rate rises, corporates continued to perform well and sub-investment grade credit spreads continued to narrow, positively impacting the RLAM MAC mandate.

Additionally, despite capital value declines experienced in the office and retail sectors, the Fund's real assets remained relatively unchanged.

The Fund's allocation to its multi-asset mandates fell in value over the quarter. This remains due to the LCIV Absolute Return Fund's defensive positioning and majority allocation to fixed income assets.

The LCIV DGF's allocation also reduced over the period, as c.£13m was disinvested to top up the Fund's allocation to the JP Morgan Fund shortly after quarter-end.

The Fund paid the following capital calls during the quarter:

- c.£2.2m to the Permira V Fund.

## Asset Allocation

| Manager | Pooling | Valuation (£m) Q2 2023 | Valuation (£m) Q3 2023 | Actual Proportion | Benchmark | Relative |
|---|---|---|---|---|---|---|
| **Growth** | | **526.0** | **507.4** | **56.4%** | **57.5%** | **-1.1%** |
| LGIM Global Equity | LCIV aligned | 35.8 | 36.1 | 4.0% | 5.0% | -1.0% |
| LGIM Emerging Markets | LCIV aligned | 35.5 | 36.4 | 4.1% | 5.0% | -0.9% |
| LGIM Future World Fund | LCIV aligned | 95.2 | 96.3 | 10.7% | 10.0% | 0.7% |
| LCIV Global Alpha Growth Paris Aligned Fund | LCIV | 139.9 | 133.9 | 14.9% | 15.0% | -0.1% |
| LCIV PEPPA Passive Equity | LCIV | 46.3 | 46.5 | 5.2% | 5.0% | 0.2% |
| LCIV Absolute Return Fund | LCIV | 108.3 | 107.5 | 11.9% | 12.5% | -0.6% |
| LCIV Diversified Growth Fund | LCIV | 65.1 | 50.7 | 5.6% | 5.0% | 0.6% |
| **Income** | | **315.3** | **324.4** | **36.1%** | **37.5%** | **1.1%** |
| UBS Property | Not pooled | 51.2 | 51.2 | 5.7% | 6.0% | -0.3% |
| CBRE | Not pooled | 33.6 | 34.3 | 3.8% | 4.0% | -0.2% |
| JP Morgan | Other pooled | 37.0 | 38.9 | 4.3% | 5.5% | -1.2% |
| Stafford Capital Global Infrastructure SISF II | Not pooled | 19.3 | 19.1 | 4.5% | 3.5% | 1.0% |
| Stafford Capital Global Infrastructure SISF IV | Not pooled | 17.5 | 21.2 | | | |
| LCIV Renewable Energy Infrastructure Fund | Not pooled | 13.0 | 12.6 | 1.4% | 3.5% | -2.1% |
| RLAM Multi-Asset Credit | Not pooled | 61.1 | 61.8 | 6.9% | 7.5% | -0.6% |
| Churchill Senior Loan Fund II | Other pooled | 21.0 | 21.4 | 2.4% | 3.0% | -0.6% |
| Churchill Senior Loan Fund IV | Other pooled | 16.3 | 17.0 | 1.9% | | |
| Permira IV | Other pooled | 31.1 | 30.6 | 5.2% | 4.5% | 0.7% |
| Permira V | Other pooled | 14.4 | 16.3 | | | |
| **Protection** | | **63.6** | **67.4** | **7.5%** | **5.0%** | **2.5%** |
| RLAM Index Linked Gilts | Not pooled | 24.6 | 21.8 | 2.4% | 5.0% | -2.6% |
| Cash at Bank | n/a | 29.1 | 42.7 | 4.7% | 0.0% | 4.7% |
| Currency Hedging P/L | Not pooled | 9.9 | 2.9 | 0.3% | 0.0% | 0.3% |
| **Total Fund** | | **905.0** | **899.2** | **100.0%** | **100.0%** | |

*Pooling refers to whether the holding benefits from some form of collective bargaining. LCIV and LCIV aligned reflect mandates aligned with or managed by the LCIV. Other pooled indicates mandates where there are collective LGPS fee arrangements in place. Not pooled indicates mandates outside pooling arrangements.*

