



Havering
LONDON BOROUGH

PENSIONS COMMITTEE

13 December 2022

Subject Heading:

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

CLT Lead:

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Policy context:

Pension Fund performance ("the Fund") 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 September 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 September 2022**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund increased in value by **£1.09m** (0.13%) over the quarter, it underperformed the tactical benchmark by -1.08% but outperformed the strategic benchmark by 7.91%.

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:

Stafford (Infrastructure)

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 Infrastructure Manager **Stafford** (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. Hymans report at Appendix A now includes a one-page summary highlighting key performance takeaways over the quarter.

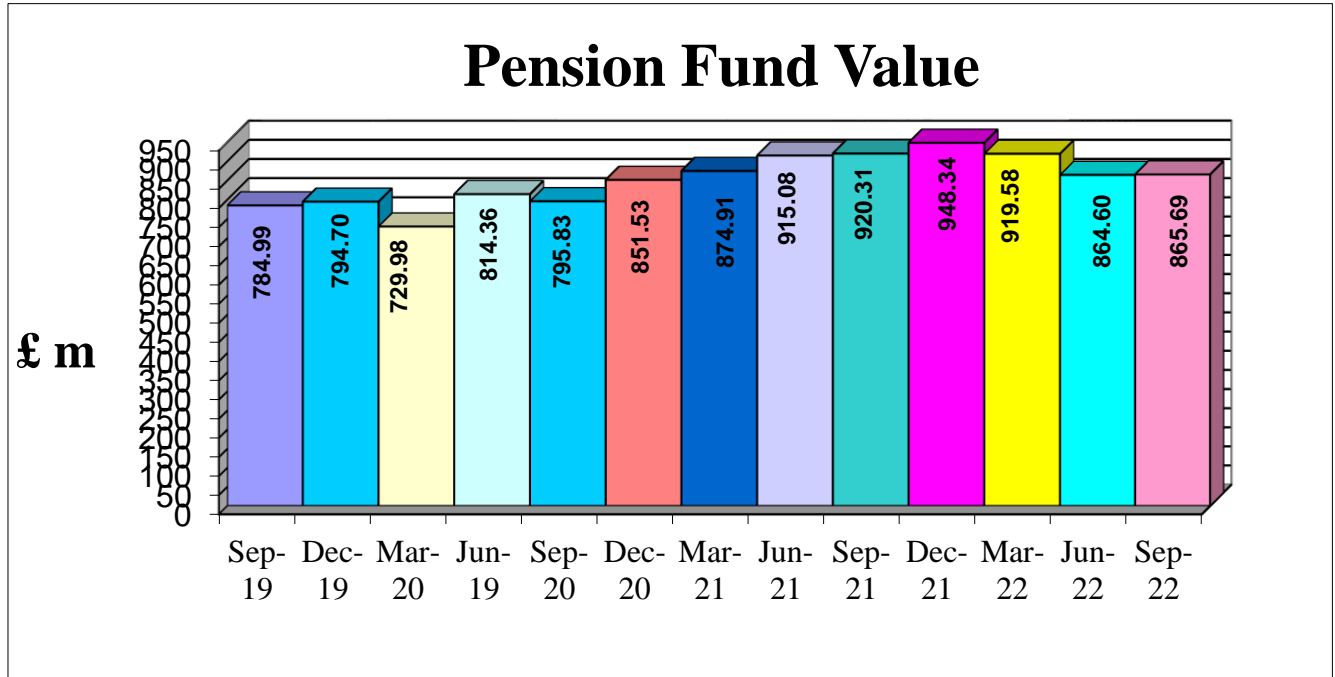
4. BACKGROUND

- 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 Sept 2022 was **£865.69m** compared with £864.60m at the 30 June 2022; an **increase of £1.09m**. This movement can be attributable to an increase in asset values of £0.51m and an increase in cash of £0.58m. Internally managed cash stands at **£14.124m**, an 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 30.09.22	12 Months to 30.09.22	3 Years to 30.09.22	5 years to 30.09.22
	%	%	%	%
Fund	-0.68	-6.76	4.01	4.88
Benchmark	0.40	0.03	4.72	5.46
*Difference in return	-1.08	-6.79	-0.71	-0.58

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 30.09.22	12 Months to 30.09.22	3 Years to 30.09.22	5 years to 30.09.22
	%	%	%	%
Fund	-0.68	-6.76	4.01	4.88
**Benchmark	-8.59	-23.94	-7.41	-0.30
*Difference in return	7.91	17.18	11.42	5.19

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 **£14.124m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2020/21 31 Mar 21</u>	<u>2021/22 31 Mar 22</u>	<u>2021/22 30 Sep 22</u>
	£000's	£000's	£000's
Balance B/F	-23,056	-15,963	-14,260
Benefits Paid	38,874	37,632	20,556
Management costs	1,420	1,720	682
Net Transfer Values	14,251	333	532
Employee/Employer Contributions	-48,049	-49,112	-24,667
Cash from/to Managers/Other Adj.	723	11,173	3,053
Internal Interest	-126	-43	-20
Movement in Year	7,093	1,703	136
Balance C/F	-15,963	-14,260	-14,124

- 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 is held 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 Infrastructure Manager Stafford**, 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, within the total fund commitments approved by this committee: £2.22m Stafford IV, £1.043m London Collective Investment Vehicle (LCIV) Renewables Fund, £3.22m Churchill IV fund, £1.15m Permira PCS4 fund and £10.54m Permira PCS5 Fund.
- b. Capital Calls were mainly funded by withdrawals from Royal London (Corporate Bonds mandate) and the LCIV Diversified Growth Fund, both of which were holding overweight positions against the strategic benchmark asset allocation, as agreed in the ISS.

