



PENSIONS COMMITTEE

17 March 2020

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED DECEMBER 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 31 Dec 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 31 December 2019. Where relevant, significant events that occur after production of this report will be addressed verbally at the meeting.

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 manager will be invited to join the meeting and make their presentation.

The manager attending the meeting will be from:

J.P. Morgan Asset Management

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 Manager Performance Report (Appendix C).
- 4) Consider Hymans Performance Report and views (Appendix D and E Exempt)
- 5) Receive presentations from the Fund's infrastructure manager J.P. Morgan (Appendix F – Exempt)
- 6) Consider 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 Fund's 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

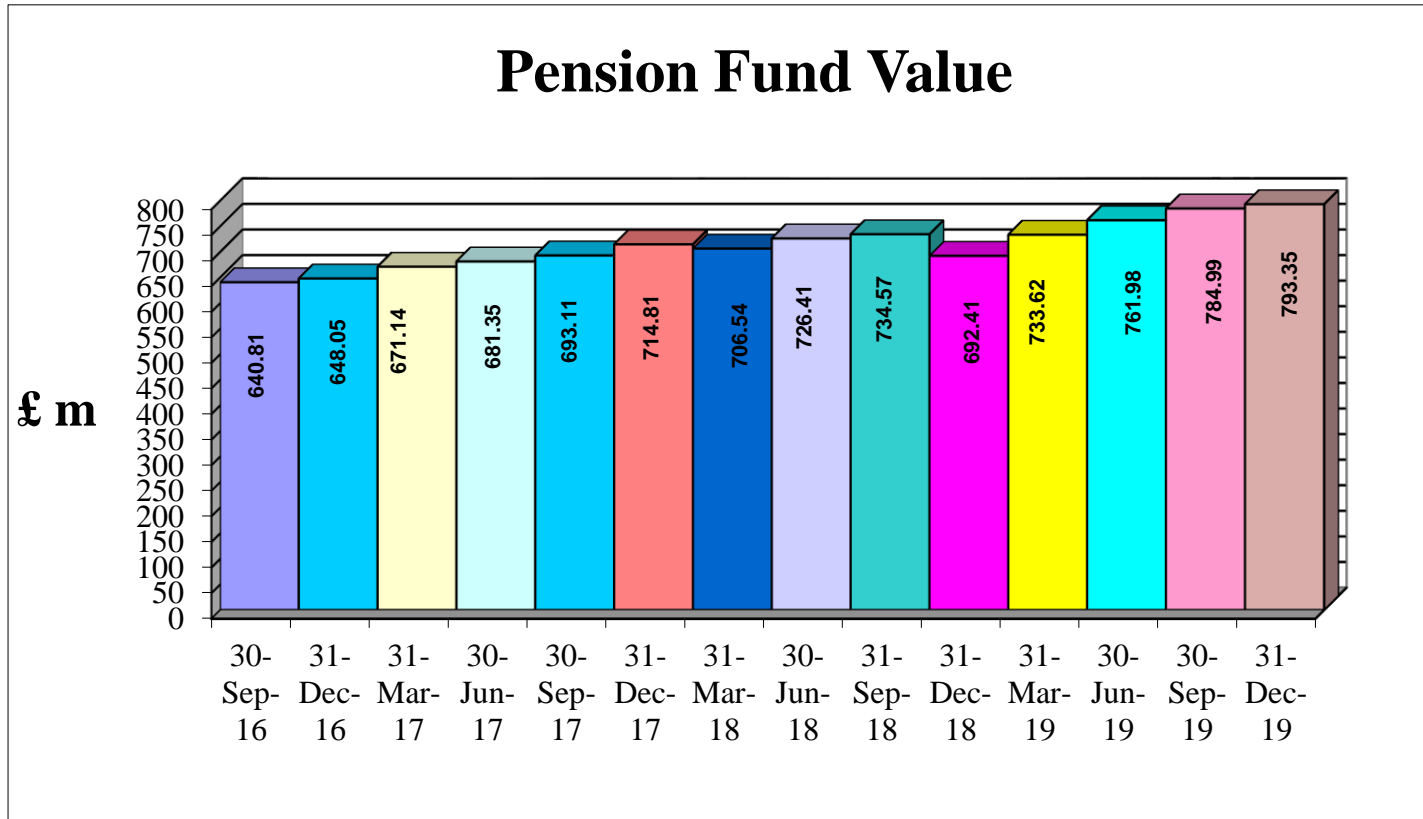
4. BACKGROUND

- 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 31 December 2019 was **£793.35m**. This is the first quarter where performance data has been provided by Northern Trust. This compares with a Fund value of £784.99m at the 30 Sept 2019; an **increase of £8.36m**. Movement in the Fund value is attributable to an increase in assets of £1.54m and an increase in cash of £6.82m. Internally managed cash level stands at **£22.067m** 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 31.12.19	12 Months to 31.12.19	3 Years to 31.12.19	5 years to 31.12.19
	%	%	%	%
Fund	0.54	13.99	6.51	7.16
Benchmark	0.40	11.20	5.63	6.40
*Difference in return	0.15	2.79	0.88	0.76

Source: Northern Trust

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 return reflects the historic funding approach; the value of the Fund’s liabilities was expected to have fallen in Q4 2019 based on this measure, since the value of index-linked gilts fell (real yields rose). Since the strategic benchmark return relates to the expected change in the value of the Fund’s

liabilities, it is mainly driven by the assumed level of investment return used by the Actuary. It will be necessary to review this measure on the back of completion of the 2019 actuarial valuation, and we propose to address this alongside the strategy 'health check, current position is shown as follows:

Table 2: Annual Performance

	Quarter to 31.12.19	12 Months to 31.12.19	3 Years to 31.12.19	5 years to 31.12.19
	%	%	%	%
Fund	0.54	13.99	6.51	7.16
**Benchmark	-8.02	8.17	4.58	7.78
*Difference in return	8.56	5.81	1.94	-0.62

Source: Northern Trust

*Totals may not sum due to geometric basis of calculation and rounding.

** Negative to be addressed as per note 5c above.

- 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 **£22.067m** 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>31 Dec</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	29,375
Management costs	1,221	1,490	831
