



PENSIONS COMMITTEE

15 March 2022

Subject Heading:

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

CLT Lead:

**Dave McNamara
Section 151 Officer**

Report Author and contact details:

***Chrissie Sampson
Pension Fund Accountant (Finance)/
Debbie Ford Pension Fund Manager
(Finance)
01708432569***

Policy context:

Debbie.ford@onesource.co.uk
Pension Fund Manager performance is regularly monitored to ensure investment objectives are being met.

Financial summary:

This report comments upon the performance of the Fund for the period ended 31 December 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 **31 December 2021**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by **3.04%** 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:

Royal London Asset Management

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 Bond Manager: Royal London Asset Management (Appendix C – **Exempt**)
- 4) Consider the quarterly reports sent electronically, provided by each fund manager.
- 5) Note the analysis of the cash balances

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. Where 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.

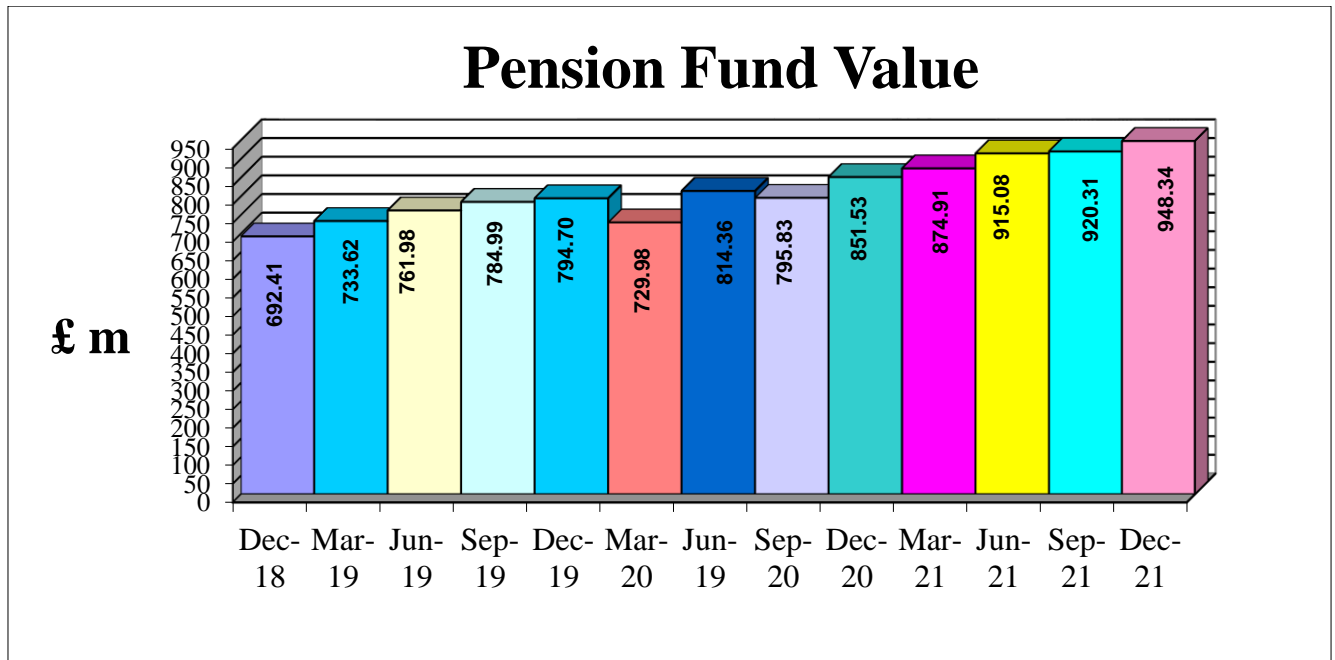
4. BACKGROUND

- 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 31 December 2021 was **£948.33m** compared with £920.31m at the 30 September 2021; an **increase of £28.02m (3.04%)**. This growth can be attributable to an increase in asset values of £35.63m and a contraction in cash of £7.61m. Internally managed cash stands at **£11.654m**, 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 31.12.21	12 Months to 31.12.21	3 Years to 31.12.21	5 years to 31.12.21
	%	%	%	%
Fund	3.10	10.61	12.15	8.38
Benchmark	3.96	10.66	9.75	6.98
*Difference in return	-0.86	0.05	2.39	1.40

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 31.12.21	12 Months to 31.12.21	3 Years to 31.12.21	5 years to 31.12.21
	%	%	%	%
Fund	3.10	10.61	12.15	8.38
**Benchmark	5.40	5.89	8.95	6.46
*Difference in return	-2.30	4.72	3.19	1.92

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 **£11.654m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2019/20 31 Mar 20</u>	<u>2020/21 31 Mar 21</u>	<u>2021/22 31 Dec 21</u>
	£000's	£000's	£000's
Balance B/F	-13,698	-23,056	-15,963
Benefits Paid	38,880	38,874	28,117
Management costs	1,107	1,420	960
Net Transfer Values	-2,789	14,251	922
Employee/Employer Contributions	-47,508	-48,049	-35,715
Cash from/to Managers/Other Adj.	1,154	723	10,124
Internal Interest	-202	-126	-99
Movement in Year	-9,358	7,093	4,309
Balance C/F	-23,056	-15,963	-11,654

- 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.

- c. The Committee agreed to increase the allocation to the Funds UK Property Manager (UBS) by £10m to rebalance the property allocation at its meeting on the 14 September 2021. Reflected in the cash position above is the payment made on the 20 October 2021.

