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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	**Tuesday 19 March 2024**	**Council Chamber - Town Hall**

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	**Havering Residents' Group (2)**	**Labour Group (1)**
Joshua Chapman Dilip Patel Viddy Persaud	James Glass Jacqueline Williams Vacancy	Mandy Anderson (Chairman)

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

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):

- any employment, office, trade, profession or vocation that they carry on for profit or gain;
- any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
- any land licence or tenancy they have in Havering
- any current contracts leases or tenancies between the Council and them;
- any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
- any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)

- Your well-being or financial position; or
- The well-being or financial position of:

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

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

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

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

YES ↓

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

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

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

YES ↓

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

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

YES ↓

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

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

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

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

4 MINUTES OF THE MEETING (Pages 7 - 12)

To approve as correct the open and exempt minutes of the meeting held on 24 January 2024 and authorise the Chairman to sign them.

5 MINUTES OF THE LOCAL PENSION BOARD

The draft minutes of the Local Pension Board will be circulated to members when they have been approved by the Board Chairman.

6 EXCLUSION OF THE PUBLIC

To agree the public should now be excluded from any relevant sections of item 7 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.

7 PENSION FUND MONITORING QUARTER END 31 DECEMBER 2023 (Pages 13 - 72)

Documents and exempt documents attached

8 CASH FLOW POLICY (Pages 73 - 88)

Documents attached

9 VOTING AND ENGAGEMENT (Pages 89 - 110)

Docuemnts attached

10 ADMISSION OF CATERLINK TO THE PENSION FUND (Pages 111 - 116)

Documents attached

Zena Smith
Head of Committee and Election Services

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Council Chamber - Town Hall
24 January 2024 (7.03 - 8.50 pm)

Present:

COUNCILLORS

Conservative Group	Dilip Patel, Viddy Persaud and Joshua Chapman
Havering Residents' Group	James Glass and Jacqueline Williams

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

321 **APPOINTMENT OF MEETING CHAIR**

In the absence of the Chair and Vice-Chair, it was agreed without division that Councillor Patel should chair the meeting.

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

Apologies were received from Councillors Mandy Anderson and Philip Ruck. Councillor Ruck was present via videoconference. Apologies were also received from Derek Scott – Trade Union Observer.

323 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

324 **MINUTES OF THE MEETING**

It was noted that, under minute 313 – Risk Register Update, the scoring for cyber risk had been amended from D3 to C2. A new risk had also been added – the threat to the level of employer contributions due to budget pressures.

The minutes were otherwise agreed as a correct record.

325 **PENSION FUND VALUATION FUNDING UPDATE FROM MARCH 2022 TO SEPTEMBER 2023**

Officers advised that, in the period under review, performance had increased from 80% to 106% funding levels. The funding level had grown over the last 15 years and the expected return on assets had also been going up. Increases in funding had been driven by the prospect of future returns.

A Member asked if the fund's liability had been lowered due to a change in the discount rate. Precise levels were determined by the actuary via the modelling of expected returns. The level of prudence re uncertainty was set by the Committee every three years.

Funding levels did fluctuate and this needed to be looked at over a longer period of time.

The Committee NOTED the Havering Pension Fund interim funding position updated to 30 September 2023 as set out in appendix A of the report and that no action was required to change the funding plan.

326 **SERVICE REVIEW OF THE PENSION FUND CUSTODIAL & PERFORMANCE MONITORING SERVICE OCT 2022 TO SEP 2023**

It was noted that Northern Trust had been the fund custodian since October 2019 and looked after the investment accounts and reporting for the fund. Red-Amber-Green (RAG) ratings for these services were shown in the report and officers were satisfied with Northern Trust's performance.

Officers discussed with members the merit of officer assessment RAG ratings for the custodian and felt that no value would be added from independent verification. As part of the annual pension fund audit, external auditors also look at third party internal controls and Northern Trust's internal control reports were also externally audited.

The risk management framework could be considered for independent verification and internal audit could consider this. Benchmarking information for officer assessments of the Risk Register scorings was in the process of being collated and a report would be brought to the Committee on this in due course.

Custodial fees had been reduced although performance management fees had increased due to external index fees charged by providers. Officers have asked the Funds investment advisors if alternative indices can be used.

The Committee noted the report and the views of officers on the performance of the Custodian.

327 **EXCLUSION OF THE PUBLIC**

It was **AGREED** that, for the relevant section of agenda item 8 only, the public should be excluded from the meeting on the grounds that it was likely that, on view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during that item, there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972.

328 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2023**

Officers confirmed that the total value of the fund had decreased in the three months under review by £5.75m. Inflation had started to fall in this period although the economic position remained uncertain. There had not been any strong equity performance over this quarter (ended 30 September 2023).

The fund had delivered slightly negative (0.5%) returns over the quarter. 15% of the fund's assets were in the London Collective Investment Vehicle (CIV) Global Alpha fund. The fund had struggled recently due to investments looking for excess growth. This fund was the largest in the London CIV. Hymans discuss performance regularly with the fund managers.

The Council's investment strategy aimed to deliver stable, long term returns. The Funding Level of the pension scheme was better than in previous years and the advisers did not suggest wholesale changes to investments. The Strategic Director of Finance emphasised that the proposed decision not to top up the pension fund cash account with voluntary contributions did not affect the level of pension contributions. There remained £22m in the cash account and the Council's policy was to seek to keep this at £3m-8m. Officers agreed that the cash balance was unusually high and an item on cash flow policy is currently under review and the policy would be brought to the next meeting of the Committee.
The £22m cash fund was invested by the Treasury Manager and could be withdrawn if required. A good return was currently being achieved on the cash assets.

It was also noted that Royal London Index Linked Gilts had underperformed due to a misjudgement over falling interest rates.

It was agreed that at this point the Committee should go into exempt session for the next part of the item.

On return to the open session, officers explained that, in the annual London CIV return to the Department of Levelling Up, Housing and Communities, Havering had been flagged as having a lower pooling level. This reflected the lower asset value of the fund and not the Funds approach to pooling.

A training-session would be arranged for Members on nature-related financial disclosures in due course, following the publication of the framework.

Officers updated the committee of the implications of the McCloud judgement following updated regulations that came into force from 1 October 2023.

A Government response on the Next Steps on Investment programme had been received. This would go ahead but would not be mandatory in all areas. Guidance on this was awaited and an update would be brought to the Committee.

The Committee **AGREED**:

To note the detail in the reports and presentations it had received on this item, including the exempt material.

Chairman

Agenda item 8: Pension Fund Performance Monitoring for the Quarter ended September 2023

Officers from CBRE Investment Management had reviewed the fund's performance against benchmark and reported there were no issues of concern. The fund had performed well in the market over the last year with preferred growth areas being apartments for rent and healthcare related real estate.

Over the last three years, the fund had underperformed against benchmark due to factors such as Covid-19 and high interest rates. Performance had been protected in response to high interest rates with for example shorter leases for office accommodation meaning reduced exposure in this sector. Offices were being used less due to working from home which had led to the fund reducing investments in this area.

There was a rolling maturity schedule for loans taken by the fund with 70% at fixed rate and 30% at a floating rate. The increase in private credit income had been a deliberate decision which would increase the income protection of the fund. This also allowed protection against changing interest rates.

The fund was operating ahead of the industry sustainability benchmark. Software was used to assess the physical risks of an asset and all assets in the fund had been mapped.

There was not thought to be a major risk from the difficulties facing High Streets as investment was more in warehouses than retail areas. The fund advisers added that they did not have any concerns over fund allocations. It was also clarified that the CBRE fund was invested in other funds that owned properties directly and used specialist managers for this.

A Member asked if the pension fund had exposure to property classes. There was a 10% real estate allocation in the fund. Moving this into the CIV was unlikely to be cost effective.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 19 March 2024

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBR 2023**
CLT Lead:	**Kathy Freeman**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708 432 569*** ***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 31 December 2023.

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

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

SUMMARY

This report provides an overview of how the Fund’s investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **31 December 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund's value increased by **£32.8m** over the quarter. The overall fund performance of 3.9% underperformed the tactical benchmark by -0.38% and the strategic benchmark by -5.22%.

The Fund's performance of 3.9% was slightly behind the tactical benchmark but remains ahead of the strategic benchmark over the longer time periods.

Amid expectations of larger and sooner rate cuts in 2024, bond prices rose and yields fell sharply, pushing up expected liability values. This resulted in the Fund's liabilities increasing by more than the Fund's assets over the quarter so the funding level of the fund has fallen slightly. This market backdrop also contributed to equity and credit mandates delivering positive returns, with the Fund's global equity mandates benefiting strongly from this.

Many of the Fund's private market assets have either United Stated Dollars (USD) or European (EUR) exposure and returns were weaker when converted to Great British Pounds (GBP) but the currency hedging programme offset this.

Mixed returns were observed across the Fund's real asset and private debt mandates. Most of these mandates are measured against inflation and cash plus benchmarks and short term performance has lagged due to high levels of inflation. Property markets remains weak as capital values decline in the office, retail and industrial sectors.

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans. The manager attending the meeting will be:

Permira - Private Debt 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 Funds Private Debt Manager (Permira) 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.

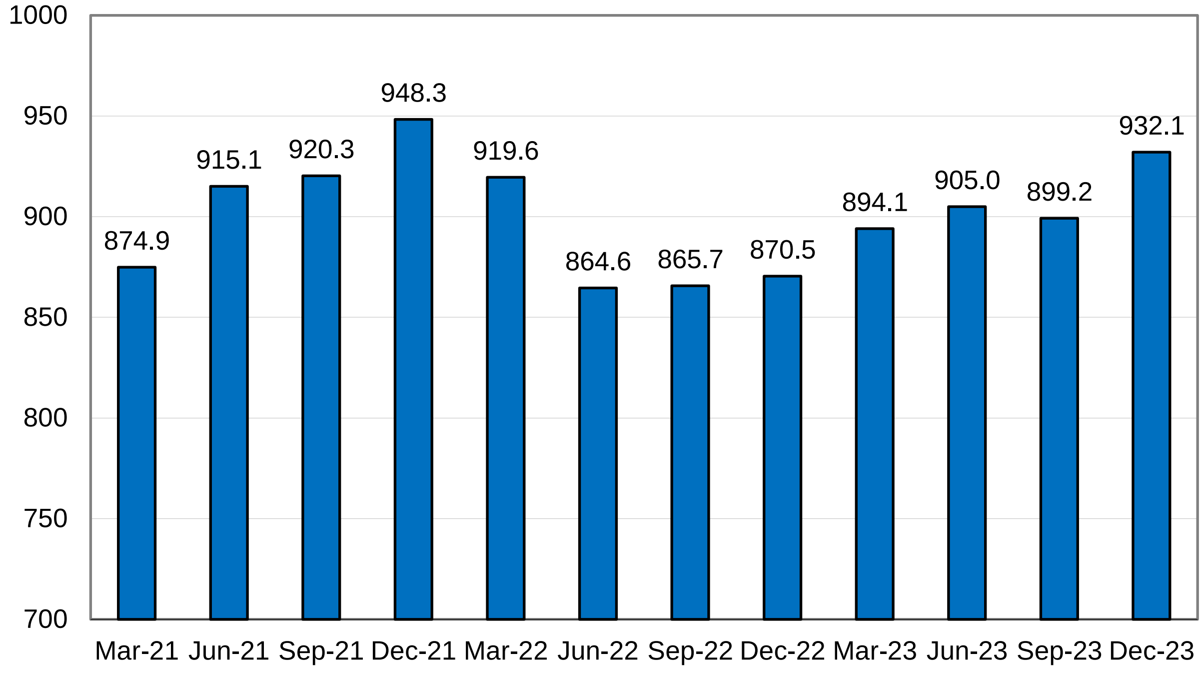
c. The Fund's assets are monitored quarterly to ensure that the long-term objective of the ISS is being delivered.

d. We measure returns against tactical and strategic benchmarks.

5. PERFORMANCE

a. The Fund asset value at 31 December 2023 was **£932.0m** compared with £899.2 at 30 September 2023; an **increase of £32.8m**. This movement is attributable to an increase in asset values £37.2m and decrease in cash including Foreign Exchange (FX) (£4.4m).

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 31/12/2023 %	**12 Months to 31/12/2023 %**	**3 Years to 31/12/2023 %**	**5 years to 31/12/2023 %**
Fund	3.90	6.37	2.24	6.39
Benchmark	4.29	10.57	5.91	7.25
*Difference in return	-0.38	-4.20	-3.66	-0.86

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

c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees). The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.

Table 2: Strategic Performance

	Quarter to 31/12/2023 %	12 Months to 31/12/2023 %	3 Years to 31/12/2023 %	5 years to 31/12/2023 %
Fund	3.90	6.37	2.24	6.39
Benchmark	9.12	2.69	-9.48	-1.96
*Difference in return	-5.22	3.68	11.73	8.35

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 December 23, the cash balance stood at £20.5m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast	ACTUALS TO	FORECAST		
	31/03/2023 £000	31/03/2024 £000	31/03/2025 £000	31/03/2026 £000
Balance b/f	16,201	20,476	25,275	28,786
Benefits paid	(24,813)	(8,351)	(35,385)	(37,756)
BACS expenses*	(6,868)	(2,821)	(10,270)	(10,886)
Lump sums by faster payment	(2,196)	(705)	(2,987)	(3,077)
Transfers in	4,643	1,152	6,085	6,389
Contributions received**	32,012	12,086	44,980	45,879
Pension strain	489	185	688	701
Interest	0	800	400	400
Sweep	1,008	2,453		
Balance c/f	20,476	25,275	28,786	30,436

b. Members last agreed the updated cash management policy at their committee meeting on the 17 September 2019. This policy has been reviewed and updated and appears elsewhere on the agenda for consideration.

c. Excess cash held above the upper current £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. Summary fund manager reviews are included within Hymans performance report at **Appendix A.**

c. All 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 **Permira** who are one of the Fund's **Private Debt Managers,** 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 £1.9m of capital draw down requests.

