



PENSIONS COMMITTEE

29 July 2020

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED MARCH 2020**

CLT Lead:

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Policy context:

Pension Fund Manager performance is regularly monitored to ensure investment objectives are met.

Financial summary:

This report comments upon the performance of the Fund for the period ended 31 March 2020

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: Fund investment performance, Manager Monitoring and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending 31 March 2020. Significant events that occur after production of this report will be addressed verbally at the meeting.

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

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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**) – **NO LONGER ATTENDING**
- 6) Consider the quarterly reports sent electronically, provided by each investment manager.
- 7) Note the analysis of the cash balances

REPORT DETAIL

1. Elements from Hymans report which are deemed non confidential can now be found in separate appendices (**Appendix A, B and C refers**). Opinions on Fund manager performance will remain as exempt and 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

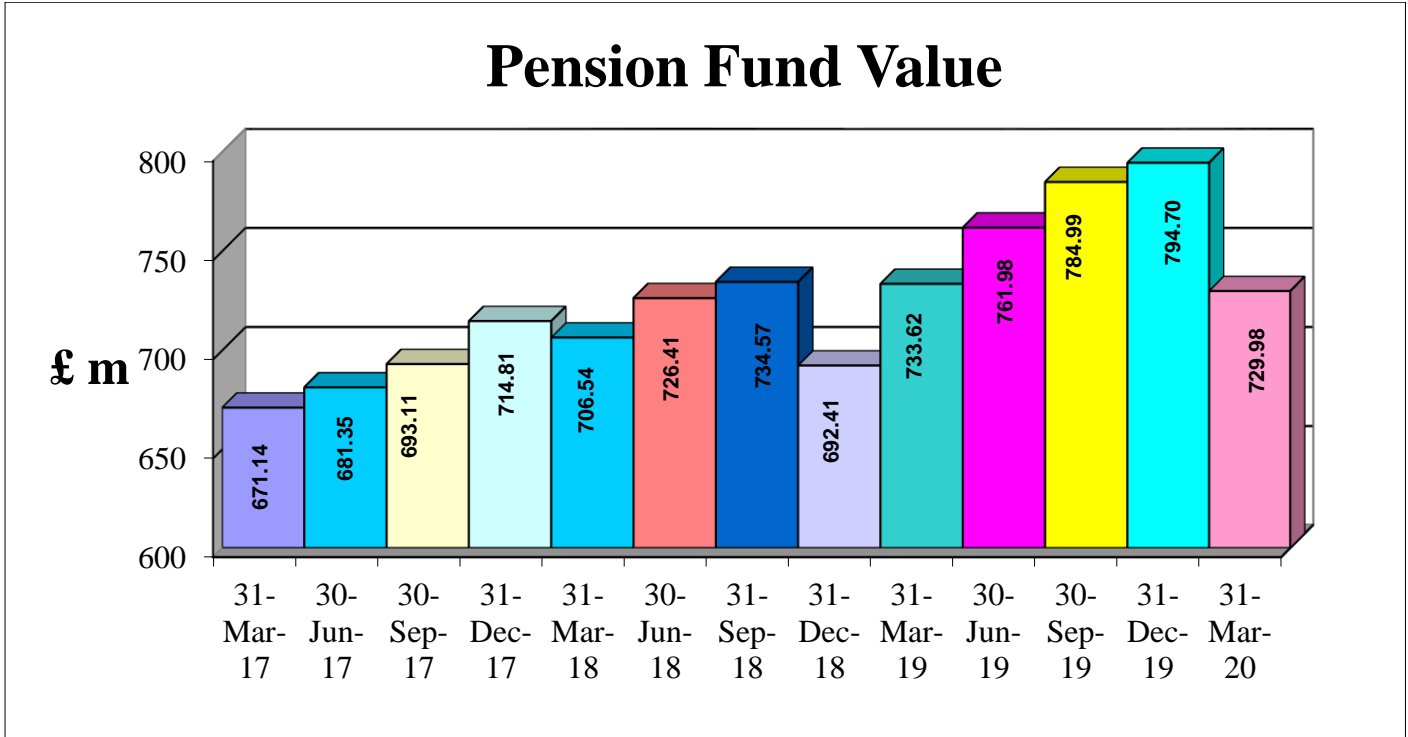
- a. The Committee adopted an Investment Strategy Statement (ISS) in November 2017.
- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities
- c. The Fund's assets are monitored quarterly to ensure that the long 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, Northern Trust, the total combined fund value at the close of business on 31 Mar 2020 was **£729.98m**. This compares with a Fund value of £793.35m at the 31 Dec 2019; a **decrease of -£63.37m**. Movement in the Fund value is attributable to a decrease in assets of -£67.14m and an increase in cash of £3.77m. Internally managed cash level stands at **£23.056m** of which an analysis follows in this report. It should be noted that the financial year-end coincided with the lowest point in a sharp downturn global stock markets following the pandemic declaration this was followed by a sharp recovery. Fund asset value