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 reports 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 Bond manager Royal London, 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, £2.18m Permira, £4.74m London Collective Investment Vehicle (LCIV) Renewables Fund and £6.26m for the new Churchill IV fund.
- b. 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.
- c. 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 was settled on 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. Shareholder meeting took place on the 7 December 2021.
- b. Shareholder General meeting took place 27 January 2022.
- c. Meet the manager meeting - Hermes EOS – LCIV Stewardship partner to assist with voting and engagement (16 Dec 21).
- d. Business update meetings (currently held virtually) – take place monthly. Since the last report, meetings were held on the 18 November 2021, 16 December 2021, 20 January 2022 and 17 February 2022.
- e. Each meeting includes an update from Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows in this report.
- f. **Five Year Strategy Roadmap (Nov meeting)** - split over three phases covering Growth (2021 -2023), Consolidation (2023-2024) and Liability Focus (2024-2025).
- g. **Medium Term activity** to focus on product roadmap, Net Zero Strategy and Property mandate(s).
- h. Jeff Houston –Head of Pensions LGA attended the meeting on the 16 December 2021 providing updates on LGPS pooling.
- i. **Assessment of Value (AOV) report (Dec meeting)** - targeted for completion 31 December 2021.
- j. **LCIV Climate Analytics Reporting Service (Jan 22 meeting)**– Scope of this report covers Listed Equities and Corporate Fixed income mandates and provides analysis on Climate Impact and Risk Metrics. Pilot completed for one LGPS client with the service soon to be available to all clients to support Taskforce for Climate Related Disclosure (TCFD) reporting. There will be a charge for this service and the Fund can give this consideration once the details are available.

k. New/Changes to Sub Fund Launches:

- 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 5 (Fund Preparation). Fund created to support fallout from future MAC Fund Restructure. FCA filing complete with anticipated launch 31 Jan 2022.
- New: Property – Stage 1 (Client Demand) – Property workshop held on 31 January 2022. First SIG meeting scheduled for 22 March 2022. Officers will not be involved in the SIG as the Fund is currently fully allocated to its Property target asset allocation but would consider a lift and shift of an existing manager if the commercial terms were favourable.
- Change: Global Equity Core Fund – Name change to Global Equity Quality fund. Objective moved to generate total return over a long-term period and has had ESG enhancement.
- Change: LCIV MAC Fund – Fund restructured with an additional manager appointed to co-manage with CQS – expected completion early Q1 22.
- Change: LCIV Global Bond Fund – Fund enhancements being made by the integration of ESG credentials

l. LCIV Staffing Updates

- LCIV have appointed a Senior Portfolio Manager Private Markets – Christopher Osbourne started 14 December 2021
- Head of Responsible Investment on maternity leave from November 2021.
- Two investment analysts have accepted offers starting in Feb 2022.

m. LCIV Board Appointments

- Non –Executive Directors (NED) - Yvette Lloyd and Mark Laidlaw will join the Board in January 2022
- Nominated Shareholder NED - Cllr Mason (Leader of London Borough of Ealing) appointed in December 2021.

8.3 LGPS GENERAL UPDATES:

8.3.1 GAD S13 Report

- a. The Department of Levelling Up, Housing and Communities (DLUHC) have appointed the Government Actuary Department (GAD) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the Local Government Pension Scheme (LGPS) in England and Wales.
- b. Published on the 16 December 2021, this is second formal section 13 report based on the results of fund valuations as at 31 March 2019. The first formal report applied to fund valuations as at 31 March 2016.
- a. Draft results were originally reported to the Pensions Committee at its 14 September 2021 meeting. The final version of the Section 13 2019 report, shows that Havering received three 'white flags', the details of which are covered in a separate report elsewhere on the agenda.

8.3.2 Update on United Nations (UN) letter about investments in the Israeli settlement economy

- a. The Committee may be aware of a number of approaches, letters and Freedom of Information requests made to members and the Fund encouraging engagement with the companies appearing on the database of business enterprises involved in certain specified activities related to the Israeli settlements in the Occupied Palestinian Territory (OPT). The Database identifies 112 business enterprises involved in one or more activities that raised particular human rights concerns in a UN-led investigation.
- b. The Fund does not own any investments in the companies listed on the UN register referred to - there is however, a very small exposure through investments held indirectly in pooled investments or passive mandates (c0.39% as at 30 Sept 21) where ownership of the underlying assets reside with the asset manager. c0.24% of these investments is held via Baillie Gifford on the LCIV platform. LCIV are engaging with Baillie Gifford who have provided feedback that the company involved will be introducing a formal Human Rights Policy and have also put in place structured dialog to incorporate views from key stakeholders and Baillie Gifford/LCIV will monitor the development of the Human Rights policy.
- c. Pension Funds approached the Scheme Advisory Board (SAB) for assistance in this matter.
- d. The Chair of the SAB and representatives from Local Authority Pension Fund Forum (LAPFF) of which this Fund and the LCIV are

members, together with the SAB Secretary held a call with United Nations (UN) Special Rapporteur on the Palestinian Territories on 11th January 2021 to discuss his letter to funds. The discussion was productive and it was agreed to follow up with another call in a month or so. It was made clear that LGPS funds' primary objective in investment is to ensure pensions are paid but they do take human rights issues seriously in their decisions and through LAPFF are actively engaging with many of the companies listed on the database. In that respect the UN Special Rapporteur will provide further information on the database in particular the process for removing companies from it.

8.3.3 DLUHC publishes Levelling Up whitepaper

- a. On the 2 February 2022 the government published the Levelling Up whitepaper, which includes references to LGPS funds having plans for up to 5% of assets to be allocated to projects that support local areas. The SAB understand that in this context local refers to UK rather than local to a particular Fund and that there will be no mandating beyond the requirement to have a plan and any investment will need to meet the Fund's return requirement. Further details will emerge over the period up to an expected summer consultation, which is understood to also include the outstanding climate risk and reporting regulations and the pooling guidance.

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

None