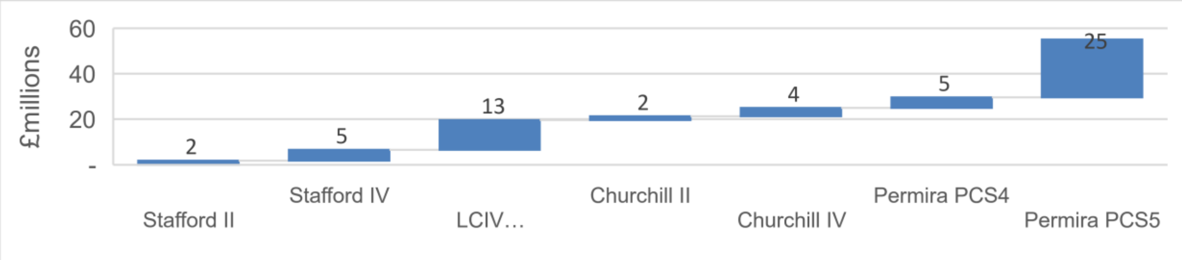
b. These Capital Calls were funded with cash received from investment income which is held with the Custodian

c. As agreed at the 25 July 23 Pensions Committee meeting, £13m was paid to JP Morgan on 2 October 23, in line with the Fund's Investment Strategy. 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 January there was £55m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 January 2024



8.2 The LCIV is the appointed asset pool manager for the Fund and the governance of 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 Shareholder General Meeting was held on the 30 January 2024. No Fund representative attended the meeting due to ill health. As usual a proxy voting form was submitted to ensure that the Fund didn't lose an opportunity to cast its votes.

b. Business Update Meetings take place monthly (currently held virtually) – meetings were held on the 23 November 2023 and 26 January 2024.

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**: All Havering investment funds are on normal monitoring.

- **Annual Performance Reviews:** In depth reviews continue to take place; The **LCIV Absolute Return Fund** review was completed on 10 January 2024. Whilst monitoring status remains 'normal', assessment against the categories *Performance* was reduced from Green to amber, due to deterioration in *performance (-1.0% over the last quarter,-10.9% over the last 12 months and -0.6% since inception)* and *Risk management* changed from green to amber, due to number of drawdowns. *Execution* changed from amber to green due to strengthened sophistication of their implementation and dealing processes. Closer monitoring means the next review will be held in May 2024. **The LCIV Renewable Fund** annual review is due in Q2 24 (April to June)

- **Fund Activity - New/Changes to Sub Fund Launches:**
  - *New:* Natural Capital/ Nature Based Solution – Stage 1 (Initiation). Training session held on 8 February 2024 with a possible Seed Investor Group (SIG) meeting to be held late February. Havering currently has no plans to invest in this fund
  - *New*: Private Debt II Fund – Stage 1 (Initiation). Second SIG meeting held on 30 January 2024.Targetting a launch date in the second half of this year. The Fund will consider this mandate when more details are available.
  - *New:* Global Equity Value – Stage 1 (Initiation). Manager selection on target for completion in Feb 24, targeting a May 24 launch. Havering has no plans to invest in this fund
  - *New:* Buy and maintain Fund (formerly known as Sterling Credit) – has been launched. First subscriptions planned for 6 December. Havering currently has no plans to invest in this fund.
  - *Change:* UK Housing Fund (Property) – 3rd manager due diligence expected Q1 24 (end of March). 4th manager due diligence expected Q2 24 (end of June). Havering currently have no plans to invest in this fund
  - *Change:* LCIV Renewable Infrastructure – 7th & 8th manager due diligence in progress, expected Q2 24. Havering already invest in this fund which will see new managers added due to demand.

d. Staffing update – New Chief Investment Officer – Aoifinn Devitt joined LCIV on 15 January 2024. She has extensive experience of working in UK LGPS, including independent advisor roles to four local authority pension funds in the UK as well as other investment committee positions. A virtual weekly "Coffee with the CIO" will be held to share news, learn and develop opportunities.

8.3 LGPS GENERAL UPDATES:

8.3.1 The Pension Regulator (TPR) – General Code of Practice

a. TPR is the regulator of workplace trust-based schemes in the UK and has regulatory oversight for public service pension schemes, as well as being responsible for setting governance and administration standards.

b. After a period of consultation that ran from 17 March 2021 to 26 May 2021 a new General Code of Practice “the Code” was laid in parliament on the 10 January 2024. This brings together and updates 10 existing codes of practice into a single new code and is expected to come into force on 27 March 2024.

c. The Code applies to all occupational defined benefit and defined contribution schemes, personal and public service pension schemes. It sets out proposed governance standards for pension schemes and TPR's expectations of how governing bodies should comply with their legal duties.

d. Code consists of 51 topic based modules, grouped into five themes:
   - The Governing Body
   - Funding and Investment
   - Administration
   - Communication and Disclosure
   - Reporting to TPR

e. Within the 51 modules that apply to the running of a pension scheme not all apply to the Local Government Pension Scheme (LGPS).

f. The Fund currently assesses compliance against the Code of Practice 14 (CoP14) (Governance and Administration of Public Service Pension Schemes) and this will be superseded by this new single code. Whilst the content remains largely the same, the move from one CoP14 to the new General Code for all schemes will require Funds to identify the required changes to their current processes, check current policies and procedures are fit for purpose, and implement changes where necessary.

g. Monitoring against compliance to Cop14 is a standing item at our Local Pension Board (LPB) meetings and selected categories are discussed at each meeting.

h. The Fund may have to seek professional advice to establish the extent to which laws apply to the Local Government Pension Scheme (LGPS).

i. Whilst the Code does include some statutory requirements i.e. having risk register and Investment Strategy Statement it is not legally binding. However, TPR will assess non-compliance with any code when considering if a statutory requirement has been met.

j. Officers have expressed an interest in Hymans General Code of Practice 'LGPS compliance checker' which will set out what is expected for each LGPS funds and provide reporting capabilities for officers to ensure Committee and LBP are aware of the existing and ongoing fund compliance levels. We are waiting demonstration and costings.

8.3.2 Training Requirements - UPDATE

a. The Fund subscribes 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 are expected to complete the LOLA training modules v1.0 (modules 1- 5) or LOLA V2.0 Training modules (1- 8) in support of meeting the Committee procedure rules.

c. The Fund transitioned over to LOLA v2.0 on the **1 October 2023.**

d. New committee members yet to complete modules under version 1.0 will now be required to undertake the LOLA v2.0 to meet the committee procedure rules.

e. New committee members will have 6 months from **1 October 2023** or date of joining to complete the LOLA v2.0 modules.

f. Officers will provide the Committee with regular progress reports allowing it to easily evidence member's development and progress.

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

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London Borough of Havering Pension Fund

Q4 2023 Investment Monitoring Report

Simon Jones – Partner

The person responsible for this advice is Simon Jones. Members of the London Borough of Havering client team who contributed to the production of this paper but are not responsible for the advice are Meera Devlia and Jennifer Aitken.

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 rose significantly with the Fund benefiting strongly from this	• Due to expectations of greater and sooner interest cuts, markets anticipated the positive impact on economic activity of decreased interest rates and the Fund's global equity mandates all returned positively over the period. • The LCIV Global Alpha Growth Paris Aligned Fund returned most strongly, due to its relative sector positioning and its sensitivity to falling rates. • IG credit spreads continued to narrow - positively impacting both the Fund's allocation to RLAM MAC and newly appointed allocation to LCIV Global Bond Fund (appointed in November 2023) .
Long term real gilt yields fell sharply, pushing up expected liability values.	• Real gilt yields fell sharply over the quarter meaning the Fund's RLAM IL gilt mandate increased in value. The long duration position was a positive contributor to return, • However, the value of the Fund's liabilities are also expected to have risen in value due to the decrease in real gilt yields, as proxied by the return of the strategic benchmark.
Overall fund performance was positive, but the Fund underperformed the tactical benchmark over the quarter.	• The Fund's performance of 3.9% was slightly behind the tactical benchmark of 4.3% • Fund performance remains ahead of the strategic benchmark (the proxy assumed growth of liabilities) over longer time periods. • This performance of the assets relative to the strategic benchmark over the quarter indicates the funding level of the Fund has slightly fallen, this is likely due to the Fund's liabilities increasing by more so than the Fund's assets over a quarter when real gilt yields decreased sharply.
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. • GBP depreciated against the USD and EUR in the previous quarter but this was reversed in Q4 2023 when GBP appreciated against the USD and also marginally against the EUR.
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. Consequently, short-term performance has lagged given high levels of inflation. • Property remains weak as capital value continues to declines in the office, retail and industrial sectors.

Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**3.9**	**6.4**	**2.2**	**6.4**
Tactical Benchmark	4.3	10.6	5.9	7.3
Strategic Benchmark	9.1	2.7	-9.5	-2.0

Fund Asset Valuation

	Fund value (£m)
Q3 2023	**899.2**
Q4 2023	**932.1**

The Fund's assets returned 3.9% over the quarter, slightly underperforming its 4.3% benchmark return.

All equity mandates delivered positive returns – driven by the shift in interest rate expectations, markets anticipated the positive impact of on economic activity of decreased interest rates and global equities returned positively.

Additionally, with lower real gilt yields supporting 'growth stock' valuations, the LCIV GAGPA delivered stronger returns than the Fund's other equity mandates.

The LCIV Absolute Return Fund also returned positively in absolute terms, benefitting from an increased underlying allocation to equities over the quarter. Additionally, the increase in duration of gilts held within the mandate contributed positively to performance as real gilt yields fell sharply over the period.

The Fund's real assets returned negatively in absolute and relative terms. This was as capital values continued to decline in wider property markets, offsetting income returns and as a result. UBS and CBRE's allocations to the industrials sector, which saw capital value losses for the first time in 7 months, also resulted in their benchmark underperformances.

Also driven by reduced interest rate expectations, government bond prices rallied, real gilt yields fell sharply and IG credit spreads narrowed over the quarter. As a result, the RLAM MAC and Index Linked Gilts mandates delivered positive returns.

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	51.7%												
LGIM Global Equity	4.1%	6.3	6.3	**0.0**	11.0	11.1	**-0.1**	9.4	9.5	**-0.1**	11.6	11.6	**-0.0**
LGIM Emerging Markets	4.0%	2.1	2.1	**0.0**	1.5	1.6	**-0.1**	1.8	2.0	**-0.2**	3.9	4.0	**-0.2**
LGIM Future World Fund	10.9%	5.5	5.5	**0.0**	10.7	10.9	**-0.1**	-	-	**-**	3.7	3.7	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	15.5%	8.1	6.7	**1.3**	4.5	11.5	**-6.3**	-1.0	9.9	**-10.0**	11.9	11.8	**0.0**
LCIV PEPPA Passive Equity	5.4%	7.9	7.9	**0.1**	15.5	13.2	**2.0**	-	-	**-**	3.5	2.3	**1.2**
LCIV Absolute Return Fund	11.8%	2.2	2.3	**-0.1**	-3.7	8.1	**-10.9**	4.2	5.6	**-1.4**	4.5	5.1	**-0.6**
LCIV Diversified Growth Fund	0.0%	-0.3	0.7	**-1.0**	-0.6	7.7	**-7.7**	-1.5	5.2	**-6.4**	2.0	4.4	**-2.3**
Income	**41.2%**												
LCIV Global Bond Fund	5.1%	-	-	**-**	-	-	**-**	-	-	**-**	6.0	8.0	**-1.9**
UBS Property	5.3%	-2.7	-1.2	**-1.6**	-12.5	-14.3	**2.1**	4.1	3.2	**0.9**	4.9	5.5	**-0.5**
CBRE	3.5%	-6.1	1.3	**-7.3**	-11.6	11.6	**-20.7**	7.6	11.6	**-3.5**	5.3	9.2	**-3.6**
JP Morgan	5.3%	-3.7	1.3	**-5.0**	3.4	11.6	**-7.3**	9.6	11.6	**-1.8**	7.9	9.2	**-1.2**
Stafford Capital Global Infrastructure SISF II	4.7%	2.5	1.3	**1.1**	1.0	11.6	**-9.5**	7.7	11.6	**-3.5**	8.0	9.1	**-1.0**
Stafford Capital Global Infrastructure SISF IV		3.7	1.3	**2.3**	7.5	11.6	**-3.6**	-	-	**-**	16.9	11.1	**5.2**
LCIV Renewable Energy Infrastructure Fund	1.4%	1.7	1.3	**0.4**	31.3	11.6	**17.7**	-	-	**-**	12.5	12.1	**0.4**
RLAM Multi-Asset Credit	6.9%	4.8	4.6	**0.2**	8.8	10.7	**-1.7**	1.0	1.6	**-0.6**	6.8	6.5	**0.3**
Churchill Senior Loan Fund II	2.0%	-1.5	2.3	**-3.7**	-0.2	8.1	**-7.7**	9.5	5.6	**3.6**	6.1	5.5	**0.5**
Churchill Senior Loan Fund IV	1.8%	-1.1	2.3	**-3.3**	-1.7	8.1	**-9.1**	-	-	**-**	9.6	7.1	**2.4**
Permira IV	5.2%	2.4	2.3	**0.1**	8.0	8.1	**-0.1**	5.4	5.6	**-0.2**	4.9	5.7	**-0.7**
Permira V		2.5	2.3	**0.2**	6.9	8.1	**-1.2**	-	-	**-**	6.3	7.9	**-1.5**
Protection	**7.1%**												
RLAM Index Linked Gilts	2.7%	14.5	10.5	**3.6**	-24.9	-16.2	**-10.3**	-18.9	-16.0	**-3.5**	-10.4	-8.6	**-1.9**
Total		3.9	4.3	**-0.4**	6.4	10.6	**-3.8**	2.2	5.9	**-3.5**	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*

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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.

