



PENSIONS COMMITTEE

01 October 2020

Subject Heading:

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

CLT Lead:

Jane West

Report Author and contact details:

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Policy context:

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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 30 June 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 **30 June 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.

The manager attending the meeting will be from:

J.P. Morgan Asset Management

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

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 Strategic Overview and Manager Performance Report (Appendix A)
- 2) Consider Hymans Performance Report and views (Appendix B **Exempt**)
- 3) Receive presentations from the Fund's infrastructure manager J.P. Morgan (Appendix C – **Exempt**)
- 4) Consider the quarterly reports sent electronically, provided by each investment manager.
- 5) Note the analysis of the cash balances

REPORT DETAIL

1. Elements from Hymans report which are deemed non-confidential can now be found in **Appendix A**. Opinions on Fund manager performance will remain as exempt and shown in (**Appendix B**).
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 reporting format

4. BACKGROUND

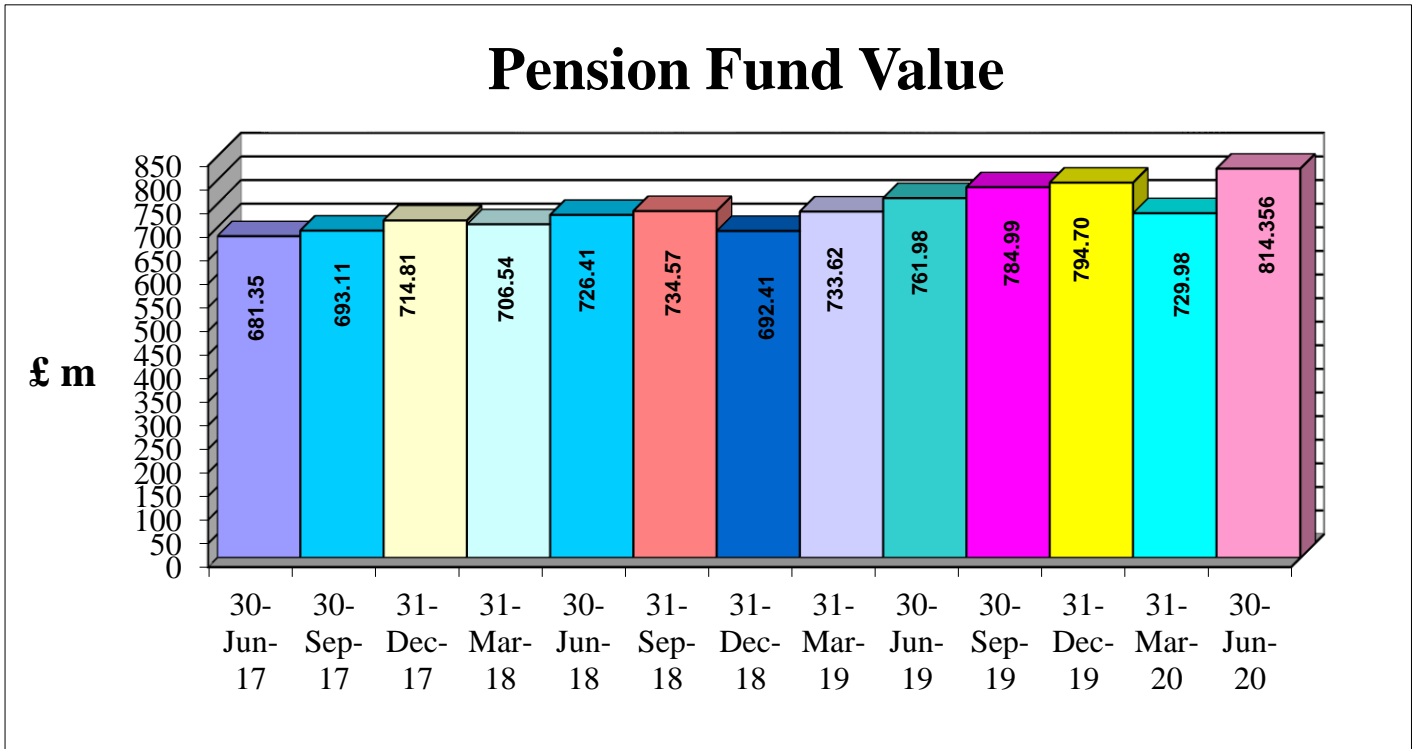
- a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.

