Havering
LONDON BOROUGH

PENSIONS COMMITTEE 14 September 2021

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2021**
CLT Lead:	**Jane West**
Report Author and contact details:	***Chrissie Sampson*** ***Pension Fund Accountant (Finance)/*** ***Debbie Ford Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
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 30 June 2021

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 2021**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by **4.26%** over this quarter outperforming both its tactical and strategic benchmark. This quarter's positive performance can again be attributed the continuing rise in Global Equities

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:

Legal and General Investment Management (LGIM)

Hymans will discuss the manager's 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) Agree Hymans recommendation to increase the allocation to the Funds UK Property Manager (UBS) by £10m. (Section 8.1 (c) refers)
4) Receive presentation from the Funds Passive Equity Manager Legal & General Investment Management (LGIM) (Appendix C – **Exempt)**
5) Consider the quarterly reports sent electronically, provided by each investment manager.
6) 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:

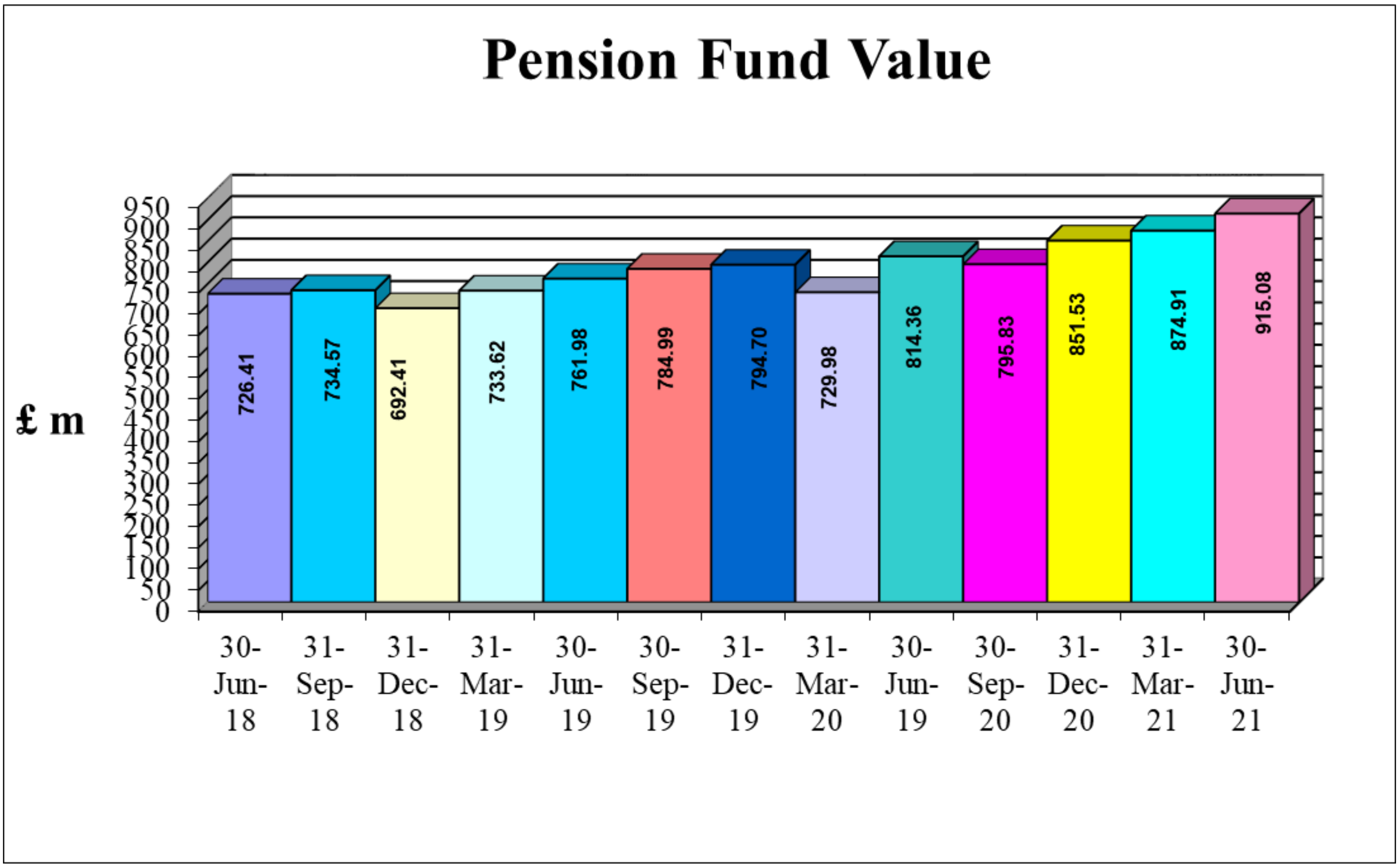
e. **Tactical Benchmark -** Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic 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. As reported by the Fund's custodian Northern Trust, the total Fund value at 31 March 2021 was **£915.08m** compared with £874.91m at the 31 March 2021; an **increase of £40.17m, (4.26%)**. This growth can be attributable to an increase in both assets of £36.79m and cash of £3.38m. Internally managed cash stands at **£18.848m**- analysis follows in this report.