*Source: Northern Trust, Investment Managers*



HYMANS ROBERTSON

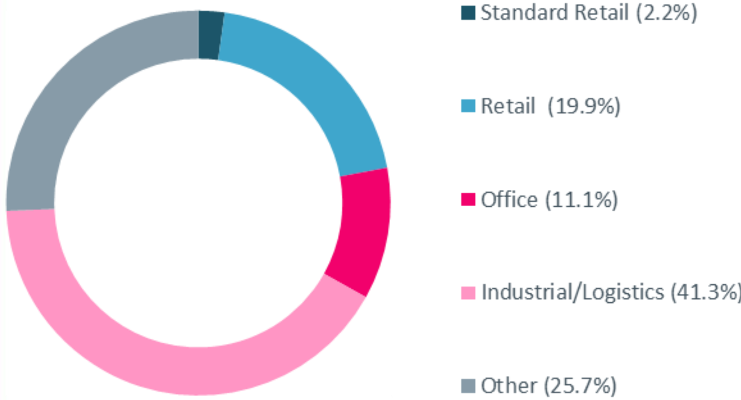
UBS Triton Property Fund

- The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds.
- During the quarter the fund returned 0.6%, ahead of the peer group benchmark return of -0.4%. The fund remains comfortably ahead of its benchmark oner the 1 year and 3 years period, driven by taking an underweight position to the traditional office sector which has struggled and experienced capital value declines over these periods. However, over the longer period since inception, the fund returned marginally negatively, relative to its benchmark.
- The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.
- Over the quarter, the Triton fund concluded several key asset management objectives. This includes the surrender of the WeWork lease for premium, concluding the first two lettings at the new urban logistics development and an agreement for lease with Hobbycraft for 5 years, effective October 2023. UBS also received planning approval for their life sciences scheme 'Elevate Quarter' in Stevenage, to which the fund has indirect holdings exposure to.

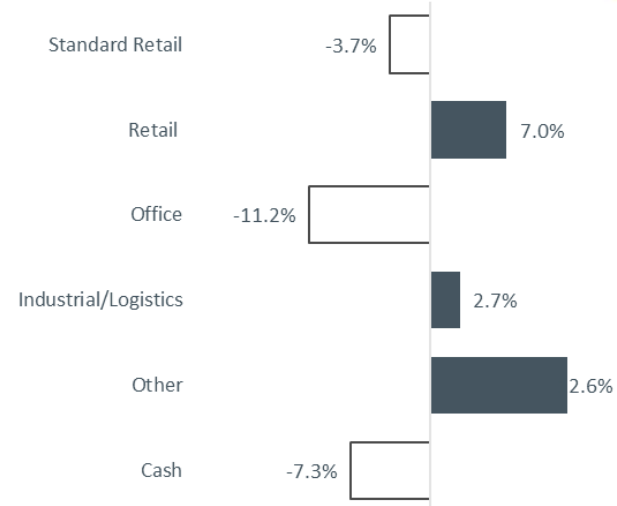
CBRE Global Alpha Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- The Global Alpha Fund is a global mandate and invests across a range of regions (as displayed in the chart, far right) rather than just the UK – as is the case with the UBS fund.

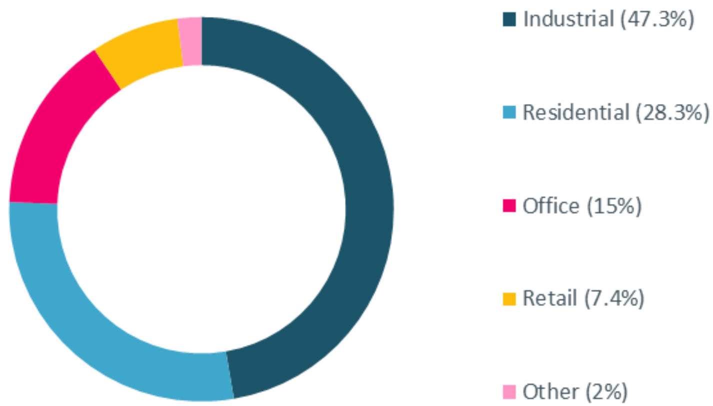
## UBS Sector Allocation



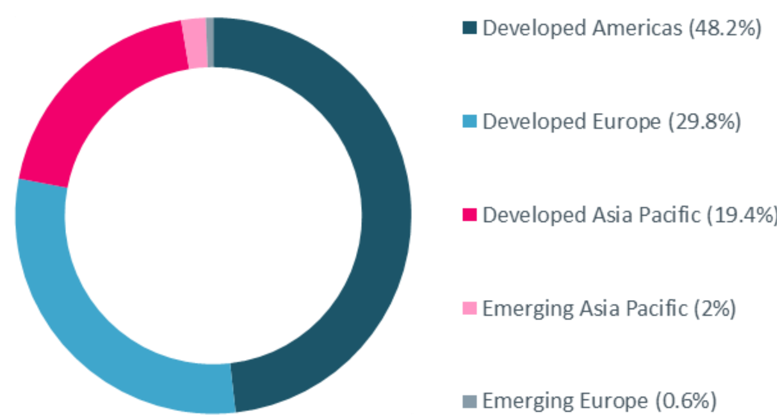

## UBS Sector Allocation Relative to Benchmark




## CBRE Sector Allocation*




## CBRE Regional Allocation*




*Source: Northern Trust, UBS, CBRE*
**as at 30 June 2023 (latest available)*



HYMANS ROBERTSON

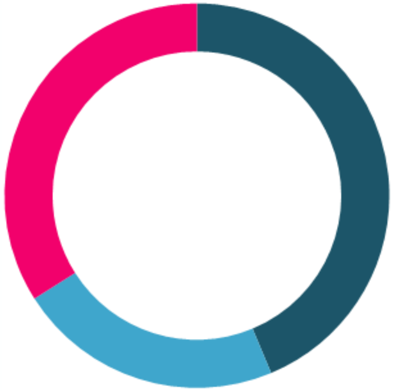
JP Morgan Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter the fund has outperformed its benchmark, returning 6.4% to relative to its benchmark of 1.6%.
- The fund was invested across and underlying 21 portfolio companies, 979 assets and 1,274 investors as at 30 June 2023.