- 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 30 June 2020 was **£814.36m**. This compares with a Fund value of £729.98m at the 31 Mar 2020; an **increase of £84.38m**. Movement in the Fund value is attributable to a increase in assets of £86.67m and an decrease in cash of -£2.29m. Internally managed cash level stands at **£24.781m** of which an analysis follows in this report. It should be noted that in this quarter the Fund has recovered all the losses sustained following the pandemic declaration on 13 March 2020 that triggered a severe downturn on global markets and an unprecedented contraction in the major economies.

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 31.06.20	12 Months to 31.06.20	3 Years to 31.06.20	5 years to 31.06.20
	%	%	%	%
Fund	11.35	5.76	5.50	7.13
Benchmark	8.09	4.50	5.22	6.37
*Difference in return	3.27	1.26	0.28	0.76

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. 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.:

Table 2: Annual Performance

	Quarter to 31.06.20	12 Months to 31.06.20	3 Years to 31.06.20	5 years to 31.06.20
	%	%	%	%
Fund	11.35	5.76	5.50	7.13
**Benchmark	10.70	12.42	8.77	10.25
*Difference in return	0.65	-6.67	-3.27	-3.12

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 A** 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 **£24.781m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2018/19</u> <u>31 Mar</u> <u>19</u>	<u>2019/20</u> <u>31 Mar</u> <u>20</u>	<u>2020/21</u> <u>30 Jun</u> <u>20</u>
	£000's	£000's	£000's
Balance B/F	-17,658	-13,698	-23,056
Benefits Paid	37,954	38,880	9,807
Management costs	1,490	1,107	178
Net Transfer Values	1,543	-2,789	84
Employee/Employer Contributions	-44,804	-47,508	-12,455
Cash from/to Managers/Other Adj.	7925	1,154	723
Internal Interest	-148	-202	-62
Movement in Year	3,960	-9,358	-1,725
Balance C/F	-13,698	-23,056	-24,781

- 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. Following the £15m withdrawal from internal cash to fund the college merger in July (explained below) the cash balance had fallen to £10.06m at 31 August 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 A**.
- 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 JP Morgan (the funds infrastructure manager) and their presentation can be found at Appendix C (Exempt).

8. FUND UPDATES:

8.1 Changes made since the last report and forthcoming changes/events:

- a. The Fund has continued to fund capital draw down requests: c£1.7m for Churchill and c£0.86m for Stafford.
- b. Funding of the college bulk transfer to the London Pension Fund Authority (LPFA) – A final settlement figure of £41.41m has now been agreed and paid to the LPFA. The first payment of £30m (includes £15m from internal cash) was made on the 15 July 2020 and the balancing payment of £10.41m was paid 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. 16 July 2020 - LCIV Annual General Shareholder (AGM) meeting:
 - Regulatory Capital Statement - approved.
 - Governance Review - noted the Governance Progress Review and confirmed that the arrangements, introduced and in the progress of being implemented, address concerns about the need for increased levels of shareholder engagement, including the fund launch process, responsible investment and engagement about cost transparency.
 - Agreed revised Shareholder Committee Terms of Reference
 - Approved the Disputes and Deadlock Procedure. All shareholders will be requested to confirm that they undertake to be bound by decisions made by the procedure.
 - Remuneration & nomination – update on appointment and approved the reappointment of various member appointments.

- b. 20 August 2020 - Business update meetings (via WebEx). A range of topics covered included performance updates:
 - Chief Investment Officer – covered current Fund offering, Fund performance, update on funds for which enhanced monitoring is in place pipeline for new fund launches
 - Update from Director of Compliance and Risk and the Head of Responsible Investment - explained the timelines to meet regulatory requirements under the Shareholder Rights Directive II (SRDII) which requires greater transparency on shareholder engagement. Officers will enquire as to how this impacts our Fund and report back to the Committee, if necessary.
 - MHCLG 2020 Asset Pooling Update Return – Sets out progress on pooling and Funds intentions to pool over the next three years –deadline was 28 August 2020.

