



PENSIONS COMMITTEE

17 September 2019

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED JUNE 2019**

CLT Lead:

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Policy context:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.

Financial summary:

This report comments upon the performance of the Fund for the period ended 30 June 2019

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 the Committee with an overview of the performance of the Havering Pension Fund investments, an overview of the Fund Manager Monitoring and an overview of any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending 30 June 2019.

This report is being presented in order that:

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans.

Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation.

The manager attending the meeting will be from:

UBS (the Funds UK Property Manager)

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 and Outlook Report (Appendix A)
- 2) Consider Hymans Strategic Overview Report (Appendix B).
- 3) Consider Hymans Performance Report and Views (Appendix C, D and E Exempt)
- 4) Receive presentations from the Fund's Property manager UBS (Appendix F – Exempt)
- 5) Consider the quarterly reports sent electronically, provided by each investment manager.
- 6) Note the analysis of the cash balances

REPORT DETAIL

1. As reported in the quarterly monitoring report presented at the 24 July 2019 meeting we undertook a review of the contents of the quarterly performance report. We acknowledged that there is an element of duplication within our report and our Funds Investment Advisor report from Hymans. Some of the elements from Hymans report which were deemed non confidential can now be seen in a separate appendices (**Appendix A and B refers**). Elements covering views on Fund manager performance will remain as exempt and will be shown in **Appendices C, D and E**).
2. When appropriate more topical LPGS news that may affect the Pension Fund will now be included.
3. We welcome any feedback as we continue to develop the new reporting format

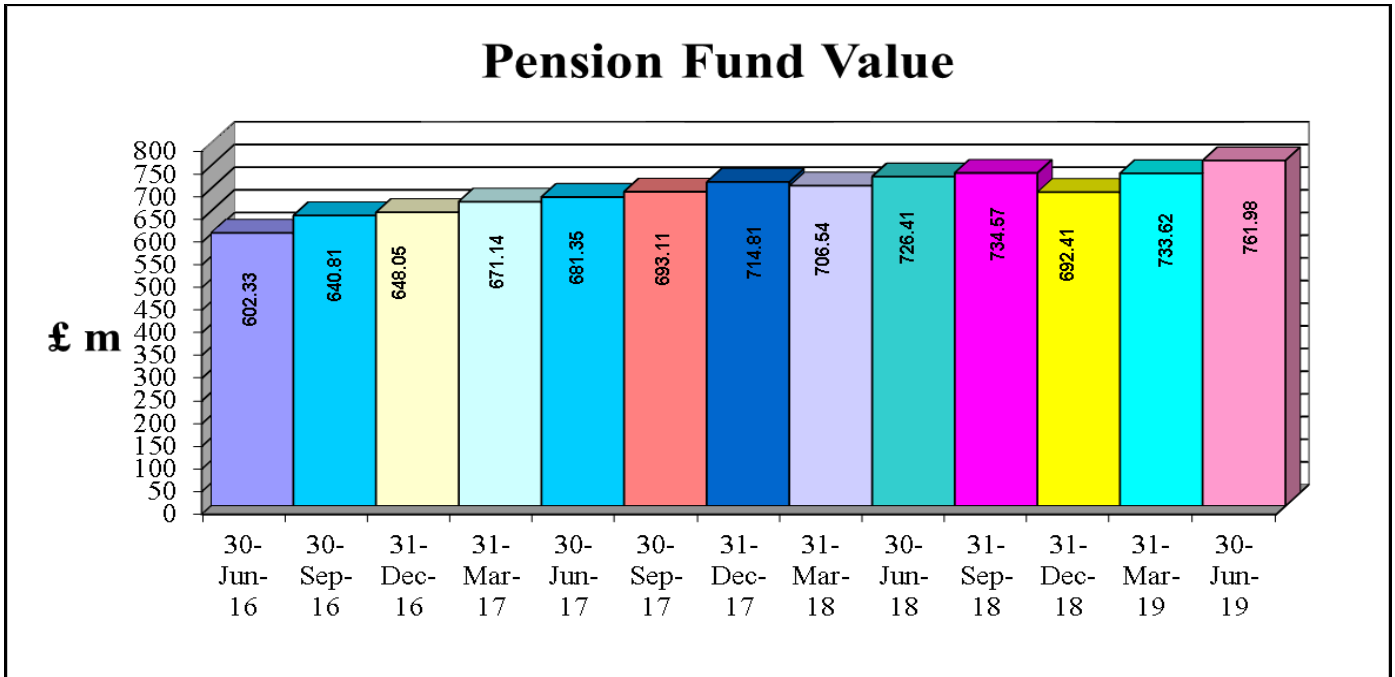
4. BACKGROUND

- a. The Committee adopted an Investment Strategy Statement (ISS) in November 2017.
- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities
- c. The Fund's assets are monitored quarterly to ensure that the long term objective of the ISS is being delivered.
- d. We measure returns against tactical and strategic benchmarks:
- e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.
- f. **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the Fund is meeting its longer term objective of reducing the Fund's deficit.