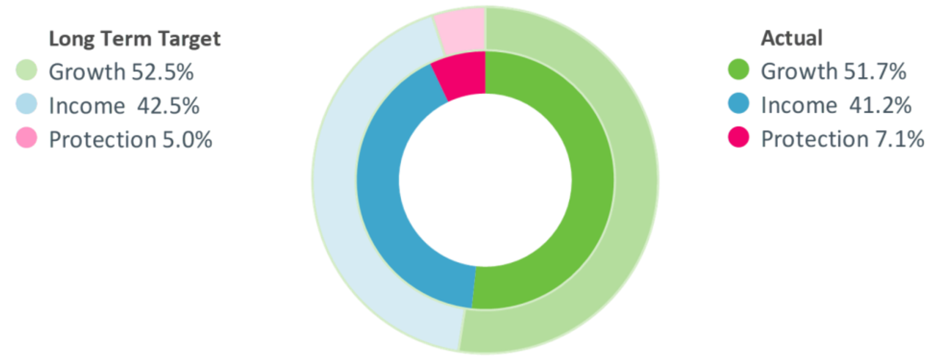
The Fund's overall allocation to equities increased over the quarter to c.41.5% (40.8% as at 31 December 2023) as global equities rallied.

The allocation to corporate bonds increased to 6.1% (2.9% as at 30 September 2023) – this was due to the full redemption of the LCIV Diversified Growth Fund in November 2023 being used to fund the Fund's 5.0% strategic medium-term allocation to IG corporate bonds via the LCIV Global Bond Fund.

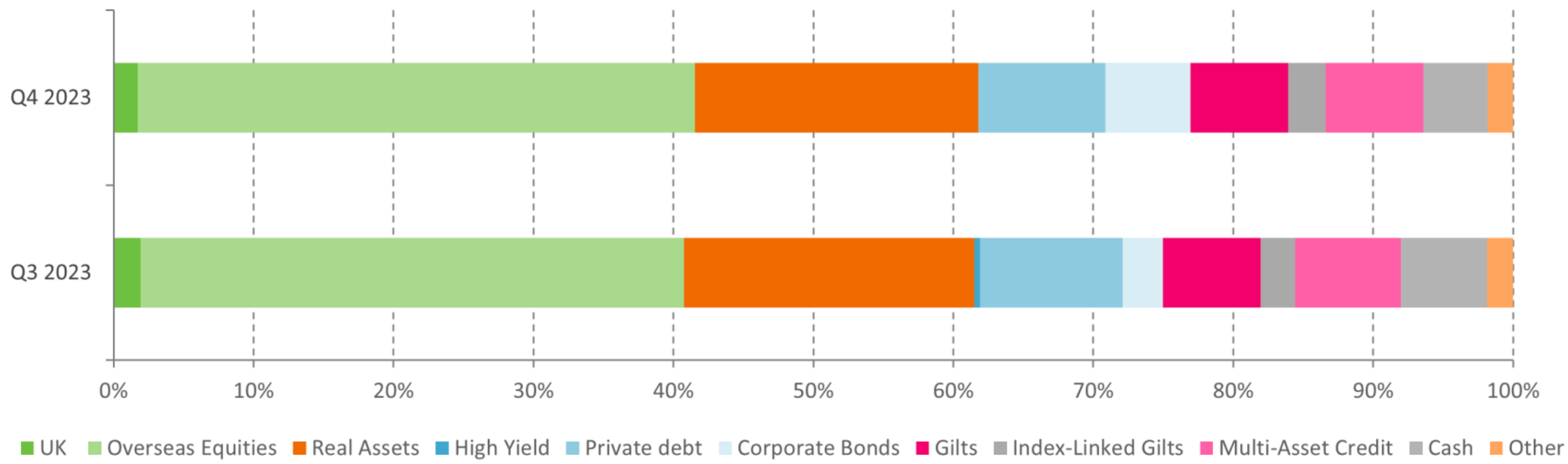
The allocation to gilts has remained unchanged from last quarter at c.7.0%, despite the full disinvestment of the LCIV DGF during Q4 2023, the LCIV Absolute Return offset this as the manager increased its allocation from c.43.0% to 54.0% and the LCIV Global Bond Fund's allocation to government bonds was 11.0%

The allocations to gilts, multi-asset credit, private debt, real assets and high yield assets remained relatively unchanged over the quarter.

Asset Allocation



Asset Class Exposures



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The total value of the Fund's assets increased by £32.8m over the quarter to £932.1m as at 31 December 2023.

The increase in valuation can be attributed to the Fund's allocation to equities and the LCIV GAGPA Fund, specifically as equities rose over the last quarter of 2023.

This was followed by the Fund's allocation to index-linked gilts which increased in value as real gilt yields fell over the period.

As global investment grade spreads continued to tighten by 0.2% pa to 1.2% p.a. over the quarter, the RLAM MAC Fund also rose in value.

Following capital value declines in the office, retail and industrials sectors, the Fund's UBS and CBRE property mandates slightly fell in value.

The Fund's lagged JP Morgan valuation 'increased' over the quarter as the Infrastructure Fund returned well over the previous quarter and Sterling depreciated against the US Dollar over the same period.

In November 2023, the Fund fully redeemed its holdings in the LCIV Diversified Growth Fund and used the disinvestment to fund the Fund's 'interim' investment strategy via a 5.0% allocation to IG corporate bonds achieved through the LCIV Global Bond Fund.

The Fund paid the following capital calls during the quarter:

- c.£1.96m to the Stafford IV Fund.
- c.542k to the LCIV Renewables Fund
- c.542k to the Churchill IV Fund

Asset Allocation

Manager		Valuation (£m) Q3 2023	Valuation (£m) Q4 2023	Actual Proportion	Benchmark	Relative
Growth		**507.4**	**481.9**	**51.7%**	**52.5%**	**-0.8%**
LGIM Global Equity	LCIV aligned	36.1	38.4	4.1%	5.0%	-0.9%
LGIM Emerging Markets	LCIV aligned	36.4	37.2	4.0%	5.0%	-1.0%
LGIM Future World Fund	LCIV aligned	96.3	101.6	10.9%	10.0%	0.9%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	133.9	144.7	15.5%	15.0%	0.5%
LCIV PEPPA Passive Equity	LCIV	46.5	50.2	5.4%	5.0%	0.4%
LCIV Absolute Return Fund	LCIV	107.5	109.8	11.8%	12.5%	-0.7%
LCIV Diversified Growth Fund	LCIV	50.7	0.0	0.0%	0.0%	0.0%
Income		**324.4**	**384.4**	**41.2%**	**42.5%**	**-1.3%**
LCIV Global Bond Fund	LCIV	0.0	47.7	5.1%	5.0%	0.1%
UBS Property	Retained	51.2	49.6	5.3%	6.0%	-0.7%
CBRE	Retained	34.3	32.3	3.5%	4.0%	-0.5%
JP Morgan	Retained	38.9	49.3	5.3%	5.5%	-0.2%
Stafford Capital Global Infrastructure SISF II	Retained	19.1	19.8	4.7%	3.5%	1.2%
Stafford Capital Global Infrastructure SISF IV	Retained	21.2	23.6			
LCIV Renewable Energy Infrastructure Fund	LCIV	12.6	13.3	1.4%	3.5%	-2.1%
RLAM Multi-Asset Credit	Retained	61.8	64.8	6.9%	7.5%	-0.6%
Churchill Senior Loan Fund II	Retained	21.4	18.8	3.8%	3.0%	0.8%
Churchill Senior Loan Fund IV	Retained	17.0	16.9			
Permira IV	Retained	30.6	30.4	5.2%	4.5%	0.7%
Permira V	Retained	16.3	17.9			
Protection		**67.4**	**65.8**	**7.1%**	**5.0%**	**2.1%**
RLAM Index Linked Gilts	Retained	21.8	24.9	2.7%	5.0%	-2.3%
Cash at Bank	Retained	42.7	35.6	3.8%	0.0%	3.8%
Currency Hedging P/L	Retained	2.9	5.3	0.6%	0.0%	0.6%
Total Fund		**899.2**	**932.1**	**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

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 4.8% to date when 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.

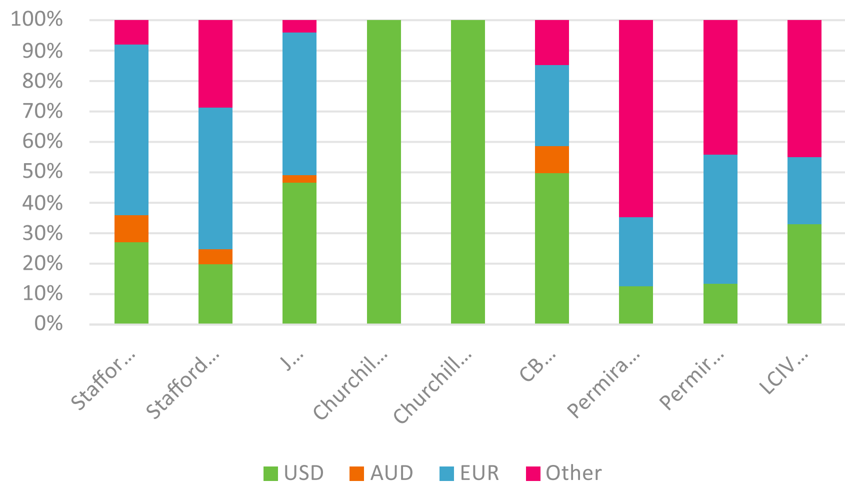
Q4 2023 Performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	2.5	1.3	3.7	1.3	2.4
Stafford IV	3.7	1.0	4.7	1.3	3.3
JPM	-3.7	2.1	-1.6	1.3	-2.9
Churchill II	-1.5	4.2	2.7	2.3	0.5
Churchill IV	-1.1	4.2	3.1	2.3	0.8
CBRE	-6.1	2.1	-3.9	1.3	-5.2
Permira IV	2.4	0.9	3.2	2.3	1.0
Permira V	2.5	1.3	3.8	2.3	1.5
LCIV RIF	1.7	1.4	3.1	1.3	1.7

Performance Since Mandate Inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	8.6	-0.5	8.1	9.1	-0.9
Stafford IV	18.5	-1.6	17.0	11.1	5.3
JPM	8.9	-0.8	8.1	9.2	-1.0
Churchill II	7.3	-2.0	5.3	5.5	-0.2
Churchill IV	9.6	-4.4	5.3	7.1	-1.7
CBRE	5.3	-0.7	4.6	9.2	-4.2
Permira IV	4.9	0.1	5.0	5.7	-0.6
Permira V	6.3	-0.0	6.3	7.9	-1.5
LCIV RIF	12.5	-0.7	11.9	12.1	-0.2

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 December 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 31 December 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 31 December 2023.

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	-	£20.8m	-	-
Capital Called During Quarter (Payments Less Returned Capital)	-	£2.0m	£0.5m	0.5m	-	-
Capital Drawn To Date	£26.3m	£17.4m	£10.5m	£17.8m	£31.2m	£16.2m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£14.3m	£1.3m	-	£2.5m	£6.8m	£2.1m
NAV at Quarter End	£19.8m	£23.6m	£13.3m	£16.9m	£30.4m	£17.9m
Net IRR Since Inception *	8.5%	16.2%	7-10% p.a. (Target)	8.9%**	7.9%	15.5%
Net Cash Yield Since Inception*	7.0% p.a.	4.4%	3-5% p.a. (Target)	-	-	-
Number of Holdings*	22 funds	16 funds	6 investments	138 investments	86 investments	36 investments

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

Source: Investment Managers

US GDP forecasts for 2023 and 2024 were again revised higher in Q4, given unexpectedly strong growth driven by consumer spending. Despite this, global growth is expected to ease to its slowest pace since the Global Financial Crisis (excluding 2020). However, it isn't expected to collapse.

Year-on-year CPI inflation in the major advanced economies fell more than expected over Q4, easing to 3.9%, 3.1%, and 2.4% in the UK, US, and eurozone in November, respectively. The main drivers were a decline in energy prices and a moderation in food prices. However, core inflation, which excludes both, also fell more than expected. The respective core measures are 5.1%, 4.0%, and 3.6% in the UK, US and eurozone.

As expected, the major central banks left interest rates unchanged in Q4. Larger-than-expected falls in inflation prompted markets to price in earlier and larger rate cuts in 2024, reinforced by the Federal Reserve's mid-December revised policy projections. Despite the ECB and Bank of England reiterating a more cautious approach, markets expect a similar scale and timing of rate cuts in Europe and the UK.

Rate cut expectations and lower real yields contributed to a 3.1% fall in the trade-weighted US dollar. Equivalent sterling and euro measures rose 1.3% and 1.0%, respectively, while the equivalent yen measure strengthened 2.6% as expected interest-rate differentials with major economies narrowed.

