



## PENSIONS COMMITTEE

20 September 2022

**Subject Heading:**

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

**CLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

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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 30 June 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 **30 June 2022**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund reduced in value by **5.98%** over this quarter, it underperformed the tactical benchmark by -2.43% but outperformed the strategic benchmark by 10.98%.

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:

**UBS (UK Property)**

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 Property Manager UBS (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**

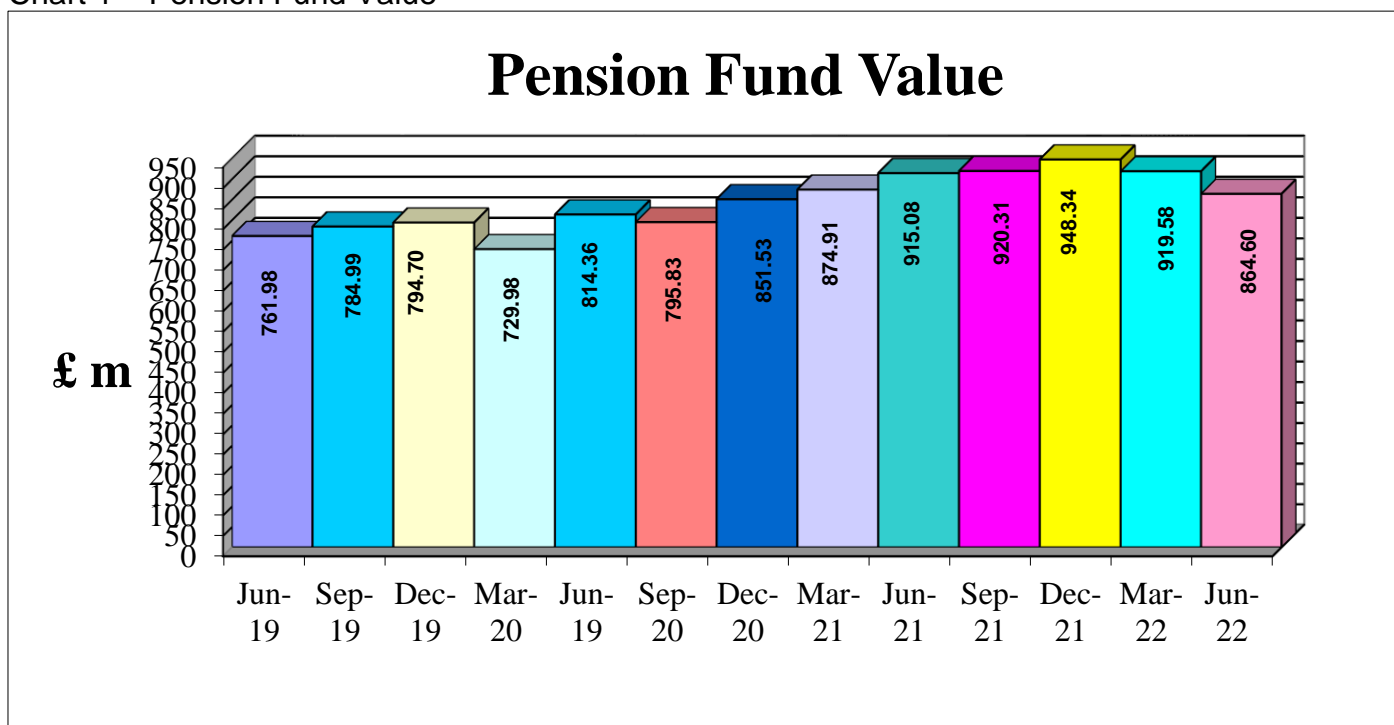
- a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.
- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities.
- c. The Fund's assets are monitored quarterly to ensure that the 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 30 June 2022 was **£864.60m** compared with £919.58m at the 31 March 2022; a **decrease of (£54.98m) (5.98%)**. This contraction can be attributable to a decrease in asset values of (£52.90m) and a decrease in cash of £2.08m. This was primarily driven by the Fund's

allocation to the LCIV Global Alpha Fund Paris Aligned Fund and its concentration in the consumer discretionary sector and its allocation to Technology that have been impacted by rising inflationary pressures. 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 **£12.797m**, 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 30.06.22	12 Months to 30.06.22	3 Years to 30.06.22	5 years to 30.06.22
	%	%	%	%
Fund	-5.90	-5.60	5.30	5.33
Benchmark	-3.47	0.72	5.53	5.56
*Difference in return	-2.43	-6.32	-0.23	-0.23

