

PENSIONS COMMITTEE

26 July 2022

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED MARCH 2022**

CLT Lead:

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Policy context:

Pension Fund Manager performance is regularly monitored to ensure investment objectives are being met and to keep the committee updated with Pension issues and developments.

Financial summary:

This report comments upon the performance of the Fund for the period ended 31 March 2022

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 how the fund's investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local

Government Pension Scheme (LGPS) updates for the quarter ending **31 March 2022**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund reduced in value by **3.03%** over this quarter, it underperformed the tactical benchmark by -2.51% and outperformed the strategic benchmark by 1.79%.

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:

Russell Investments

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 Currency Hedge Manager: Russell Investments (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.

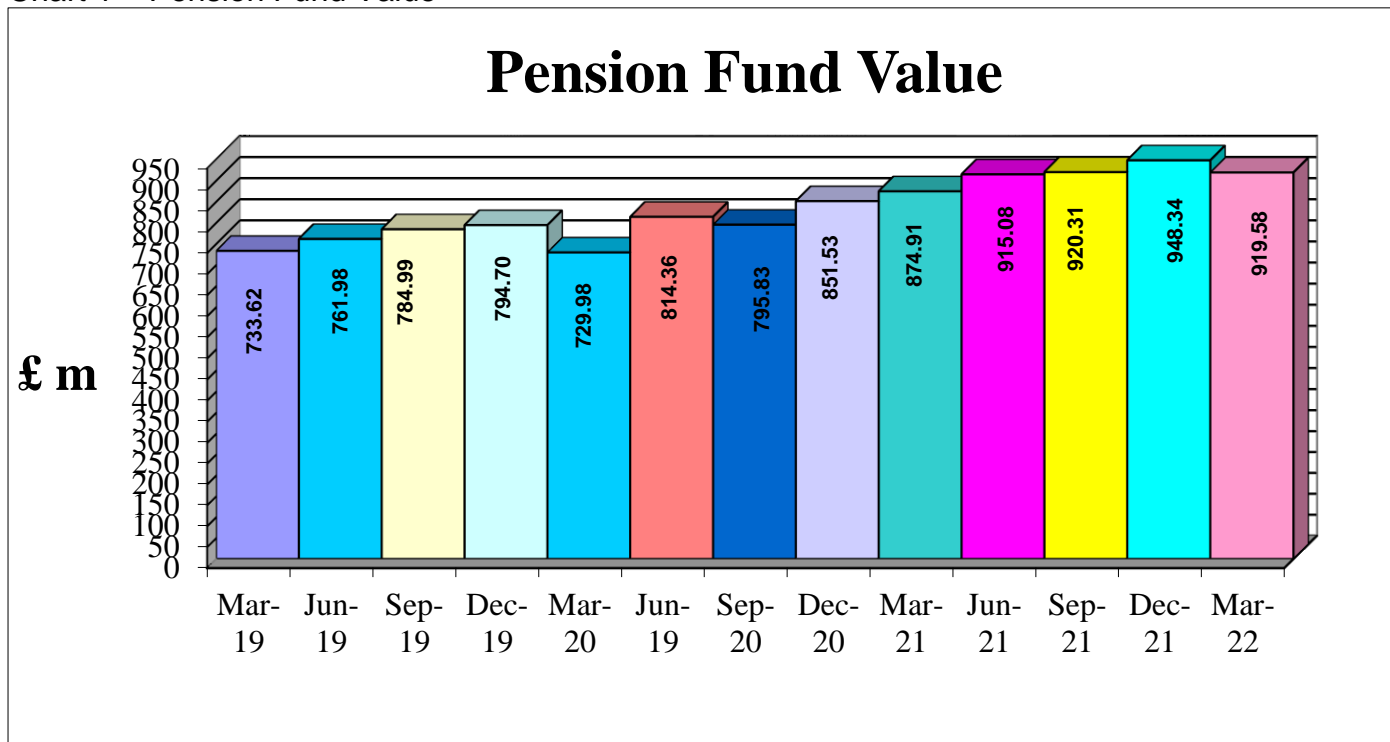
4. BACKGROUND

- 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 March 2022 was **£919.58m** compared with £948.33m at the 31 December 2021; a **decrease of (£28.75m) (3.03%)**. This contraction can be attributable to a decrease in asset values of (£32.20m) partly offset by an increase in cash of £3.45m. This was primarily driven by the Fund's allocation to the LCIV Global Alpha fund Paris aligned Fund and its concentration in growth stocks that have been hit hard by rising yields over this period. The Fund's RLAM bond would normally hedge the investment portfolio from a fall in public equities but increasing inflationary pressures and rising interest rate expectations have also had a negative impact on fixed rate bonds and index linked bonds. Internally managed cash stands at **£14.260m**, 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 31.03.22	12 Months to 31.03.22	3 Years to 31.03.22	5 years to 31.03.22
	%	%	%	%
Fund	-3.23	4.59	8.75	6.88
Benchmark	0.72	8.08	7.87	6.36
*Difference in return	-2.51	-3.49	0.88	0.53