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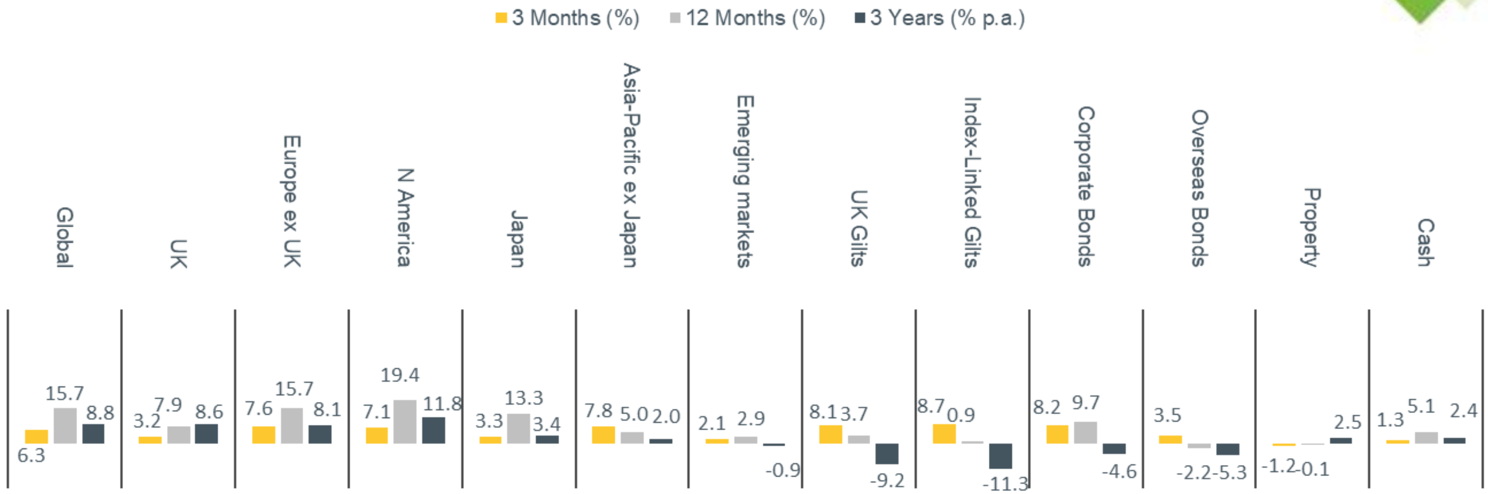
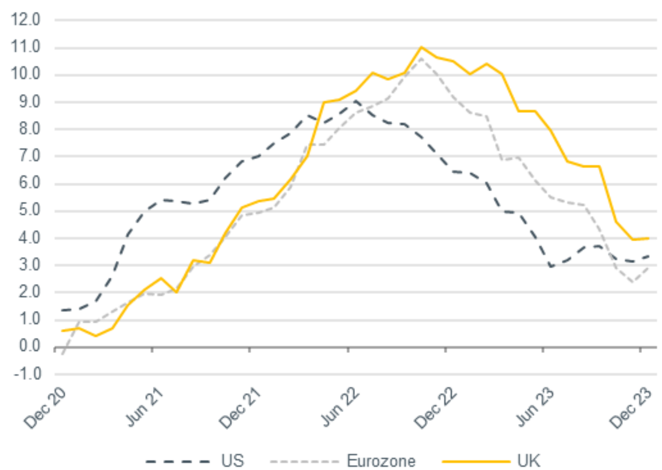
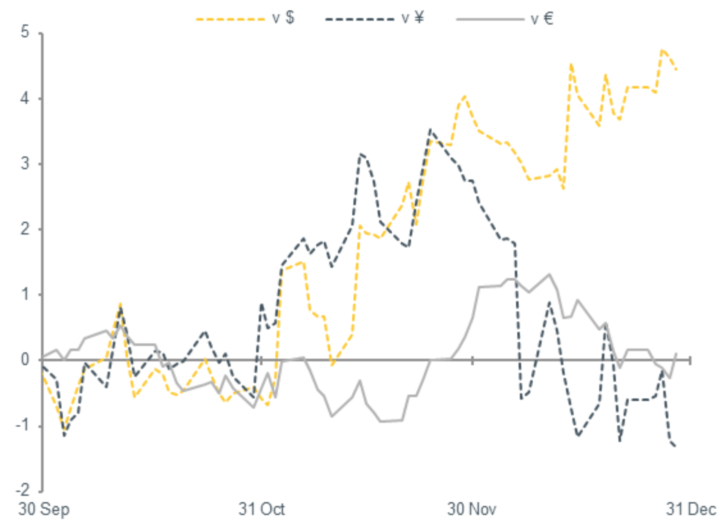
Historic returns for world markets [1]



Annual CPI Inflation (% year on year)



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

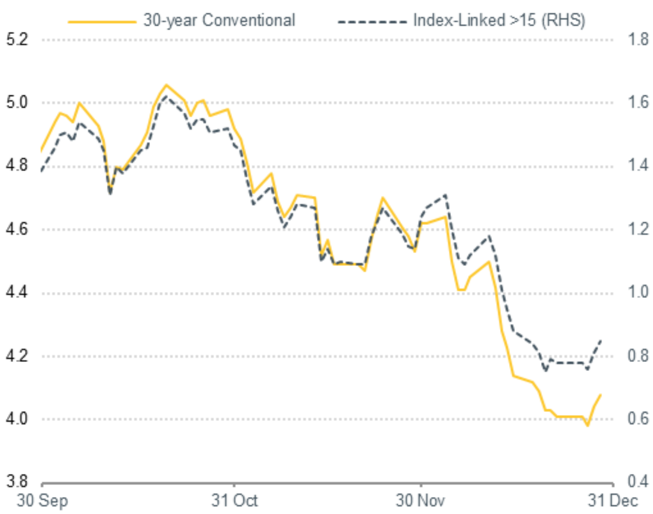
Amid expectations of larger – and sooner – rate cuts in 2024, bond prices rose and yields fell sharply. US 10-year treasury yields declined 0.7% pa over Q4 to 3.9% pa, while equivalent UK gilt yields fell 0.9% pa, to 3.5% pa. German bund yields fell 0.8% pa, to 2.0% pa. Japanese government bond yields fell less, by 0.2% pa to 0.6% pa, given potential divergence in monetary policy between Japan and the other major advanced economies.

Global investment-grade credit spreads declined 0.2% pa to 1.2% pa over Q4, while global speculative credit spreads declined by 0.6% pa to 3.8% pa. Despite a larger decline in speculative-grade credit spreads, the longer-duration investment grade market outperformed.

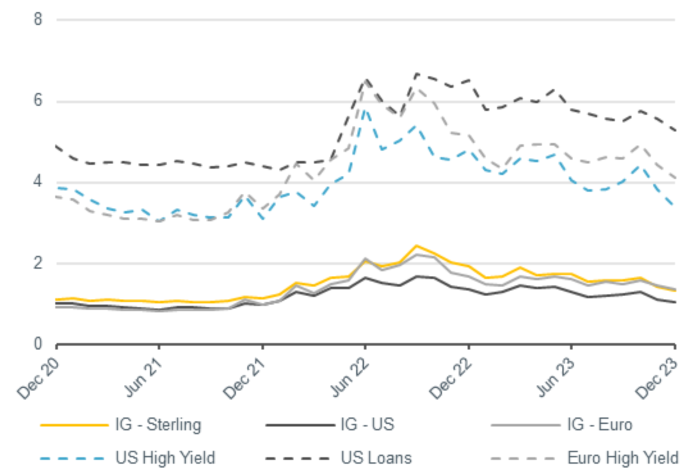
The FTSE All World Total Return Index returned 9.3% over Q4 in local-currency terms, as markets anticipated the positive impact on economic activity of rate cuts. Meanwhile, lower yields lent support to valuations. North American equity markets outperformed, given their exposure to the technology sector. All other regions underperformed, while still producing positive returns. Japan and the UK notably underperformed, given yen and sterling strength, which weighed on the high proportion of overseas earnings in both markets. UK stocks were also impacted by above-average exposure to the energy sector.

The MSCI UK Monthly Property Index fell 1.2% as income was offset by capital value declines. Values fell most sharply in the office and retail sectors, which are down 16.6% and 5.6%, respectively, over 12 months. Industrial values also declined 0.7% in Q4 following seven months of capital growth, resulting in flat growth over 12 months.

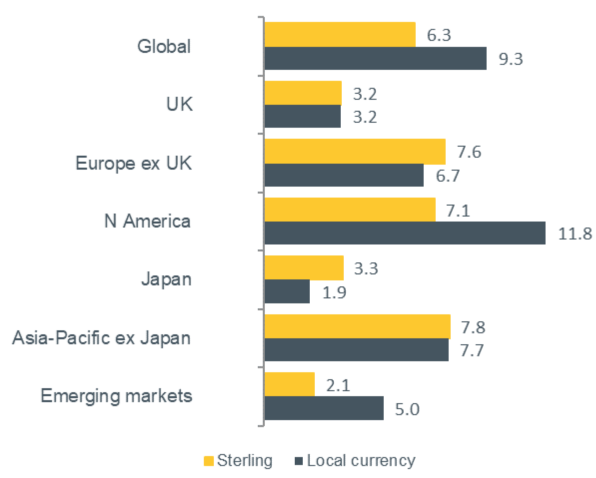
Gilt yields chart (% p.a.)



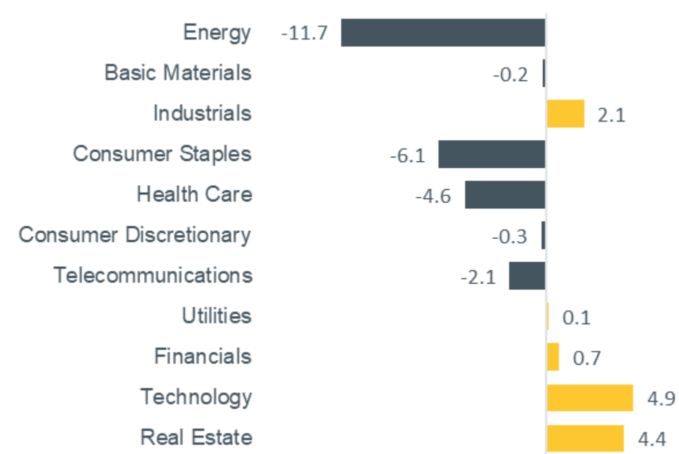
Investment and speculative grade credit spreads (% p.a.)



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.

HYMANS ROBERTSON

Capital Markets Outlook

Asset Class	Market Summary
Equities	Following flat, full-year earnings growth in 2023, analysts' earnings forecasts for global equities for 2024 and 2025 are healthier, at 10% and 12%, respectively. However, there remain risks to the earnings outlook as growth and demand slows: the expectation that global profit margins rebound towards their post-pandemic high may be challenged by higher effective interest rates and employment costs, and waning corporate pricing power. Market performance in the final couple of months of 2023 has driven cyclically adjusted valuations above long-term averages – something that has historically augured periods of more subdued subsequent returns.
Investment Grade Credit	Effective interest rates continue to move higher as debt matures and is refinanced, which will continue to place downwards pressure on debt affordability metrics. However, corporate balance sheets are in a healthy position and weaker inflation, easing financial conditions, and a slightly better global growth outlook, should help limit the potential deterioration in fundamentals. Spread tightening towards the end of 2023 means global credit spreads are now below long-term median levels.
Emerging Market Debt	Weak global inflation momentum and positive real rates in several emerging market (EM) economies, providing scope for a broadening of monetary policy easing cycles, is supportive for local currency duration. Expectations of rate cuts from the US Federal Reserve, which should put downwards pressure on US treasury yields and the dollar, makes for a more favourable technical backdrop.
Liquid Sub-Investment Grade Debt	Speculative-grade default rates have risen slightly above long-term averages, but forecasters think they have peaked and will fall below fall below averages in 2024, given healthy corporate balance sheets, limited near-term refinancing requirements, and anticipated interest rate cuts in 2024. The improved outlook is more than reflected in credit spreads, which have fallen well below long-term median levels
Private Lending	Leverage is higher and interest coverage is lower in the traded loan market and current high interest rates may make it harder for lower-rated loan issuers to refinance debt. However, interest rate cuts would provide relief and some issuers may be able to refinance with private debt funds. Loan spreads, broadly in-line with long-term medians, look far less compressed than speculative-grade bond spreads.
Core UK Property	As inflation has fallen, real rental growth has risen, improving the fundamental outlook for UK commercial property, but further declines in the MSCI UK Monthly Property Capital Value Index highlight the structural challenges facing the office and retail sectors. However, net initial yields, based on current rental income, have risen to reasonable levels. Gross reversionary yields, based on estimated rental value, have risen much more, perhaps highlighting the increasing asset management opportunities available in the market.
Conventional Gilts	Declining inflation, alongside lacklustre real growth forecasts, improves the fundamental support for nominal gilts. Despite the recent rally, longer-term forward nominal yields look very elevated versus our long-term fair value. Longer-term forward real yields also still offer some value. BoE's gilt sales and increased new supply provide for a fragile technical backdrop, particularly for nominal gilts. However, an easing of inflation concerns, and weak growth should improve sentiment towards the asset class in 2024.
Index-Linked Gilts	Subsiding fears about long-term inflation to a certain extent reduce the fundamental support for index-linked gilts, but real yields remain at reasonable levels at a time when real growth is expected to be barely positive in the near-term. Furthermore, the technical picture is arguably better for index-linked gilts: they were not included in the Bank of England's asset purchase program, and so are not being sold as part of Quantitative Tightening (QT), and benefit from a captive institutional buyer base in the UK.

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.

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Geometric vs. Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

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

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

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **19 March 2024**

Subject Heading:	**CASH MANAGEMENT POLICY REVIEW**
CLT Lead:	Kathy Freeman
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@havering.gov.uk***
Policy context:	To maintain a cash flow policy for internally managed pension fund cash so the Fund can meet its ongoing benefit payments
Financial summary:	To establish and manage minimum and maximum working cash balances

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

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

SUMMARY

The attached report at Appendix A presents a proposed Cashflow Policy, establishing an acceptable working cash balance to be held by the Fund.

RECOMMENDATIONS

The Committee:

1. Consider and agree the updated Cashflow Policy **(Appendix A).**

2. Agree that this policy be reviewed every three years, recognising the additional information provided by the valuation process, including the impact on contribution rates.

3. Agree that in the event that the Fund's cash outflow profile was to materially change, for example if the Fund's benefit payments increased by more than 20%, then this policy be reviewed.

REPORT DETAIL

1. Background

1. The Fund should maintain ready access to an appropriate level of cash. The aim of the cashflow policy is to ensure that the level of cash held is proportionate to the Fund's needs.

2. Cash balances are deemed to those managed internally, held by the Authority on behalf of the Fund and combined with the cash held on the funds behalf with the Custodian (Northern Trust).

3. Cash flow management is an essential part of the administration of the pension scheme as the Fund's has an objective to meet its ongoing benefit payments and ongoing commitments to meet calls for cash in relation to private markets investments and currency management settlements.

4. The Fund receives income from employee and employer contributions, investment income and this needs to be managed against payments to cover benefits and expenses.

5. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.

6. These benefit payments can be split between predictable payments, such as monthly pension payroll or unpredictable payments such as transfer value payments, retirement lump sums or death benefits.