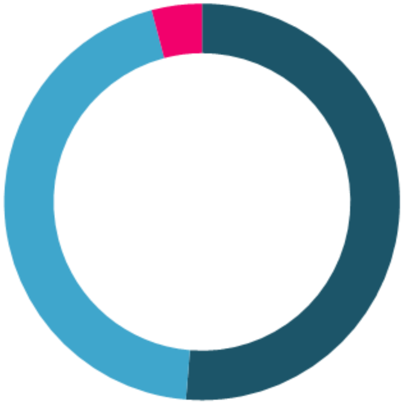
LCIV Renewable Energy Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- As a fund of funds, the table summarises the status of the LCIV Renewable Infrastructure Fund in terms of its commitments, their weights in the portfolio and their respective capital amounts called.
- Over second quarter of 2023 and to 31 August 2023, the fund made no further investments.

## JP Morgan Sector Allocation*




## JP Morgan Regional Allocation*




## LCIV Renewable Infrastructure Fund Schedule of Investments*

| Fund | Transaction Type | Weight | Local Currency | Commitment (£m) | 31/03/2023 Fair Value (£m) | Capital Calls (£m) | Distributions (£m) | 30/09/2023 Fair Value (£m) | FX and Unrealised Gain/Loss |
|---|---|---|---|---|---|---|---|---|---|
| BlackRock Global Renewable Power III | Primary | 12.5% | $ | 110.1 | 55.9 | 11.6 | 0.0 | 69.6 | 2.056 |
| Quinbrook Renewable Impact Fund | Primary | 11.3% | £ | 100.0 | 93.8 | 21.9 | 0.0 | 108.7 | -6.954 |
| Stonepeak Global Renewables Fund | Primary | 21.3% | $ | 188.1 | 19.5 | 10.3 | 0.0 | 28.4 | -1.407 |
| Foresight European Infrastructure Partners | Primary | 16.0% | € | 141.3 | 81.1 | 0.0 | -98.0 | 79.7 | -99.455 |
| Macquarie GIG Energy Transition Solutions | Primary | 13.4% | € | 118.4 | 0.0 | 29.2 | 0.0 | 30.2 | 0.947 |
| BlackRock UK Renewable Income Fund | Secondary | 11.2% | £ | 99.3 | 121.8 | 0.0 | 0.0 | 107.3 | -14.509 |
| Total Investments | | **85.7%** | | **757.2** | **372.2** | **73.0** | **-98.0** | **423.9** | **-119.322** |
| Unallocated Commitments | - | **14.3%** | - | **126.3** | **5.6** | **-6.3** | **98.0** | **2.7** | - |
| Total | | **100.0%** | | **883.5** | **377.8** | **66.7** | - | **426.6** | - |

*Source: Northern Trust, JP Morgan, LCIV*
**as at 30 June 2023 (latest available)*



HYMANS ROBERTSON

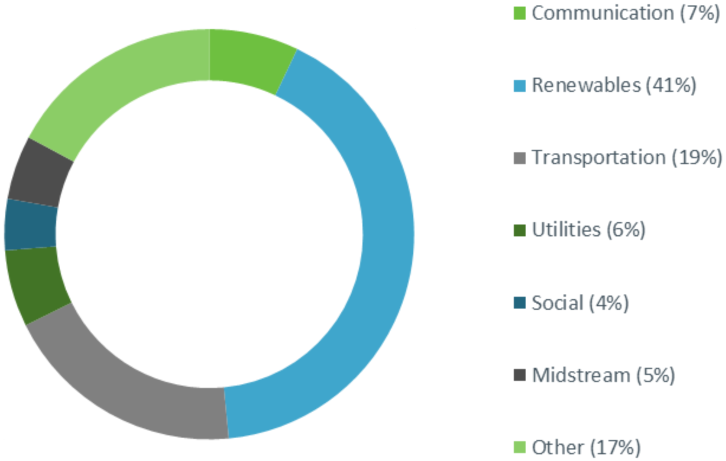
## Stafford Capital Global Infrastructure SISF II

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter the fund has marginally underperformed its benchmark, returning 1.3% to relative to its performance objective of 1.6%. The fund continues to lag behind its performance objective over the longer time periods of 1 years, 3 years and since inception. We expect performance to be back loaded with the more attractive returns coming later in the funds life as the underlying investments mature.
- As at 30 June 2023, the fund is comprised of 22 funds, 16 co-investments and 336 underlying assets while 237 assets remain today.
- As at 30 June 2023, the fund's top 10 assets accounted for 37.4% of the total portfolio.

