



PENSIONS COMMITTEE

25 July 2023

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED MARCH 2023**

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 31 March 2023

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 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund increased in value by **£23.6m** over the quarter, it underperformed the tactical benchmark by -0.31% and the strategic benchmark by -2.12%.

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:

London Collective Investment Vehicle (LCIV) - Asset Pooling Manager

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 LCIV for an overview on the sub funds invested on their platform I (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.

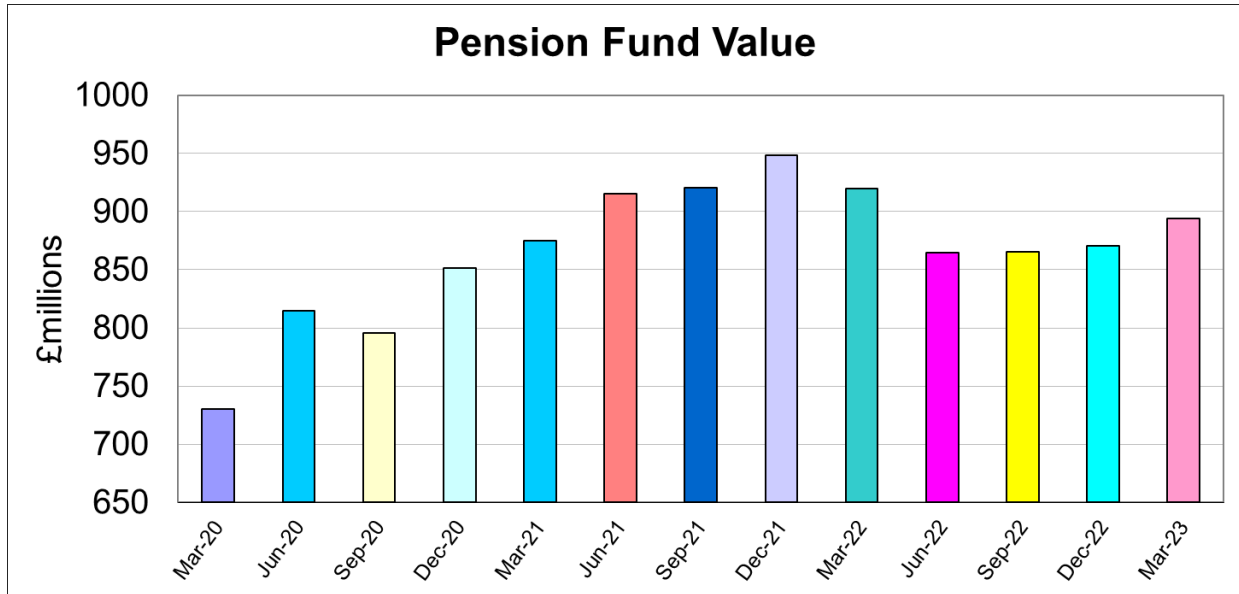
4. BACKGROUND

- 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 Mar 2023 was **£894.08m** compared with £870.47m at the 31 Dec 2022; an **increase of £23.61m**. This movement can be attributable to an increase in asset values of £19.59m and an increase in cash of £4.02m. Internally managed cash stands at **£16.2m** 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 31/03/23	12 Months to 31/03/23	3 Years to 31/03/23	5 years to 31/03/23
	%	%	%	%
Fund	2.70	-3.59	7.99	5.09
Benchmark	3.01	0.73	8.41	5.97
*Difference in return	-0.31	-4.32	-0.42	-0.89

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 31/03/23	12 Months to 31/03/23	3 Years to 31/03/23	5 years to 31/03/23
	%	%	%	%
Fund	2.70	-3.59	7.99	5.09
**Benchmark	4.81	-24.53	-5.67	-1.31
*Difference in return	-2.12	20.94	13.67	6.40

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 **£16.2m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2020/21</u> <u>31 Mar 21</u>	<u>2021/22</u> <u>31 Mar 22</u>	<u>2021/22</u> <u>31 Mar 23</u>
	£000's	£000's	£000's
Balance B/F	-23,056	-15,963	-14,260
Benefits Paid	38,874	37,632	42,530
Management costs	1,420	1,720	1,547
Net Transfer Values	14,251	333	879
Employee/Employer Contributions	-48,049	-49,112	-53,120
Cash from/to Managers/Other Adj.	723	11,173	6,449
Internal Interest	-126	-43	-226
Movement in Year	7,093	1,703	-1,941
Balance C/F	-15,963	-14,260	-16,201

