



PENSIONS COMMITTEE

12 December 2023

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED SEPTEMBER 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 30 September 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 September 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund decreased in value by **£5.2m** over the quarter, it underperformed the tactical benchmark by -1.56% and outperformed the strategic benchmark by 3.74% which is an indication that the funding level has increased despite the small dip in asset values.

The decrease in valuation can be primarily attributed to the Fund's allocation to the LCIV Global Alpha Paris Aligned Fund managed by Bailie Gifford specifically. This was then followed by the Fund's allocation to index-linked gilts which continued to decrease in value as real gilt yields rose over the longer terms as the BofE raised interest rates, despite the downward trend in UK inflation over the period

Equity and credit assets were up slightly this period. Long term real gilt yields rose, Fund liabilities are expected to have fallen in value as shown by outperformance on the strategic benchmark. Overall fund performance was marginally negative, but the Fund significantly outperformed the strategic benchmark. US Dollar and Euro denominated assets were negatively impacted as Sterling (GBP) appreciated, but the currency hedging programme helped to offset this. Mixed returns were observed across the Fund's real asset and private debt mandates, but there are no immediate concerns.

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:

CBRE – Global Property 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 Fund Global Property Manager (CBRE) 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

Pensions Committee, 12 December 2023

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.

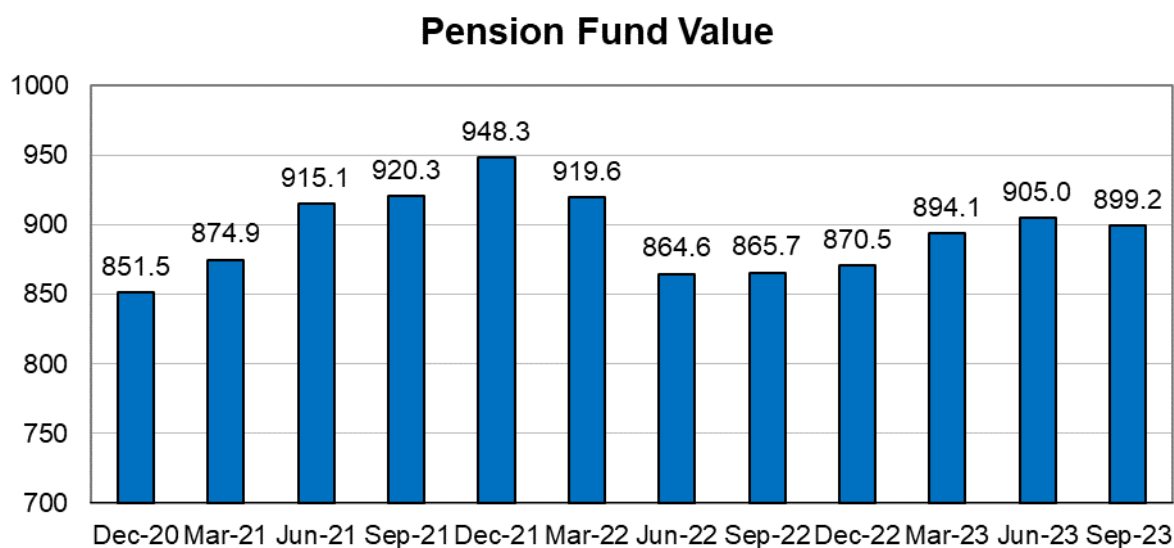
4. BACKGROUND

- a. The Committee adopted an updated Investment Strategy Statement (ISS) in September 2023.
- 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 September 2023 was **£899.23m** compared with £904.98 at 30 June 2023; an **decrease of £5.75m**. This movement is attributable to a decrease in asset values (-£12.45m) and increase in cash (£6.70m).

