



## PENSIONS COMMITTEE

25 June 2024

**Subject Heading:**

**PENSION FUND PERFORMANCE  
MONITORING FOR THE QUARTER  
ENDED MARCH 2024**

**CLT Lead:**

**Kathy Freeman**

**Report Author and contact details:**

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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 2024

**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 2024**. Significant events that occur after production of this report will be addressed verbally at the meeting.

## **Pensions Committee, 25 June 2024**

The Fund's value increased by **£37.9m** over the quarter. The overall fund performance of 3.67% underperformed the tactical benchmark by -0.38% and outperformed the strategic benchmark by 5.06%.

The Fund's performance of 3.67% was slightly behind the tactical benchmark but remains ahead of the strategic benchmark over the longer time periods.

Equities continued to perform strongly over the first quarter of the year and as a result, all the Funds equity mandates performed positively and rose in value.

The LCIV PEPPA Fund was the best performing allocation over the quarter, and over the last 12 months.

Real gilt yields rose over the quarter meaning the Fund's RLAM index-linked gilt mandate decreased in value.

The value of the Fund's liabilities is expected to have fallen due to this over the same period (as proxied by the Fund's strategic benchmark).

Overall fund performance was positive, but the Fund underperformed the tactical benchmark over the quarter.

The Absolute Return mandate was the primary contributor to this underperformance given its defensive positioning. The LCIV Global Alpha Growth Paris Aligned Fund was also behind benchmark.

Most mandates are measured relative to cash-plus/inflation-plus comparators, but whilst mandates demonstrated underperformance, most delivered positive absolute returns.

Property capital value declines slowed over the quarter and offsetting income returns meant wider property markets returned slightly positively. The Triton Fund underperformed over the quarter although longer-term returns are closer to benchmark.

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:

### **Royal London - Bonds 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 Bonds Manager (Royal London) 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.

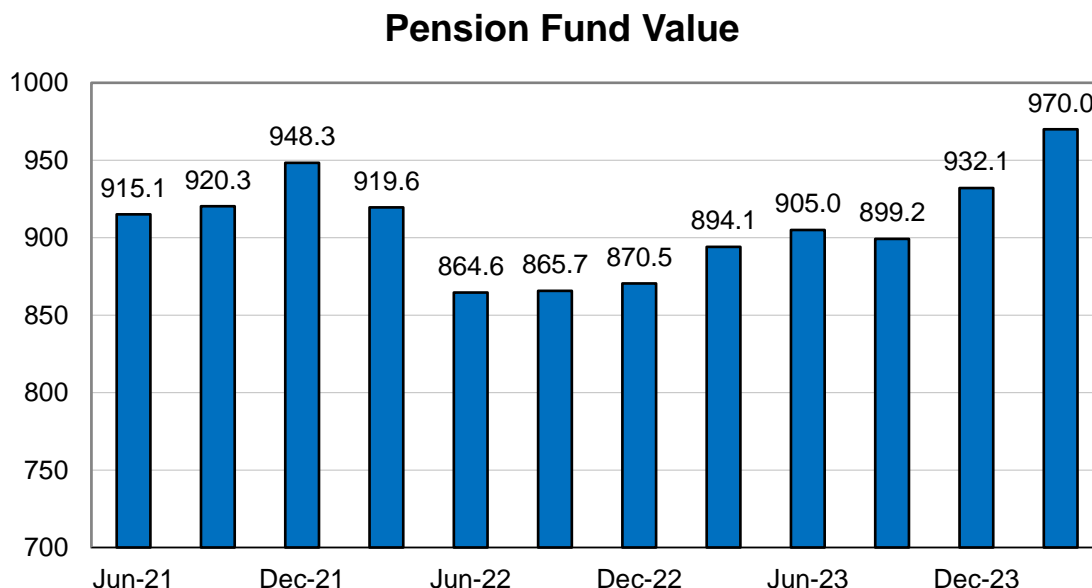
#### 4. **BACKGROUND**

- 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 March 2024 was **£970.0m** compared with £932.1m at 31 March 2024; an **increase of £37.9m**. This movement is attributable to increases across most asset classes and a decrease in cash Foreign Exchange (FX) (£4.1m).

