



PENSIONS COMMITTEE

19 March 2024

Subject Heading:

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

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The Fund's value increased by **£32.8m** over the quarter. The overall fund performance of 3.9% underperformed the tactical benchmark by -0.38% and the strategic benchmark by -5.22%.

The Fund's performance of 3.9% was slightly behind the tactical benchmark but remains ahead of the strategic benchmark over the longer time periods.

Amid expectations of larger and sooner rate cuts in 2024, bond prices rose and yields fell sharply, pushing up expected liability values. This resulted in the Fund's liabilities increasing by more than the Fund's assets over the quarter so the funding level of the fund has fallen slightly. This market backdrop also contributed to equity and credit mandates delivering positive returns, with the Fund's global equity mandates benefiting strongly from this.

Many of the Fund's private market assets have either United States Dollars (USD) or European (EUR) exposure and returns were weaker when converted to Great British Pounds (GBP) but the currency hedging programme offset this.

Mixed returns were observed across the Fund's real asset and private debt mandates. Most of these mandates are measured against inflation and cash plus benchmarks and short term performance has lagged due to high levels of inflation. Property markets remains weak as capital values decline in the office, retail and industrial sectors.

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:

Permira - Private Debt 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 Funds Private Debt Manager (Permira) 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.

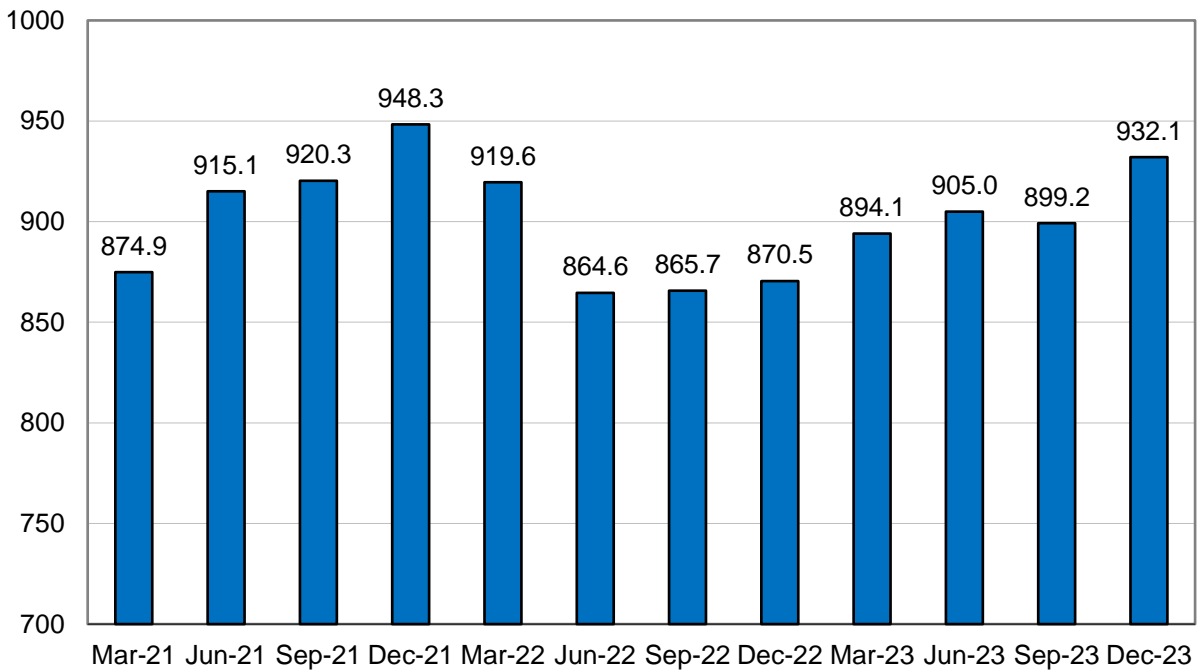
4. BACKGROUND

- a. The Committee adopted an updated Investment Strategy Statement (ISS) in 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. The Fund asset value at 31 December 2023 was **£932.0m** compared with £899.2 at 30 September 2023; an **increase of £32.8m**. This movement is attributable to an increase in asset values £37.2m and decrease in cash including Foreign Exchange (FX) (£4.4m).