Net Transfer Values	1,108	1,543	-1,257
Employee/Employer Contributions	-42,851	-44,804	-36,355
Cash from/to Managers/Other Adj.	-785	7,925	-845
Internal Interest	-113	-148	-118
Movement in Year	-4,888	3,960	-8,369
Balance C/F	-17,658	-13,698	-22,067

- 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).

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 **J.P. Morgan (the Funds Infrastructure Manager)** and their presentation can be found at **Appendix F (exempt)**

8. FUND UPDATES:

8.1 Changes made since previous quarter and forthcoming changes/events

- a. The Fund has continued to fund capital draw down requests: £2.2m for Permira, c£6.5m for Churchill and c£3.7m 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. The contract commenced 11 December 2019.
- d. Following the Committee decision at its September meeting, Officers have now changed the mandate with Royal London to include an allocation to its Multi Asset Credit (MAC) product. The MAC mandate commenced 21 January 2020. The Royal London Account has now been split with the Corporate Bonds in a separate account which will fund the capital call requests for the Private Debt mandates.

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. 30 January 2020 – Annual Shareholder meeting. Attended by Councillor Crowder. Some of the topics discussed at the meeting are already covered in the updates within the LCIV section. Not included in the updates that follow was the proposal to increase fees from 2020/21 for each borough by £20k from £90k to £110k. The Development Fund Charge (DFC) element of £85k will reduce if assets under management position improves materially in the second half of the year. Based on the 2018 budgets the DFC should have been £65k in 2020/21.
- b. 05 February 2020 - ESG Opportunities Workshop – Focused on two potential investment opportunities, a 100% Renewable Fund and the London Fund. The London Fund is a partnership with LPP and LPFA, with a focus on investments in London and on its immediate surrounds, in assets such as residential property – specifically build-to-rent – and affordable housing, community regeneration projects and infrastructure. Attended by Officers.
- c. 13 February 2020 – LCIV Q 1 Investment Forum – includes presentation from the LCIV Sustainable Equity Fund manager, followed by an Infrastructure panel discussion to ascertain manager’s approach to Infrastructure.
- d. 24 February 2020 – Governance workshop - to discuss the findings from the Governance Review and possible next steps. Officers to attend this meeting.
- e. 5 March 2020 - Proxy Voting and Engagement Services - one of the recommendations following the RI/ESG Stocktake was to explore the option of procuring Proxy Voting and Engagement Services. Havering, amongst some other boroughs have been invited to receive

presentations from service providers to understand what is available and to assess whether it would be of value.