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 31.03.22	12 Months to 31.03.22	3 Years to 31.03.22	5 years to 31.03.22
	%	%	%	%
Fund	-3.23	4.59	8.75	6.88
**Benchmark	-5.02	6.74	4.93	4.88
*Difference in return	1.79	-2.14	3.82	2.00

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 **£14.260m** 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>31 Mar</u> <u>22</u>
	£000's	£000's	£000's
Balance B/F	-13,698	-23,056	-15,963
Benefits Paid	38,880	38,874	37,632
Management costs	1,107	1,420	1,720
Net Transfer Values	-2,789	14,251	333
Employee/Employer Contributions	-47,508	-48,049	-49,112
Cash from/to Managers/Other Adj.	1,154	723	11,173
Internal Interest	-202	-126	-43
Movement in Year	-9,358	7,093	1,703
Balance C/F	-23,056	-15,963	-14,260

- b. Members agreed the updated cash management policy at their committee meeting on 17 September 2019. Main points are - target cash level to be £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 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 Currency Hedge manager Russell Investments**, 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: £1.36m Stafford IV, £1.62m Permira, £0.81m London Collective Investment Vehicle (LCIV) Renewables Fund, £1.2m Churchill II and £2.54m Churchill IV fund.

8.2 London Collective Investment Vehicle (LCIV) - In line with Central Governments' policy, it has been a mandatory requirement to pool assets since 2016. The LCIV is the appointed asset pool manager for the Fund and governance of our investments is now the responsibility of LCIV. It is crucial that regular communication and contact is upheld and activity updates will be covered here as follows:

8.2.1 LCIV meetings (since the last report)

- a. Shareholder meeting took place on the 24 March 2022. The Shareholder Annual General Meeting (AGM) is scheduled for the 14 July 2022 and the Chair of this Committee will be in attendance.
- b. LCIV Conference to be held on 5- 6th September 2022 – Invitations should be issued in due course.
- c. Meet the manager meeting 17 June 2022 – Passive Equity Progressive Passive Fund (PEPPA) – discussion with Standard & Poor (S&P) and the Fund Manager State Street Global Assets (SSGA) on how the fund can help client funds achieve their investment objective alongside a climate objective.
- d. Discussion meeting 25 May 2022 – Pathway to net Zero. LCIV have a target to reduce the Pools carbon intensity by 35% by 2025 (relative to 2020) and 60% by 2030 across funds invested via LCIV. As at December 2021 the LCIV had decarbonised by 4.5% based on data measurements recommended by the Taskforce for Climate Related Financial Disclosures (TCFD)
- e. Business update meetings (currently held virtually) – take place monthly. Meetings held on the 17 March 2022, 21 April 2022, 19 May 2022 and 17 June 2022.
- f. Each meeting includes an update from LCIV 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:

