Havering
LONDON BOROUGH

PENSIONS COMMITTEE 16 March 2021

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2020**
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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 December 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 December 2020**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by **7.00%** over this quarter outperforming both its tactical and strategic benchmark.

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:

CBRE Global Investment Partners

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, Strategic Overview and Manager Performance Report (Appendix A)
2) Consider Hymans Performance Report and views (Appendix B **Exempt)**
3) Receive presentation from the Funds Global Property Manager CBRE (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 topical LPGS news that may affect the Pension Fund will now be included.

3. We welcome any feedback and suggestions that will help members gain a better understanding of the reports.

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:

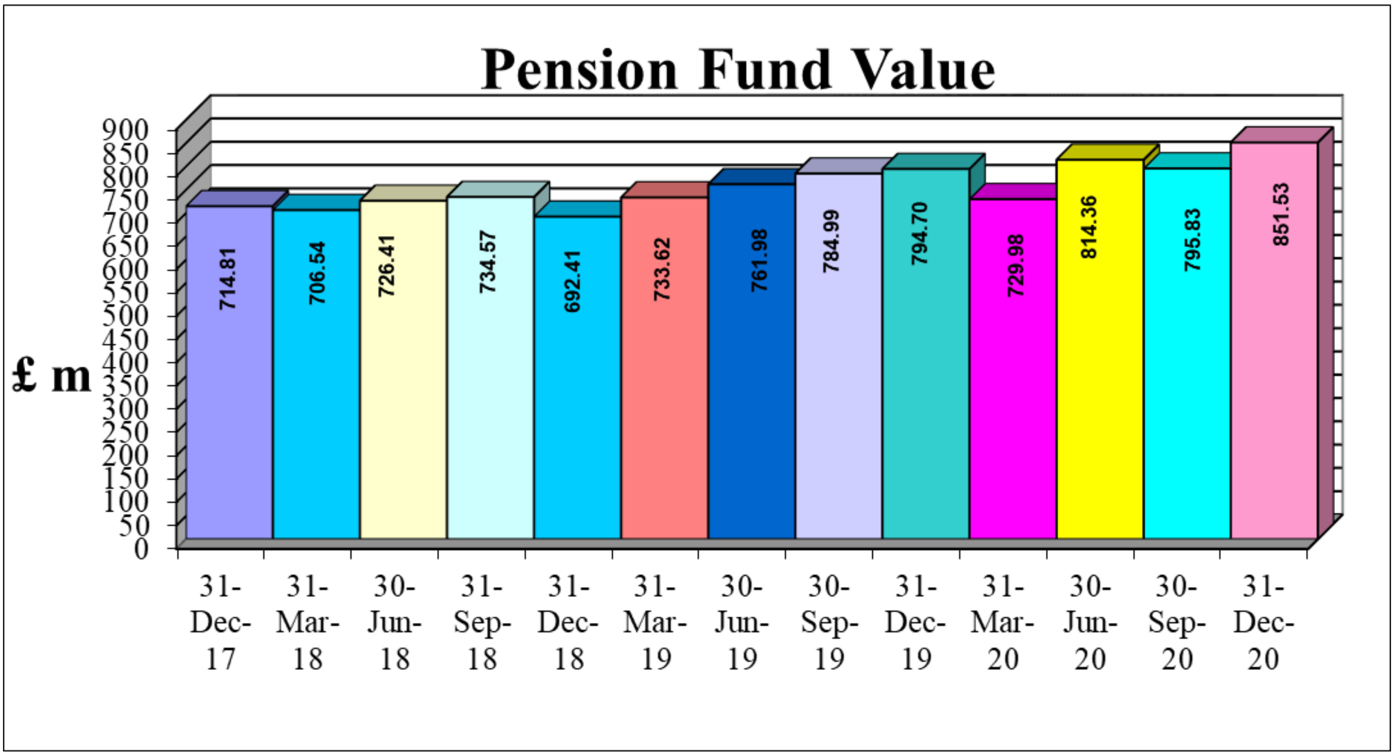
e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic 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 31 December 2020 was **£851.53m.** This compares with a Fund value of £795.83m at the 30 Sept 2020 an **increase of £55.70m, (7.00%)**. Movement in the Fund value is attributable to an increase in assets of £53.61m and an increase in cash of £2.09m. Internally managed cash level stands at **£12.53m** of which an analysis follows in this report.