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 30/09/2023 %	12 Months to 30/09/2023 %	3 Years to 30/09/2023 %	5 years to 30/09/2023 %
Fund	0.53	2.83	3.15	4.36
Benchmark	1.03	6.98	6.04	5.88
*Difference in return	-1.56	-4.15	-2.89	-1.52

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 30/09/2023 %	12 Months to 30/09/2023 %	3 Years to 30/09/2023 %	5 years to 30/09/2023 %
Fund	0.53	2.83	3.15	4.36
Benchmark	-4.27	-10.86	-11.60	-3.21
*Difference in return	3.74	13.69	14.75	7.57

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 September 23, the cash balance stood at £22.8m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO 30/09/23 £000	Forecast		
		2023/24 £000	2024/25 £000	2025/26 £000
Balance b/f	16,201	16,201	25,338	30,008
Benefits paid	(16,501)	(33,001)	(34,321)	(35,694)
BACS expenses*	(4,913)	(9,833)	(10,423)	(11,049)
Transfers in	3,150	6,150	6,150	6,150
Contributions received**	21,004	42,004	43,264	44,562
Sweep	3,817	3,817		
Balance c/f	22,758	25,338	30,008	33,977

* BACS expenses also includes grants i.e. lump sums made to members via payments team

** Contributions received from LBH are net of pension payroll deductions (e.g. HMRC)

- 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 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 **CBRE** who are one of the Fund's **Global Property Manager**, their report is attached at **Appendix C (Exempt)**.

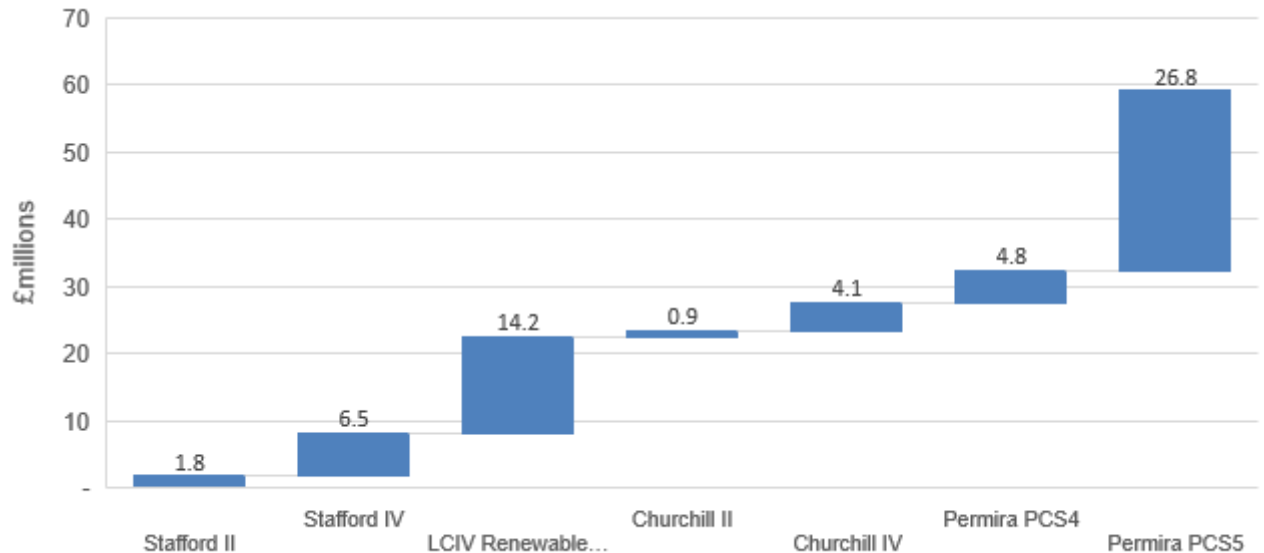
8. FUND UPDATES:

8.1 Changes since the last report and forthcoming changes/events:

- a. Since the last report, the Fund has completed £6.3m of capital draw down requests.
- b. These Capital Calls were funded with cash received from investment income which is held with the Custodian
- c. As agreed at the 25 July 23 Pensions Committee meeting, £13m was paid to JP Morgan to rebalance the portfolio. This was funded by a divestment from LCIV Diversified Growth Fund.
- d. As agreed at the 12 September 2023 Pensions Committee meeting, £45m was invested in the LCIV Global Bond Fund on the 10 November 2023. This was funded by a full redemption of the LCIV Diversified Growth Fund. Residual cash balance from the full redemption of the LCIV Diversified Growth Fund will be held pending future investment decisions or to fund outstanding capital call requests.

