



Havering
LONDON BOROUGH

PENSIONS COMMITTEE

21 March 2023

Subject Heading:

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

CLT Lead:

Dave McNamara

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708432569

Debbie.ford@onesource.co.uk

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

The Fund increased in value by **£4.53m** over the quarter, it underperformed the tactical benchmark by -4.46% but outperformed the strategic benchmark by 5.68%.

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:

JP Morgan (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 JP Morgan (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 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.

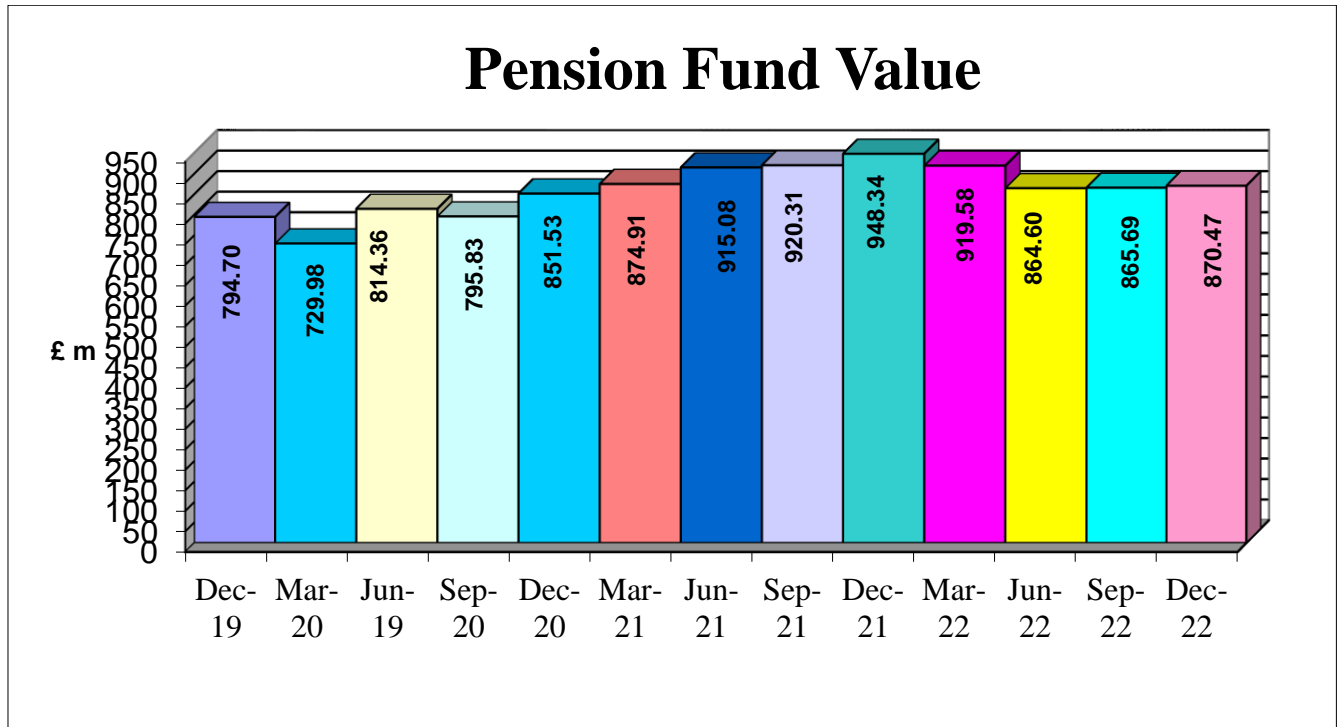
4. BACKGROUND

- 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 asset 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 Dec 2022 was **£870.47m** compared with £865.94m at the 30 Sept 2022; an **increase of £4.53m**. This movement can be attributable to an increase in asset values of £0.06m and an increase in cash of £4.47m. 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 31.12.22	12 Months to 31.12.22	3 Years to 31.12.22	5 years to 31.12.22
	%	%	%	%
Fund	0.45	-9.16	3.98	4.31
Benchmark	0.90	-2.92	4.85	5.18
*Difference in return	-0.46	-6.24	-0.87	-0.87

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 represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives

an indication of whether the funding level has improved or weakened over a given period

Table 2: Strategic Performance

	Quarter to 31.12.22	12 Months to 31.12.22	3 Years to 31.12.22	5 years to 31.12.22
	%	%	%	%
Fund	0.45	-9.16	3.98	4.31
**Benchmark	-5.24	-31.61	-6.49	-2.13
*Difference in return	2.78	22.45	10.47	6.44

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 31 Dec 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 JP Morgan**, 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: £1.36m Stafford IV, £0.33m London Collective Investment Vehicle (LCIV) Renewables Fund, £0.99m Churchill IV fund, £0.76m Permira PCS4 fund and £10.54m Permira PCS5 Fund.
- b. Capital Calls were mainly funded by withdrawals from Royal London Asset Management (RLAM) (Corporate Bonds mandate), which was holding an overweight position against the strategic benchmark asset allocation and income distributions received from fund managers.
- c. On the 25 October 2022, the Fund fully redeemed its remaining holdings in the RLAM Corporate Bonds Portfolio, bringing the asset allocation in line with the target allocation of 0%. Final

settlement being £9.3m and this was used to part fund the Permira PCS5 capital call of £10.54m.