7. Whilst the Fund is aware of its commitments to fund capital calls, the timing of these and currency settlement amounts make the management of cash for these less predictable.

8. The Cash Management Policy was last agreed by the Pensions Committee on the 17 September 2019.

9. This policy has now been reviewed by the Fund's Investment Advisor (Hymans) using cash flow data provided by the Fund, with the detailed analysis set out in **Appendix A**.

10. The proposed cashflow policy is set out in the attached **Appendix A** (Appendix 1) and a summary of the proposals are set out below:

    - A target working cash balance of £8m (previously £6m) to be set, with an operational range of £5m to £13m (previous range between £3m and £8m).

    - This cash balance of £8m provides a buffer to cover one month of predictable outgoings (£3.5m) and three months of unpredictable outgoings (£1.5m) plus, an allowance for currency settlements (£3m).

    - The cash balance will be replenished by monthly contributions and by income received from the UK property and private market investment arrangements.

    - The working cash balance will be reviewed on a monthly basis immediately following receipt of contributions, and permitted to vary between £5m and £13m. In the event that cash levels fall out of these limits then officers should take the following actions:

        - If cash falls below the lower limit of £5m, assets will be disinvested from the most overweight liquid allocation to increase the working cash balance back to £8m.

        - In the event that cash levels rise above the upper limit of £13m, cash will be invested in the most underweight liquid allocation to reduce the working cash balance back to £13m. Officers may consult the Fund's Investment adviser for the most appropriate investment for the excess cash.

    - The cash balance may be retained above the upper limit at the discretion of the Section 151 officer.

    - Where the Fund has undrawn capital commitments amounting to £60m and £24.9m of those are expected to be called over the next 12 months, the Fund may retain additional cash to meet such commitments. These amounts will be considered as being additional to the working cash balance set out above.

IMPLICATIONS AND RISKS

Financial implications and risks:

Developing and maintaining a cash flow management policy will offer some degree of certainty that the Fund can meet its ongoing payments.

It is therefore desirable that;

- The cash balance maintained is not so large as to reduce the potential for future investment returns

- The cash balance maintained is not so small so as to create the risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice

- Assets are realised in the most efficient manner possible.

The responsibility for rebalancing actions is to be officers – this should be in line with the delegation duties as set out in the Councils constitution.

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

BACKGROUND PAPERS

None

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Annual Cashflow Policy Review

Addressee and purpose

This paper is addressed to the Pensions Committee ("the Committee") of the London Borough of Havering Pension Fund ("the Fund"). It reviews the Fund's current cashflow position and sets out an update to the Fund's cashflow policy.

This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Executive Summary

- The aim of the cashflow policy is to ensure that the level of cash held is proportionate to the Fund's needs. These needs reflect the Fund's ongoing operational cash requirements, balancing contribution, and investment income with benefit and expense payments, alongside the investment requirements of the Fund.
- Operational cash requirements are largely predictable in nature. Over the course of 2024, it is expected that cash outflows and inflows will be broadly matched each quarter, with a small surplus (£0.3m) emerging each quarter. Unpredictable cashflows arise from transfer payments, deaths, and early retirements although experience suggests that these are likely to remain relatively modest.
- Additional cashflow uncertainty arises from the currency hedging programme, with currency contracts being settled monthly. The maximum monthly cash settlement over that last two years has been c.£2.7m, providing an indication of the potential call on cash. The Fund does receive some notice of the cash settlement amounts, allowing for assets to be realised as necessary.
- The current cashflow policy has a target cash balance of £6m, with amounts being permitted to vary between £3m and £8m before corrective action is taken to either invest or redeem funds. We recommend these amounts are updated to £7.5m, with an operational range of £4m to £12.5m.
- This recommendation follows the methodology previously followed: the proposed cash buffer comprises one month of predictable cashflows (£3.5m) and two months of unpredictable cashflows (£2m), plus allowance for currency settlements (£3m). The proposed change in cash buffer also reflects the increase in the average size of the Fund since the current arrangements were introduced.
- Consideration should also be given to the current capital commitments of the Fund, with approximately £60m of undrawn commitments, and approximately £25m due to be drawn over the year. This will be somewhat, but not wholly offset by capital receipts from maturing funds. We propose the policy recognises that cash may additionally be retained to meet such capital calls.
- To the extent that the current cash balance exceeds the recommended operational threshold, even when considering potential capital drawdowns, we propose working with Officers to establish the excess cash balance that can then be invested within the current strategy.
- We have proposed updated policy wording for adoption by the Committee as Appendix 1 to this paper and propose that the policy be reviewed at least every three years or in the event that predictable cashflows increase by 20% from current levels.

Introduction

Cashflow management is an integral element in the administration of any pension fund. The Fund's overriding objective is to meet its ongoing benefit obligations to members, as they fall due – this may include predictable payments, such as the monthly pension payroll, or more unpredictable payments, such as transfer value payments, retirement lump sums, death benefits and expenses. In addition, known capital commitments must also be considered. The funding of several commitments to the Fund's closed-ended mandates (being those managed by Stafford Capital, LCIV Renewable Infrastructure Fund only, Churchill and Permira) must also be factored into these considerations.

To be able to meet the Fund's cashflow requirements, the Fund should maintain ready access to an appropriate level of cash. Cash may be obtained from payments into the Fund in the form of contributions, income received from the Fund's assets, the sale of the Fund's assets and marginally from interest earned on cash balances held within the Fund's Bank Account. In developing a cashflow management policy, it is desirable that:

- The cash balance maintained is not so large that it reduces the potential for future investment returns.
- The cash balance maintained is not so small that it creates a risk that the cash balance will be easily exhausted and thus disinvestments will be required frequently or at short notice.
- Assets are realised in the most cost-efficient manner possible.

Working Cash Balance

In establishing an acceptable working cash balance, we aim to determine a sum that is sufficient to cover expected operational cash outflows, whilst also providing a buffer to meet any unpredictable payments together with any deterioration in cash inflow.

It is also necessary to consider the timing of cashflow. During any month or quarter, if benefits are paid before contributions are received, or capital calls received before capital distributions, then the cash balance will see a temporary fall until replenished.

The Fund currently holds cash in both a bank account and a Northern Trust cash account. In 2019, the Committee set a working cash balance target of £6m – to ensure that the Fund had access to cash, with sufficient leeway to meet all cash outflows without facing a forced disinvestment from elsewhere in its investment strategy.

As at 31 December 2023, the Fund's total cash balance was c.£35.6m; inclusive of the Bank Account and the Northern Trust cash account.

Operational cashflows

When considering the Fund's cashflows, we have also looked at these from the perspective of which are likely to be predictable over time and those which are subject to greater uncertainty.

- **Predictable Cashflows**: The Fund's predictable cash inflows arise from contributions and investment income from those assets where the Fund receives an ongoing income distribution. Monthly pension payments are the primary predictable outflows.
- **Unpredictable cashflows**: The Fund's unpredictable cash inflows are likely to be transfer values into the Fund and, less materially, the interest earned on the Fund's cash balance at the bank. Unpredictable cash outflows are likely to be transfer values out the Fund, any lump sum death benefit payments and payments relating to .early retirements,

Looking at the last two full years, we can observe the following cashflows in relation to benefit payments and contribution income.

Mandate	21/22	22/23
Contributions	49.1	53.1
Investment Income	3.9	2.5
Pensions	(32.9)	(34.4)
Lump Sums	(3.9)	(6.9)
Death benefits	(0.7)	(1.2)
Transfers out	(4.6)	(3.8)
Expenses	(5.5)	(5.9)
Surplus	**5.4**	**3.4**

Source: Report & Accounts

Unpredictable cashflows arising from transfers and death benefits have been relatively low (c.£5m per annum) or around £0.4m per month. Experience therefore suggests that there is limited need to make significant allowance for unpredictable benefit cashflows.

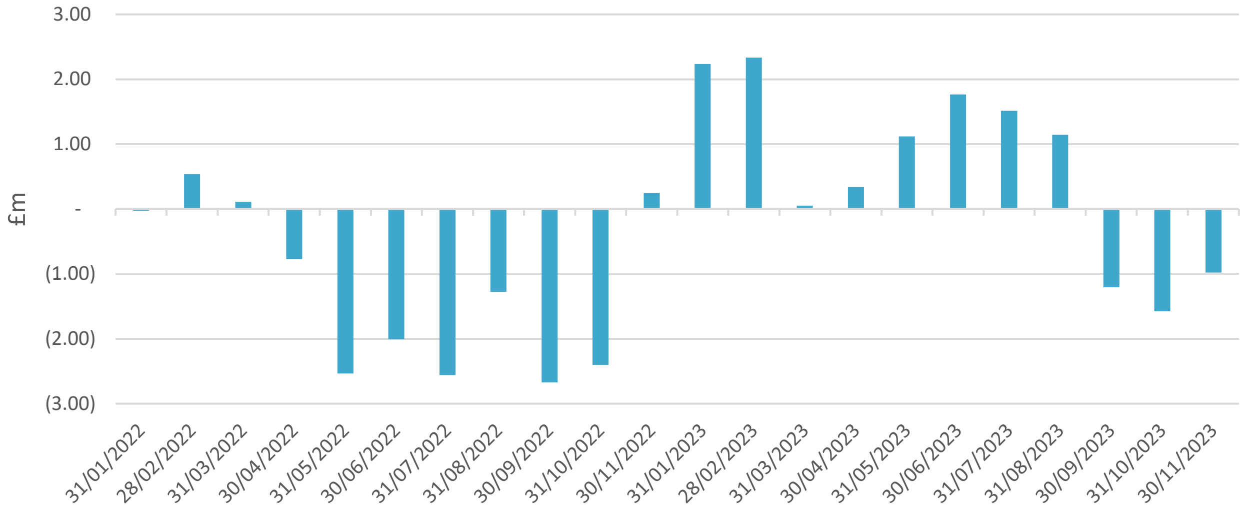
Taking account of both experience and projected cashflows, we propose allowing for £3.5m/month of predictable cashflows and £0.5m/month of unpredictable cashflows within the cashflow management policy. Following the current principle of allowing for two months of unpredictable cashflows, this suggests a cash amount of £4.5m be used as a buffer.

Currency management

In addition to its normal day-to-day cashflow requirements, the Fund has a currency management solution which requires the Fund to settle losses on the underlying forward contracts (e.g. due to a fall in Sterling relative to overseas currencies) monthly. Conversely, the Fund will benefit from gains and thus positive cashflow when Sterling rises relative to overseas currencies.

The Fund needs cash to settle these currency contracts but may also receive cash in settlement of currency contracts. These amounts are by their very nature unpredictable but represent an element of the operational cashflow to be capture by the Fund's policy. To illustrate the variability in cash payments, the following chart illustrates the realised gain/loss settlement amounts from the currency hedge over the two years to December 2023.

Chart 1: Monthly cash settlement amounts from (positive)/to (negative) the currency hedge.



Source: Russell Investments

Based on experience over the last two years, the largest single monthly payment was c.£2.7m with payments out of the Fund being required around 50% of the time. However, over a seven-month period, the Fund was required cash of c.£14.2m to settle cumulative currency contracts. This was then followed by a nine-month period where the Fund received cash settlements of c.£10.8m.

Currency management therefore contributes significantly to uncertainty within the Fund's monthly cashflow requirements and emphasises the need for a reasonable cash buffer. Given currency markets may demonstrate trending, it is reasonable to allow for more than one month of downside variability in the development of the cash management policy. We suggest that the cash buffer to allow for currency variability consider one month of potential payments, recognising the largest historic settlement amount of c.£3m. Given Russell provide notice of settlement amounts, this provides additional flexibility to meet any additional payments.

Variation of cash amount

Based on the proposals set out above, the target cash balance should be increased to £7.5m. This increase is also reflective of the overall increase in the size of the Fund over time.

Whilst the actual cash balance will vary from month to month in line with experience, it is appropriate to establish thresholds which limit the overall maximum and minimum levels of cash that may be held within the Fund. We propose the following limits:

- A lower limit of £4m, this being slightly greater than the amount needed to pay one month of expected pension payments.
- An update limit of £12.5m, this triggering an investment of £5m (c.0.5% of total Fund assets) into the broader investment strategy.

If the cash amount falls outside these ranges, Officers would be expected to take corrective action as set out in the policy below.

Redemption from physical assets

Cash may be released from physical assets through redemptions from underlying funds. Redemptions from physical assets should have regard to the Fund's rebalancing policy, and liquidity of specific investment funds (i.e. reflecting the fact that some underlying funds cannot be redeemed at short notice). We have set out more detail below.

Rebalancing

The Committee monitors the Fund's actual asset allocation on a regular basis to ensure that it does not materially deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.

In order to avoid excessive rebalancing, the assets are not brought back to the absolute strategic benchmark, but to a position that is approximately halfway between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

The above process will realise cash from time to time, which can be used to support the Fund's cashflow requirements. However, rebalancing is relatively infrequent in practice.

Disinvestments

In the event that short term cash is required, it is necessary to evaluate the Fund's asset allocation to determine the most appropriate source of funds for disinvestment. Such disinvestments would take account of the underlying liquidity of each of the Fund's investments and the administrative complexity of instructing disinvestments. As such, property, infrastructure and private market mandates will be excluded as a potential source of short-term cash (beyond income received by the Fund).

If disinvestment is needed, we recommend that consideration is given only to equity, multi asset and fixed income assets (managed by LCIV, LGIM or RLAM). This covers 62.5% the overall asset allocation.

Increasing investment income

Whilst cash balances may be topped up by periodic disinvestments, a number of the pooled funds in which the Fund is investment offer the option to distribute income. Where predictable benefit outgo falls below regular contribution income (albeit this is not currently envisaged over the short term), then the Committee could switch assets into income generating share classes.

Whilst no action in this regard is currently required, we recommend that this be retained as an option if needed.

