Havering
LONDON BOROUGH

LOCAL PENSIONS BOARD 4 June 2024

Subject Heading:	**Review of Pension Committee Papers**
SLT Lead:	**Kathy Freeman Strategic director of Resources**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** Debbie.ford@havering.gov.uk
Policy context:	Oversight and Scrutiny with respect to decisions taken by the Pension Committee
Financial summary:	None directly

SUMMARY

The Pension Board is invited to note the reports from the most recent Pension Committee meeting held on 19 March 2024.

RECOMMENDATIONS

To note the report.

REPORT DETAIL

1. Background

The papers from the most recent Pension Committee meeting are available online for the December meeting on the council's website: Pensions Committee - 19 March 2024 with the exception of exempt papers, which can be made available on request. **Highlights of all papers are covered below:**

2. Pension Fund Performance Monitoring for the quarter ending 31 December 2023 (Agenda Item 7).

2.1 The Committee considered the quarterly investment performance of the Fund as at 31 December 2023.

2.2 The market value of the Fund's assets at 31 December 2023 was £932.0m, an increase of £32.8m compared with 30 September 23. Movement is attributable to an increase in asset values (£37.2m) and decrease in cash including Foreign Exchange (£4.4m).

2.3 Fund underperformed the tactical benchmark by -0.38% and underperformed the strategic benchmark by -5.22%.

2.4 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.

2.5 Full details of the Fund's asset allocation and individual manager performance are included within Appendix A (Pensions Committee 19 March 2024 Document pack – item 7), provided by the Fund's investment advisers, Hymans.

2.6 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. The fund manager attending the meeting was **Permira – Private Debt Manager**. (report exempt from public).

2.7 Investment strategy movements from the September report:

- completed £1.9m of capital draw down requests, funded with cash received from investment income held with the Custodian.
- As agreed at the 25 July 23 Pensions Committee meeting, £13m was paid to JP Morgan on the 2 October 23. In line with the Fund's Investment Strategy. This was funded by a divestment from LCIV Diversified Growth Fund.
- 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.
- At 31 January 2023 there was £55m of outstanding capital commitments.

2.8 LCIV Updates:

- All Havering investments funds are on 'normal' monitoring status
- **LCIV Absolute Return Fund** in depth 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).
- Staffing update – New Chief Investment Officer – Aoifinn Devitt joined LCIV on 15 January 2024.

2.9 LGPS General Updates:

- **The Pensions Regulator(TPR) – General Code of Practice** –A new general Code of Practice "the Code" was laid in parliament on the 10 January and came into force on the 28 March 2024.
- The Code contains new governance requirements and sets out TPR's expectations of how occupational pension schemes should be managed and the policies, practices and procedures that should be in place.
- The Code consists of 51 topic based modules, grouped into five themes:
    - The Governing Body
    - Funding and Investment
    - Administration
    - Communication and Disclosure
    - Reporting to TPR

- Within the 51 modules that apply to the running of a pension scheme not all apply to the Local Government Pension Scheme (LGPS).
- The Fund previously assessed compliance against the Code of Practice 14 (CoP14) (Governance and Administration of Public Service Pension Schemes) and this will be superseded by the new single code. Whilst the content remains largely the same, the move from CoP14 to the new Code 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.
- The Fund has now signed up to the Hymans "LGPS compliance checker" and officers with the use of this tool, assess compliance against the Code and identify if there are any gaps. Funds have up to 6 months from implementation of the Code to produce an action plan to address any partial or non –compliance –so end of September 2024
- The outcome of the compliance assessment and any action plan will be reported to the Local Pension Board and the Pensions Committee.

  - .

3. Cash Management Policy Review

3.1 The report set out a proposed Cashflow Policy establishing an acceptable working cash balance to be held by the Fund

3.2 The Committee considered and agreed the Cashflow policy and also agreed for the policy to be reviewed every three years or in the event that Fund's cash flow profile was to materially change, for example if the Fund benefit payments increased by more than 20%.

3.3 In summary, the cashflow policy (refer to Appendix A to the report for details):

- A target working cash balance of £8m (previously £6m) to be set, with an operational range of £5m to £13m (previous range between £3m and £8m).
- This cash balance of £8m provides a buffer to cover one month of predictable outgoings (£3.5m) and three months of unpredictable outgoings (£1.5m) plus, an allowance for currency settlements (£3m).
- The cash balance will be replenished by monthly contributions and by income received from the UK property and private market investment arrangements.
- The working cash balance will be reviewed on a monthly basis immediately following receipt of contributions, and permitted to vary between £5m and £13m. In the event that cash levels fall out of these limits then officers should take the following actions:
  - If cash falls below the lower limit of £5m, assets will be disinvested from the most overweight liquid allocation to increase the working cash balance back to £8m.

  - In the event that cash levels rise above the upper limit of £13m, cash will be invested in the most underweight liquid allocation to reduce the working cash balance back to £13m. Officers may consult the Fund's Investment adviser for the most appropriate investment for the excess cash.
- The cash balance may be retained above the upper limit at the discretion of the Section 151 officer.
- Where the Fund has undrawn capital commitments amounting to £60m and £24.9m of those are expected to be called over the next 12 months, the Fund may retain additional cash to meet such commitments. These amounts will be considered as being additional to the working cash balance set out above.