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

	<b>Quarter to 31/03/2024</b> %	<b>12 Months to 31/03/2024</b> %	<b>3 Years to 31/03/2024</b> %	<b>5 years to 31/03/2024</b> %
Fund	3.67	7.38	2.69	5.89
Benchmark	4.06	11.69	6.74	7.15
*Difference in return	<b>-0.38</b>	<b>-4.31</b>	<b>-4.05</b>	<b>-1.25</b>

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 31/03/2024 %	12 Months to 31/03/2024 %	3 Years to 31/03/2024 %	5 years to 31/03/2024 %
Fund	3.67	7.38	2.69	5.89
Benchmark	-1.38	-3.32	-8.10	-3.42
*Difference in return	5.06	10.71	10.79	9.32

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 March 2024, the cash balance stood at £24.3m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO	FORECAST		
	31/03/2024 £000	Year to 31/03/25 £000	Year to 31/03/26 £000	Year to 31/03/27 £000
Balance b/f	16,201	24,276	26,249	27,290
Benefits paid	(33,168)	(35,391)	(36,806)	(38,279)
BACS expenses*	(10,079)	(10,684)	(11,325)	(12,004)
Lump sums by faster payment	(2,659)	(2,739)	(2,821)	(2,906)
Transfers in	6,336	6,652	6,985	7,334
Contributions received**	42,018	42,858	43,715	44,590
Pension strain	858	875	893	910
Interest	989	400	400	400
Sweep	3,781			
Balance c/f	24,276	26,249	27,290	27,336

\* 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 updated the cash management policy at their committee meeting on the 19 March 2024.

- c. An operational cash balance in the range of £5m to £13m has been set. In the event that cash levels rise above the upper limit of £13m cash will be invested in the most underweight liquid asset allocation. Currently cash is being for reinvestment/rebalancing within the investment strategy.
- d. Cash balance may be retained above the upper limit at the discretion of the Section 151 officer.

## **7. REPORTING ARRANGEMENTS**

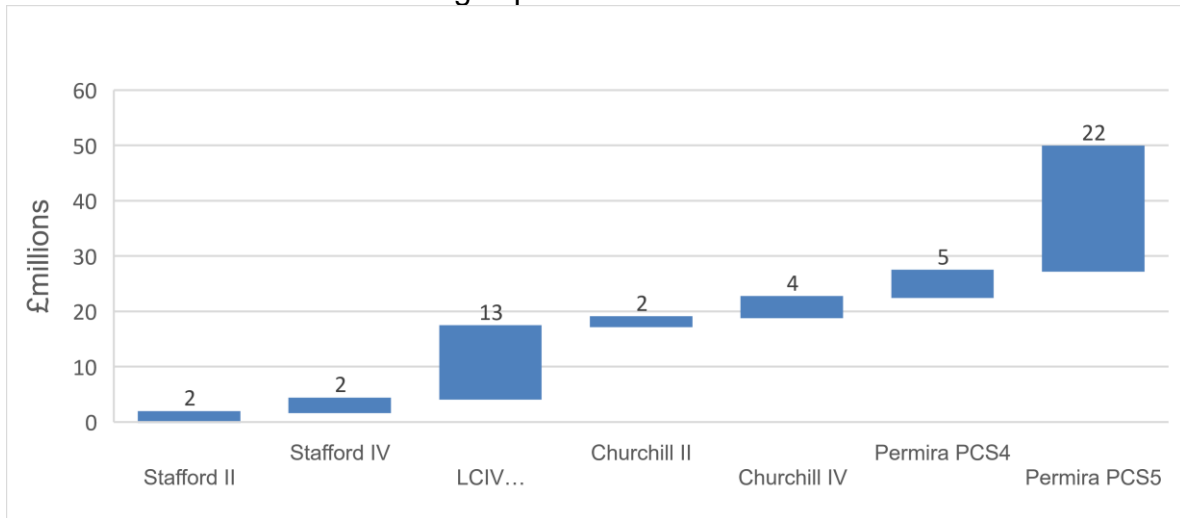
- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.
- b. Summary fund manager reviews are included within Hymans performance report at **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 **Royal London** who manage the **Multi Asset Credit Fund** and **Index Linked Bonds**; their report is attached at **Appendix C (Exempt)**.