has contracted by only £3.64m from the figure at 31 March 2019 and used in the triennial valuation.

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 31.03.20	12 Months to 31.03.20	3 Years to 31.03.20	5 years to 31.03.20
	%	%	%	%
Fund	-8.34	-1.55	2.21	4.39
Benchmark	-6.28	-0.34	2.62	4.35
*Difference in return	-2.06	-1.21	-0.40	0.03

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 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. The intention is to review this measure following the 2019 actuarial valuation, and this will be addressed alongside the strategy review current position is shown as follows:

Table 2: Annual Performance

	Quarter to 31.03.20	12 Months to 31.03.20	3 Years to 31.03.20	5 years to 31.03.20
	%	%	%	%
Fund	-8.34	-1.55	2.21	4.39
**Benchmark	2.12	3.89	4.50	7.53
*Difference in return	-10.46	-5.44	-2.29	-3.15

Source: Northern Trust Performance Report

**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 **£23.056m** 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>2019/20</u> <u>31 Mar</u> <u>20</u>
	£000's	£000's	£000's
Balance B/F	-12,770	-17,658	-13,698
Benefits Paid	36,532	37,954	38,880
Management costs	1,221	1,490	1,107
Net Transfer Values	1,108	1,543	-2,789
Employee/Employer Contributions	-42,851	-44,804	-47,508
Cash from/to Managers/Other Adj.	-785	7,925	1,154
Internal Interest	-113	-148	-202
Movement in Year	-4,888	3,960	-9,358
Balance C/F	-17,658	-13,698	-23,056

- 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 threshold. This policy includes drawing down income from the bond and property manager when required.
- c. The cash management policy includes a discretion that allows the Statutory S151 officer to exceed the target level to meet unforeseeable payments such as the college transfer. £15m of this cash will be used to fund the college merger in July 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 J.P.Morgan (the funds infrastructure manager) and their presentation can be found at Appendix F (Exempt). NO LONGER ATTENDING

8. FUND UPDATES:

8.1 Changes made since the last report and forthcoming changes/events (some comments in this section are repeated from the monitoring report submitted for the 17 March 2020 as that report was not formally considered but are deemed relevant enough to be retained):

- a. The Fund has continued to fund capital draw down requests: c£3.5m for Churchill and c£1.7m for Stafford.
- b. Northern Trust was appointed to provide Custodial and performance measurement services with effect from 1 October 2019.
- c. The Fund appointed Russell investments on 11 December 2019 to implement a currency hedge for the Fund.

- 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 Corporate Bonds held in a separate account to fund capital call requests for the Private Debt mandates.
- e. Funding of the college bulk transfer to the London Pension Fund Authority (LPFA) - Negotiations for the settlement are currently being finalised with the settlement likely to be in the region of £40m which is in line with the estimated amount reported previously to the Pensions Committee and Cabinet. This will be settled in two payments – first payment of £30m was made on the 15 July 2020 and the balancing payment due on the 5 August 2020. Following on from the Cabinet decision to delegate authority to Chief Operating Officer/s151 Officer, a non-key decision report has been processed that agreed the route for disinvestment to fund the college transfer.

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 the assets under management position improve 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 – Environmental, Social and Governance (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 Q1 Investment Forum – includes presentation from the LCIV Sustainable Equity Fund manager, followed by an Infrastructure panel discussion to ascertain manager's approach to Infrastructure.