Capital commitments

The second element of the cashflow policy is to recognise the Fund's undrawn capital commitments as these influence the overall level of cash that the Fund may wish to retain. As at 30 September 2023, the Fund had outstanding commitments to the following funds:

Funds	Committed Capital	% undrawn	Capital to be called
Stafford Capital Global Infrastructure SISF II	c.£24.7m	10.3%	£2.5m
Stafford Capital Global Infrastructure SISF IV	c.£26.0m	25.2%	£6.6m
LCIV Renewable Infrastructure Fund	£25.0m	57.7%	£14.4m

Funds	Committed Capital	% undrawn	Capital to be called
Churchill Senior Loan Fund II	c.£24.3m	3.8%	£0.9m
Churchill Senior Loan Fund IV	c.£20.8m	20.1%	£4.2m
Permira IV Fund	£36.0m	13.2%	£4.8m
Permira V Fund	£43.0m	62.4%	£26.8m

Source: Investment managers

In total, the Fund has approximately £60m of capital calls currently outstanding albeit not all of this is expected to be called.

- Stafford SISF II has c.£2.5m of outstanding although no further capital calls are expected over the next 12 months. However, Stafford SISF IV still has c.£6.6m of outstanding capital to be drawn with the majority of this is expected be called over the next 12 months.
- The outstanding commitment of c.£14.4m to the LCIV Renewable Infrastructure Fund is anticipated to be gradually called over the next 12 months, resulting in the LCIV Renewable Infrastructure Fund being close to c.55.7% funded at the end of 2024.
- No further capital calls to Churchill II are expected over the next 12 months. Churchill IV still has c.£4.2m of outstanding capital to be drawn with further capital calls expected over the next 12 months.
- Both Permira IV and Permira V have material outstanding capital commitments to be drawn with drawdowns into both funds expected over the next 12 months.

In total, expected capital calls to the Fund's current closed-ended mandates are c.£24.9m over the next 12 months. We set out as an Appendix 2 the overall cashflow forecast for 2024, noting that significant cash inflows are also expected to be received from the private market mandates. This can be considered alongside the potential capital commitments and thus a lower amount could be retained to meet future capital calls.

We recommend that the cashflow policy permit the retention of additional cash sums to meet potential capital commitments although this should not permit the longer-term retention of cash where timings are unknown. We therefore propose to work with Officers to establish how much cash should be retained to meet forthcoming capital calls and thus whether any surplus cash can be invested in the current strategy.

Recommendations

We have set out an updated cashflow policy as Appendix 1. We recommend that this policy be adopted by the Committee.

In the event that the Fund's cash outflow profile was to materially change, for example if the Fund's benefit payments increased by more than 20%, then we recommend this policy be reviewed. We also recommend that this policy be reviewed every three years, recognising the additional information provided by the valuation process, including the impact on contribution rates.

We look forward to discussing this paper with the Committee.

Prepared by: -

Simon Jones, Partner
Eleanor Price, Investment Consultant
Meera Devlia, Senior Investment Analyst
Jennifer Aitken, Investment Analyst
February 2024

For and on behalf of Hymans Robertson LLP

General 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, infrastructure, private credit, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix 1: Proposed Cashflow Policy

Based on the Fund's current cashflow requirements and investment strategy, we propose the following policy be adopted:

- A target working cash balance of £7.5m to be set, this being the sum of
  - £3.5m, the approximate predictable monthly outgo.
  - £1m, approximately two times the average unpredictable monthly outgo
  - £3m, being the maximum expected settlement amount for 1.5 times the highest monthly unpredictable outgo over the previous 12-month period (allowing for illustrative settlement payments on the currency management arrangement based on historic experience).
- This cash balance is sufficient to cover over 2 months of forecast benefit payments if contribution payments were delayed for any reason.
- The cash balance will be replenished by monthly contributions by income received from the UK property and private markets investment arrangements.
- The cash balance will be reviewed monthly immediately following the receipt of contributions and is permitted to vary between £4m and £12.5m. If the cash balance falls out of these limits, then Officers should take the following action:
  - If the cash balance is below £4m, Officers should instruct the redemption of assets from the most overweight liquid asset allocation to return the cash balance to £7.5m. In practice, this is expected to realise assets from either equities or the absolute return mandate.
  - If the cash balance rises above £12.5m, Officers invest the excess cash so as to reduce the cash balance to £7.5m. Cash should be invested in the most underweight liquid allocation although Officers may consult with the Fund's investment adviser the most appropriate investment for the excess cash.
- The cash balance may be retained above the upper limit at the discretion of the Statutory Section 151 Officer to meet unforeseeable volatile unpredictable payments.
- Where the Fund has undrawn capital commitments into private market or other less liquid strategies, the Fund may retain additional cash to meet such commitments. These amounts will be considered as being in addition to the working cash balance set out above.
- This cash management policy should be reviewed every three years following the actuarial valuation, in the event of any material changes to the Fund's cashflow profile, or in the event of an increase in predicable monthly cash outflow of 20% from current levels.

Appendix 2: Summary of estimated quarterly cashflows over 2024.

Mandate	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Cash Balance (Start of Quarter)	**35.6**	**36.8**	**36.4**	**41.3**
Total Cash Inflows	**22.1**	**20.0**	**19.4**	**25.0**
Asset Cash Inflows	***10.5***	***8.3***	***7.7***	***13.3***
LCIV Global Bond Fund	0.5	0.5	0.5	0.5
UBS Property [1]	0.3	0.3	0.3	0.3
JP Morgan [2]	0.4	0.4	0.4	0.4
Stafford Capital Global Infrastructure SISF II	6.1	1.1	2.9	0.2
Stafford Capital Global Infrastructure SISF IV	1.4	0.4	0.4	0.7
Churchill Senior Loan Fund II [3]	0.4	0.4	0.4	0.4
Churchill Senior Loan Fund IV [4]	0.4	0.4	0.4	0.4
Permira IV	0.5	4.2	1.9	9.8
Permira V	0.5	0.6	0.6	0.7
Operational Cash Inflows	***11.5***	***11.7***	***11.7***	***11.7***
Contributions [5]	9.3	10.2	10.2	10.2
Interest Received [6]	0.8	-	-	-
Transfers In	1.4	1.5	1.5	1.5
Total Cash Outflow	**-20.8**	**-20.5**	**-14.5**	**-19.3**
Asset Cash Outflows	***8.4***	***7.9***	***1.9***	***6.7***
Stafford Capital Global Infrastructure SISF IV	2.3	0.8	0.8	0.8
LCIV Renewable Infrastructure Fund [7]	0.8	0.8	0.8	0.8
Churchill Senior Loan Fund IV	1.0	1.0	-	-
Permira IV	0.2	0.2	0.2	0.2
Permira V	3.9	5.0	0.0	4.9
Operational Cash Outflows	***12.5***	***12.6***	***12.6***	***12.6***
Benefit Payments [8]	8.3	8.9	8.9	8.9
Lump Sums	0.8	1.0	1.0	1.0
Expenses	3.3	2.7	2.7	2.7
Overall Net Cashflow	**1.2**	**-0.5**	**4.9**	**5.7**
Cash Balance (End of Quarter)	**36.8**	**36.4**	**41.3**	**47.0**

[1] Based on a 1-year distribution yield of 2.6% p.a. as at 30 September 2023 (latest available).

[2] Based on a 6.0% p.a. operational income in the medium term.

[3] Based on a target distribution yield of 6-7% p.a. and as such, we have used an estimated distribution yield of 6.5% p.a.

[4] Based on a target distribution yield of 7-8% p.a. and as such, we have used an estimated distribution yield of 7.5% p.a.

[5] Based on the average level of contributions paid in the year to 31 December 2023 – net of pension payroll deductions, Q1 2024 includes a refund to the Fund of c.£900.0k for agency surplus (voluntary contributions) and includes a 3.0% increase from April 2024 (for salary uplifts/payroll increases).

[6] Based on the expected interest due from the Fund for invested cash deposits.

[7] Based on the average capital called in the year to 31 December 2023.

[8] Based on the average level of benefit payments paid in the year to 31 December 2023 – includes a 6.7% increase to benefits payroll from April 2024.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **19 March 2024**

Subject Heading:	**REVIEW OF VOTING AND ENGAGEMENT ACTIVITY JUNE 2023**
CLT Lead:	**Kathy Freeman**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@havering.gov.uk***
Policy context:	To meet objectives set out in the Investment Strategy Statement
Financial summary:	No direct financial implications

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

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

SUMMARY

The attached report as Appendix A, produced by the Fund's Investment Advisor (Hymans), presents a summary of the Fund's investment mangers' Voting and Engagement activities over the 12-month period to **30 June 2023.**

RECOMMENDATIONS

That the committee:

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

2. Agree the recommendations as set out in **Appendix A (page 16).**

3. Note the next steps as set out in **Appendix A (page 16).**

REPORT DETAIL

1. Background

1. The attached report at **Appendix A**, produced by the Fund's Investment Advisor (Hymans), summarises the Fund's investment managers' Voting and Engagement activities' over the 12-month period to **30 June 2023**. This is in support of the Committee's ongoing annual monitoring requirement as set out in the Investment Strategy Statement (ISS) as follows:

   a. The Committee monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.
   b. The Committee will request its investment managers provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.
   c. The Committee reviews voting activity by its investment managers on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure

2. The Fund does not have its own voting policy and in line with the Fund's current ISS, engagement and voting activity is delegated to the Fund's Investment managers with the Fund reviewing their approach on an annual basis. This review having been undertaken by the Fund's Investment Advisor. Hymans report attached as **Appendix A** addresses the above for the Committee's consideration

3. Appendix A also includes information on the Fund's managers that are signatories to the UK Stewardship Code 2020 and who report against the Principles for Responsible Investment (PRI):

   - Stewardship Code 2020 – is a voluntary code that sets high stewardship standards. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society for those investing money on behalf of UK savers and pensioners, and those that support them. Signatories must report annually against 12 principles.

   - PRI - is voluntary and allows organisations to publicly demonstrate its commitment to incorporating environmental, social and governance (ESG) factors into its investment decision making and ownership practices. Signatories must report annually against 6 principles.

IMPLICATIONS AND RISKS

Financial implications and risks:

No direct financial implications but the Committee has set an objective of seeking to ensure that voting policies and engagement are regularly reviewed and updated to ensure that changing practices and regulation can continue to be reflected where necessary.

The cost of producing the report is included within the core contract costs as set out in the National LGPS Framework for Investment Management Consultancy Services agreed with Hymans.

Costs are met by the Pension Fund

Legal implications and risks:

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

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

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

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

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

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

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

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

BACKGROUND PAPERS

Background Papers List
None

London Borough of Havering Pension Fund

Review of Voting & Engagement Activity

- Simon Jones, Partner
- Jaid Longmore, Responsible Investment Associate Consultant
- Meera Devlia, Senior Investment Analyst

February 2024

Executive Summary

Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper is to summarise the Fund’s investment managers’ voting and engagement activities over the 12-month period to 30 June 2023.
- This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Summary of observations

In this paper, we make the following observations:

- All managers who were previously signatories to the UK Stewardship Code have retained their signatory status, including JP Morgan and Russell who were initially unsuccessful in their applications to the new code. CBRE are new signatories to the UK Stewardship Code. Stafford, Churchill and Permira decided not to apply to become signatories.
- During the year, the Fund had investments through two managers, across seven mandates with equity exposure. The two managers are LGIM and LCIV, although LCIV’s policy is currently to delegate voting implementation to EOS at Federated Hermes (“EOS”) for global equity funds and to the underlying managers (Baillie Gifford, Ruffer) for multi-asset funds.
- We note that over the year, the vast majority of resolutions were voted upon. Exercise rates for managers including LGIM, across their mandate, and LCIV Absolute Return Fund were at least 99.0%. LCIV Global Alpha Growth Paris Aligned Fund and LCIV Diversified Growth Fund (had a lower rate across their two mandates but at least 95.0% of votes were exercised. Lastly, LCIV PEPPA Passive Equity Fund had an exercise rate of 97.0% across their mandate.
- EOS and managers demonstrated a preparedness on occasion to vote against company management. LGIM voted against management most frequently with around 19% of votes against management. This was in line with the previous reporting period. This is consistent with the index-tracking nature of these mandates.
- Similar to last year, there was commonality in the reasons why EOS/managers voted against management, with board diversity and remuneration being key themes. It should be noted that managers vote against the re-election of directors for a number of reasons some of which may be unrelated to the particular directors standing for re-election.

We look forward to discussing this paper with the Committee.

2020 UK Stewardship Code

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

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

Summary of UK Stewardship Code adherence

Manager	Signatory as at: 30 June 2023	Applied for Code but Unsuccessful	Comments
London CIV	Yes	-	• Approved again as an asset owner signatory with data as at end 2022
LGIM	Yes	-	• Approved again as an asset manager signatory with data as at end 2022
Baillie Gifford	Yes	-	• Approved again as an asset manager signatory with data as at end 2022
Ruffer	Yes	-	• Approved again as an asset manager signatory with data as at end 202
UBS	Yes	-	• Approved again as an asset manager signatory with data as at end 2022
CBRE	Yes	-	• Subsequently approved as an asset manager signatory with data as at end 2022
JP Morgan	Yes	-	• While unsuccessful in their original submission to the new code, JP Morgan made a subsequent submission and became an asset manager signatory of the UK Stewardship Code in September 2022
Stafford	No	No	• Considering a future application.
Royal London	Yes	-	• Approved again as an asset owner signatory with data as at end 2022
Churchill	No	No	• Churchill (and parent company Nuveen) are supportive of the principles of the Code but have no immediate intention of applying to become a signatory.
Permira	No	No	• Considering a future application but has not yet made a decision on this.
Russell	Yes	-	• Approved again as an asset owner signatory with data as at end 2022

Principles for Responsible Investment

- The six Principles for Responsible Investment are a voluntary set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice.
- The principles were established in 2006 and are now supported by over 5000 signatories from over 80 countries.
- Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles. There was a recent change in the grading system from alphabetical (A+ to E) to numerical (1 to 5 stars). This is applicable from the 2021 assessment onwards.
- The following pages set out each of the Fund's investment managers' signatory status and most recent assessment rating alongside information on their voting and engagement.