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. Havering has signed both agreements. As some boroughs have yet to sign the agreements the current pension provision will remain until all boroughs have signed (at time of writing this report there are ten boroughs yet to sign).

8.2.3 Responsible Investment & Stewardship

- a. Dawn Turner, former CEO of the LPGS pool company Brunel was commissioned by the LCIV to conduct an ESG Stock Take of London CIV and shareholder funds.
- b. Upon completion of the stocktake a report was presented to the Board for consideration with 29 recommendations and they have broadly endorsed the way forward proposed. The Executive will be reporting back to the Board with an implementation plan which is expected to include feedback from the Shareholders meeting (held on the 30 January 2020) and Fund investors.
- c. Dawn Turner has been asked by the LCIV to assist in the progression of some of those recommendations.

8.2.5 Service level Agreements (SLA)

- a. The LCIV has now issued their updated version of the SLA for the Havering Fund. Officers have requested a few minor changes and once corrected can be considered for approval.

8.2.6 Shareholder Agreement amendment

- a. LCIV proposed at the July 2019 GM 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 and another which is reconsidering its position?

- b. It was proposed at the 30 January 2020 shareholder meeting to agree to progress with proposals to apply for additional regulatory permissions (once all 32 Change of business purpose letters are signed). It has also been confirmed that individual LLAs who opt not to take those additional services (once the business proposals are agreed) **will not be charged** the related costs which was a previous obstacle to those boroughs yet to sign.
- c. It's not clear when and if the agreement will ever be signed and without it the LCIV can't change its operating model and this will not be able to deliver its new governance arrangements on investments potentially slowing down fund launches.

8.2.7 Sub Fund Updates

- a. LCIV are currently seeking interest in two new funds – 100% Renewable Energy Fund and an Impact Fund (London Fund) in partnership with the LPFA and LPP. Havering will consider the appropriateness of these funds when more detail is available.

8.2.8 Staffing update

- a. Appointed Kevin Corrigan as Interim Chief Investment Officer (CIO). Rob Hall appointed as Deputy CIO (post has already been advertised). Interim appointment made to the Investment Risk & Performance Manager and Fixed Income consultant posts. Two new Investment analysts appointed and one Investment Data analyst.
- b. The Head of Fixed Income has resigned and the Director of Client Relations is retiring at the end of March 2020.

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.
- c. The phase 2 working group reported to the November board meetings and they have accepted the recommendations and agreed to commence to phase 3, which will see the SAB:
 - establish 10 -15 key indicators
 - consolidate and update all related Guidance

- ask the National Framework to begin work on establishing Independent Governance Review provider
 - There will be training and a “peer challenge”
- d. No changes to legislation is expected

8.3.2 Transparency Code

- a. Cost Transparency Initiative (CTI) - Established November 2018, it is a partnership between the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the LGPS Advisory Board. As of 21st May 2019 a new framework of templates and guidance was released by the CTI. New signatories will be expected to complete the new templates.
- b. 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.

8.3.3 Scheme Advisory Board (SAB) update

- a. **Responsible Investment** - They are preparing guidance for consultation on Responsible Investment, which will be published on the SAB website in the autumn. They are working with MHCLG and special interest groups to agree an appropriate method for measuring the performance of LGPS fund authorities on ESG policy.
- b. **McCloud** - Employment Tribunals underway (October to December). It is still not known when and what the remedy will be or how much it will cost and may go beyond the 2020/21 financial year.

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 consider and note the Report and presentations.

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

BACKGROUND PAPERS

None