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

	<b>Quarter to 30.06.22</b>	<b>12 Months to 30.06.22</b>	<b>3 Years to 30.06.22</b>	<b>5 years to 30.06.22</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Fund	-5.90	-5.60	5.30	5.33
**Benchmark	-16.88	-14.65	-2.09	1.45
*Difference in return	10.98	9.06	7.39	3.88

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 **£12.797m** follows:

Table 3: Cash Analysis

<b><u>CASH ANALYSIS</u></b>	<b><u>2020/21</u></b> <b><u>31 Mar</u></b> <b><u>21</u></b>	<b><u>2021/22</u></b> <b><u>31 Mar</u></b> <b><u>22</u></b>	<b><u>2021/22</u></b> <b><u>30 Jun</u></b> <b><u>22</u></b>
	£000's	£000's	£000's
<b>Balance B/F</b>	<b>-23,056</b>	<b>-15,963</b>	<b>-14,260</b>
Benefits Paid	38,874	37,632	10,335
Management costs	1,420	1,720	313
Net Transfer Values	14,251	333	226
Employee/Employer Contributions	-48,049	-49,112	-8,807
Cash from/to Managers/Other Adj.	723	11,173	-595
Internal Interest	-126	-43	-9
<b>Movement in Year</b>	<b>7,093</b>	<b>1,703</b>	<b>1,463</b>
<b>Balance C/F</b>	<b>-15,963</b>	<b>-14,260</b>	<b>-12,797</b>

- 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 Property Manager UBS**, 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: £3.31m Stafford IV, £0.45m London Collective Investment Vehicle (LCIV) Renewables Fund and £1.34m Churchill IV fund.
- b. Members at the Pensions Committee on the 20 July 2021 agreed an additional £12m be allocated to JP Morgan (Infrastructure) to rebalance its underweight position. The drawdown request was settled on the 1 April 2022, funded from an overweight position on Baillie Gifford Global Alpha Paris Aligned Fund

### **8.2 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. The Shareholder Annual General Meeting (AGM) took place on the 14 July 2022, where they approved LCIV's statutory Annual Report and Financial Statements of the Company for the year to 31 March 2022, the Annual Review for the year ending 31 March 2022 and the Regulatory Capital Statement. The Fund's shareholder representative Councillor Mandy Anderson attended this meeting.
- b. LCIV published two white papers: "The Case for Value" in June 2022 and "Multi Asset Funds" in July 2022. Both these papers explain the investment styles in detail and the range of products available on their platform.
- c. July 2022 - LCIV published "Selection and Appointment of Investment Managers" Policy effective from 8 June 2022 – sets out the framework for the selection and appointment of Investment Managers (IM)
- d. July 2022 - LCIV published "Termination Policy" effective from 6 July 2022. This sets out the escalation & governance process for the termination of an IM and other procedures, which may lead to an IM termination.
- e. LCIV Annual Strategy & Responsible Investment Strategy Conference held on the 5th - 6th September 2022. The Chair will be attending the conference
- f. Business update meetings (currently held virtually) – take place monthly. Meeting held on the 21 July 2022 and 18 August 2022
- g. 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:
- h. **Department of Levelling Up, Housing and Communities (DLUHC)** - Annual request for data has been received and Funds are required to submit their transition to pooling path over each of the next three years to 31 March 2025. Havering has submitted the projections for 2022 to 2025 based on the current allocation of 46% directly pooled with LCIV, 18% passive pooled giving an overall pooling total of 64%, leaving 36% un pooled. It is not expected that any changes over the next three years would result in a change to the proportion of assets that are

pooled but his will be reviewed as part of the 2022 valuation asset liability modelling exercise.