Chart 1 – Pension Fund Values*



Source: Northern Trust Performance Report
**Quarter ending September 2020 includes a bulk transfer out of £40m*

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: Tactical Performance

	Quarter to 30.06.21	12 Months to 30.06.21	3 Years to 30.06.21	5 years to 30.06.21
	%	%	%	%
Fund	4.26	16.94	9.14	9.30
Benchmark	3.72	11.35	7.55	7.00
*Difference in return	0.54	5.59	1.59	2.29

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: Strategic Performance

	Quarter to 30.06.21	12 Months to 30.06.21	3 Years to 30.06.21	5 years to 30.06.21
	%	%	%	%
Fund	4.26	16.94	9.14	9.30
**Benchmark	3.95	-2.17	6.70	6.42
*Difference in return	0.31	19.11	2.44	2.88

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 **£18.848m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2019/20 31 Mar 20**	**2019/20 31 Mar 21**	**2020/21 31 Mar 21**
	£000's	£000's	£000's
Balance B/F	**-13,698**	**-23,056**	**-15,963**
Benefits Paid	38,880	38,874	9,266
Management costs	1,107	1,420	330
Net Transfer Values	-2,789	14,251	402
Employee/Employer Contributions	-47,508	-48,049	-13,362
Cash from/to Managers/Other Adj.	1,154	723	513
Internal Interest	-202	-126	-34
Movement in Year	**-9,358**	**7,093**	**-2,885**
Balance C/F	**-23,056**	**-15,963**	**-18,848**

b. Members agreed the updated cash management policy at their committee meeting, 17 September 2019 and the main points are: target cash level is £6m within a set parameter of £3m to £8m, income from the bond and property manager can be drawn down when required, any excess cash above the upper £8m parameter maybe considered for reinvestment or settlement of capital calls, the S151 Officer may exceed the target level to meet foreseeable payments.

c. Section 8.1(c) of this report sets out proposals to utilise the surplus above the £8m threshold by increasing the allocation to the Funds UK Property Manager (UBS) by £10m

7. REPORTING ARRANGEMENTS

a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand they be brought back again for further investigation. Fund Manager Reviews are included within 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 Passive Equity Manager Legal and General, their report is attached at **Appendix C (Exempt).**

8. FUND UPDATES:

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

a. Since the last report the Fund has continued to fund capital draw down requests: £6.1m Permira, £1.97m Stafford II and £0.65m Stafford IV Fund.

b. The Fund has made its first capital call of £1.90m to the new LCIV Renewables Fund on 19 July 2021.

c. The UBS property allocation is currently underweight relative to target and UBS have offered an opportunity for existing investors to increase their investment at a heavily reduced cost as part of a capital raise. To rebalance the Fund, it is recommended to make an additional £10m investment in the UBS Fund and this to be funded from internally held cash, bringing the amount of cash held within its set parameters. (Hymans report Appendix, A page 5 refers).

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 (currently held virtually) – take place monthly with the latest meeting held on the 16 July 2021.

b. Each meeting includes an update from the Chief Investment Officer covering current fund offerings, fund performance, update on funds for which enhanced monitoring is in place and the pipeline for new fund launches. In addition to this relevant topical issues are included as appropriate.

c. A range of topics covered since the last committee meeting include:

- Updates from the Chief Operating Officer covering:

  i. Annual pooling report to MHCLG is due 3 September and LCIV have been gathering information from client funds.
  ii. AGM took place on 15 July 2021 where Financial statements were approved
  iii. Variations of permissions work is still ongoing.
  iv. Cross Pool working Group looking at MHCLG reporting and Value for Money - have identified inconsistencies in Transition costs, Investment fee saving and how to restate past history.

- Climate Risk Analysis – key findings from the consolidated London CIV pool:

  i. Has a lower carbon footprint than the MSCI World across all carbon intensity metrics
  ii. Has a lower exposure to Fossil Fuel then the MSCI World
  iii. Not Paris-aligned. Whilst the temperature of the Pool is above 3^{o}c threshold, the total reported emissions to reach the 2^{o}c mark are lower than then the benchmark. Materials, Cement, Steel and the energy sectors all contribute to the Pool exceeding the Paris benchmark.
  iv. Further calculations are ongoing and then they will commence setting out a roadmap for achieving targets and next steps.

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

8.2.2 Sub Fund Launch Updates

a. New: Passive Equity Progressive Paris Aligned Fund (PEPPA) (previously known as Low Carbon Fund – Stage 3 (Fund Structure & Operational Viability). Havering has registered an interest in this fund and officers have been attending the Seed Investor Group meetings (SIG). Expected launch date is September 2021.Consideration of investing in this Fund is included elsewhere on the agenda.

b. New: Sterling Credit Fund – Stage 1 – Client demand. Survey was issued in December to ascertain client demand. The SIG have been meeting since 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.

c. New: Alternative Credit Fund – Stage 1 – Client demand. This is the potential new fund that might be created resultant of current discussions regarding LCIV MAC Fund. This will be an additional manager to the existing MAC mandate.

d. Change: LCIV Global Bond Fund – Will be a more climate aware version of the existing fund to meet client demand. Preparation being made for FCA submission.

e. Change: LCIV MAC Fund – Looking to add an additional manager, currently on hold pending latest round of Pension Committee decision cycles

8.2.3 LCIV Key Staffing updates –

a. None to report.