Chart 1 – Pension Fund Values



Source: Northern Trust Performance Report

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 31.12.20	12 Months to 31.12.20	3 Years to 31.12.20	5 years to 31.12.20
	%	%	%	%
Fund	6.69	11.88	7.12	9.17
Benchmark	4.50	7.26	6.16	7.32
*Difference in return	2.19	4.62	0.96	1.85

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 31.12.20	**12 Months to 31.12.20**	**3 Years to 31.12.20**	**5 years to 31.12.20**
	%	**%**	**%**	**%**
Fund	6.69	11.88	7.12	9.17
**Benchmark	1.63	12.92	7.44	10.25
*Difference in return	5.06	-1.04	-0.32	-1.08

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 **£12.526m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2018/19 31 Mar 19**	**2019/20 31 Mar 20**	**2020/21 31 Dec 20**
	£000’s	£000’s	£000’s
Balance B/F	**-17,658**	**-13,698**	**-23,056**
Benefits Paid	37,954	38,880	29,359
Management costs	1,490	1,107	693
Net Transfer Values	1,543	-2,789	13,820
Employee/Employer Contributions	-44,804	-47,508	-33,932
Cash from/to Managers/Other Adj.	7,925	1,154	723
Internal Interest	-148	-202	-133
Movement in Year	**3,960**	**-9,358**	**10,530**
Balance C/F	**-13,698**	**-23,056**	**-12,526**

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. Any excess cash above the £8m thresholds can be considered for reinvestment or settlement of capital calls.

c. The cash management policy includes a discretion that allows the Statutory S151 officer to exceed the target level to meet foreseeable payments.

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 the Funds Global property manager CBRE 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: £4.51m Churchill, £1.67m Permira and £2.97m Stafford since the last report.

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. Business update meetings (via WebEx) - took place on 21 January 2020 and 18 February 2021. A range of topics covered included:

- Chief Investment Officer – covered current Fund offerings, Fund performance, update on funds for which enhanced monitoring is in place and the pipeline for new fund launches.
- Discussion on climate change and the work that LCIV have planned for the year ahead. They will be undertaking a climate assessment across all sub funds and have appointed Standard and Poors (S&P)/trucost to collect data, LCIV will use an in-house measuring tool to analysis the data and reports are expected late March/early April 2021.
- Update from the Chief Operating Officer covering:
  i. Key themes for the Medium Term Financial Strategy (MTFS) and Annual Budget for 2021/22.
  ii. Key Objectives/Deliverables – mainly pooling strategy/ progress, focus on Responsible Investment and Climate Change, continued development of new funding model, providing new services once Financial Conduct authority (FCA) permissions obtained (permissions submitted in December 2020) and evolve information systems and launch of new website and client portal.
  iii. MTFS and Financial Strategy will be developed during the early part of 2021 for approval mid 2021
- The Board and the Shareholder Committee have now approved the Budget for 2021/22 and this was presented to the General Meeting on 28 January 2021 for formal shareholder approval.

b. Meet the Manager - As part of their monitoring and review processes, LCIV hosted a Meet the Manager event on 21 January 2021 with focus on Private Markets, joined by Local Pensions Partnership Investments (LPPI), Aviva Investors, and Stepstone, to form a panel discussion that explored key topics and questions in this area.

c. LCIV are preparing tenders for voting and stewardship providers

d. Enhanced monitoring continues on the LCIV Multi Asset Credit (MAC) Fund and LCIV Global Equity Focus Fund.

8.2.2 Review of the LCIV Funding Model and Cost Benchmarking

a. Work on the development of a new funding model including pricing and timeline for implementation continues.

b. Cost Transparency initiatives timetable set out for 2020/21, manager and custodian data to be received by 23 April and uploaded to the Byhiras website by end of May. Private Markets cost transparency data expected to be completed and uploaded to Byhiras in September onwards.

c. Cost Transparency Working Group (CTWG) will meet in March to review savings assumptions.

8.2.3 Sub Fund Updates

a. Renewable Energy Fund – Stage 4 (Fund Manager Selection). First manager appointed subject to due diligence. Financial Conduct Authorty (FCA) filing of documents targeted for w/c 19 February 2021.

b. Impact Fund (aka London Fund - a partnership arrangement with the London Pension Fund Authority (LPFA) and Local Pensions Partnership (LPP)) – Fund launched on 15 December 2020 with a £150m investment. Second close expected in April 20201. So far two London boroughs have expressed interest in this fund. Officers have been meeting with the LCIV to discuss this fund and have officer representation on the Seed Investor Group (SIG).

c. Private Debt – Stage 4 (Fund Manager Selection) – Two asset managers for the LCIV Private Debt Fund have been appointed which have come as a result of the manager selection exercise carried out by London CIV (with ISIO).. The launch date for the fund is dependent on client commitments being received by 30th of March. FCA filing of documents targeted for w/c 19 February 2021. Whether the Fund appoints the LCIV Private Debt managers is a consideration for the committee to review and appears elsewhere on the agenda for this meeting.