- e. At 31 October 2023 there was £59.1m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 October 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 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. The LCIV Annual Strategy & Responsible Investment Conference was held on the 4 & 5 September. Councillors Anderson, Glass and Derek Scott attended.
- b. Business Update Meetings (currently held virtually) – take place monthly.
- 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 (DGF) remains on enhanced monitoring due to on-going performance issues. The Fund fully divested from this fund on 8 November 2023.

- **Annual Performance Reviews:** In depth reviews continue to take place; the LCIV Global Alpha Growth Paris Aligned Fund, the LCIV PEPPA fund and the LCIV Global Bond Fund are complete with no concerns to note. The LCIV Absolute Return Fund review is currently pending.
- **Fund Activity - New/Changes to Sub Fund Launches:**
 - *New:* UK Housing Fund (Property) – Second manager agreed due diligence being finalised – expected completion Q4 2023 (December). Third manager due diligence expected Q1 2024. Havering has no plans to invest in this fund
 - *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) – FCA review in progress, FCA submission for approval expected to be submitted October 2023. Launch expected November 2023. Havering has no plans to invest in this fund.
 - *New:* Natural Capital/ Nature Based Solution – Reddington appointed as advisor to assist with the design, fund structuring, portfolio construction and initial selection of fund investments, Targeting an H1 2024 launch. Education session for officers held 7 November 2023. SIG meetings scheduled for 21 November and 5 December
 - *New:* Private Debt II Fund is also in the initial stages of launch with first SIG meeting held on 31 October. The Fund will consider this mandate when more details are available.
- **DLUHC Return September 2023.**
 - Each year the Department for Levelling Up, Housing and Communities (DLUHC) requests information from partner funds regarding their pooling intentions over the forthcoming three years.
 - LCIV have identified six funds whose pooling level is lower in 2023/24. Havering was identified as one of those funds, as it is showing an allocation that reduced from 62% to 60%. This reflects lower asset values and the transfer out of the LCIV DGF and a lower allocation to its replacement LCIV Global Bond. Officers have advised LCIV that this is a blip and should not be viewed as a reduction in our unwavering commitment to asset pooling.

8.3 LGPS GENERAL UPDATES:

8.3.1 Taskforce on Nature-related Financial Disclosures (TNFD)

- a. The TNFD formally launched its framework and final recommendations on 18 September 2023. The TNFD is a market-led, science based initiative to help address nature loss. It sets out a risk management and disclosure framework to identify, assess and disclose nature-related issues. It should be noted that this about protecting the Fund's investments from risks related to habitat loss and loss of biodiversity.
- b. TNFD reporting mirrors that of the Taskforce on Climate Related Financial Disclosures (TCFD) with recommended disclosures across the same four themes, **Governance, Strategy, Risk Management** and **Metrics and Targets**. Across these four themes, there are 14 disclosures (11 in the TCFD).
- c. All 11 TCFD recommendations have been replicated in the TNFD recommendations. It is designed to align with the Taskforce on Climate Related Financial Disclosures (TCFD) reporting and is expected to play a key role in future regulatory frameworks.
- d. TNFD is currently voluntary and the committee will be given an opportunity to assess its adoption at a future education session run by LCIV.
- e. The Committee is reminded that TCFD started off voluntary, with the committee being an early adopter and expected to become mandatory for reports covering 2024/25.

