



PENSIONS COMMITTEE

12 September 2023

Subject Heading:

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

CLT Lead:

Kathy Freeman

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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 June 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 **30 June 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund increased in value by **£10.9m** over the quarter, it underperformed the tactical benchmark by -1.66% and outperformed the strategic benchmark by 5.94%.

Equity and credit assets performed well over this period. Rising gilt yields over this period have had a two-fold effect: those funds that had positioned themselves defensively by holding bonds did less well but Fund liabilities are expected to have fallen in value as shown by outperformance on the strategic benchmark. Property values have stabilised except the office sector which have continued to decline.

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:

Churchill – Private Equity 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 Churchill for an overview on the fund's performance (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 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.

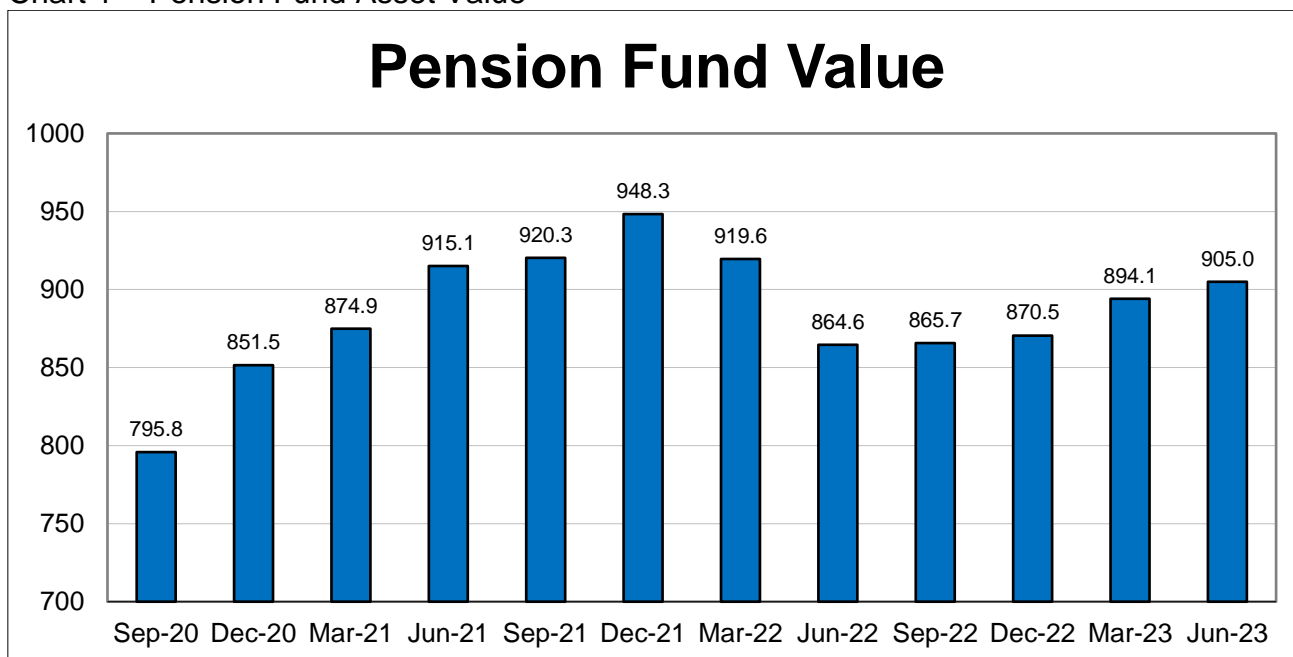
4. BACKGROUND

- 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:

5. PERFORMANCE

- a. As reported by the Fund's custodian Northern Trust, the total Fund asset value at 30 June 2023 was **£904.98m** compared with £894.08m at 31 March 2023; an **increase of £10.9m**. This movement is largely attributable to an increase in cash balances of £7.5m.

Chart 1 – Pension Fund Asset Value



Source: Northern Trust Performance Report

- b. The overall net performance of the Fund against the **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.

Table 1: Tactical Performance

| | Quarter to 30/06/2023 | 12 Months to 30/06/2023 | 3 Years to 30/06/2023 | 5 years to 30/06/2023 |
|-----------------------|----------------------------------|------------------------------------|----------------------------------|----------------------------------|
| | % | % | % | % |
| Fund | 0.22 | 2.68 | 4.27 | 4.73 |
| Benchmark | 1.88 | 6.31 | 6.25 | 5.97 |
| *Difference in return | -1.66 | -3.64 | -1.98 | -1.23 |

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 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 30/06/2023 | 12 Months to 30/06/2023 | 3 Years to 30/06/2023 | 5 years to 30/06/2023 |
|-----------------------|----------------------------------|------------------------------------|----------------------------------|----------------------------------|
| | % | % | % | % |
| Fund | 0.22 | 2.68 | 4.27 | 4.73 |
| Benchmark | -5.72 | -14.39 | -10.59 | -2.36 |
| *Difference in return | 5.94 | 17.07 | 14.86 | 7.09 |

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 FORECAST

- a. At the end of June, the cash balance was £23.7m. This cash is invested with LBH and can be called upon for any operational cash needs.