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- d. 24 February 2020 – Governance workshop - to discuss the findings from the Governance Review and possible next steps. Officers attended this meeting.
- e. 5 March 2020 - Proxy Voting and Engagement Services - one of the recommendations following the Responsible Investment (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.
- f. 16 April, 21 May and 18 June 2020 - Business update meetings (via WebEx). A range of topics covered including:
 - i. Outline of their Governance framework, Manager selection process, Manager oversight process and fund processes
 - ii. COVID-19 market implications on the sub funds
 - iii. Outline of the role of the Cost Transparency Working Group (CTWG) – chaired by John Turnball at Waltham forest. Meetings to commence May 2020 They have a number of objectives but will be looking at assisting boroughs with reporting requirements and will be conducting a fee model review. As minutes are going to be shared further updates will be shared with the committee.
 - iv. Updates on the Cost Transparency Initiative (CTI)
 - v. Climate change indices
- g. 11 June 2020 - Cost Transparency Initiative (CTI) Reporting workshop – Purpose of the meeting was to explain the process LCIV went through to create the CTI reports that were circulated to client funds and to give client funds the opportunity to ask questions on the process and interpretation of the reports.
- h. 16 July 2020 - LCIV Annual General Shareholder (AGM) meeting. At the time of writing this report no papers have been released. Feedback can be provided by the Chair on the evening of this meeting.

8.2.2 Pension Cost Recharge Agreement and Pension Guarantee

- a. LCIV were seeking authorisation of the above agreements. There had been ongoing delays in resolving this issue due to concerns of escalating costs as staff numbers grow.
- b. All 32 boroughs have now signed the Pensions Guarantee agreement, and the new 32 party agreement is now in place as of 28th May 20. This enabled the LCIV to move forward on the closure of the final salary pension scheme to new hires, with a replacement scheme in its place

from 1st June 2020, this should deliver a saving of £370k per annum on pension contributions made by the LCIV.

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 had been asked by the LCIV to assist in the progression of some of those recommendations. Jacqueline Jackson who has been appointed as Head of Responsible Investment in June 20 will review work undertaken to date before progressing.

8.2.5 Service level Agreements (SLA)

- a. A revised version of the SLA has been received and Officers will review and consider for approval.

8.2.6 Shareholder Agreement amendment

- a. LCIV proposed at the July 2019 General Meeting 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. LCIV now have signatures from all 32 boroughs for the agreement to the change in business purpose. This will now enable them to move forward on seeking additional Financial Conduct Authority (FCA) permissions.
- b. It was proposed at the 30 January 2020 shareholder meeting to agree to progress with proposals to apply for additional regulatory permissions. It has also been confirmed that individual LLAs who opt not to take those additional services **will not be charged** the related costs which was a previous obstacle to those boroughs that were reluctant to sign. The CTWG will be conducting the fee model review.

8.2.7 Sub Fund Updates

- a. Renewable Energy Fund – Stage 2 (mandate development stage) and progressing towards formal mandate sign-off from Executive Committee to proceed with anticipation of further discussions with the

Seed Investor Group (SIG). SIG consists of 3 boroughs with 5 other boroughs expressing interest).

- b. Impact Fund (aka London Fund - a partnership arrangement with the London Pension Fund Authority (LPFA) and Local Pensions Partnership (LPP)) – Stage 2 (mandate development stage) SIG formed with first meeting scheduled for 19th June 20. SIG consists of 2 boroughs.
- c. Inflation Plus Fund - This has now launched with seed investment from two boroughs.
- d. Private Debt – Stage 1 (Client demand) – SIG to be formed imminently. SIG to consist of 4 boroughs and 3 boroughs expressing interest
- e. Baillie Gifford Global Alpha Fund - Forthcoming changes at Baillie Gifford; Charles Plowden, Baillie Gifford's Joint Managing Partner, will retire next year on 30 April 2021. Malcolm MacColl, Portfolio Manager of the Global Alpha strategy will replace Charles Plowden as Joint Managing Partner on 1 May 2021 as well as retaining his portfolio management responsibilities within Global Alpha

8.2.8 LCIV Key Staffing updates

- a. The Director of Client Relations retired at the end of March 2020 and a new Director of Client relations joined in May 2020 - Cameron McMullen.
- b. Chief Investment Officer (CIO)- Jason Fletcher has been appointed and start on 1st July 2020, Kevin Corrigan will continue as the interim CIO until then. Rob Hall was appointed as Deputy CIO.
- c. Jacqueline Jackson has been appointed as Head of Responsible Investment in June 20