8.2.2 Review of the LCIV Funding Model

- a. London CIV and Ernst and Young (EY) presented a Funding Model workshop on the 7th August 2020, its purpose being to review the existing LCIV funding model and to consider different funding options.

- b. Client funds were asked to complete a questionnaire to seek their views on the current funding model and possible future models, 24 clients (including Havering) responded.

- c. Feedback and key views from the questionnaire were:

- Client funds generally felt that the current funding model is clear and transparent, and are reasonably satisfied; there was an overall feeling of reasonable value for money.
 - Client funds were broadly split on whether a new funding model was required, but there was a strong preference for a fee that evolves over time.
 - There was a strong preference not to increase ad valorem fees or to have a standard ad valorem fee. Most clients would prefer a mix between fixed and ad valorem.
- d. Various funding options were proposed and discussed in the workshop and EY/LCIV to take on board views from questionnaire and workshop to further develop the options.
- e. EY/LCIV to further discuss the funding model with the Transparency Working group meeting in early September.
- f. A further report discussing funding options will be presented to the LCIV board in September.

8.2.3 Responsible Investment & Stewardship

- a. Jacqueline Jackson who has been appointed as Head of Responsible Investment in June 20 will review work undertaken to date before progressing.
- b. Focus will be looking at new regulations required due to the UK Stewardship Code, the Shareholder Rights Directive II and the UN PRI's expectations on Climate Related Financial Disclosures. LCIV are working on ensuring that they have all the necessary arrangements in place to deliver to these requirements.

8.2.4 Sub Fund Updates

- a. Global Equity Core Fund – Stage 6 – Fund Launch Stage. First investment in this fund expected Aug/Sept.
- b. 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).
- c. 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) Meeting with LPP to take place in August to determine next steps and client

demand. 2 client funds have expressed interest. The first closure due at the end of the year.

- d. Private Debt – Stage 2 (Mandate Development Stage) – Paper to be presented to Executive committee in for mandate approval. SIG to consist of 4 boroughs and 3 boroughs expressing interest.

8.2.5 LCIV Key Staffing updates –

- a. All staffing changes reported in the Q1-20 report are now in place. No new changes for this quarter.

8.3 LGPS GENERAL UPDATES:

8.3.1 Public sector exit payments

The government published a consultation on 10 April 2019 seeking views on regulations implementing a £95,000 cap on exit payments in the public sector. The consultation closed on 3 July 2019. The Government is continuing with the introduction of the cap across the public sector, which will have implications for LGPS employers. Based on the responses to the consultation, the government will revise the regulations and guidance, the final version of these will be published later this year. Draft regulations were published on the 8th September with a timeline for implementation of January 2020

8.3.2 LGPS Amendments to Statutory Underpin

LGPS Amendments to Statutory underpin consultation issued July 2020 with a deadline of 8 October 2020. This sets out how MHCLG proposes to remedy the McCloud age discrimination in the LGPS. A report that includes details of this consultation and the Funds response has been included in this agenda.

8.3.3 Cost Cap

An announcement was made that the 2016 Cost Cap process will be ‘unpaused’ and the cost of resolving McCloud will be included in the assessment of scheme costs.

8.3.4 Climate Change - PCRIG consultation response

The Pensions Climate Risk Industry Group (PCRIG) published draft guidance on how pension funds can use the Task Force on Climate – related Financial Disclosures (TCFD) framework to approach climate risk management. The guidance is directly relevant to LGPS funds,

setting out a number of steps that can be taken which include setting beliefs, scenario modelling, engaging with asset managers and carbon foot printing. Consultation is now closed, with final guidance expected in a few months. Officers will discuss with the Funds Investment advisors on any regulatory requirement as this progresses.

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.

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.

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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