



PENSIONS COMMITTEE

07 December 2021

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED SEPTEMBER 2021**

CLT Lead:

Jane West

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

The Fund grew in value by **0.56%** over this quarter but underperformed 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:

Permira Credit Solutions Senior IV GBP SCSp

Hymans will discuss the fund's performance after which the manager will be invited to join the meeting, make their presentation and answer any questions.

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 Fund's Private Debt Manager: Permira Credit Solutions (Appendix C – **Exempt**)
- 4) Consider the quarterly reports sent electronically, provided by each fund manager.
- 5) Note the analysis of the cash balances
- 6) Consider the timing of the relaunch of the CIPFA Knowledge and Skills framework (Section 8.3.1 (g) refers)

REPORT DETAIL

1. Elements from Hymans report, which are deemed non-confidential can be found in **Appendix A**. Opinions on fund manager performance will remain as exempt and shown in **Appendix B**.
2. When appropriate topical LGPS news that may affect the Pension Fund will be included.
3. We welcome any feedback and suggestions that will help members gain a better understanding of the reports.

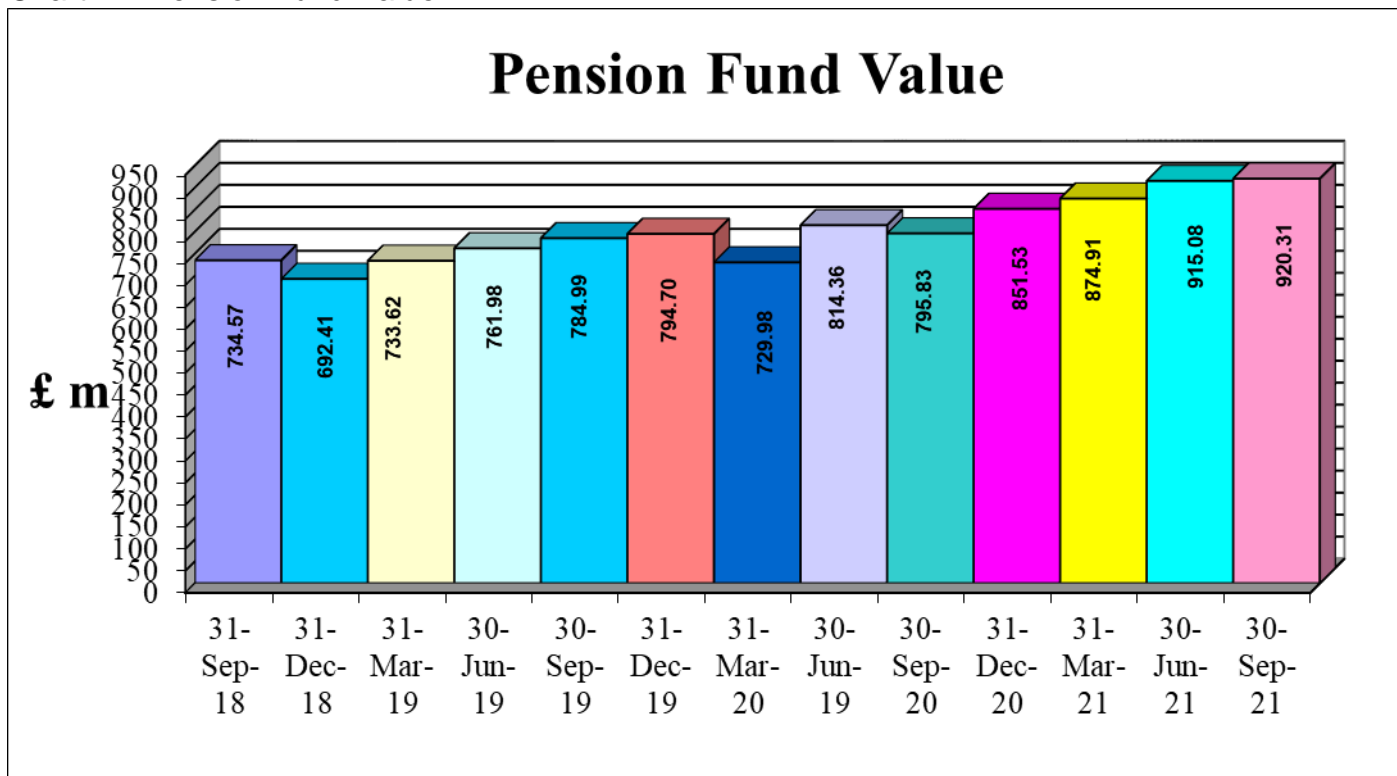
4. BACKGROUND

- 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 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% (net of fees) 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 30 September 2021 was **£920.31m** compared with £915.08m at the 30 June 2021; an **increase of £5.23m, (0.56%)**. This growth can be attributable to an increase in asset values of £5.39m and a contraction in externally held cash of £-0.16m. Internally managed cash stands at **£19.123m**, analysis follows in this report.