8.3.2 McCloud Update

- a. On 8 September, the Department of Levelling Up, Housing and Communities (DLUHC) announced the outcome of the consultation on McCloud issues. It also laid before Parliament "The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023", which came into force on 1 October 2023. The LGPS Regulations 2013 as amended to include the new definition of the underpin and extend it to those groups who were previously excluded but are now in scope. To remind the Committee the McCloud judgement is explained below:
 - McCloud judgement - In 2014, the LGPS changed from a final salary scheme (a pension based on your final salary when you leave) to a career average scheme (a pension which builds up based on what you earn each year). Older members who were within 10 years of retirement were protected from the changes. This means when a protected member takes their pension, the benefits payable under the career average scheme are compared with the benefits that would have been built up, had the final salary scheme continued and they receive the higher amount. This protection is called the underpin.
 - To remove the McCloud age discrimination, qualifying younger members will now receive the underpin protection too. This change will come into force on 1 October 2023. Underpin protection only

applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022. Pension built up after 1 April 2022 is based on the career average scheme only.

- b. Statutory guidance is expected shortly, providing funds with more information on how to implement the new underpin including advice on prioritising cases.

8.3.3 Autumn Statement and LGPS Next Steps on investment - UPDATE

- a. At the Pensions Committee meeting on the 12 September, officers informed the Committee of a consultation issued by DLUHC the *LGPS: Next steps on investments*, which had a closing date of 2 October 2023.
- b. On the 22 November 2023, after receiving 152 responses, the Government issued its response to the consultation indicating its intention to implement the proposals as set in the consultation. They will:
 - Set out in revised investment strategy statement (ISS) guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.
 - Revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
 - Implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
 - Revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
 - Make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
 - Amend regulations to require funds to set a plan to invest 5% of assets in levelling up the UK, and to report annually on progress against the plan
 - Revise ISS guidance to require funds to consider investments to meet the governments ambition of a 10% allocation to private equity.
 - Amend regulations to require Funds to set objectives for investment consultants and correct the definition of investment in the 2016 regulations. The Fund already
 - DLUHC will work closely with the Scheme Advisory Board to develop changes to regulations and revised guidance.
 - DLUHC intend to monitor progress over the current valuation period (up to March 2025), based on annual reports, LGPS

statistics, the Scheme Annual report and other evidence. Monitoring to include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance

- c. We will await guidance but officers will discuss with the Fund's Investment Consultant options for next steps and implications for the ISS.
- d. In the Autumn statement the Chancellor:
 - a. Confirmed that benefits will rise in line with September 2023 inflation figure of 6.7%. Pension increase from 1 April 2023 should therefore also be 6.7%.
 - b. The British Business Bank (BBB) will establish Growth Fund which will draw upon the BBB's expertise and a permanent capital base of over £7 billion to give pension funds access to investment opportunities in the UK's most promising businesses – linked to above consultation response

8.3.4 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 (KSF) 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, members have completed the LOLA training modules v1.0 in support of meeting the Committee procedure rules.
- c. LOLA v1.0 consisted of 6 modules. Module 6 covered hot topics and LGPS updates and given the nature of Module 6 and the expectation that it will be refreshed regularly, this is not part of the mandatory learning required under the CIPFA Knowledge and Skills Framework.
- d. All Pension Committee members have now completed Modules 1-5.
- e. Changes were made to the LOLA platform, subsequently releasing v2.0, consisting of 8 modules. The key changes will see shortened and refreshed modules and will mirror and align the topics with their National Knowledge Assessment and more closely aligned with CIPFA KSF. 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. The Fund transitioned over to LOLA v2.0 on the **1 October 2023**.

- f. Officers will provide the Committee with regular progress reports allowing it to easily evidence member's development and progress. Members are encouraged to complete the modules under LOLA v2. Progress will begin to be reported to members in due course, allowing some time for members to commence LOLA v2.0. New committee members yet to complete version 1.0 will now be required to undertake the LOLA v2 to meet the committee procedure rules.

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

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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

BACKGROUND PAPERS

None