Table 3: Cash Flow Forecast

| | Cash Position 30 June 2023 ACTUALS TO DATE £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|------------------------|--|-------------------------|-------------------------|-------------------------|
| Balance b/f | 16,201 | 16,201 | 28,813 | 34,027 |
| Benefits paid | (8,536) | (34,337) | (35,711) | (37,139) |
| BACS expenses | (1,337) | (2,837) | (3,007) | (3,188) |
| Transfers in | 2,245 | 3,145 | 3,302 | 3,467 |
| Contributions received | 8,333 | 39,833 | 40,630 | 41,442 |
| Sweep to LBH | 6,808 | 6,808 | | |
| Balance c/f | 23,714 | 28,813 | 34,027 | 38,609 |

- b. The cash management policy permits income from investments to be drawn down as required and allows for any excess cash above £8m to be reinvested as required

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 a manager be brought back again for further investigation.
- b. Fund Manager Reviews are included within Hymans performance report at **Appendix A**.
- c. 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.
- d. The fund manager attending this meeting is **Churchill** who are one of the Fund's **Private Equity Managers**, their report is attached at **Appendix C (Exempt)**.

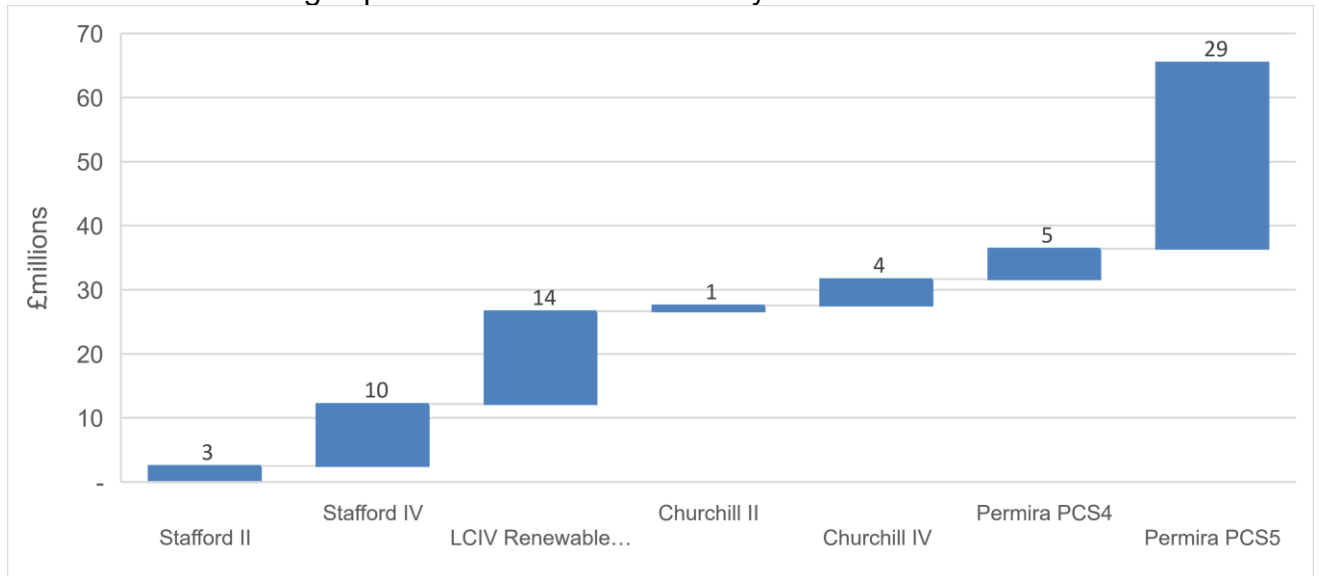
8. FUND UPDATES:

8.1 Changes 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:
- £0.5m London Collective Investment Vehicle (LCIV)
Renewables Fund

- b. These Capital Calls were funded with cash received from investment income which is held with the Custodian
- c. At 31 July 2023 there was £65.4m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 July 2023