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

Growth Assets: Voting and Engagement

Delegation of Voting

- The Fund has voting rights through its equity investments with LGIM and with LCIV (both directly via LGIM and indirectly via LCIV).
- The Fund has delegated its voting responsibility to its underlying investment managers.
- The LCIV currently delegate voting to EOS, a stewardship services provider, to conduct proxy voting activities for all LCIV's global equity funds. The LCIV also currently delegate voting to the respective investment managers appointed for all LCIV's multi-asset funds.
    - For all LGIM funds, LGIM's voting policy is employed
    - For the Global Alpha Growth Paris Aligned and the PEPPA Funds, the LCIV policy is applied by EOS
    - In the Diversified Growth and Absolute Return Funds, Baillie Gifford and Ruffer policies are respectively employed
- The Fund has also delegated engagement with underlying companies, within the Fund's mandates, to its underlying investment managers.
- Therefore, the Fund's engagement in this respect is carried out in line with the house engagement policy of LGIM, Baillie Gifford, State Street ("SSGA") and Ruffer for the respective investments.

Key Topics

- We note that **climate change** and **diversity and inclusion** have been identified as areas of interest for Committee in the past. We have therefore focused on these areas in our review when highlighting key votes and further engagement themes.
- Climate change was a consistent engagement topic across all of the Fund's investment managers.
- Remuneration and Company Disclosure & Transparency were in the top five engagement themes for LGIM.

Growth Assets: Exercise of Votes (12-Month Period to 30 June 2023)

	LGIM			LCIV (SSGA)	LCIV (Baillie Gifford)		LCIV (Ruffer)
	Global	Emerging Markets	Future World	PEPPA	GAGPA	DGF	Absolute Return
# eligible resolution votes	62,920	32,588	22,400	10,941	1,309	764	1,106
% votes exercised	99.9	99.9	99.9	97.0	95.0	100.0	100.0
% against management	19.6	18.1	19.8	11.0	11.0	2.0	1.0
% abstained / withheld	0.6	1.2	0.2	1.0	2.0	0.65	1.0
% meetings with at least one vote against management	62.1	52.5	70.2	72.0	73.0	22.0	13.0

- The Fund has direct exposure to equities via LGIM and LCIV (Baillie Gifford and SSGA) mandates, with additional exposure obtained through multi-asset mandates managed by Baillie Gifford and Ruffer.
- The table provides a summary of voting over the 12-month period. We can observe the following from this data:
  - The exercise of voting rights was high across LGIM, Ballie Gifford (DGF) and Ruffer eligible mandates. Baillie Gifford (GAGPA) exercised less votes on average than the other managers.
  - Similar to last year, the percentage of abstentions/withheld votes was relatively low.
  - LGIM were the most active manager in terms of voting against management by a considerable margin and compared with last year. This is to be expected given the index-tracking nature of the LGIM mandates as LGIM do not have an option of disinvestment to reflect their principles. Conversely, Baillie Gifford and Ruffer actively select stocks and, should on average, have a greater alignment of interests with their investments.
  - The index-tracking LGIM funds have a significantly larger stock listing than Baillie Gifford and Ruffer. Hence the LGIM funds are eligible for a larger number of votes.

HYMANS ROBERTSON

Growth Assets: Significant Votes

Manager	Main reasons to vote against management	Significant votes
LGIM PRI rating for equity: 4 out of 5 stars	1. Climate change 2. Board diversity 3. Independence of directors 4. Remuneration 5. Shareholder interest	**Steel Dynamics Inc: Board Gender Diversity** • LGIM withheld their vote on Steel Dynamics' resolution to elect Bradley S. Seaman as Director. The vote was withheld as LGIM expects Steel Dynamics to have 30% female representation on its board and for that board to be regularly refreshed to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. **JP Morgan Chase and Co.: Climate Change** • LGIM voted for a resolution for the company to report on its Climate Transition Plan – describing efforts to align financing activities with greenhouse gas ("GHG") targets. LGIM supports resolutions seeking additional disclosures on how companies aim to manage their financing activities in line with published targets. LGIM believes detailed information on how JP Morgan Chase and Co intends to achieve its set targets (including interim activities and timelines) can further focus the board's attention on the steps required and timeframes involved – providing further assurance to stakeholders. Additionally, the onus for progress remains on the board to fulfil their set ambitions and targets; rather than investors imposing restrictions on JP Morgan Chase and Co. **Industrial & Commercial Bank of China Limited: Climate Change** • LGIM voted against a resolution to elect Cao Liqun as Director. This was as a result of the Industrial & Commercial Bank of China not meeting minimum standards regarding climate risk management. Despite its improvements in disclosures, ESG governance structures and positive engagements – LGIM still believes Cao Liqun, as a member of the Corporate Social Responsibility and Consumer Protection Committee to be ultimately accountable for the lack of climate expectations and risk management at the Industrial & Commercial Bank of China. Additionally, LGIM also expects the Industrial & Commercial Bank of China's Committee to be comprised of independent directors.
LCIV GAGPA PRI rating for equity: 5 out of 5 stars	1. Inappropriate committee membership 2. Remuneration 3. Board gender diversity 4. Insufficient/poor disclosures 5. Shareholder rights concerns	**Prosus N.V.: Remuneration** • EOS recommended voting against a resolution to approve the remuneration report for Prosus N.V.. EOS have been engaging on the issue of remuneration with Prosus N.V. for a number of years. Over time, EOS have reported improvements in Prosus N.V.'s disclosures and also minimum shareholding requirements. However, EOS believed Prosus N.V.'s short-term vesting of awards (e.g. the year's ad-hoc cash bonus) against its long-term incentive plan were not aligned and also misaligned with EOS' expectations for executive remuneration.
LCIV Absolute Return Fund PRI rating for equity: 5 out of 5 stars	1. Board gender diversity 2. Auditor tenure 3. Concerns to protect shareholder value 4. Lack of independence on board 5. Aggregate share issuance limit breached 6. Remuneration	**Linde Plc: Board Gender Diversity** • Ruffer voted against a resolution to re-elect the Chair of Linde's Nomination Committee based on concerns regarding the lack of gender diversity on the current Nomination Committee and Board..

Growth Assets: Significant Votes Cont.

Manager	Main reasons to vote against management	Significant votes
LCIV PEPPA PRI rating for equity: 4 out of 5 stars	1. Remuneration 2. Shareholder value concerns 3. Auditor tenure 4. Board gender diversity 5. Lack of independence on board	**Macquarie: Remuneration** • EOS informed Macquarie of its intention to recommend a vote against a resolution to approve Macquarie's remuneration report. This was due to EOS' concerns with Macquarie's short-term incentive plan, which was based on an uncapped profit-share model, with there being limited disclosures on Macquarie's approach to determine individual awards. Macquarie subsequently informed EOS that the reasoning behind this plan was the attraction and retention of high-performing talent. • Furthermore, Macquarie advised the Board that its remuneration committee had previously undergone a rigorous evaluation of CEO and executive performance – comparing remuneration across various sectors globally, including against unlisted peers such as hedge funds and private equity firms. Despite this, EOS continued to recommend a vote against a resolution to approve Macquarie's remuneration report.
LCIV Diversified Growth Fund PRI rating for equity: 5 out of 5 stars	1. Remuneration 2. Auditor tenure 3. Equity issuance 4. Lack of disclosures	**Duke Realty Corporation: Remuneration** • Baillie Gifford opposed a proposal to approve payment of an executive compensation in connection with the Duke Realty Corporation's merger, due to concerns regarding single trigger provisions (i.e. clauses within equity agreements enabling access to unvested equity/equity options faster in the event of a single specific event) and excise tax gross-ups connected to severance payments.

Growth Assets: Significant Engagements

Manager	Main engagement themes	Significant engagement
LGIM	1. Climate impact pledge 2. Deforestation 3. Remuneration 4. Climate change 5. Company disclosures and transparency	Japan Post - Following five years of engagement, LGIM reinstated Japan Post as an investment after the company's disclosure of its Scope 3 investment emissions alongside its ‘net zero by 2050’ commitment; these supplement their 2021 thermal coal policy. Ford – LGIM engaged with Ford and continues to push for greater transparency and engagement on its upstream suppliers and climate lobbying activities. Norsk Hydro – LGIM continues to engage with Norsk Hydro on their development of low-emission products that integrate renewable power, innovative technology and increased recycling rates. LGIM has a policy of conducting targeted and direct engagement with companies they see as ‘dial movers,’ chosen for their size and potential to galvanise action on climate.
LCIV GAGPA	1. Climate change 2. Executive Renumeration 3. Human and labour Rights 4. Board composition 5. Risk Management	**Prosus: Climate Change** Baillie Gifford met with Prosus' Head of Global Sustainability to discuss the Prosus’ approach to climate change. Following this, Baillie Gifford informed LCIV that Prosus had significantly improved its understanding of climate risks and opportunities across the business and had taken steps to address these. For example, Prosus had improved its emissions data disclosures and absolute emissions reduction targets (i.e. 100% of corporate operations and 35% of eligible investments by 2028). Baillie Gifford flagged the latter targets as material as Scope 3 emissions represented the bulk of Prosus’ climate impact. Furthermore, following the meeting, Baillie Gifford reported that Prosus had received external Science Based Targets initiative (“SBTi”) validation – including the acknowledgement of their alignment with a 1.5°C Paris-aligned pathway for its emissions targets ;further-underpinning the enhancements to Prosus’ climate strategy.
LCIV PEPPA	1. Human capital 2. Climate change 3. Executive remuneration 4. Human and labour rights 5. Board effectiveness 6. Purpose, strategy and policies	**Conagra Brands: Human Capital** SSGA met with Conagra Brands ahead of its AGM and following this, State Street informed LCIV that it had reviewed Conagra Brands’ materials (such as its 2023 proxy statement, its Citizenship Report and website) to assess whether Conagra Brands had appropriately disclosed its EEO-1 report to the Equal Employment Opportunity Commission (“EEOC”) in the US. In a situation where a company has not appropriately disclosed the EEO-1 report to the EEOC, SSGA might have opted to vote against the Chair of the Board Committee. However, SSGA advised LCIV that Conagra Brands’ 2023 proxy statement confirmed the EEO-1 report. As such, SSGA then confirmed that it had voted in support of the Chair of the Board Committee at Conagra Brands’ 2023 AGM.

Growth Assets: Significant Engagements Cont.

Manager	Main engagement themes	Significant engagement
LCIV Absolute Return Fund	1. Human and labour rights 2. Climate change 3. Board effectiveness 4. Purpose, strategy and policies 5. Risk management	**Carbon Disclosure Project ("CDP")/Perseus Mining: Climate Disclosure** In a joint engagement with the CDP, Ruffer wrote to the CEO of Perseus Mining's to encourage the disclosure of Perseus Mining's climate impact. Ruffer informed LCIV the letter encouraged Perseus Mining to complete the CDP climate questionnaire and emphasised the importance of having robust environmental data in impact related disclosures. Ruffer also advised that following further discussions, Perseus Mining confirmed the submission deadline of July 2023 to receive a CDP score was unattainable for Perseus Mining to meet at the time, due to year-end reporting deadlines. However, Perseus Mining followed up and committed to responding by the end of September 2023 for its unscored CDP data to be made available to its investors. Perseus Mining also then planned to fully engage during the 2024 reporting cycle.
LCIV Diversified Growth Fund	1. Climate change 2. Executive renumeration 3. Corporate reporting 4. Human capital 5. Board effectiveness	**Longyuan Power – Climate Change** Baillie Gifford met with Longyuan Power in order to discuss its climate strategy; specifically exploring environmental disclosures and emissions reductions. Baillie Gifford commended Longyuan Power for its first disclosures of Scope 1 and 2 emissions, within its 2022 ESG report. Baillie Gifford also then requested details of Longyuan Power's Scope 3 disclosures timelines. In addition, Baillie Gifford encouraged the Longyuan Power to set a formal emissions reduction target – to further drive climate progress. However, Baillie Gifford informed LCIV, they expected more progressive strategic ambitions from Longyuan Power, given it being a wind power leader and considering China's Net Zero goals. Overall, the engagement highlighted the Longyuan Power's improvements in climate management, with these results being incorporated into the ongoing review of the investment case for holding Longyuan Power.

HYMANS ROBERTSON

Income Assets: Stewardship and Engagement

Manager	Main stewardship and engagement themes
JP Morgan PRI rating for infrastructure: 5 out of 5 stars	• JPM believes strong governance is the initial step in implementing effective ESG practices, mitigating risks and identifying opportunities of significant impact on underlying companies. • The JPM Fund and its underlying portfolio companies annually participate in the GRESB assessment, to assess ESG performance. JPM use the GRESB assessment to benchmark its performance against peers but also as a tool to: formally engage with each underlying portfolio company, review areas of success and share best practices, discuss areas of improvement and guide improvement in ESG drivers (via monitoring and preparing for future ESG trends). For the 2023 GRESB assessment, the majority of the JPM Fund's underlying portfolio companies increased their raw scores – indicating an overall improvement compared to the peer group. • With respect to engagement, the JPM Fund targets majority and control positions for underlying portfolio companies, to implement business plans and strategic initiatives. Through its control positions, the JPM Fund actively engages with the underlying portfolio companies. Examples of activity over the course of the year included a focus on cyber risk across multiple assets to protect customer data (with over 80% of portfolio companies completing cyber insurance review). Across the portfolio,there was also a focus on safety, with the sharing of best practices across companies. • JPM has provided comprehensive reporting on a broad range of ESG factors across its portfolio.
UBS PRI rating for real estate/ infrastructure: 4 out of 5 stars	• UBS' Real Estate & Private Markets ("REPM") has defined responsibilities and incentives to integrate sustainability across real estate, infrastructure etc and from 2022, each member of the REPM Team at UBS also had at least one ESG related goal within their annual objectives. • In 2019, Triton commissioned an external specialist to calculate a social value (in GBP terms) for each property in the UBS Fund. Following this, the UBS Fund worked with tenants, onsite property and facilities management teams to understand and measure categories that create a social positive impact e.g. local employment levels, traineeships, jobs for young offenders, community events held at the property and volunteering. • In 2021, the UBS Fund's student accommodation assets and five retail parks were analysed, and as at Q4 2021, it was measured the total social value created by these assessed assets was c.£10m. Subsequently, this data has enabled UBS to introduce measurable standards around social value into the UBS Fund's asset and property management. • In 2022/23, Triton saw continued progress on energy efficiency, with 76% of the portfolio's assets are now rated EPC C or above – on target to meet the expected 2030 minimum EPC B rating requirement.