8.2.9 Governance Progress Review –

- a. Governance Workshop held on the 24 February 2020 - identified four priorities:
 - Improving pool members' involvement and engagement in achieving pooling, fund launches and manager oversight
 - Transparency and Communication
 - Improving arrangement to achieve consensus and a collective shareholder "voice".
 - Shareholder Committee Governance and board appointments and working practices

- b. Updated Shareholder Terms of Reference will be discussed and agreed at the June Board and Shareholder Committee meetings and AGM, which is being held on the 16 July 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. Due to the impact of Covid-19, to allow local government officers to concentrate on priority matters during the emergency, the Board agreed that the Phase III Implementation Working Group should be stood down until further notice. In the meantime, the project team at Hymans Robertson will continue to work on draft outcomes for consideration by the working group and the Board in due course.
- e. 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. The use of the former LGPS templates expires in May 2020.
- 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 Work of the Scheme Advisory Board (SAB):

- a. **Responsible Investment** - SAB are preparing draft guidance for Responsible Investment. Guidance will be split into two parts with the aim of the first part to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy. The second part of the guidance aims to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy statements. SAB has decided to reflect on the guidance until it has had the opportunity to evaluate the judgement handed down by the Supreme Court and when more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill.
- b. **McCloud** - SAB have been working closely with Ministry of Housing, Communities, & Local Government (MHCLG) and Government Actuary Department (GAD) to ensure that the remedy to remove age discrimination from the LGPS is robust and comprehensive. The SAB set up two working groups to assist with the development of the remedy. One policy group to assist MHCLG with areas of policy that are not centrally determined and a larger implementation group which will consider the significant challenge of implementing the remedy. The government plans to issue consultations on changes to public service pension scheme regulations in the first half of 2020.
- c. **Supreme Court decision on LGPS investment guidance** - In a judgment handed down on 29 April 2020, the Supreme Court has ruled by a narrow majority that the Secretary of State for Housing, Communities and Local Government exceeded his powers when issuing guidance in 2016 to Local Government Pension Scheme (LGPS) administering authorities which purported to prohibit the adoption of investment policies that are contrary to UK foreign policy or UK defence policy. Following the Supreme Court's decision, it is now clear that current legislation does not permit the Secretary of State to impose the government's view on foreign and defence policy on LGPS administering authorities. Although the judgement was primarily concerned with the exercise of the Secretary of State's powers, comments made may be viewed as providing support for ensuring that, when taking non-financial considerations into account in relation to investment decisions, members' views should be effectively communicated to, and considered by, administering authorities as an intrinsic part of their investment decision making processes. **Otherwise, the judgement does not change the fundamental role or duties of LGPS administering authorities in relation to their investment or other powers and confirms that administering**

authorities remain responsible for the investment decisions of their respective funds.

- d. **COVID-19** - members were advised that the following work was being carried out by the SAB to assist the scheme:
- UK wide FAQ's including guidance on furloughed staff and emergency voluntary leavers
 - New covid-19 section of the SA website at www.lgpsboard.org
 - Establishment of a Covid-19 Practitioners Group
 - Weekly meetings with MHCLG, SPPA (Scotland) and DfC (Northern Ireland)
 - Three surveys launched on schemes resilience; cash flow and governance
 - Employers Webinars
 - Scheme members FAQs

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.

Mention is made of the decision of the Supreme Court in the case of R (Palestine Solidarity Campaign) v SoS for HCLG (2020) UKSC 16 ("the Palestine case")

The issue in the case was the Guidance issued by the Secretary of State.

The Guidance prohibited the use of pension investment policies (1) to pursue boycotts and similar activities against nations against whom the UK Government does not currently impose sanctions or (2) to pursue policies which were contrary to UK foreign or defence policy. This was irrespective of whether the boycott decision met the two stage test below.

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The two stage test provides that the Administering Authority may take into account non-financial considerations when making investment decisions provided these were approved by Members and did not result in financial detriment.

LJ Wilson stated: *“The SoS is entitled to give Guidance about HOW AAs should formulate investment policies consistently with the quasi-fiduciary duty. That does NOT include power to direct WHAT investments they should not make”* (emphasis in the original)

Accordingly the decision doesn't directly affect the Council in its role as Pension Fund Administering Authority, although new legislation is being processed to address the Court's decision.

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