- 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)

- 15 December 2022 – Investor meeting – Deep Dive review of the LCIV Diversified Growth Fund. LCIV, as part of their on-going monitoring process, carry out annual reviews on its sub fund managers. The review for the Diversified Growth Fund was released on the 15 December 2022 and the outcomes discussed with investors. The Fund's allocation to this portfolio is £65m (7.5%). Monitoring status has been changed from normal to enhanced monitoring, which means that deep dive reviews will be undertaken half yearly and the length of the scheduled review meeting will be extended. Areas of concern focus on performance, application of the investment process and progress with Environmental, Social and Governance (ESG) integration. The next review is scheduled for June 2023. The Fund's allocation to this portfolio will be an area for discussion as part of the investment strategy review currently in progress.
- 26 January 2023 – General Shareholder meeting included an update and noting of performance, Medium Term Financial Strategy 2023/26 and budget 2023/24 (approved), no change to the fixed fees of £110k per shareholder for 2023/24, an update to the current issue of two shareholders not agreeing to amending the Articles of Association and Shareholder agreement (31 March 2023 is the cut-off for notice if these two shareholders intend to exit the pool). Update on Remuneration and Nomination matters.
- 10 February 2023 – Introductory meeting was held with officers, the Chair and the new Chief Executive Officer (CEO) Dean Bowden to discuss potential future investment movements and future direction of LCIV.
- Business Update Meetings (currently held virtually) – take place monthly. Meetings held on the 24 November 2022, 27 January 2023 and 23 February 2023.

- Each business update 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:
 - **Annual Reviews** – In depth reviews, applicable to the Fund, are scheduled for LCIV Global Alpha Growth Paris-Aligned Fund and LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund before March 2023.
 - **Medium Term activity** to focus on Strategy Roadmap 2023 project planning, internal work groups formed for Corporate Net Zero project and Impact Investing project.
 - **Fund Activity - New/Changes to Sub Fund Launches:**
 - *New:* UK Housing Fund (Property) – Stage 4 (fund Launch) – First close 31 March 2023. The Fund is currently fully allocated to its Property target asset allocation and not looking to invest in this fund.
 - *Change:* LCIV Renewable Infrastructure Fund – Adding a new fund manager due to new client fund commitments and manager recommendation has been approved. Due diligence to commence. Expected completion in March 2023.
 - *Change:* LCIV Infrastructure Fund – LCIV negotiated reduced fees and new investment management agreement is being drafted and expected to be completed March 2023. Havering is not invested in this fund.
 - *Change:* LCIV Absolute Return fund - Fee saving feasibility assessment expected March 2023. Havering is invested in this fund
 - *Change:* LCIV MAC and Alternative Credit – Switch to Fund of One Structure, which will enable better fee negotiations. Final terms agreed with fund manager. Havering is not invested in this fund
 - *Change:* LCIV Real Estate Long Income Fund – will make its first dividend distribution in March 23 and quarterly thereafter. Havering is not invested in this fund

- **Other Fund and Corporate Matters:**
 - November 2022 – Issued briefing paper on Corporate Credit.
 - January 2023 – Investment Governance Document - sets out procedures undertaken for hiring, managing and firing fund managers.
 - Currently reviewing activity programme for 2023.
 - Will be looking at extending the time permitted to service capital call requests
 - Assessment of Value being prepared and will be presented to the business update meeting in April
 - Securities lending programme has been paused but prioritisation given to securing client support for security lending for the PEPPA fund

8.3 LGPS GENERAL UPDATES:

8.3.1 Governments White Paper on Education Reforms - UPDATE

- a. At the Pensions Committee meeting held on the 26 July 2022 Officers reported that the Government issued a White Paper followed by the Schools Bill on Education reforms of which included plans expecting Local Authority schools to become Academies or be in the process of doing so by 2030.
- b. It was reported that the impact of these proposals would be significant to LGPS funds, in Havering there were 42 LEA schools currently not part of an Academy that potentially would need to convert, which could affect existing resources to facilitate on-boarding and ongoing administration.
- c. In December 2022 it was announced that the Schools Bill will now not progress and the plans to mandate LEA schools by 2030 has been scrapped.

8.3.2 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 February 2023 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	Complete	Complete	Complete	Complete	Complete
Cllr Benham	In progress					
Cllr Patel	Complete	In progress				
Cllr Persaud	Complete	Complete	Complete	Complete	Complete	In progress
Cllr Ruck	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Stanton	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Wilkes	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Glass						
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 – so 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