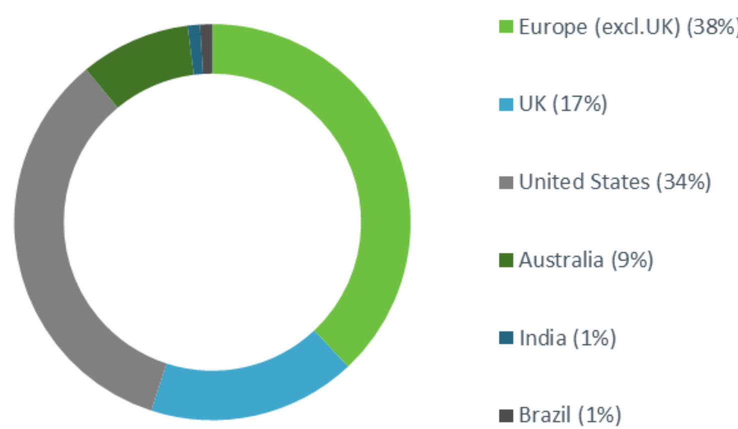
## Stafford Capital Global Infrastructure SISF IV

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter the fund has outperformed its benchmark, returning 3.3% to relative to its performance objective of 1.6%. However, over the period of 1 year, the fund lags behind its performance objective. But again, over the longer period of since inception the fund continues to outperform its performance objective. We expect performance to be back loaded with the more attractive returns coming later in the funds life as the underlying investments mature.
- As at 30 June 2023, the fund is comprised of 17 funds and 4 co-investments, providing exposure to 266 underlying infrastructure assets.
- As at 30 June 2023, the fund's top 10 assets accounted for 49.4% of the total portfolio.

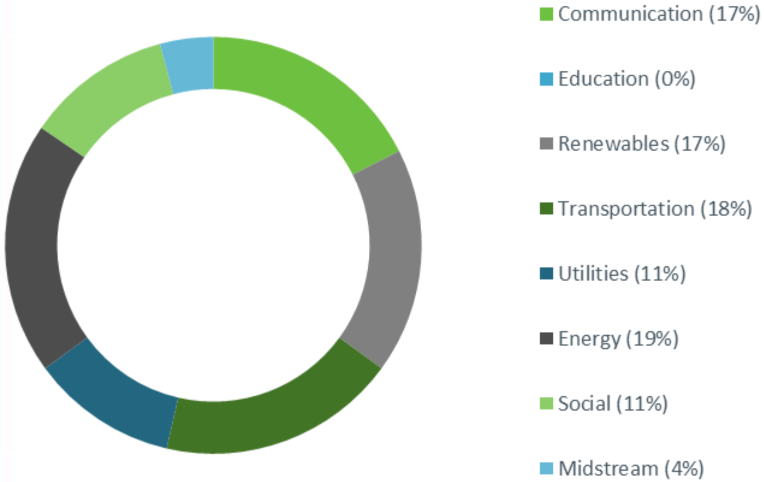
### Stafford Capital Global Infrastructure SISF II Sector Allocation*



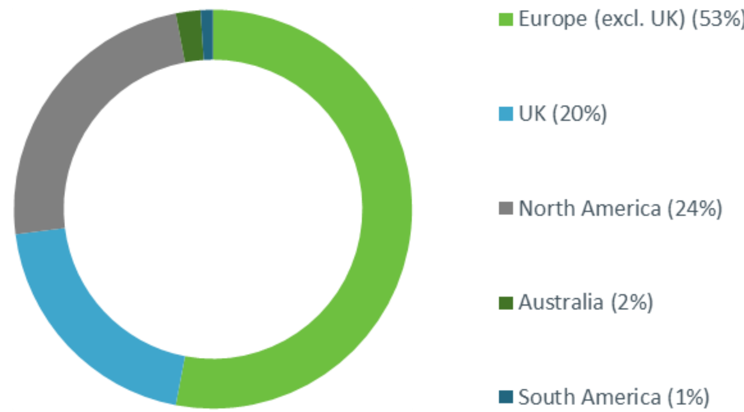

### Stafford Capital Global Infrastructure SISF II Regional Allocation*




### Stafford Capital Global Infrastructure SISF IV Sector Allocation*




### Stafford Capital Global Infrastructure SISF IV Regional Allocation*




*Source: Northern Trust, Stafford Capital*
**as at 30 June 2023 (latest available)*

## Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 4.9% to date where the impact of currency fluctuations is included and only 4.3% 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.