5. PERFORMANCE

- a. Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 2019 was **£761.98m** this valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor as it excludes accrued income. This compares with a Fund value of £733.62m at the 31 March 2019; an **increase of £28.36m**. Movement in the Fund value is attributable to an increase in assets of £26.79m and an increase in cash of £1.57m. Internally managed cash level stands at **£15.77m** of which an analysis follows in this report.

Chart 1 – Pension Fund Values



- b. The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

Table 1: Quarterly Performance

	Quarter to 30.06.19	12 Months to 30.06.19	3 Years to 30.06.19	5 years to 30.06.19
	%	%	%	%
Fund	3.7	5.1	8.0	7.7
Benchmark	3.1	6.9	6.4	7.0
*Difference in return	0.6	-1.7	1.5	0.7

Source: Hymans Robertson

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) is shown as follows:

Table 2: Annual Performance

	Quarter to 30.06.19	12 Months to 30.06.19	3 Years to 30.06.19	5 years to 30.06.19
	%	%	%	%
Fund	3.7	5.1	8.0	7.7
Benchmark	2.3	10.8	7.6	11.0
*Difference in return	1.3	-5.1	0.4	-3.0

Source: Hymans Robertson

*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 C (Exempt)** in the performance report which will be covered by the Investment Adviser (Hymans).

6. CASH POSITION

- a. An analysis of the internally managed cash balance of **£15.77m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2017/18</u> <u>31 Mar</u> <u>18</u>	<u>2018/19</u> <u>31 Mar</u> <u>19</u> <u>Revised</u>	<u>2019/120</u> <u>30 Jun</u> <u>19</u>
	£000's	£000's	£000's
Balance B/F	-12,770	-17,658	-13,698
Benefits Paid	36,532	37,954	9,921
Management costs	1,221	1,490	114
Net Transfer Values	1,108	1,543	-515
Employee/Employer Contributions	-42,851	-44,804	-12,882
Cash from/to Managers/Other Adj.	-785	7925	1,322
Internal Interest	-113	-148	-32
Movement in Year	-4,888	3,960	-2,072
Balance C/F	-17,658	-13,698	-15,770

- b. Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

- c. The cash management policy incorporates a threshold for the maximum amount of cash that the fund should hold but introduced a discretion that allows the Statutory S151 officer to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £6m is being considered as part of the investment strategy implementation (there is a possibility that we will use this cash to fund the close ended funds and/or the College mergers).
- d. The cash management policy has been reviewed and the proposed changes are subject to a separate item on this agenda

7. REPORTING ARRANGEMENTS

- a. In line with the reporting cycle, the Committee will see one Fund Manager at each Committee meeting unless there are performance concerns for individual managers. Individual Fund Manager Reviews are attached in Hymans performance report at **Appendix C (exempt)**
- b. The full version of all the fund manager's quarterly report are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each Investment Manager, detailing the voting history of the Investment Managers is also included in the Manager's Quarterly Report.
- c. The Fund Manager attending this meeting is **UBS (the Funds UK Property Manager)** and their presentation can be found at **Appendix F (exempt)**

8. FUND UPDATES:

8.1 Changes made in previous quarter and forthcoming changes

- a. The Fund has continued to fund capital draw down requests c.£2.7m from Stafford Capital during the last quarter. During July and August further requests from Stafford were made in the region of £0.8m and £2.3m invested with Churchill.
- b. The Fund appointed Northern Trust for Custodial and performance measurement services and a number of legal and on-boarding documents are in the process of being completed in order that the contract can commence 1 October 2019.
- c. The Fund appointed Russell investments to implement a currency hedge for the Fund. A number of legal and on-boarding documents are in the process of being completed in order that the contract can

commence once the custodian contract is in place.as close as possible to 1 October 2019.

