



PENSIONS COMMITTEE

10 December 2019

Subject Heading:

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

CLT Lead:

Jane West

Report Author and contact details:

***Chrissie Sampson/Debbie Ford
Pension Fund Accountant (Finance)
01708432569***

Policy context:

Debbie.ford@onesource.co.uk

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 Sept 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 Sept 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:

Stafford Capital Partners Ltd

Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers

RECOMMENDATIONS

That the Committee:

- 1) Note Hymans Market Background and Outlook Report (Appendix A)
- 2) Note Hymans Strategic Overview Report (Appendix B).
- 3) Note Hymans Manager Performance Report (Appendix C).
- 4) Note Hymans Performance Report and views (Appendix D and E Exempt)
- 5) Receive presentations from the Fund's infrastructure manager Stafford Capital (Appendix F – Exempt)
- 6) Note the quarterly reports sent electronically, provided by each investment manager.
- 7) Note the analysis of the cash balances

REPORT DETAIL

1. After a review of the contents of the quarterly performance report, we acknowledged that there was 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, B and C refers**). Elements covering views on Fund manager performance will remain as exempt and will be shown in **Appendices 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

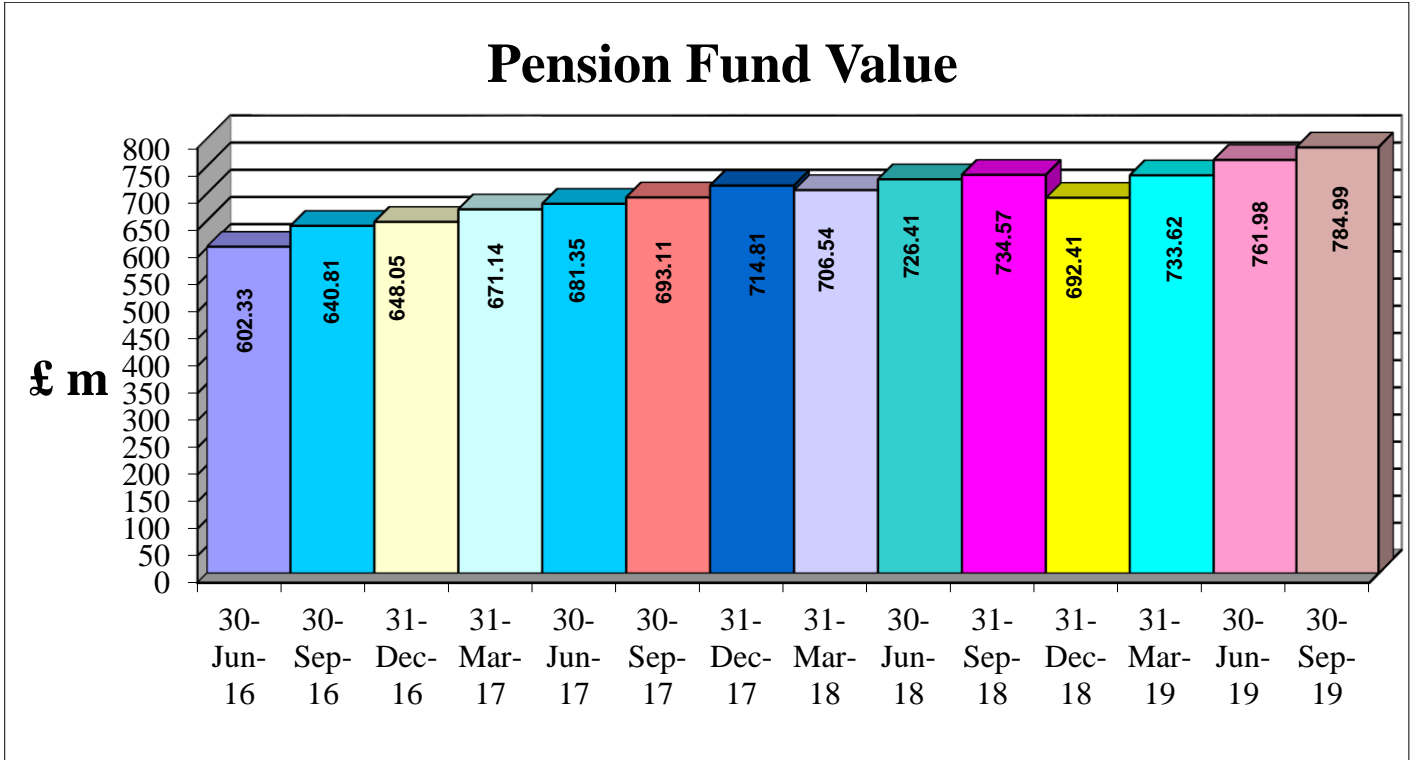
4. BACKGROUND

- 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 Sept 2019 was **£784.99m** 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 £761.98m at the 30 June 2019; an **increase of £23.00m**. Movement in the Fund value is attributable to an increase in assets of £20.97m and an increase in cash of £2.03m. Internally managed cash level stands at **£17.799m** 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 30.09.19	12 Months to 30.09.19	3 Years to 30.09.19	5 years to 30.09.19
	%	%	%	%
Fund	3.0	6.9	6.8	7.7
Benchmark	2.7	8.3	6.0	7.0
*Difference in return	0.3	-1.3	0.8	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	3.0	6.9	6.8	7.7
Benchmark	8.1	20.3	6.7	11.4
*Difference in return	-4.7	-11.1	0.1	-3.3

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** 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 **£17.799m** 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 Sept</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	19611
Management costs	1,221	1,490	519
Net Transfer Values	1,108	1,543	-597
Employee/Employer Contributions	-42,851	-44,804	-24,886
Cash from/to Managers/Other Adj.	-785	7,925	1,322
Internal Interest	-113	-148	-70
Movement in Year	-4,888	3,960	-4,101
Balance C/F	-17,658	-13,698	-17,799