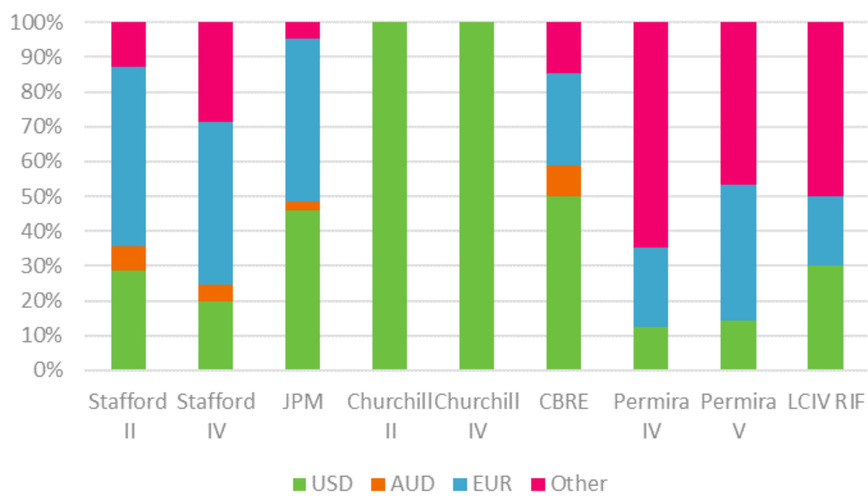
## Q3 2023 Performance

| | Asset Return (inc. FX impact) | Currency Return (via Russell mandate) | Asset Return (ex. FX impact) | BM Return | Relative Return (ex. FX impact) |
|---|---|---|---|---|---|
| Stafford II | 1.3 | -1.6 | -0.3 | 1.6 | -1.9 |
| Stafford IV | 3.3 | -1.1 | 2.3 | 1.6 | 0.7 |
| JPM | 6.4 | -1.9 | 4.5 | 1.6 | 2.9 |
| Churchill II | 7.0 | -4.2 | 2.8 | 2.3 | 0.5 |
| Churchill IV | 6.9 | -4.1 | 2.8 | 2.3 | 0.6 |
| CBRE | 2.1 | -2.3 | -0.3 | 1.6 | -1.8 |
| Permira IV | 1.7 | -1.0 | 0.7 | 2.3 | -1.5 |
| Permira V | 1.6 | -1.2 | 0.3 | 2.3 | -1.9 |
| LCIV RIF | -4.0 | -1.0 | -4.9 | 1.6 | -6.4 |

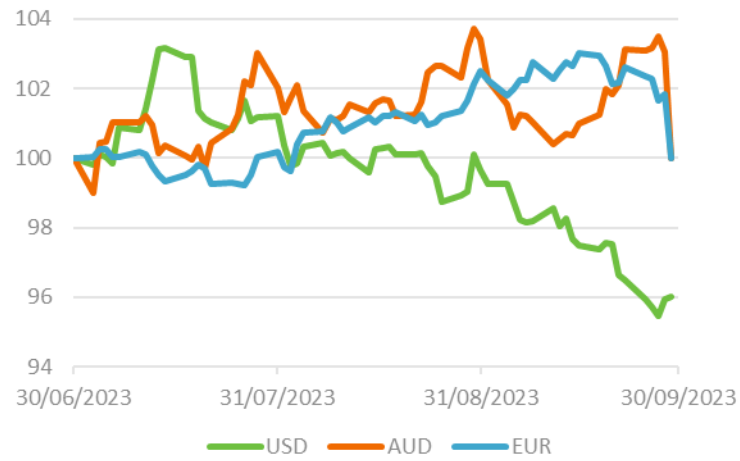
## Performance Since Mandate Inception*

| | Asset Return (inc. FX impact) | Currency Return (via Russell mandate) | Asset Return (ex. FX impact) | BM Return | Relative Return (ex. FX impact) |
|---|---|---|---|---|---|
| Stafford II | 8.5 | -0.9 | 7.6 | 9.2 | -1.5 |
| Stafford IV | 18.8 | -2.0 | 16.8 | 11.6 | 4.7 |
| JPM | 10.5 | -1.3 | 9.2 | 9.4 | -0.2 |
| Churchill II | 8.1 | -3.1 | 5.0 | 5.3 | -0.3 |
| Churchill IV | 11.8 | -6.8 | 5.0 | 6.8 | -1.7 |
| CBRE | 7.3 | -1.3 | 6.0 | 9.4 | -3.1 |
| Permira IV | 4.6 | -0.1 | 4.4 | 5.4 | -0.9 |
| Permira V | 5.5 | 0.0 | 5.5 | 7.6 | -2.0 |
| LCIV RIF | 13.2 | -1.0 | 12.1 | 12.8 | -0.6 |

## Hedged Currency Exposure **




## Sterling Performance vs. Foreign Currencies (Rebased to 100 at 30 September 2023)




*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 30 June 2023 (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 30 September 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 | $26.5m | £36.0m | £43.0m |
| Gross Commitment (GBP estimate) | £24.7m | £26.0m | - | £21.7m | - | - |
| Capital Called During Quarter (Payments Less Returned Capital) | - | - | - | - | - | £2.2m |
| Capital Drawn To Date | £26.3m | £15.4m | £9.8m | £17.2m | £31.2m | £16.2m |
| Distributions/Returned Capital To Date (Includes Income and Other Gains) | £13.4m | £0.9m | - | £2.0m | £5.9m | £1.0m |
| NAV at Quarter End | £19.1m | £21.2m | £12.6m | £17.0m | £30.6m | £16.3m |
| Net IRR Since Inception * | 8.4% p.a. (v. 8-9% target) | 15.7% | - | 9.3%** | 7.8% | 17.6% |
| Net Cash Yield Since Inception* | 6.8% p.a. (v. 5% target) | 5.1% | - | - | - | - |
| Number of Holdings* | 22 funds | 17 funds | - | 137 investments | 82 investments | 32 investments |