Chart 1 – Pension Fund Value*



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 30.09.21	12 Months to 30.09.21	3 Years to 30.09.21	5 years to 30.09.21
	%	%	%	%
Fund	0.56	14.46	8.89	8.01
Benchmark	1.09	11.42	7.54	6.44
*Difference in return	-0.54	3.04	1.35	1.57

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 30.09.21	12 Months to 30.09.21	3 Years to 30.09.21	5 years to 30.09.21
	%	%	%	%
Fund	0.56	14.46	8.89	8.01
**Benchmark	2.57	2.10	7.88	4.86
*Difference in return	-2.01	12.36	1.01	3.15

Source: Northern Trust Performance Report

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

- 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 **£19.123m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2019/20</u> <u>31 Mar</u> <u>20</u>	<u>2020/21</u> <u>31 Mar</u> <u>21</u>	<u>2021/22</u> <u>30 Sept</u> <u>21</u>
	£000's	£000's	£000's
Balance B/F	-13,698	-23,056	-15,963
Benefits Paid	38,880	38,874	18,526
Management costs	1,107	1,420	631
Net Transfer Values	-2,789	14,251	1,156
Employee/Employer Contributions	-47,508	-48,049	-23,498
Cash from/to Managers/Other Adj.	1,154	723	96
Internal Interest	-202	-126	-71
Movement in Year	-9,358	7,093	-3,160
Balance C/F	-23,056	-15,963	-19,123

- b. Members agreed the updated cash management policy at their committee meeting on 17 September 2019. 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/rebalancing within the investment strategy

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 fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.
- c. The fund manager attending this meeting is the Fund's Private Debt manager Permira, 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: £0.32m Stafford II, £1.13m Stafford IV, 0.88m Permira, £4.65m London Collective Investment Vehicle (LCIV) Renewables Fund and £3.8m for the new Churchill IV fund.
- b. On the 09 September 2021, holdings were switched from the Legal and General Investment Management (LGIM) RAFI Index Fund to the LGIM Future World Index. This was topped up with a withdrawal from the London CIV (LCIV) Baillie Gifford Global Alpha fund to meet the target allocation.
- c. On the 15 September 2021, holdings with the LCIV Baillie Gifford Global Alpha Fund were switched to its Paris Aligned version.

- d. The Committee agreed to increase the allocation to the Funds UK Property Manager (UBS) by £10m at its meeting on the 14 September 2021. Payment was made on the 20 October 2021.
- e. In order to maintain the target allocation to Private Debt, members at the Pensions Committee on the 20 July 2021, agreed to make continued investments in the new vintages of the Churchill Middle Market Senior Loan Fund IV and the Permira Credit Solutions V (PCS5). Relevant on boarding documentation has now been completed and submitted for the Churchill Fund with the first capital call due on the 23 November 2021. The on boarding of the PCS5 is in progress.
- f. Members at the Pensions Committee on the 14 September 2021 agreed to invest a 5% allocation to the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund. This is to be funded from a drawdown from the Legal & General All World Equity Fund and settlement is planned for the 3 December 2021.

8.2 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 7 September 2021.
- b. Each meeting includes an update from Chief Officers 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, relevant topical issues are included as appropriate.
- c. **Update from the Head of Responsible Investment on Net-Zero Strategy:**
 - i. LCIV has committed to become a net zero entity by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C.
 - ii. It will also become a net zero company across operational and supply chain emissions as early as 2025
 - iii. Alongside its main commitment, LCIV has set interim targets for its investments including a 35% carbon intensity reduction by 2025 (relative to 2020), and 60% by 2030 across funds invested via the LCIV fund range.
 - iv. LCIV plan to achieve its goals by decarbonising existing funds through targeted engagement, contributing to avoided emissions, launching new net zero funds and eventually contributing to negative emissions

d. Update from Chief Executive officer– Medium Term Financial Strategy

- i. LCIV Fund Total: 65 sub funds, with £23.8bn pooled
- ii. Off Pool: Client London Borough Funds have 25 Property managers and 130 other investment manager relationships with £20bn Assets Under Management (AUM).
- iii. Proposed 5 year road map leading to 70% of assets pooled by 2025.
- iv. Detailed work underway on 3 year budget forecast – considered as part of normal budget setting process.
- v. Expectations are that there will be no increase in charges over the next 3 years but dependent on AUM growth and meeting target of 70% by 2025