- b. Members agreed the updated cash management policy at its meeting on the 17 September 2019. The policy sets out that the target cash level should be £6m but not fall below the de-minimus amount of £3m or exceed £8m. 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 £8m 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). The college mergers asset transfer values are in the process of being finalised and it is expected that the transfer of cash will be paid during 2020.

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**.
- 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 **Stafford Capital (the Funds Infrastructure Manager)** and their presentation can be found at **Appendix F (exempt)**

8. FUND UPDATES:

8.1 Changes made in previous quarter and forthcoming changes/events

- a. The Fund has continued to fund capital draw down requests: £2.8m for Permira, c£2.3m for Churchill and c£0.8m for Stafford Capital during the last quarter.
- b. Northern Trust who was appointed to provide Custodial and performance measurement services is now on boarded with a contract commencement date of the 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 have been processed and the contract will commence from 21

November 2019. On receipt of the contract they will now continue to finalise the on boarding process before trading can commence.

- d. Following the Committee decision at its September meeting, Officers are in the process of changing the mandate with Royal London to include an allocation to its Multi Asset Credit product.

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 Q3 investment forum took place on 23 September 2019. The day comprised of an introductory presentation from the new LCIV Emerging Market Equity Fund manager who discussed their approach to investing in Emerging Markets. A panel discussion followed, giving an opportunity for Baillie Gifford (LCIV Diversified Growth Fund) and Newton (LCIV Real Return Fund) to discuss how Multi –Asset and Diversified Growth Funds fit into a pension portfolio

8.2.2 Pension Cost Recharge Agreement and Pension Guarantee

- a. LCIV are seeking authorisation of the above agreements. There have been ongoing delays in resolving this issue due to concerns of escalating costs as staff numbers grow.
- 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.
- c. Not all boroughs have signed the agreements (17 signed) so the current pension position remains until all boroughs have signed the agreements – this also applies to the proposed new remuneration policy.

8.2.3 Responsible Investment & Stewardship

- a. At the April 2019 Shareholder Committee LCIV discussed “next steps” to make their Responsible Investment policy a reality.
- b. It was anticipated that the new Chief Investment Officer who started on the 2 September 2019 would be leading LCIV’s Responsible Investment work. His subsequent surprise resignation announced on

the 25 September 2019 has now left a void in this area. Whilst LCIV consider their next steps an interim resource, Dawn Turner, former CEO of the LPGS pool company Brunel has been commissioned to conduct an Environmental, Social and Governance (ESG) Stock Take of London CIV and shareholder funds.