**as at 30 June 2023 (latest available) **Refers to IRR of realised assets in the portfolio*

*Source: Investment Managers*

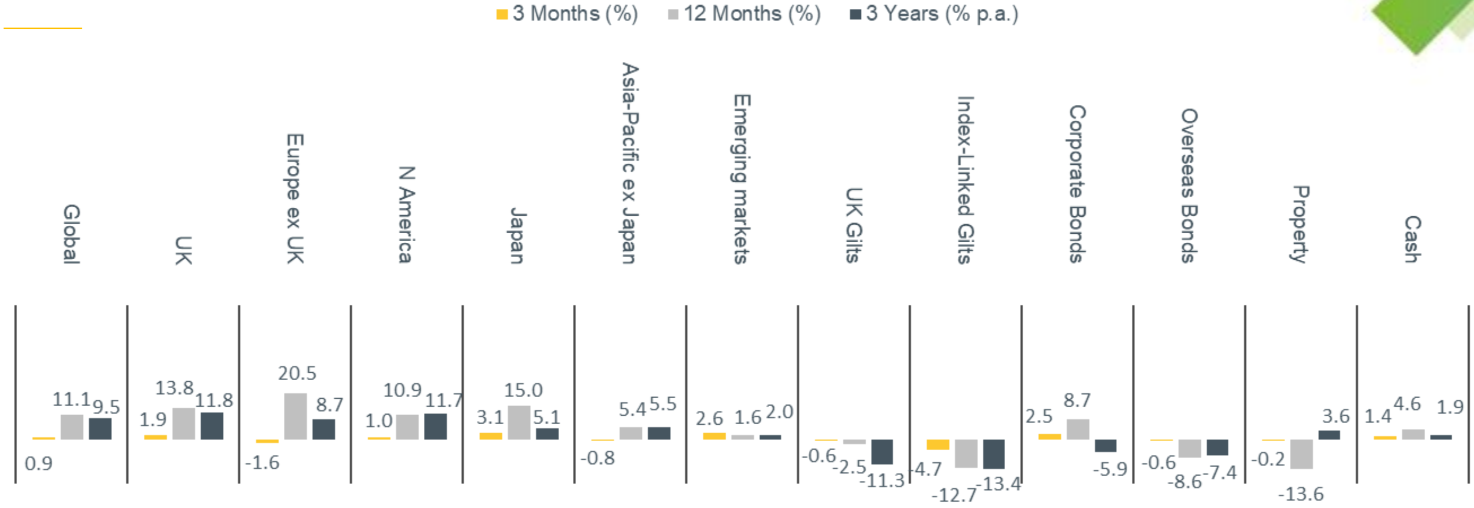
Better-than-expected Q2 data, released in Q3, led to further upwards revisions to 2023 global growth forecasts in Q3. However, survey indicators suggest that economic activity weakened throughout Q3, as services activity lost steam and the manufacturing sector remained in contraction. Europe looks a particular weak spot.

Headline inflation has generally stayed on a downwards trend, and came in at 3.7%, 6.7%, and 5.2% year on year in the US, UK, and eurozone, respectively. Core CPI inflation, which excludes volatile energy and food prices, has been falling more slowly, coming in at 4.3%, 6.2%, and 5.3%, in the US, UK and eurozone, respectively.

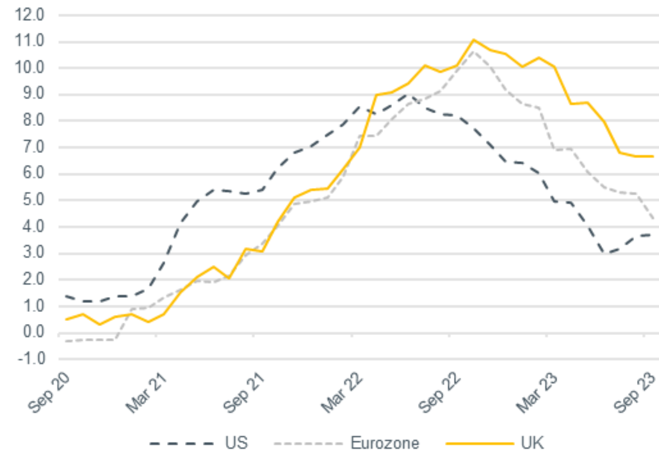
The Federal Reserve and Bank of England (BoE) raised rates 0.25% pa in Q3, to 5.5% pa and 5.25% pa. Both then left rates unchanged, unexpectedly so in the case of The BoE, at their September meetings. Meanwhile, the European Central Bank raised its deposit rate twice, to 4.0% p.a. The tone of central bank comments and market pricing suggest that policy rates are at, or close to peaking, but subsequent cuts will be more gradual than previously thought.

As a result, long-term sovereign bond yields rose. Heavy issuance amplified moves in 10-year US treasury yields which rose 0.7% pa to 4.6% pa. Equivalent German yields rose 0.5% p.a., to 2.8% p.a. Japanese government bond yields rose 0.4% pa, to 0.8% pa, as the Bank of Japan (BoJ) loosened its yield curve control policy in July. Short-term gilt yields fell, while longer-term yields rose – the 10-year yield saw more muted moves, rising 0.1% pa to 4.4% pa.