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 the governance of our investments held with the LCIV 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)

- 30 September 2022 – LCIV Board meeting - contents included an update and noting of performance, financial update on 2022/23 budget and noted development of 2023/24 budget, an update to the current issue of two shareholders not agreeing to amending the Articles of Association and Shareholder agreement and Governance updates.
- 27 October 2022 - Shareholder meeting - discussions as set out in the Board meeting
- 27 October 2022 - Workshop covering Cost Transparency Initiative for Private Markets - attended by officers as this applies to the LCIV Renewable Infrastructure fund, in which the Fund invests.
- October 22 – published “Corporate Governance Handbook – to ensure that all staff, board members, shareholders and stakeholders are aware of the overall governance framework.
- Business update meetings (currently held virtually) – take place monthly. Meeting held on the 27 October 2022.
- 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:
- **Department of Levelling Up, Housing and Communities (DLUHC)** – summarised the 2022 return – shows the actual percentage pooled as 55% for March 2022, forecast as rising to 63% by March 2025. A pooling target of 70% by 2025 now looking unrealistic and pooling is progressing at a slower rate than anticipated.
- **Annual Reviews** – LCIV, as part of their on-going monitoring process, carry out annual reviews on its sub fund managers. Relevant to the Havering Fund investments, reviews have been completed for the Global Alpha Growth Paris Aligned Fund. Whilst performance has been disappointing (posting six consecutive quarters of negative relative returns there are signs of stabilisation and they remain confident that the investment manager retains its ability to recover losses. Reviews are in process for Diversified Growth Fund, although it should be noted that they currently remain under “normal” monitoring and as reported in the LCIV September quarterly reports, the manager

has made adjustments to the mandate to cut risk but LCIV are of the view that this could have been implemented faster.

- **Medium Term activity** to focus on Strategy Roadmap 2023 project planning, Working Groups formed for Corporate Net Zero project and Impact Investing project, Investment Governance Document update and Securities lending.
- **Responsible Investment Update:**
 - Engagement is part of the LCIV's Net zero strategy and recently wrote to the CEO of Shell requesting the Board to set and publish short and medium term Scope 3 emission reduction targets that are consistent with the goal of the Paris agreement. They will also be sending out similar letters to their top 10 fossil fuels contributors in the upcoming months.
 - LCIV climate risk also gives consideration to biodiversity and deforestation. LCIV publishes deforestation risk exposure at around 5.92% of Assets under Management.
 - LCIV have also signed up to the Taskforce on Nature-related Financial Disclosure (TNFD) Forum where standards are still being developed.
- **New/Changes to Sub Fund Launches:**
 - *New:* Sterling Credit Fund – Stage 1 (Client demand). Due to client demand this fund is expected to launch in 2023. This is not an ongoing part of our strategy as the Havering Fund is selling down its credit allocation.
 - *New:* UK Housing Fund (Property) – Stage 2 (Implementation) – Manager selection is in progress and the fund is expected to launch fund in December 2022. 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 Private Debt Fund – LCIV have appointed and committed to a third fund. The Havering Fund is currently committed to private debt funds held outside the LCIV pool.
 - *Change:* LCIV Renewable Infrastructure Fund – Adding a new fund due to new client fund commitments and manager selection is in progress, expected completion in March 2023.

- *Change:* LCIV Infrastructure Fund – LCIV successfully negotiated better terms and reduced fees and new investment management agreement is being drafted and expected to be completed December 2022. Havering is not invested in this fund.
- *Change:* The London fund – Extension to close agreed by the London Fund Advisory Committee to 31 March 2023.
- **LCIV Staffing Updates**
 - The new Chief Executive Officer (CEO) – Dean Bowden will start on the 17th November 2022.

8.3 LGPS GENERAL UPDATES:

8.3.1 Governance and reporting of climate change risk consultation

- a. On the 1 September 2022, the DLUHC launched a consultation called “Governance and reporting climate change risks”.
- b. The consultation seeks views on proposals to require administering authorities to assess, manage and report on climate risks, in line with the recommendations on the Taskforce on Climate-related Financial Disclosures (TCFD).
- c. The consultation closed on 24 November 2022.
- d. Havering Fund’s response to the consultation, after it was agreed by the Statutory S151 officer and the Chair, was generally supportive of the proposal to embed climate risk governance and reporting requirements in the LGPS whilst proposing practicable solutions to their implementation, minimising cost and helping to produce meaningful reports that can drive real world change. The Consultation and Havering response was then shared with the Committee via email.
- e. The Committee’s current approach to addressing climate risk will mean that the TCFD requirements will largely be met, having produced its second TCFD report as agreed in July 2022, but can be tested against the final requirements and guidance once these are published
- f. It is likely that the first mandatory TCFD report will cover the year 2023/24 and be published by 1 December 2024. The DLUHC is likely to publish Guidance in the new year and reporting requirements are set to commence on 1 April 2023.

8.3.3 Training Requirements - UPDATE

- a. the Fund has subscribed 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.

- b. The Fund will receive regular progress reports allowing it to easily evidence member's development and progress as at October 2022 can be seen in the table below:

LOLA Modules Summary						
Name	Module 1	Module 2	Module 3	Module 4	Module 5	Module 6
Pensions Committee						
Cllr Anderson	Complete	In progress				
Cllr Benham						
Cllr Patel						
Cllr Persaud	Complete	In progress				
Cllr Ruck	Complete					
Cllr Stanton	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Wilkes	Complete	Complete	Complete	Complete	Complete	Complete
Derek Scott	Complete	Complete	Complete	Complete	Complete	Complete

- c. 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. The six months' deadline will apply once members joining instructions have been issued – February 2023.

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