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 31/12/2023 %	12 Months to 31/12/2023 %	3 Years to 31/12/2023 %	5 years to 31/12/2023 %
Fund	3.90	6.37	2.24	6.39
Benchmark	4.29	10.57	5.91	7.25
*Difference in return	-0.38	-4.20	-3.66	-0.86

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 31/12/2023 %	12 Months to 31/12/2023 %	3 Years to 31/12/2023 %	5 years to 31/12/2023 %
Fund	3.90	6.37	2.24	6.39
Benchmark	9.12	2.69	-9.48	-1.96
*Difference in return	-5.22	3.68	11.73	8.35

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 December 23, the cash balance stood at £20.5m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO	FORECAST		
	31/03/2023 £000	31/03/2024 £000	31/03/2025 £000	31/03/2026 £000
Balance b/f	16,201	20,476	25,275	28,786
Benefits paid	(24,813)	(8,351)	(35,385)	(37,756)
BACS expenses*	(6,868)	(2,821)	(10,270)	(10,886)
Lump sums by faster payment	(2,196)	(705)	(2,987)	(3,077)
Transfers in	4,643	1,152	6,085	6,389
Contributions received**	32,012	12,086	44,980	45,879
Pension strain	489	185	688	701
Interest	0	800	400	400
Sweep	1,008	2,453		
Balance c/f	20,476	25,275	28,786	30,436

- b. Members last agreed the updated cash management policy at their committee meeting on the 17 September 2019. This policy has been reviewed and updated and appears elsewhere on the agenda for consideration.
- c. Excess cash held above the upper current £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. Summary fund manager reviews are included within Hymans performance report at **Appendix A**.
- c. All 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 **Permira** who are one of the Fund's **Private Debt Managers**, their report is attached at **Appendix C (Exempt)**.

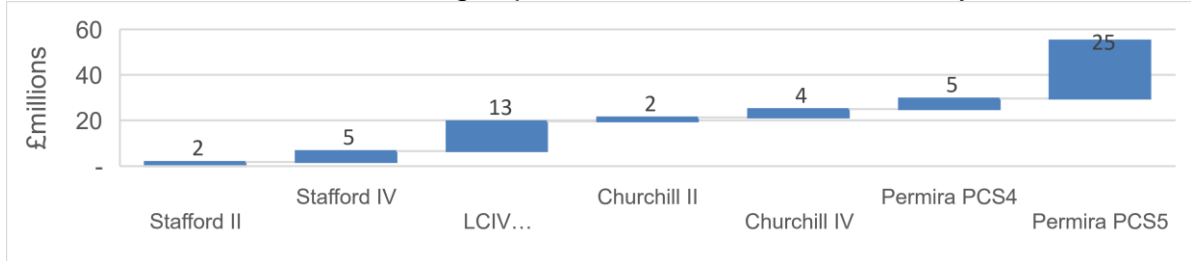
8. FUND UPDATES:

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

- a. Since the last report, the Fund has completed £1.9m 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 on 2 October 23, in line with the Fund's Investment Strategy. 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 January there was £55m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 January 2024



- 8.2** The LCIV is the appointed asset pool manager for the Fund and the governance of 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 Shareholder General Meeting was held on the 30 January 2024. No Fund representative attended the meeting due to ill health. As usual a proxy voting form was submitted to ensure that the Fund didn't lose an opportunity to cast its votes.
- b. Business Update Meetings take place monthly (currently held virtually) – meetings were held on the 23 November 2023 and 26 January 2024.
- 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:** All Havering investment funds are on normal monitoring.
- **Annual Performance Reviews:** In depth reviews continue to take place; The **LCIV Absolute Return Fund** review was completed on 10 January 2024. Whilst monitoring status remains 'normal', assessment against the categories *Performance* was reduced from Green to amber, due to deterioration in *performance* (-1.0% over the last quarter, -10.9% over the last 12 months and -0.6% since inception) and *Risk management* changed from green to amber, due to number of drawdowns. *Execution* changed from amber to green due to strengthened sophistication of their implementation and dealing processes. Closer monitoring

means the next review will be held in May 2024. **The LCIV Renewable Fund** annual review is due in Q2 24 (April to June)