e. Update from Chief Operating Officer- MHCLG and Pooling Projections

- i. Summary of pooling data submitted to MHCLG as follows:
- ii. Pooling ratio across all Client Funds stood at 53% as at 31 March 2021.
- iii. Forecasting an increase of 6% by March 2022 and a further 8% by March 2025.
- iv. By March 2025, LCIV anticipate that 29 client funds will have at least a 50% pooling rate (Havering is currently c66% estimated to be 70% by 2025)
- v. Future Department for Levelling Up, Housing & Communities (DLUHC) reporting – Cross Pools working – Pools are seeking to make the return more value focussed (what value they deliver to investors) in 2022 and to co-develop a value framework and scorecard that has close alignment to the way Asset Manager assess value.

f. Update from Head of Investment Risk and Performance

- i. Enhanced monitoring continues on the LCIV Multi Asset Credit (MAC) Fund and the LCIV Global Equity Focus Fund is on watch.
 - i. Libor benchmark is being discontinued at the end of the Year and LCIV have identified SONIA as the most suitable replacement and has put in place a transition plan. Where Libor was used as a benchmark in the past this will be replaced over the four months from September 2021 and both reported on during 2021 (For Havering this will impact the LCIV absolute Return Fund Benchmark). LCIV have reported Sonia and Libor in parallel over the last twelve months and the returns very closely replicated each other.
- ii. **New /Changes to Sub Fund Launches:**
 - New: Passive Equity Progressive Paris Aligned Fund (PEPPA) (previously known as Low Carbon Fund – Stage 5 (Fund Preparation). Expected launch date is September 2021. Havering has made a commitment to this fund and is the seed investor, funding mandate is scheduled for December 2021.

- New: Sterling Credit Fund – Stage 1 (Client demand). Survey was issued in December to ascertain client demand. The Seed Investor Group (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.
- New: LCIV Alternative Credit Fund – Stage 2 (Mandate Development). Fund to be created to support fallout from future MAC Fund Restructure. Mandate discussion in progress.
- Change: LCIV Global Bond Fund – Transitioned into a more climate aware version to meet client demand. FCA submission on target for the end of September. This not a part of this Fund's investment strategy.
- Change: LCIV Renewable Infrastructure Fund – Commitments made to Blackrock UK Renewable Income Fund and Foresight Energy Infrastructure Partners Fund
- Change: LCIV MAC Fund – Looking to add an additional manager, currently on hold pending borough Pension Committee decision cycles

g. LCIV Staffing Updates

- i. LCIV have appointed a Head of Public markets – Rob Treich joined on the 6th September 2021
- ii. Head of Private markets returns from Maternity Leave
- iii. Head of Responsible Investment will go maternity leave in November, plans in place for cover.

8.3 LGPS GENERAL UPDATES:

8.3.1 LGPS Knowledge & Skills

- a. Chartered 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. The update to the CIPFA Knowledge and Skills Framework and the separate Code of Practice reflect changes to the operation of the LGPS at both national and local levels. They include the impact of the England and Wales LGPS Scheme Advisory Board's Good Governance Review, recent regulatory changes and other requirements of the DLUHC, the establishment of pension boards and asset pools, and the changing responsibilities and skills required by decision makers, managers and advisors.
 - c. CIPFA have updated the key areas of knowledge creating eight key areas instead of the original six with some of the topics within each of these core technical areas expanded. They have introduced levels of knowledge within each section, which for Committee members are:
 - i. **An awareness** i.e. recognition that the subject matter exists
 - ii. **A general understanding** i.e. understanding the basics in relation to the subject matter
 - iii. **A strong understanding** i.e. a good level of knowledge in relation to the subject matter (but not necessary at a detailed level).
 - d. There is a separate framework for LGPS Senior Officers/Managers covering the same core areas of knowledge.
 - e. Overall, pension committee members need to have a less detailed knowledge of the specifics and take a more general view that is strategic and concentrates on the principals involved.
 - f. By continuing to adopt the CIPFA Framework, the Administrating Authority will be able to demonstrate that they are complying with the requirements of CIPFA's Code and the other legal and best practice requirements as set out previously in this Framework.
 - g. Officers to ask the Committee to consider whether it would be more timely to relaunch the framework matrices following the local elections in May 2022 to ensure that the post-election pension committee starts the new term of office with the refreshed learning and development requirements .

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

None