8.2 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. General Shareholder meeting – 18 July 2023 attended by Councillor Anderson. Notes and the presentation pack have been distributed to the Committee.
- b. The LCIV Annual Strategy & Responsible Investment Conference is held on the 4 & 5 September. Councillor Anderson, Councillor Glass and Derek Scott will be attending.
- c. Business Update Meetings (currently held virtually) – take place monthly.
- d. 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 and results expected July (not received at time of publication).
- **Annual Performance Reviews:** In depth reviews continue to take place; the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund with no concerns to note and monitoring status to remain normal. LCIV Global Alpha Growth Paris Aligned Fund is currently pending.
- **Fund Activity - New/Changes to Sub Fund Launches:**
 - *New:* UK Housing Fund (Property) – Second manager agreed subject to due diligence – expected completion Q3 2023 (December).
 - *New:* Global Equity Value – Stage 1 (Initiation) Seed Investor Group (SIG) in progress to define the mandate and client demand. Havering has no plans to invest in this fund
 - *New:* Buy and maintain Fund (formerly known as Sterling Credit) – SIG in progress. Havering has no plans to invest in this fund.
 - *New:* Natural Capital/ Nature Based Solution – currently under discussion and research. No details available to date.
 - *Change:* LCIV Absolute Return Fund, moving to a fund of one to deliver fee savings. No operational impact for Havering under this arrangement – expected Q3 2023 (December).
- **Other Fund and Corporate Matters:**
 - Cost Transparency Working Group (CTWG) update – reviewed Assessment of Value (AOV) for December 2022 and currently reviewing fee saving methodology, and funding model.
- **Staff updates** - The Chief Investment Officer (CIO) has resigned and will leave at the end of October. Martin Gloyne joined the team as the Chief Operating Officer in July. CIO recruitment has started and the Chief Executive Officer will put in place arrangements to cover the role pending commencement of the new CIO.

8.3 LGPS GENERAL UPDATES:

8.3.1 LGPS Governance and reporting of climate change risk

- a. The Department for Levelling Up, Housing & Communities (DLUHC) consultation on the LGPS: Governance and reporting of climate change risks closed in November 2022. This consultation follows the Taskforce for Climate-related Financial Disclosures (TCFD) framework setting out how to report against the four key areas of governance.
- b. The consultation proposed that regulations will apply to all LGPS Administering Authorities with the first reporting year being for the financial year 2023/24. Originally the first report would be required by December 2024
- c. Subsequently, Lee Rowley, the Local Government Minister, has written a letter to the Scheme Advisory Board dated 15 June 2023 stating that DLUHC will not impose any requirements on the governance or disclosure of climate-related financial risks in the LGPS for 2023/24.
- d. The Havering Fund has already been producing a TCFD report voluntarily and the latest report appears on this agenda.

8.3.2 LGPS Next Steps on investment

- a. DLUHC on the 11 July 2023 issued a consultation “LGPS: Next steps on investments “. Closing date is 2 October 2023.
- b. Consultation seeks views on proposals relating to the investments of the LGPS, covering five areas, summary as follows:
 - i. Area 1 – Asset Pooling – proposal to accelerate and expand pooling, with a deadline of 31 March 2025 to transition listed assets. Achieve greater scale by having smaller number of pools holding in excess of £50bn in directly invested assets. Also included is a requirement for administering authorities to have an investment related training policy for pension’s committee members and to report against the policy. Amend guidance on annual reports to provide greater clarity on progress of pooling.
 - ii. Area 2 - levelling Up – proposal to require funds to set a plan to invest up to 5% of assets in levelling up in the UK and report progress in their annual reports. Further clarity on the definition of levelling up investments identifies 12 levelling up missions.
 - iii. Area 3 – Investment in private equity – proposing an ambition to increase investment into high growth companies via unlisted equities with a target of 10%.
 - iv. Area 4 – Investment Consultancy Services – To clarify that funds would be formally required to set objectives for their investment

consultants in line with the Competition and Markets Authority (CMA) order.

- v. Area 5 – Definition of investment – amend investment regulations to correct an inconsistency in the definition of unquoted securities investment by adding the word partnership.
- c. Officers will liaise with the Chair and S151 to produce a response and final version will be distributed to the committee for noting.

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. 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.
- c. The Fund will receive regular progress reports allowing it to easily evidence member’s development and progress as at July 2023 can be seen in the following table

Table 4: Module summary

| 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 Chapman ⁽¹⁾ | In Progress | | | | | |
| Cllr Glass | Complete | Complete | Complete | Complete | Complete | Complete |
| 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 |
| Derek Scott | Complete | Complete | Complete | Complete | Complete | Complete |

(1) Joined July 23 – replacing Cllr Benham

- d. Given the nature of Module 6 and the expectation that it will be refreshed regularly with hot topics relating to the LGPS, Module 6 will always show

as “In progress”. Module 6 is not part of the mandatory learning required under the CIPFA Knowledge and Skills Framework and therefore Hymans have removed the Module 6 Knowledge Check and reconfigured the learning plan so that certification is awarded after completion of Modules 1 - 5.

- e. Some users may show as ‘completed’ on Module 6 but this would be dependent on when the user was onboarded to the platform as Hymans changed the “knowledge check” after some users had already been onboarded.
- f. 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 transition to v2 from the 1 October 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;

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(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 EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

None

BACKGROUND PAPERS