d. Low Carbon mandate – Stage 2 (Mandate development). The SIG launched on the 4 November 2020 to discuss initial thoughts. Officers continue to attend these meetings to provide input on the development of this mandate. Last meeting was held on the 26 February 2021.

e. Paris Aligned Global Equity Fund – Stage 3 (Fund Structure Operational Viability). Investment case to be approved by FCA and filing of fund documents expected w/c 19 February 2020. This is a Paris aligned version of the Global Equity Fund managed by Baillie Gifford that LCIV are looking to launch in March 2021. This is in addition to the Baillie Gifford Global Equity Fund that Havering already invests in. This option is covered elsewhere on the agenda.

f. Sterling Credit Fund – Stage 1 – Client demand. Survey was issued in December to ascertain client demand. First SIG meeting held 26 January 2021.This is not an ongoing part of our strategy as the Fund is selling down its credit allocation so officers are not involved in the SIG.

8.2.4 LCIV Key Staffing updates –

a. Andrea Wildsmith appointed as Head of Risk and Performance.

b. LCIV will seeking an Equities Investment manager and advertising will commence in due course.

c. Lord Kerslake (Chair of the London CIV Board) term of office comes to the end in September 2021. The process of appointing his successor begun in January 2021

8.3 LGPS GENERAL UPDATES:

8.3.1 Public sector exit payments

a. As reported at the last meeting there is currently a conflict between the exit cap regulations and the LGPS regulations. The LGPS regulations require a member who is made redundant over the age of 55 to take immediate unreduced pension, but The Restriction of Public Sector Exit Payments Regulations 2020, in force from 4 November 2020, prevent the employer from paying strain cost if the exit package exceeds £95k.

b. The Ministry of Housing, Communities and Local Government (MHCLG) have issued a consultation on the draft amendments to the LGPS regulations, which closed on 18th December 2020. Once in place the Regulations will address the conflict but these are not expected before March 2021

c. It has therefore been necessary to implement an interim solution to the conflict. Based on advice from our one source legal team and guidance from Local Government Association (LGA) and the LGPS Scheme Advisory Board (SAB), LB Havering, as an administering authority have decided that any members made redundant after 3rd November 2020, where their exit package exceeds the £95k cap, will be offered the choice of taking immediate fully reduced pension or a deferred pension to take at a later date.

d. This complies with The Restriction of Public Sector Exit Payments Regulations 2020 in that a strain cost will not be payable to the Pension Fund and the exit package will be below the cap but can mean that the administering authority may be open to potential challenges due to non-adherence to the LGPS Regulations.

e. This is the least risk option as it was deemed easier to pay a member more benefit if required by the courts or Pensions Ombudsman, then to try and reclaim benefits if it later decided this is has been overpaid.

f. In addition to the above and as part of amendment to the Local Government Pension Scheme Regulations, new universal GAD (Government Actuary's Department) factors will be introduced for all LGPS funds to use in the calculation of strain costs. This is to ensure equal treatment of all scheme members regardless of the individual fund that they pay into.

g. The existing factors used to calculate pension strain costs are intended to fill any funding gap created by paying a member's pension early. They were not calculated with the intention of impacting a member's benefits and as a result, the factors are specific to each individual fund and are not unisex.

h. Following advice from our Actuary, Havering, as an administering authority, have made the decision to start using the draft GAD factors and calculation methodology ahead of the implementation of the amendment regulations.

i. 22 December 2020 - three requests for Judicial Review (JR) of the Restriction of Public Sector Exit Payment Regulations 2020 were granted permission to be heard. These requests, which will be heard together in the latter half of March, are from Association of Local Authority Chief Executive/Lawyers in Local Government (ALACE/LLG), UNISON and GMB/Unite contest the regulations on a number of grounds including their effect on the existing LGPS regulations. It is likely that that these proceedings will, until they are complete, prevent any direction by the Pensions Ombudsman on this matter.

j. 12 February 2021 - After extensive review of the application of the Cap, the Government has concluded that the Cap may have had unintended consequences and the 2020 Regulations will be revoked.

k. 19 March 2021 - Treasury revoked the Restriction of Public Sector Exit Payments Regulations 2020, any exit payment that was (or is) capped during the period up until 12 February must be topped up to the amount that would otherwise have been paid, with interest.

l. It should be noted that guidance states it is still vital that exit payments deliver value for the taxpayer and employers should always consider whether exit payments are fair and proportionate and HM Treasury is expected to revisit exit costs later this year.