8.3 LGPS GENERAL UPDATES:

8.3.1 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 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%, no change will be made to the Scheme's design.

b. An announcement was made in July 2020 that the 2016 Cost Cap process will now be ‘un-paused’ and the cost of resolving McCloud will now be included in the assessment of scheme costs.

c. On the 4 February 2021, HM Treasury (HMT) published an update stating that they have sufficient information to instruct Government Actuary Department (GAD) on how to allow for McCloud in the cost cap valuations. 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.

d. The update also mentions that the review of the cost cap mechanism itself is still ongoing and 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 on 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.

e. On the 27 May 202, GAD published its review on the cost sharing mechanism.

f. The objectives of the risk sharing arrangement are noted in the report as:

   - To protect taxpayers from unforeseen costs
   - To maintain the value of pension schemes to the members
   - To provide stability and certainty to benefit levels – the mechanism should only be triggered by ‘extraordinary, unpredictable events.

g. The GAD report sets out five separate recommendations on potential changes to the mechanism – which applies across all public service pension schemes. The report confirms that the review did not consider the separate cost control mechanism for the LGPS which is operated by the SAB. The report acknowledges that the differences between the LGPS and the unfunded schemes mean that some of the recommendations, if adopted, may need revising to accommodate those differences.

h. The consultation on *Public Service Pensions: Cost Control mechanism*, issued on the 24 June 2021, sets out HMT’s response to the report and proposed changes to the mechanism. All of the proposals are changes recommended by GAD.

i. Consultation deadline was the 19 August 2021. The Fund's actuary (Hymans) have responded to the consultation, having the technical knowledge required to provide a response.

8.3.2 GAD Report (Section13)

a. Under Section 13 of the Public Service Pensions Act 2013, MHCLG are required to carry out a review of all LGPS local fund valuations to ensure they comply with four key criteria:
   - Compliance with the LGPS regulations
   - Consistency between funds
   - Solvency
   - Long-term cost efficiency

b. MHCLG commission GAD as the suitably qualified person to carry out this analysis. GAD have shared initial draft results of the 2019 Section 13 valuation and more detail has been released.

c. The DRAFT 2019 report, yet to be published will show that Havering received three "white flags":
   - **Long term cost Efficiency:**
   1. One for being in the bottom 5 for funding level
   2. One for having a deficit recovery period greater than 10 years
   - **Solvency**
   3. One for return scope (leaning heavier on investment returns in the funding plan compared to others).

d. White flags are where GAD is highlighting the position but doesn't have any broader concerns around funding plans.

e. Once the 2019 report has been finalised and published this will be presented to the Committee for noting.

f. Havering received an amber flag against the insolvency measure in the 2016 report, so the 2019 report shows an improvement as no amber flags were received this time around

8.3.3 LGPS Knowledge & Skills

a. Charted Institute of Public Finance & Accountancy (CIPFA) have released two publications in August 2021 covering LGPS Knowledge and Skills:

   i. **Code of Practice on LGPS Knowledge & Skills 2021** –.This Code of Practice is applicable to all individuals responsible for the management of the LGPS or who have a decision-making, scrutiny or oversight role.

ii. **LGPS Knowledge & Skills Framework –**It is designed to be used by LGPS officers and the scheme's decision-making bodies (such as LGPS pension committees) as a framework in the assessment of knowledge and skills, the delivery and recording of training, and ultimately the development of knowledge and understanding of all those with a responsibility to manage and administer their LGPS fund. A separate framework remains in place for local pension board members

b. Officers will review the above publications to assess impact on current processes and communicate the outcome with the Committee in due course.

8.3.4 The Pensions Regulator (TPR) Single Code of Practice

a. The Pensions Regulator has issued a consultation on its new single 'Code of Practice to cover all regulated schemes which closed on 26 May 2021.

b. The new Code will apply to occupational schemes; personal and public service pension schemes, although not all of the obligations in it apply to all types of scheme.

c. The new Code will initially consolidate 10 of the existing 15 Codes of Practice into one document. It comprises 51 modules and is the first phase of the transition to one 'Code of Practice'.

d. There were concerns raised about how its governance arrangements will fit with both local authorities and LGPS funds. For example, the Code's definition of 'governing bodies' includes both scheme managers and local pensions boards; this is unhelpful as boards are unable to exercise decision making powers and it would be helpful for the Code to recognise the unique legal framework under which LGPS administering authorities operate given that the vast majority of LGPS funds will need to work within the local authority's constitution and policies in order to ensure that they are appropriate for the fund.

e. TPR announced on the 24 August 2021 that the new Code of Practice would be delayed until the summer of 2022. TPR had received a strong response to the consultation with 103 respondents submitting over 10,000 individual answers and it is therefore taking them time to work through and fully consider the responses in detail.

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.

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

Pension Committee, 14 September 2021

None