- g. **Russian Exposure** – Set out the Russian exposure within the sub funds, those funds that affect the Havering Fund, albeit small, are the Baillie Gifford Global Alpha Paris Aligned Fund (0.7%) and the Baillie Gifford Diversified Growth Fund (0.85%). These equity holdings cannot be traded currently due to government restrictions.
- h. **Financial Reporting Council (FRC) Stewardship Code updates** – Updates provided on those sub funds have been successful in their application to the Code. All but one of the sub funds invested in by Havering Fund has been approved. The manager not yet approved will reapply in April 2022.
- i. **LCIV Stewardship new publications** - Responsible Investment Policy 2022, Responsible Investment and Stewardship Outcomes Report 2021 and Voting Guidelines 2022.
- j. **Engagement Overview 2021**- Engagement is a means to influence and reshape corporate policies and strategies with regard to Environmental, Social and Governance (ESG) issues. LCIV presented a summary of stewardship engagements undertaken during 2021. There was 696 engagement meetings and their Stewardship partner (Hermes EOS) covered 1,855 Environmental, Social and Governance (ESG) topics across 440 companies.
- k. **Assessment of Value (AOV) 2021** - AOV Report is a Financial Conduct Authority (FCA) requirement, which requires reporting against a set of seven core criteria. Overall ratings for each sub fund is assessed against the criteria, where applicable. Those sub funds invested in by the Havering Fund have been assessed as **normal**, which is considered to deliver value for money. Some sub funds have been assessed as “**Enhanced Monitoring**” – not all criteria deliver value for money or “**On watch**” – action being taken to improve value for money.
- l. **Fund Accounting** – Authorised Contractual Scheme (ACS) Annual report and audited Financial Statements 31 Dec 2021 approved, clean audit report received. Annual Internal Controls report published. The 2022 review will be included in the papers for the AGM on the 14 July 2022
- m. **Deep dive reviews** – LCIV, as part of their on-going monitoring process, carry out in-depth reviews on its sub fund managers. The manager for the Global Alpha Paris Aligned Fund, which the Havering Fund invests, is scheduled for July 2022; any concerns following the deep dive will be reported back to members.
- n. **Cyber Security** – Received Presentation from the newly appointed Chief Technology & Security officer at the June meeting on how they are working towards an external accreditation Cyber Essentials and then moving on to Cyber Essentials+. Some testing on staff and arising awareness already undertaken.
- o. **Medium Term activity** to focus on product roadmap, Net Zero Strategy, Property mandate(s) and high-level impact investing paper.
- p. **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 and Fund development is in progress. 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:* UK Housing Fund (Property) – Stage 1 (Client Demand) – SIG meetings held since 22 March 2022 and Fund development is in progress. 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:* LCIV MAC Fund – Fund restructured with an additional manager appointed to co-manage with existing manager – realignment expected by 30 June 2022.
- *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. Expected completion July/August 2022.
- *Change:* LCIV Global Bond Fund – Further integration of ESG criteria to its investment process. Fund restructure completed and realignment expected July 2022.
- *Change:* LCIV Global Alpha Paris Aligned Fund – FCA application submitted for approval to amend the benchmark
- *Change:* The London fund – Extension to close agreed by the London Fund Advisory Committee to 31 March 2023.

q. **LCIV Staffing Updates**

- Mike O'Donnell announced on the 5 April 2022 of his intention to move on from his role of Chief Executive, providing the Board with 12 months' notice. The role was advertised in May and panel interviews of prospective candidates are currently taking place and an announcement of the successful candidate should be made later this year which will facilitate a smooth transfer.
- New appointments to the following teams: Fund Accounting, Risk & Compliance, Governance and Client
- Two new investment analysts started in March 2022.

8.3 LGPS GENERAL UPDATES:

8.3.1 Governments White Paper on Education

- a. April 2022 – Government issued a White Paper on Education, which sets out a vision for the future of schools in England with proposals affecting LGPS funds, and the local authority schools and academies.
- b. All remaining Local Authority schools are expected to become Academies or be in the process of doing so by 2030. They are expected to be part of a multi academy Trust (MAT) with at least 10 schools rather than standalone single academy trusts.
- c. There are 42 schools currently with the Havering Fund that may need to convert, which could affect existing resources to facilitate on boarding and administer. There is likely to be cost implications for the Administration contract due to increased levels of employers and employees to manage.
- d. The impact of the proposals in the white paper is likely to be significant to LGPS funds and the Fund will continue to liaise with the Funds Actuary (Hyman) as this policy is developed.

8.3.2 Training Requirements

- a. The need to demonstrate adequate levels of knowledge and skills for Officers and members of Pensions Committee (PC) and Local Pension Board (LPB) are set out in various documents, one of which is the Havering Council Constitution
- b. Committee procedure rules, Paragraph 18 – A member appointed to the Pensions Committee shall have received, or shall within six months of appointment receive, training appropriate to its membership. If a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed
- c. To meet this rule the Fund will subscribe to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans) – this is an online platform designed to support the training needs of Pensions Committees, Local Pension Boards and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and The Pension Regulator’s Code of Practice 14. Each module contains short ‘video on demand’ presentations of 20 minutes or less with supplemental learning materials and quizzes.
- d. The Fund will receive regular progress reports allowing it to easily evidence member’s development.
- e. In addition to an induction training session, it is expected that members will complete the online training over a six month period or sooner in support of meeting the Committee procedure rules.

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