8.2 London Collective Investment Vehicle (LCIV) - LCIV is the mandatory asset pool for the Fund and updates will be covered here as follows:

8.2.1 LCIV meetings

- a. The LCIV Q2 Investment forum was held on the 6th June with presentations from PIMCO - Global Bond manager, Ruffer and Ares who covered liquid loans.
- b. Officer quarterly review meetings are held with the LCIV to discuss the Funds priorities and investment strategy plans and to receive the latest London CIV updates and includes current and expected sub fund launch dates and discussions concerns on the quarterly investment reports,. Officers met with LCIV on the 20 August 2019 and some of the content of that meeting is covered in this update.
- c. The LCIV Q3 investment forum is scheduled to take place on 23 September. The day will comprise of an introductory presentation from J.P. Morgan. This presentation will be followed by a panel discussion, giving an opportunity to hear from both Baillie Gifford (LCIV Diversified Growth Fund) and Newton (LCIV Real Return Fund) in an open discussion on their approaches to some key topics.
- d. General Shareholder meeting (AGM) 18 July 2019). This meeting required representation from all 32 boroughs and this was attended by Councillor Martin Goode. Some of the contents covered at that meeting has been covered in this update

8.2.2 Pension Cost Recharge Agreement and Pension Guarantee

- a. LCIV are seeking authorisation of the above agreements. There have been delays in resolving this issue due to concerns of escalating costs as staff numbers grew.
- b. It was deemed by the Section 151 Officer that the Chief Executive Officer of the LCIV has set out sufficient checks and balances to ensure costs do not escalate. S151 consultation with other Society of London Treasurers (SLT) colleagues has also shown other London Authorities willingness to sign the agreements. These agreements have now been signed and sealed and sent to the LCIV.

8.2.3 Remuneration Policy Review

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- a. LCIV Board commissioned a review of LCIV's Remuneration Policy earlier this year, including all options for the pension scheme. A sub-group of the Remuneration and Nominations Committee has overseen that work and the report was presented to the Board on the 8 July 2019 which sought feedback from the Shareholder Committee on its preferred option on 18 July 2019.
- b. The Board has decided to seek further soundings from the boroughs to inform its decision as to the way forward in respect of the pension scheme. A letter was sent out on the 13 August 2019 setting out options and this is covered in a separate report on this agenda.

8.2.4 Responsible Investment & Stewardship

- a. At the April Shareholder Committee LCIV discussed "next steps" to make their Responsible Investment policy a reality.
- b. When Mark Thompson joins as Chief Investment Officer on 2 September 2019 he will be leading LCIV's Responsible Investment work.
- c. The LCIV are also working on hosting an ESG focused event on 16 October 2019 which will provide an opportunity to discuss the Big Questions around our approach to pooling and Environmental, Social and Governance (ESG as part of that).
- d. Feedback was invited on ESG issues to inform the ongoing programme of activity and the September event. Hymans provided a number of comments and this was passed to LCIV as part of their feedback request.

8.2.5 Service level Agreements

- a. The LCIV is in the process of developing a Service Level Agreement with all the boroughs. Officers were sent a draft of this to which feedback was provided. LCIV will consider all the feedback and are planning on sending a revised draft out in due course.

8.2.6 Shareholder Agreement amendment

- a. LCIV proposed a change to its operating and business model so that it can evolve with the expectations of the pool and introduce flexibility to provide for future potential changes and choices. This change is dependent on all 32 boroughs signing the agreement. Currently there is one borough yet to sign but it is understood that legal opinion is being sought and hopefully this can be progressed after the September round of Committee meetings.

9. LGPS GENERAL UPDATES:

9.1 LGPS GOVERNANCE

- a. A 'Good Governance Report in the LGPS' was produced by Hymans in July at the request of the Scheme Advisory Board (SAB) The full report can be seen as a separate item on this agenda.

9.2 LGPS CONSULTATIONS

- a. A consultation was issued by the Minister of Housing, Communities and Local Government (MHCLG) in May 2019 "*LGPS - Changes to the Local Valuation Cycle and the Management of Employer Risk*", deadline was the 31 July 2019. This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales.
- b. It covered the following areas:
- Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle
 - A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles
 - Proposals for flexibility on exit payments
 - Proposals for further policy changes to exit credits
 - Proposals for policy changes to employers required to offer LGPS membership
- c. The London Borough of Havering's response to the consultation endorsed those comments raised by the Funds Actuaries Hymans Robertson LLP who submitted a response on the 2 July 2019 and also endorsed the submission as presented by The Society of London Treasurers (SLT). In summary of the above areas Havering supported the view:
- that fund valuations should **not move** from a 3 to a 4 year cycle.
 - Supported flexibility on being able to spread exit payments subject to meeting appropriate security arrangements
 - that exit credit should only apply after the change in regulations that were made from 14 May 2018.



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

The Committee has been constituted by the Council to perform the role of administering authority to manage the Newham LGPS Fund and as such has legal authority to make the decisions sought by the recommendations.

Human Resources implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

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.

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

BACKGROUND PAPERS

None