HYMANS ROBERTSON

Income Assets: Stewardship and Engagement

Manager	Main stewardship and engagement themes
CBRE PRI rating for direct real estate/indirect real estate/direct infrastructure: 4 out of 5 stars	• CBRE believes that it holds responsibility to drive positive change in the environments and communities in which it invests and therefore seeks to positively influence the way in which buildings/infrastructure is constructed, managed and used globally. • CBRE have outlined a ‘Sustainability Vision’ to mitigate risk, create value and preserve the planet – implementing this via stewardship, engagement with partners and underlying managers and investee companies. • Following engagement with underlying stakeholders and assessing materiality, CBRE also has 3 main sustainability topics: climate (seeking to mitigate climate risks and enhance investment return opportunities – through focus on Net Zero and physical asset resilience), people (seeking to advocate for diversity, equity, inclusion and wellbeing of people and stakeholders) and influence (seeking to engage with and positively influence key stakeholders). **Over 2022:** • GRESB assessment, CBRE achieved a score of 80/100 due to CBRE’s engagement with underlying managers on issues such as data coverage, energy and building certification ratings to support the progress towards Net Zero. • CBRE also conducted a climate risk mapping of the Fund and engaged with managers on assets with exposure to high/critical risk climate hazards. Following this, 41% of managers (by NAV) went on to complete audits on potentially vulnerable buildings and 34% incorporated climate risk mitigation strategies into their asset lifecycle plans. **Objectives for 2023:** • Improving GRESB participation and scores (via targeting areas with room for improvement e.g. data coverage and building certifications), continuing work with managers to improve transparency and disclosures, continuing engagement to improve sustainability performance and climate risk to identify vulnerable assets (and subsequently implement mitigation strategies).
Stafford PRI rating for infrastructure: 4 out of 5 stars	• Stafford integrates ESG considerations into its investment process and works closely with underlying asset managers to identify material sustainability risks and, where necessary, mitigate sustainability risks and any that may exist/develop post-investment via further liaison with underlying asset managers/management teams. **Over 2022:** • As an example of engagement, in June 2022 Stafford organised a digital roundtable discussion amongst infrastructure asset managers focussed on decarbonisation efforts in their portfolios. The event brought together experts on sustainability from the underlying infrastructure fund managers, the PRI and Stafford. ESG related topics (e.g. the alignment of infrastructure managers with the TCFD, climate resources and initiatives available for infrastructure managers and decarbonisation insights) were discussed and shared – with the aim of Stafford accelerating positive change towards more sustainable futures. • Over time, Stafford have continued to increase focus on sustainability outcomes. An example of this is a comparison between the SISF II Fund and the later vintage SISF IV Fund. As at the end of 2022, the SISF II Fund had an allocation of 27% to traditional power and a 61% allocation to energy transition renewables. The later vintage SISF IV instead had no allocation to traditional power and an 88% allocation to energy transition renewables.

Income Assets: Stewardship and Engagement Cont.

Manager	Main stewardship and engagement themes
RLAM PRI rating for fixed income – corporate financial: 4 out of 5 stars	• RLAM focus their risk identification and engagement on sectors where they believe there to be the greatest ESG risk and limited data availability and research. As part of RLAM's ESG integration, RLAM engage with underlying issuers to improve subsequent investment decisions. • Over 2022 (the available reporting period), RLAM engaged with 393 companies. Key themes for engagement interactions, in order of frequency, were climate transition risk, mental health (following RLAM's campaign/collaboration with companies on this), health, a 'Just' transition and corporate governance. • In the MAC Fund, RLAM wrote to Thermo Fisher Scientific Inc (a supplier of analytical instruments) expressing concern about allegations around human rights violations in China, from the sale and use of Thermo Fisher Scientific's human identification ("HID") products. Thermo Fisher Scientific responded and confirmed its products could not be used for ethnic profiling or surveillance (RLAM had expressed concerns regarding these human rights violations) and Thermo Fisher Scientific confirmed that it no longer sold said HID products in certain regions of China. Additionally, Thermo Fisher Scientific also reaffirmed its commitment to advances in science and to conducting its business in an ethical and responsible manner. Thermo Fisher Scientific also emphasised its provision of regular training and education (to both its staff and partners) on bioethics and human rights issues.
Churchill PRI rating for fixed income – private debt: 4 out of 5 stars	• Churchill believe effective engagement allows them to drive change with underlying portfolio companies and this therefore helps to mitigate risks. Churchill's Investment Team frequently review underlying portfolio companies' management processes and private equity sponsors – during which, Churchill will identify/raise ESG concerns, risks or opportunities. • Churchill also collaborate with industry peers, interdisciplinary experts and stakeholders to create best practices and drive more effective outcomes. E.g. Churchill partnered with the UN Principles for Responsible Investment ("PRI") and other PRI signatories to develop the 'Private Credit – Private Equity ESG Factor Map' to streamline the ESG information shared during the investment process – designed to facilitate collaboration between sponsors, co-investors and lenders and integrate existing ESG standards and frameworks. • Churchill also joined the executive committee for the ESG Integrated Disclosure Project ("IDP"); an initiative bringing together leading lenders in private credit to improve ESG data transparency. Following this, Churchill has undertaken formal engagement with its private equity sponsors to encourage use of the ESG IDP, to set a precedent for standardised data collection for all of its underlying portfolio companies, resulting in more informed investment decisions. • Whilst the Churchill Funds do not have formal stewardship and engagement requirements, Churchill's most recent senior loan fund offering (i.e. Senior Loan Fund V) states explicit engagement requirements - and due to policy, will involve stewardship and engagement activities for all deals allocated since its launch. • As an example of stewardship, to increase the overall health and safety performance of Churchill's senior lending portfolio, Churchill's ESG team had a conversation with one of its leading sponsors, to align health and safety expectations and ensure the establishment of adequate policies and practices for underlying portfolio companies. Through the engagement, the sponsor rolled out a safety program and reporting to encourage employee health and safety and mitigate the risk of employee injury.

Income Assets: Stewardship and Engagement Cont.

Manager	Main stewardship and engagement themes
Permira PRI rating for fixed income – private debt: 4 out of 5 stars	• Permira further embedded ESG into its investment approaches over the course of 2022. Following the evaluation and review of EcoVadis ESG ratings, an ESG margin ratchet was implemented. Permira is now seeking to embed this mechanism, to offer ratchets in documentation for all new primary direct lending deals and refinancings. • An 82% disclosure rate on ESG across underlying portfolio companies within the direct lending funds, collected via an annual ESG data questionnaire and based on key metrics outlined in the ESG Data Convergence ("ESGDC") Initiative. Aligning with the ESGDC initiative reflects Permira's transition towards more consistent and objective performance tracking. • In 2023, PCS5, was reclassified from Article 6 to Article 8 under Sustainable Finance Disclosure Regulation ("SFDR"). Permira Credit has further developed PCS5's ESG approach and as a result of the ESG initiatives progressed, PCS5 is now regarded as promoting environmental and/or social characteristics – therefore falling within the scope of Article 8 of SFDR. PCS5 will aim to continue to promote environmental and social characteristics encouraging improvements in underlying investee companies through ESG-related data monitoring and reporting and margin ratchets, as applicable. PCS5 will seek to encourage improvements in ESG-related issues focussing on carbon footprints, board gender diversity and ESG-focused metrics. • Having piloted an initial request for ESG information from PCS4 portfolio companies in 2020, Permira extended the request across PCS3, PCS4 and PCS5. The ESG request now includes c.25 key performance indicators ("KPIs") – over double the KPIs requested in the first direct lending survey in 2020. In 2022, Permira further enhanced the survey, adding questions on carbon neutrality, science-based targets being set and commitments to Net Zero.2 • Although Permira does not screen its investments by ESG KPIs, its ability to collect and monitor ESG KPIs enables it to better manage ESG-related risks and opportunities.

Next steps

Ensuring that stewardship is being undertaken in line with the Committee's expectations is a core part of the Climate Action Plan and the Committee should ensure that it able to effectively scrutinise the actions of its managers at quarterly Committee meetings .

As per the Fund's Climate Policy and Action Plan developed earlier this year, the roles and expectations of LCIV and the Fund's other investment managers are as below.

LCIV:

- Embed the consideration of climate change into all product development, particularly the alignment of strategies with decarbonisation pathways.
- Exercise active stewardship, including voting, over underlying assets to ensure that climate ambitions are appropriately communicated and challenged.
- Provide the necessary information to allow the Committee to assess progress against its objectives.

Other Investment Managers:

- Ensure that climate considerations are embedded into product management.
- Exercise active stewardship, including voting, over underlying assets to ensure that climate ambitions are appropriately communicated and challenged.
- Provide the necessary information to allow the Committee to assess progress against its objectives.

We continue to recommend that at future Pensions Committee meetings where LGIM or LCIV present, focus should be given to voting practices and the progress of climate ambitions being met. We propose to identify appropriate case studies for each to facilitate discussion and recommend that the Committee agree a short list of focus companies over which manager activity can be challenged.

We further recommend that the Committee or Officers undertake a more structured engagement on stewardship issues with key managers.

Risk warning

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

HYMANS ROBERTSON

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Thank you

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	The admission of Caterlink Limited to the London Borough of Havering Pension Fund for the provision of catering Services to St Edwards Church of England Academy
SLT Lead:	Kathy Freeman Section 151 Officer
Report Author and contact details:	Caroline Guyon Pensions Projects and Contracts Manager 01708 432185 caroline.guyon@havering.gov.uk
Policy context:	Local Government Pension Scheme Regulations 2013. Schedule 2 part 3
Financial summary:	The Pension Fund Actuary has set the employer contribution rate at 24.8% and the admission will be on a pass through basis.

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

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

SUMMARY

The purpose of this report is to request the London Borough of Havering Pension Committee agree to the proposed closed agreement admission of Caterlink Limited into the London Borough of Havering Pension Fund ("the Fund") under the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of staff to Caterlink Limited for the provision of catering services. The protected staff were originally employees of St Edwards Church of England Academy, TUPE transferred to another contractor as part of the original outsourcing of the contract, now transferred to Caterlink Limited as part of the re-tender of the contract.

RECOMMENDATIONS

That the admission of Caterlink Limited into the London Borough of Havering Pension Fund as an admitted body to enable 5 members, previously employed by the Academy, to continue membership of the LGPS be agreed, subject to all parties signing up to an Admission Agreement.

REPORT DETAIL

1. Caterlink Limited succeeded in winning the contract to provide catering services to St Edwards Academy. The contract commenced 11 February 2023 and is due to expire on 23 October 2025.
   .
2. This is a second generation transfer where the pension rights of ex academy staff who were part of the original outsourcing of the catering services and TUPE transferred to the previous contractor are entitled to continued protection as part of the re-tender of that contract.

3. The contracts of employment of the affected staff transferred when the catering services transferred from the previous contractor to Caterlink Limited on 11 February 2023. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 ("TUPE") protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal Guidance 2013. 5 employees were a member of the LGPS on the transfer date.

4. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector

to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.

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

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

7. Caterlink Limited falls within the definition contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and as such is eligible to become a TAB. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the TAB, provided the TAB and the scheme employer undertakes to meet the relevant requirements of the regulations through an Admission Agreement.

8. The Authority will seek to sign appropriate transferee Admission Agreement to allow Caterlink Limited to be admitted to the Fund. When the Admission Agreement is formed Caterlink Limited will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 24.8% of pensionable pay.

IMPLICATIONS AND RISKS

Financial implications and risks:

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund's Actuary. Caterlink's rate has been set at 24.8%.

Caterlink will be admitted on a pass through basis and therefore they are not required to obtain an indemnity bond. The notional value of the assets and liabilities relating to the contractors staff remain the responsibility of the St Edwards Academy during the participation period. The Academy is covered by the Department for Education guarantee so the Council and all other Havering scheme employers are protected should the academy fail as a going concern.

St Edwards Academy retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement.

Any strain costs that become due to the Fund following the termination of the employment of a Tupe'd employee on the grounds of ill health, redundancy or flexible retirement are payable by Caterlink Limited and this will be specified in the admission agreement.

At the end of the contract (or when there are no longer any active members participating in the fund), the Admission Agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains, augmentations and/or salary experience. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).

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

Caterlink Limited have previously been an admitted body to the Fund, providing catering services for other scheme employers, so have experience of the implications of being a Scheme Employer.

Hymans Robertson carry out an annual assessment to review the level of risk a scheme employer poses to the Fund. The passthrough agreement in place provides surety that any deficit in funding at the end of the contract, not met by Caterlink Limited, will be met by St Edwards Academy.

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

Legal implications and risks:

Local Authorities are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admitted bodies, subject to the completion of an Admission Agreement.

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

In the case of the ex academy employees transferring to their new catering contractor, Fair Deal obligations can be achieved by means of an Admission Agreement, between the administering authority (Havering) and the letting authority (St Edwards Church of England Academy) and the employing/admitted body (Caterlink Limited) allowing the transferring employees to remain a member of the Local Government Pension Scheme. The admission will be on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contribution rate.

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

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

Human Resources implications and risks:

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

Admitted body status will allow the former academy employees (who transferred to the new provider on 11 February 2023) continued membership eligibility of the LGPS.

Equalities implications and risks:

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

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

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

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

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