- i. **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 (Baillie Gifford), which the Havering Fund invests, took place in July 2022. The due diligence report is currently being drafted and available for release in early September. Any concerns following the deep dive will be reported back to members, although it should be noted that in the LCIV previous quarterly reports that the LCIV team remains confident on Baillie Gifford’s ability to deliver the requirements of this mandate.
- j. **Investment due diligence update** - LCIV undertook an investment due diligence on the LCIV Absolute Return Fund (Ruffer), in which the Havering Fund invests. LCIV have reported no change in monitoring status- Fund remains on ‘normal monitoring. LCIV note that integration of Environmental, social and Governance (ESG) has been strengthened and expect to see further progress during 2022-23.
- k. **Medium Term activity** to focus on product roadmap (upgrading reporting), Net Zero Strategy, High-Level impact investing paper to be produced and Investment Governance Document update.
- l. **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 with an expected launch date in 2023. 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. Currently gathering scale of demand to identify best launch date. 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 Multi Asset Credit (MAC) Fund – Fund restructured with an additional manager appointed to co-manage with existing manager – realignment expected to be completed in July 2022.



- *Change:* Global Equity Core Fund – Name change to Global Equity Quality fund. Investment objective moved to generate total return over a long-term period and has had ESG enhancement. Expected completion August 2022.
- *Change:* LCIV Global Bond Fund – Further integration of ESG criteria to its investment process. Fund restructure completed realignment completed 10 July 2022 expected August 2022.
- *Change:* LCIV Global Alpha Paris Aligned Fund – FCA application for approval to amend the benchmark has been agreed and change will be adopted July 2022
- *Change:* The London fund – Extension to close agreed by the London Fund Advisory Committee to 31 March 2023.

m. **LCIV Staffing Updates**

- Mike O'Donnell announced on the 5 April 2022 of his intention to move on from his role of Chief Executive Officer (CEO), providing the Board with 12 months' notice. On the 17<sup>th</sup> August 2022, LCIV issued a statement announcing the new CEO – Dean Bowden. He will join LCIV in November 2022 and spend a few weeks working with Mike O'Donnell before he takes over formally.

**8.3 LGPS GENERAL UPDATES:**

**8.3.1 Academy Trust guarantee**

- a. In 2013, the Department for Education (DFE) introduced a guarantee to LGPS administering authorities that in the event of the closure of an academy trust any outstanding LGPS liabilities will not revert to the fund.
- b. Although there is no end date to the guarantee, DFE committed to undertake assessments at regular intervals to determine whether the guarantee remains affordable.
- c. On the 21 July 2022, the DFE confirmed that they would continue to provide this guarantee with a new increased annual ceiling of £20m. Since the guarantee was introduced, the DFE has never reached the set annual limit.
- d. This commitment will provide comfort to the Fund going into the 2022 valuation in their covenant risk assessments of academy schools and the subsequent setting of employer contribution rates. (The Fund currently has 41 Academies in the Fund)

### **8.3.2 2016 Cost Cap Results published**

- a. The Public Service Pensions Act 2013 introduced a cost control mechanism to establish a fair balance of risks between scheme members and the taxpayer. The Government Actuary Body (GAB) are the appointed body to carry out the actuarial valuation of the LGPS, alongside the Scheme Advisory Board (SAB).
- b. Cost control mechanism was set based on the 2013 valuation, setting an employer cost cap of 14.6% (note this is not a benchmark to set individual fund employer rates). If at subsequent valuations, the cost of the scheme fall outside a 2% corridor then action would need to be taken to bring in line with the target. Action could be to change member benefits or member contributions.
- c. The Cost Cap calculations based on the 2016 valuations were paused whilst awaiting the outcome of a judgement in the MCloud/Sargeant case (judgement being that it has been ruled that younger members were discriminated against when transition protections were introduced, following reform of the public sector pension schemes in 2014),
- d. In July 2020 the pause would be lifted and the costs of transitional protection remedy (outcome of McCloud/Sargeant judgment) would be taken into account
- e. On 29 June 2022, the Governments Actuary Department (GAD) published the results of the 2016 cost cap valuation. Results show that the cost has remained within the 2% corridor, which means no changes to benefits or member contributions are needed.
- f. Following a review and consultation on the cost control mechanism, regulations were amended to reflect an increase from 2% to 3%. This will be used as part of the 2020 valuation exercise.

### **8.3.3 Training Requirements - UPDATE**

- 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.
- f. **UPDATE:** Subscription to the LOLA system has now been completed and members should have received their activation instructions. The six months deadline will apply once members joining instructions have been issued.

**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:

**Pensions Committee, 13 September 2022**

- (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