8.3.2 LGPS Amendments to Statutory Underpin

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older scheme members. Following the findings in the McCloud legal judgement, certain elements of public sector pension schemes brought in at the time of the reforms have been deemed age discriminatory. The Government has confirmed that there will be changes to all public sector pension schemes to remove the age discrimination. In the case of the LGPS, it is the "underpin" provision which gives special protection to the rights of older members that has been classed as age discriminatory.

We await further clarification on the implementation of the remedy but as reported at the Pensions Committee on the 1 October 2020, the Funds Administrators (Local Pensions Partnership Administrations – LPPA) have already started looking at the additional administration requirements both in terms of identifying any missing data and the resources and cost of the project. This will be reported to the Committee in due course.

8.3.3 Cost Cap

a. In 2014 the LGPS reformed to become a Career Average Revalued Earning Scheme (CARE). It was understood, at this time, that the cost of funding future pension benefits would be 19.5% of an employee's salary. As a part of the reform, and to ensure the ongoing affordability of the LGPS, the Government introduced a 'cost cap' mechanism. This new mechanism involves checking the cost of LGPS pension provision every four years to ensure that these costs have not materially changed. In the event that the actual cost fell within 2% of 19.5%,so no change will be made to the Scheme's design.

b. The 2016 valuation showed that it cost less than 17.5% to fund future pension benefits, and so benefit improvements were expected to be made. However, due to the high profile court case the 'McCloud Judgment' has meant that the cost of funding pension provision has changed and this caused the cost cap mechanism to be paused.

c. An announcement was made in July 2020 that the 2016 Cost Cap process will now be 'unpaused' and the cost of resolving McCloud will now be included in the assessment of scheme costs. As a result of 'McCloud remedy', scheme cost control valuation outcomes is expected to show increased costs than otherwise would have been expected.

d. On the 4 February 2021 HM Treasury published an update stating that HM Treasury (HMT) is now able to produce the amending directions.

HMT believe they have sufficient information to instruct Government Actuary Department (GAD) on how to allow for McCloud in the cost cap valuations. The next step is for HMT to consult with the Scheme Advisory Board (SAB) to see if any revisions are required to the assumptions which feed into the cost cap valuation. Thereafter, final directions will be published by HMT and results confirmed with each SAB. If benefit or member rate changes are then required, each SAB needs to consider what format they will implement. Where necessary, schemes will then commence discussions with SABs later this year on any rectification.

e. The update also mentions that the review of the cost cap mechanism itself is still ongoing and the outcome is expected to be published in April. This review may then necessitate changes to the current format of the cost cap mechanism and the 2020 cost cap valuations. If there is still a cost cap mechanism in existence after the review, any benefit or member contribution rate changes resulting from the 2020 cost cap valuation will now be implemented in 1 April 2024 (instead of 1 April 2023 as set out in current regulations) given that the 2016 cost cap valuations are still to be completed.

8.3.4 Good Governance in the LGPS

a. After delivering the Phase 2 report last year, the SAB asked Hymans to push forward with the working group and secretariat on more detailed implementation proposals. The project team updated the SAB at the meeting on **25th August 2020**.

b. Progress over recent months has been, understandably, a bit slower, as stakeholders have focussed on responding to immediate issues relating to the COVID-19 crisis. However, The SAB has re-iterated its commitment to this work and the project team will aim to have three key deliverables completed and agreed with the working group over the next month or so.

c. The project team agreed to progress 3 key deliverables, namely:

- A report setting out implementation advice for the proposals in Phase 2.
- A sample version of what a Fund’s new Governance Compliance Statement (GCS) might look like including all the information in the proposals.
- A sample independent governance review report (IGR) which should help in developing procurement proposals for the independent governance review process.

d. The timetable thereafter will depend on the capacity within MHCLG and other LGPS stakeholders to progress to implementation of the proposals and consult on formal guidance given other priorities.

8.3.5 The Task Force on Climate-Related Financial Disclosures (TCFD)

a. The TCFD is an organization that was established in December of 2015 with the goal of developing a framework for the disclosure of climate related risks.

b. Whilst it is not yet a regulatory requirement for the LGPS to report against this framework. MHCLG will conduct a consultation during 2021(no date specified) on the implementation of mandatory TCFD aligned reporting in LGPS by 2023.

c. A briefing paper was distributed to members on the 21 January as a way of providing background and for the Committee to begin its understanding and engagement with the issues and requirements.

d. Officers will work with Hymans on how best to prepare for this reporting requirement.

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 may be interested to note that LLG (Lawyers in Local Government) and ALACE (the Association of Local Authority Chief Executives and Senior Managers) have formally launched judicial review proceedings in a bid to quash the Exit Payment Cap Regulations. These proceedings are at an early stage and therefore it is not possible to provide any further detail.

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

BACKGROUND PAPERS

None