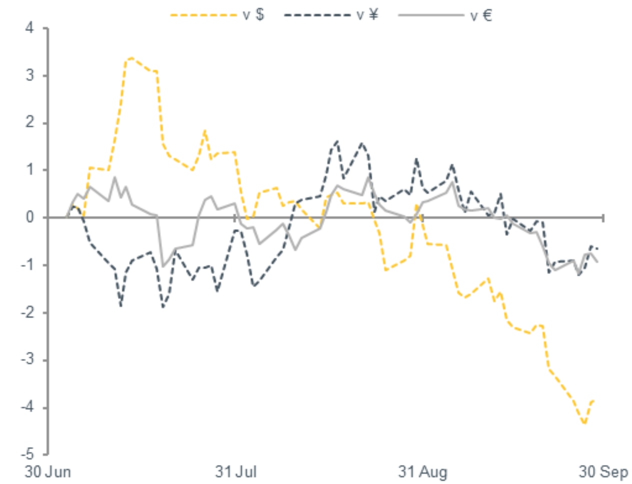
## Historic returns for world markets [1]




## 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

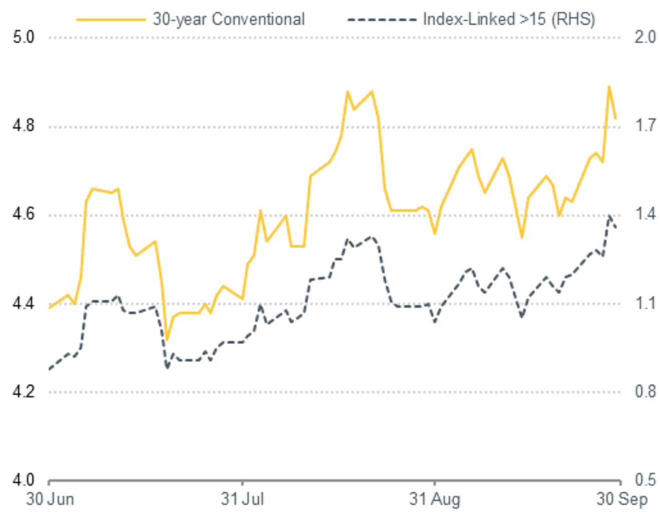
UK investment grade credit recorded positive total returns as short-term gilts yields and credit spreads fell. Global investment-grade spreads fell 0.1% pa to 1.3% pa. Speculative grade spread movements were muted with the US little changed, at 4.0% pa, and euro spreads tightening 0.1% to 4.4%.

The FTSE All World Total Return Index erased July's gains to end the quarter 2.1% lower, in local currency terms, as sovereign bond yields rose, and surveys indicated weaker global economic activity in Q3. Europe ex-UK underperformed, given weak business surveys and a large exposure to the struggling manufacturing sector. Above-average exposure to the tech sector saw North American equities also underperform. Japan outperformed as yen weakness lent support to the earnings of the export-heavy market. UK equities outperformed too, given above-average exposure to the energy sector.

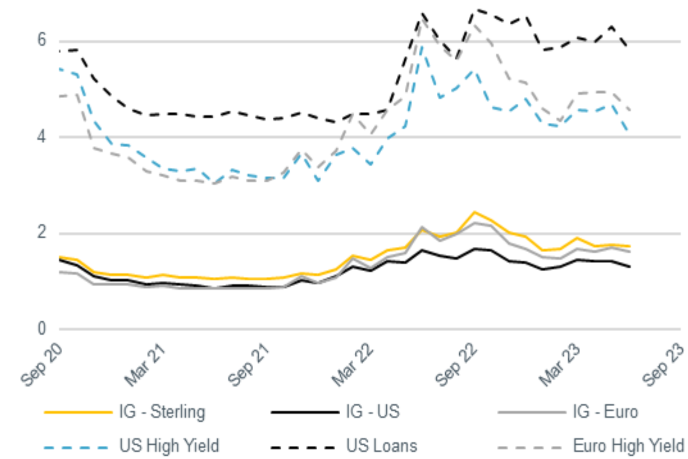
Oil prices rose 28% over the quarter on the back of supply shortfall fears, climbing close to $100 per barrel. On a year-over-year basis, oil prices are up 8.1%.Trade-weighted sterling fell 2.1% as near-term interest rate expectations fell, while the equivalent US dollar measure rose 2.0% and the Japanese yen fell a further 1.7%.

The MSCI UK Monthly Property Total Return Index returned -0.2% over the quarter as capital value declines in the office and retail sectors more than offset income. Over 12-months, capital values are down around 14%, 20%, and 23% in the retail, industrial, and office sectors, respectively. The office and retail sectors continue to see month-on-month capital value declines, while the industrial sector has recorded seven consecutive months of growth, though the pace has eased.