- 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

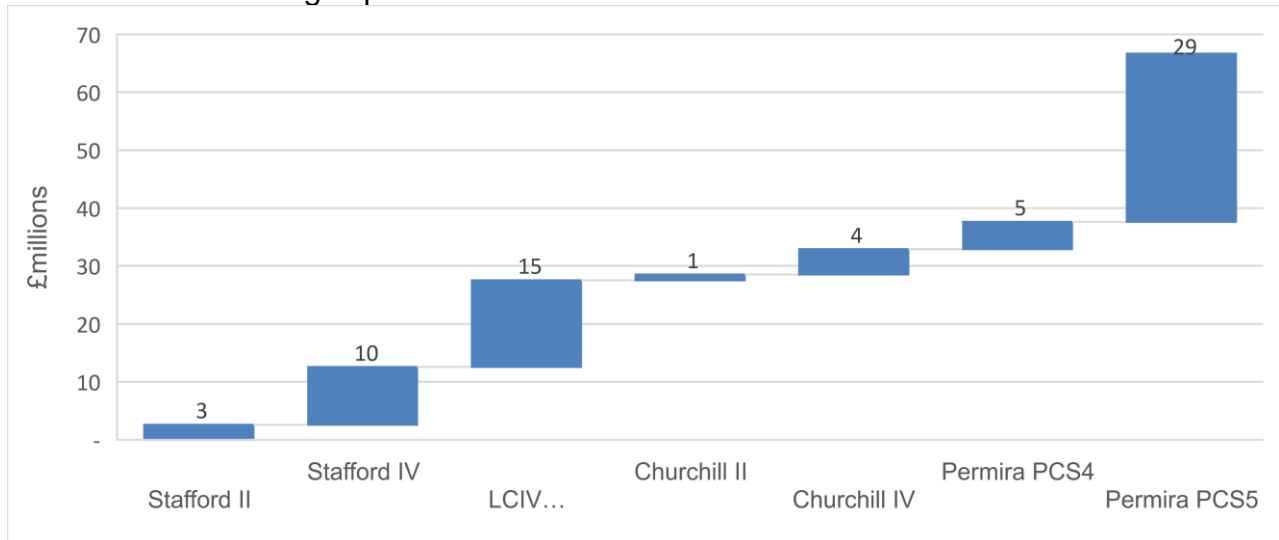
- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand they be brought back again for further investigation. Fund Manager Reviews are included within Hymans performance report at **Appendix A**.
- 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 **Asset Pooling Manager LCIV**, 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:
 - £0.33m Stafford II
 - £1.65m Stafford IV
 - £1.77m London Collective Investment Vehicle (LCIV) Renewables Fund
 - £0.51m Churchill II fund
 - £0.45m Churchill IV fund and
 - £1.55m Permira PCS4 fund
- b. Capital Calls were funded with cash received from investment income which is held with the Custodian
- c. At 30 June 2023 there was £67m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 30 June 2023



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 their responsibility. It is therefore crucial that regular communication and contact is upheld and activity updates are reported and covered here as follows:

8.2.1 LCIV meetings (since the last report)

- a. Shareholder meeting – 30 March 23 and 21 June 2023. Meetings are confidential and open to nominated shareholders only so not all LGPS clients are represented. Matters arising are usually reported to the General Shareholder meeting when all LGPS shareholders are represented.
- b. Business Update Meetings (currently held virtually) – take place monthly. Meetings were held on the 23 March, 27 April and 25 May 2023.
- c. 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:
 - **Fund Monitoring Updates:** LCIV Diversified Growth Fund has been put on enhanced monitoring with a review due in June 2023. LCIV Absolute Return Fund review saw the score for 'Business Risk' reduced to 'amber'. LCIV also monitoring changes in the ownership structure.