4 Review of Voting and Engagement Activity June 2023

4.1 This report presented a summary of the Investment Managers' Voting and Engagement Activities over the 12-month period to **30 June 2023**.

4.2 The committee noted the review undertaken by Hymans and agreed the recommendations as set in **Appendix A** to the report and noted the next steps also set out in **Appendix A** to the report (para 4.7 below also refers)

4.3 This review is in support of the Committee's ongoing annual monitoring requirement as set out in the Investment Strategy Statement (ISS) as follows:

- The Committee monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.
- The Committee will request its investment managers provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change
- The Committee reviews voting activity by its investment managers on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure.

4.4 The Fund does not have its own voting policy and in line with the Fund's current ISS, engagement and voting activity is delegated to the Fund's Investment managers with the Fund reviewing their approach on an annual basis. This review having been undertaken by the Fund's Investment Advisor.

4.5 Hymans report as per **Appendix A** addresses the above for the Committee's consideration, which also includes information on the Fund's managers that are signatories to the UK Stewardship Code 2020 and who report against the Principles for Responsible Investment (PRI):

- Stewardship Code 2020 – is a voluntary code that sets high stewardship standards. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society for those investing money on behalf of UK savers and pensioners, and those that support them. Signatories must report annually against 12 principles. **(3 out of 12 fund managers are not signatories – Stafford, Churchill and Permira)**

.

- PRI - is voluntary and allows organisations to publicly demonstrate its commitment to incorporating environmental, social and governance (ESG) factors into its investment decision making and ownership practices. Signatories must report annually against 6 principles (all investment managers are signatories scoring a rating of 4 out of 5 stars or above).

4.6 Summary of observations as set out in detail within Appendix A:

- The Fund had investments through two managers, across seven mandates with equity exposure. The two managers are LGIM and LCIV, although LCIV's policy is currently to delegate voting implementation to EOS at Federated Hermes ("EOS") for global equity funds and to the underlying managers (Baillie Gifford, Ruffer) for multi-asset funds.

- The vast majority of resolutions were voted upon. Exercise rates for managers including LGIM, across their mandate, and LCIV Absolute Return Fund were at least 99.0%. LCIV Global Alpha Growth Paris Aligned Fund and LCIV Diversified Growth Fund (had a lower rate across their two mandates but at least 95.0% of votes were exercised. Lastly, LCIV PEPPA Passive Equity Fund had an exercise rate of 97.0% across their mandate.

- EOS and managers demonstrated a preparedness on occasion to vote against company management. LGIM voted against management most frequently with around 19% of votes against management. This was in line with the previous reporting period. This is consistent with the index-tracking nature of these mandates.

- Similar to last year, there was commonality in the reasons why EOS/managers voted against management, with board diversity and remuneration being key themes. It should be noted that managers vote against the re-election of directors for a number of reasons some of which may be unrelated to the particular directors standing for re-election.

4.7 Next Steps/recommendations:

- recommend that at future Pensions Committee meetings where LGIM or LCIV present, focus should be given to voting practices and the progress of climate ambitions being met. Hymans propose to identify appropriate case studies for each to facilitate discussion and recommend that the Committee agree a short list of focus companies over which manager activity can be challenged.
- that the Committee or Officers undertake a more structured engagement on stewardship issues with key managers. (Structured engagement would seek to probe into greater detail into the actions of an asset manager on a particular subject and would generally envisage a longer, more focused dialogue than would take place during a Committee meeting. The aim is to ensure that managers are being held fully accountable for their actions by setting clear expectations and outcomes that are needed. The way that Hymans have approached this with others is by creating an "engagement framework" to guide discussions, fully documenting the objectives and actions and then using this as a basis for further conversations. Hymans envisage this more as a dialogue for Officers than Committee members (although could include a member of Committee if desired) and it could be focused on a small number of key relationships, eg LGIM and LCIV in the first instance and then expanded).

5 **Admission of Caterlink for the provision of catering services to St Edwards Academy**

5.1 The Committee agreed to admit Caterlink Limited into the Havering Pension Fund, enabling 5 members continued membership to the LGPS.

4.2 The contract commenced 11 February 2023 and is due to expire on the 23 October 2025.

4.3 Caterlink employer contribution rate has been set at 24.8% and admitted on a pass through basis and therefore not required to obtain an indemnity bond. The notional value of assets and liabilities remain with the responsibility of the St Edwards Academy for the duration of participation in the Fund. The Academy is covered by the Department for Education guarantee so the Council and all other Havering scheme employers are protected should the academy fail as a going concern

IMPLICATIONS AND RISKS

Financial implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 19 March 24.

Report clearance was achieved as part of that process and no new recommendations are necessary. Therefore, there are no direct financial implications arising from the recommendations in this report to the Local Pension Board.

Legal implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 19 March

Report clearance was achieved as part of that process and no new recommendations are necessary. Therefore, there are no legal implications arising from the recommendations in this report to the Local Pension Board.

Human Resources implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 19 March 2024

Report clearance was achieved as part of that process and no new recommendations are necessary. Therefore, there are no Human Resources implications arising from the recommendations in this report to the Local Pension Board.

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

BACKGROUND PAPERS

Background Papers List
None