- **Fund Activity - New/Changes to Sub Fund Launches:**
 - *New:* Natural Capital/ Nature Based Solution – Stage 1 (Initiation). Training session held on 8 February 2024 with a possible Seed Investor Group (SIG) meeting to be held late February. Havering currently has no plans to invest in this fund
 - *New:* Private Debt II Fund – Stage 1 (Initiation). Second SIG meeting held on 30 January 2024. Targetting a launch date in the second half of this year. The Fund will consider this mandate when more details are available.
 - *New:* Global Equity Value – Stage 1 (Initiation). Manager selection on target for completion in Feb 24, targeting a May 24 launch. Havering has no plans to invest in this fund
 - *New:* Buy and maintain Fund (formerly known as Sterling Credit) – has been launched. First subscriptions planned for 6 December. Havering currently has no plans to invest in this fund.
 - *Change:* UK Housing Fund (Property) – 3rd manager due diligence expected Q1 24 (end of March). 4th manager due diligence expected Q2 24 (end of June). Havering currently have no plans to invest in this fund
 - *Change:* LCIV Renewable Infrastructure – 7th & 8th manager due diligence in progress, expected Q2 24. Havering already invest in this fund which will see new managers added due to demand.

- d. Staffing update – New Chief Investment Officer – Aoifinn Devitt joined LCIV on 15 January 2024. She has extensive experience of working in UK LGPS, including independent advisor roles to four local authority pension funds in the UK as well as other investment committee positions. A virtual weekly "Coffee with the CIO" will be held to share news, learn and develop opportunities.

8.3 LGPS GENERAL UPDATES:

8.3.1 The Pension Regulator (TPR) – General Code of Practice

- a. TPR is the regulator of workplace trust-based schemes in the UK and has regulatory oversight for public service pension schemes, as well as being responsible for setting governance and administration standards.

- b. After a period of consultation that ran from 17 March 2021 to 26 May 2021 a new General Code of Practice “the Code” was laid in parliament on the 10 January 2024. This brings together and updates 10 existing codes of

practice into a single new code and is expected to come into force on 27 March 2024.

- c. The Code applies to all occupational defined benefit and defined contribution schemes, personal and public service pension schemes. It sets out proposed governance standards for pension schemes and TPR's expectations of how governing bodies should comply with their legal duties.
- d. Code consists of 51 topic based modules, grouped into five themes:
 - The Governing Body
 - Funding and Investment
 - Administration
 - Communication and Disclosure
 - Reporting to TPR
- e. Within the 51 modules that apply to the running of a pension scheme not all apply to the Local Government Pension Scheme (LGPS).
- f. The Fund currently assesses compliance against the Code of Practice 14 (CoP14) (Governance and Administration of Public Service Pension Schemes) and this will be superseded by this new single code. Whilst the content remains largely the same, the move from one CoP14 to the new General Code for all schemes will require Funds to identify the required changes to their current processes, check current policies and procedures are fit for purpose, and implement changes where necessary.
- g. Monitoring against compliance to Cop14 is a standing item at our Local Pension Board (LPB) meetings and selected categories are discussed at each meeting.
- h. The Fund may have to seek professional advice to establish the extent to which laws apply to the Local Government Pension Scheme (LGPS).
- i. Whilst the Code does include some statutory requirements i.e. having risk register and Investment Strategy Statement it is not legally binding. However, TPR will assess non-compliance with any code when considering if a statutory requirement has been met.
- j. Officers have expressed an interest in Hymans General Code of Practice 'LGPS compliance checker' which will set out what is expected for each LGPS funds and provide reporting capabilities for officers to ensure Committee and LBP are aware of the existing and ongoing fund compliance levels. We are waiting demonstration and costings.

8.3.2 Training Requirements - UPDATE

- a. The Fund subscribes 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 are expected to complete the LOLA training modules v1.0 (modules 1- 5) or LOLA V2.0 Training modules (1- 8) in support of meeting the Committee procedure rules.
- c. The Fund transitioned over to LOLA v2.0 on the **1 October 2023**.
- d. New committee members yet to complete modules under version 1.0 will now be required to undertake the LOLA v2.0 to meet the committee procedure rules.
- e. New committee members will have 6 months from **1 October 2023** or date of joining to complete the LOLA v2.0 modules.
- f. Officers will provide the Committee with regular progress reports allowing it to easily evidence member’s development and progress.

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:

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

BACKGROUND PAPERS

None