- c. The LCIV hosted an ESG focused event on 16 October 2019. Opportunity to discuss approach to pooling and (ESG), attended by Officers.
- d. An ESG Stock take survey was issued on the 31 October 2019 to all the boroughs to seek and collate their views with the intention being to make recommendations to the LCIV Board in November and the Shareholders Committee in December/January. The Fund submitted its response to the survey within the prescribed deadline. This was distributed to members via email on the 6 November 2019

8.2.4 Governance Review Questionnaire

- a. Shareholders approved a new corporate governance framework at the July 2018 AGM where it was agreed to review the framework after one year of operation. This is to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively and the focus for change to be on how the governance framework is used rather than a major change to a framework.
- b. The LCIV issued a Governance Review Questionnaire on the 11 November requesting responses by the 30 November 2019.
- c. Havering responded to the survey online within the deadline and a copy will be circulated when this is available.
- d. LCIV expect to provide feedback from the survey to the Shareholder Committee meeting on the 16 December 2019

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 back in July 2019. LCIV will consider all the feedback and are planning on sending a revised draft out in due course. No further updates have been received as to the progress of this document.

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. Havering signed in February 2019.
- b. A letter has been sent to Pension Committee chairs from the borough that has yet to sign, seeking consensus and support for their proposal that additional costs arising from the expanded business activities are charged directly, based on usage and not recharged to all shareholders. It is expected that this will be discussed at the London Finance Advisory Committee (LFAC) and /or (SLT) meeting in order to assess opinions from the other boroughs before responding.

8.2.7 LCIV Sub Fund Updates

- a. LCIV consulted on two potential investment proposals:
 - LCIV Global Equity Value Fund – LCIV consulted seeking potential demand for this product. Havering responded explaining that this product could be considered when the committee review equity exposure as part of the Investment Strategy Review. However it is likely to explore alternative strategies
 - LCIV Sustainable Exclusion Investment Fund – LCIV consulted seeking potential demand for this product. Havering responded that given the stage of development of the Committee’s Responsible Investment policy, current focus is on active stewardship as a first step to promote shareholder value and it is too soon to currently pursue an exclusionary approach for the Havering Fund.
- b. Private Debt and Liquid Loans product - due to the limited commitments in terms of assets under management and the time it has taken to get to the launch – the Fund Manager has decided to withdraw this product and LCIV are currently looking at options to find a replacement manager.
- c. LCIV Infrastructure fund – LCIV have partnered with StepStone to launch the Infrastructure fund. Six boroughs have invested with initial commitments of £399m.

8.2.8 Pooling progress

- a. The Minister of Housing, Communities and Local Government (MHCLG) requested an indicative projection of shareholder member pooling intentions, costs and cost savings over the next four years

LCIV submitted their pooling update report to the (MHCLG) in assist them in establishing a picture of pooling progress across the LGPS.

8.3 LGPS GENERAL UPDATES:

8.3.1 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 SAB has asked Hymans to assist with the next stage of the project, which involves setting up two working groups to look at the outcomes and options for independent assessment/measurement of the outcomes.
- b. On 6 November the SAB will receive the report from the phase 2 working groups. They will make a number of proposals to form a framework. Any proposals agreed by SAB will be subject to consultation before being put to MHCLG

8.3.2 FRC UK Stewardship Code

- a. The (FRC) has launched it updated UK Stewardship Code. The Code was last reviewed in 2012. It takes effect from 1 January 2020 and introduces new best practices standards.
- b. Current guidance for LGPS funds suggests that Funds should become signatories to the Stewardship Code. Havering is currently not yet signed up but fully endorses the principles of the Stewardship Code.

8.3.3 Cost Transparency

- a. The SAB has appointed Byhiras to develop and host the Compliance and Reporting system which is expected to be available from Quarter 1 2020. The system will enable managers to evidence compliance with the Code via a single online portal, upload template in LGPS format and allow data to link to CIPFA reporting formats.

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 Havering 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.

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

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

BACKGROUND PAPERS

None