- **Annual Performance Reviews:** In depth reviews continue to take place; LCIV Global Alpha Growth Paris Aligned Fund and LCIV Passive Equity Progressive Paris Aligned Fund are currently pending.
- **Fund Activity - New/Changes to Sub Fund Launches:**
 - *New:* UK Housing Fund (Property) – Stage 4 (fund Launch) – First close 31 March 2023 with CBRE.
 - *New:* Global Equity Value – Stage 1 (Initiation) First Seed Investor Group (SIG) held to explain investment proposition. Next SIG meeting due 8 June. Havering has no plans to invest in this fund
 - *New:* Sterling Credit – Stage 1 (Initiation) Next SIG due on 13 June. Havering has no plans to invest in this fund
 - *Change:* LCIV Absolute Return Fund, moving to a fund of one to deliver fee savings. No operational impact for Havering under this arrangement.
 - *Change:* LCIV Renewable Fund – Macquarie has been added as the fifth manager for this fund, which will allow more shareholders to invest in this product
 - *Change:* Credit facility for private markets client funds being asked for feedback, LCIV seeking to move the drawdown time from 5 to 10 business days
- **Other Fund and Corporate Matters:**
 - Cost Transparency Working Group met on 28 April – working on fee saving methodology, review of Assessment of Value (AOV) and funding model.
 - Authorised Contractual Scheme (ACS) accounts approved for the year to December 2022 – no audit issues to note.
 - Shareholder consent has now allowed LCIV to recommence work on obtaining additional permissions, application with the Financial Conduct Authority (FCA) targeting Q3 2023 (December 23)
 - An Assessment of Value has been carried out on all LCIV sub-funds that have been with them for 1 year or more at 31 December 2022. The criteria are set by the FCA as set out below and funds are assigned star ratings: 3 Stars - Delivers value for money, 2 Stars – Delivers value but some criteria are to be monitored and 1 Star – Value not achieved.
 - Quality of Service
 - Performance
 - Costs
 - Economies of Scale
 - Comparable Market Rates

- Comparable Services
- Classes of Shares
- Having funds rated with 1 Star - LCIV Global Alpha Paris Aligned Fund (LCIV are in the process of carrying out in-depth review, currently on normal monitoring status. LCIV Diversified Growth Fund (Currently under enhanced monitoring status and further in-depth review is scheduled to take place in June 2023).

8.3 LGPS GENERAL UPDATES:

8.3.1 Guarantee for academy trusts outsourcing arrangements

- a. On 17 May 2023, the Department for Education (DfE) published their policy for guaranteeing the outsourcing arrangements of academy trusts.
- b. Education and Skills Funding Agency (ESFA) approval is no longer required by academy trusts seeking pass-through arrangements with their administering authorities for outsourcing contracts for employees covered by the DfE Guarantee policy.
- c. A pass-through arrangement is a risk sharing mechanism between the new employer (outsourced contractor) and Letting Authority (academy trust), which typically means that the majority of the pensions risk is borne by the Letting Authority rather than the new employer. The trade-off for the risk sharing being that the letting authority receives a fairer price for the contract as that element of the pension risk does not need to be factored into the contract price.
- d. Under a pass-through arrangement, if a contractor ceases to trade, then the LGPS liabilities will remain with the trust. Those liabilities remaining with the trust will now be automatically covered by the DfE guarantee, therefore providing the Fund with greater protection if the trust was also not able to meet its pension obligations.

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.

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- b. In addition to an induction training session, it is expected that members will complete the LOLA training modules 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. This was extended to April 2023 in light of some issues with initial joining instructions.
- c. The Fund will receive regular progress reports allowing it to easily evidence member's development and progress as at 30 June 2023 can be seen in the table below:

LOLA Modules Summary						
Name	Module 1 Introduction to the LGPS	Module 2 LGPS Governance & Oversight Bodies	Module 3 Administration & Fund Management	Module 4 Funding & Actuarial Matters	Module 5 Investments	Module 6 Current Issues
Pensions Committee						
Cllr Anderson	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Benham*	In progress					
Cllr Patel	Complete	Complete	Complete	Complete	Complete	
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	Complete	Complete	Complete	Complete	Complete	Complete
Derek Scott	Complete	Complete	Complete	Complete	Complete	Complete

*Cllr Benham has now been replaced by Cllr Chapman and the table will be updated once joining instructions have been issued

- d. Following feedback from users Hymans have added improvements to their LOLA platform – releasing v2.0. The key changes will see shortened and refreshed modules and will mirror and align the topics with their National Knowledge Assessment. Funds will also be able to add their own training documents and fund policies allowing users to have a one stop shop for key training material. Officers will be looking to subscribe to v2.0 during 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