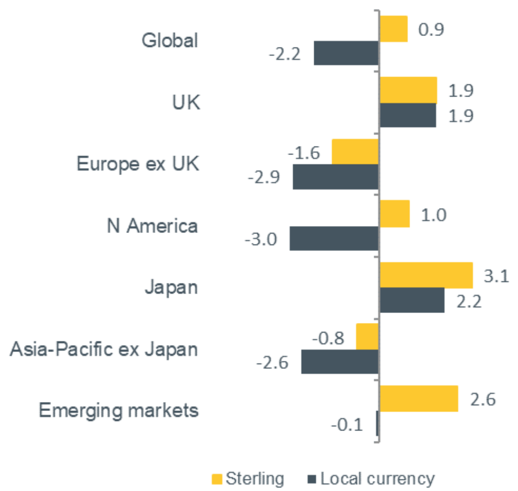
## Gilt yields chart (% p.a.)



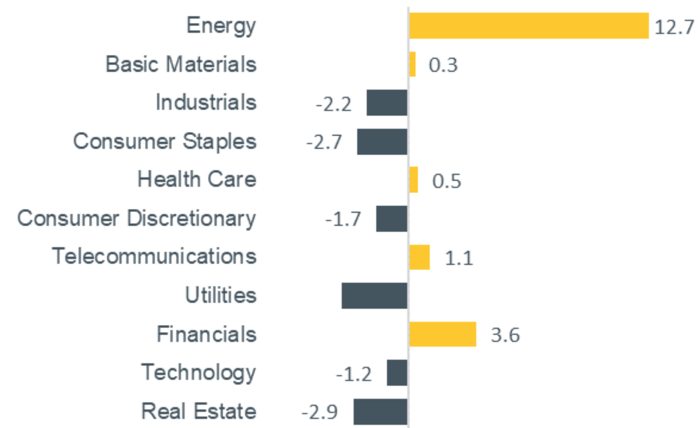

## Investment and speculative grade credit spreads (% p.a.)




## 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** | • 2023 aggregate earnings expectations appear to have bottomed out at an underwhelming 0.7%. Although consensus expectations suggest a more appealing earnings environment in 2024 and 2025, risks are skewed to the downside. One of the main uncertainties is whether markets have correctly assessed the longer-term impact of higher rates on the consumer and business activity. Moreover, there are risks surrounding central banks' ability to navigate the current inflation environment. Cyclically adjusted valuations are currently in line with long-term averages, but they appear more stretched in the context of higher real yields. |
| **Investment Grade Credit** | • Slowing global economic activity and shrinking profit margins points to an unattractive fundamental backdrop for corporates and will put pressure on the strength of corporate balance sheets. Furthermore, the impact of previous interest rate hikes is yet to be felt fully and higher for longer central bank rhetoric may put longer term pressure on debt affordability. However, the impact will be less severe and take longer to materialize in investment-grade markets than in speculative-grade markets given lower debt levels and longer maturities. |
| **Emerging Market Debt** | • Having embarked on tightening cycles earlier and more aggressively, some EM central banks are now reducing policy rates. EM countries that have enjoyed a strong disinflationary trend over the first half of the year now offer high real policy rates, and yields, which provides scope for further rate cuts, supporting local currency duration. Local currency yields have risen above the upper end of our neutral band and look reasonably attractive; however, that is set against a challenging fundamental backdrop for EM currencies, given higher US treasury yields, higher oil prices, weak Chinese, and global, growth, and a very low EM/DM yield differential. |
| **Liquid Sub-Investment Grade Debt** | • Speculative-grade default rates have risen above long-term average levels but given strong corporate balance sheets and unexpected economic resilience in the US, defaults are only expected to rise a little further. However, high yield bond spreads at long-term median levels provide little additional compensation against a greater-than-expected rise in defaults. Loans are more exposed to rising borrowing costs and forecast defaults are expected to be higher in this market. As a result, loans spreads are higher. |
| **Private Lending** | • Leverage levels on newly originated debt are low compared to historic averages as underwriting focuses on fixed charge and interest coverage ratios in a rising cost environment. However, despite these lower leverage levels, the corporate earnings outlook (across the board) remains challenging which may impact debt affordability. |
| **Core UK Property** | • UK Property yields, based on net asset value (NAV), have risen but remain below long-term average levels. Substantial selling pressure may mean investors can chieve more attractive yields, given discounts to NAV, but transaction activity remains very thin. Furthermore, real rental growth remains negative and the latest RICS survey points to further weakness in the occupational market. |
| **Conventional Gilts** | • Given the weak real growth outlook and expected declines in inflation, we think the fundamental outlook for gilts has improved. The recent back-up in yields means longer-term nominal yields look increasingly attractive relative to fair value. We also think a fall in long-term implied inflation is more likely to be driven by a fall in nominal yields than a rise in real yields. However, the technical backdrop remains challenging amid Bank of England asset sales and heavy government issuance to meet financing requirements. |
| **Index-Linked Gilts** | • Real yields are also reasonably attractive and continued above-target inflation still lends some relative fundamental support to index-linked gilts. We also think the technical backdrop is slightly less challenging for index-linked gilts seeing as index-linked gilts are not being sold as part of quantitative tightening. |

*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.

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