## **8. FUND UPDATES:**

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

- a. In the quarter ending 31 March 2024, the Fund completed £5.5m of capital draw down requests.
- b. The capital calls were funded with cash received from investment income which is held with the Custodian
- c. At 31 March 2024 there was £50m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 March 2024



8.2 **London CIV UPDATES** -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. Virtual weekly "Coffee with the CIO" are held to share news, learn and develop opportunities. Latest episode 9 was held on 8 May 2024. Recordings can be made available to members on request.
- b. Business Update Meetings take place monthly (currently held virtually) – meetings were held on the 21 February 2024 and 27 March 2024 and 25 April 2024. Recordings can be made available to members on request.
- 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. The next **LCIV Absolute Return Fund** review is due during Q2 24 and an investor update expected July 2024.
  - **Fund Activity - New/Changes to Sub Fund Launches:**
    - *New:* Natural Capital/ Nature Based Solution – Stage 1 (Initiation). Investor Disclosure Document being finalised. Detailed work continues with a target of June 24 to make the fund available with first close expected September 24. Havering currently has no plans to invest in this fund

- *New:* Private Debt II Fund – Stage 1 (Initiation). Investor Disclosure Document being finalised. Detailed work continues with a target of June 24 to make the fund available with first close expected September 24. The Fund will consider this mandate when more details are available.
- *New:* Global Equity Value – Launch stage – Manager selected, documentation being finalised in preparation for FCA submission in April 24. Havering has no plans to invest in this fund
- *New:* Buy and maintain Fund (formerly known as Sterling Credit) – has been launched. Implementation planned for April 2024. Targeting June 24 launch. Havering currently has no plans to invest in this fund.
- *New:* *Indirect Property Pooling* – Sub manager selection has been concluded, moving forward with due diligence checks and details on delivery timelines to be issued in due course but aiming to go live at end of the year. Havering currently has no plans to invest in this fund.
- *Change:* LCIV Renewable Infrastructure – 7<sup>th</sup> & 8<sup>th</sup> manager due diligence in progress, expected Q2 24. Havering already invest in this fund which will see new managers added due to demand.
- *Change:* LCIV PEPPA fund – Index name change to S&P World Net Zero 2050 Paris Aligned ESG index (GBP) on 27 February 2024. No changes to the index components or calculation methodology. Havering invest in this fund.
- *Change:* LCIV Global Bond Fund – Approvals obtained to enhance the ESG credentials. Changes will be implemented once a revised IMA has been executed. New Investment management fees and LCIV fees schedule was introduced in May 2024 with an overall slight reduction of 0.1%. Havering invests in this fund.
- **2024/25 budget and business Plan:**
  - Shareholders approved the 2024/25 budget and business plan covering both financials and business plans
  - 2023/24 - Manager fee savings to investors of £3.4m (£138k for Havering)
  - 2023/24 – costs managed in line with budget
  - Reduced the Development Funding Charge – first reduction since introduction in 2017 (reduced from £85k in 22/23 to £75k in 23/24 and £73k in 24/25).
  - 2024/25 – will work with funds to develop an investment and services multi-year plan
  - 2024/25 – estimated income of £400m from advisory activities following additional regulatory permissions approval and net client inflows of £1.6bn
  - LCIV able to meet Capital Requirements in line with regulations



### **8.3 LGPS GENERAL UPDATES:**

#### **8.3.1 Annual Report Guidance**

- a. New Annual report guidance issued March 2024, jointly produced by The Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Department of Levelling Up, Housing and Communities (DLUHC).
- b. Guidance will apply to the 2023/24 annual reports and later years. For the 2023/24 reports, funds are expected to use best endeavours to comply fully with the new guidance but can exercise judgment where, because of changes to previous content would require disproportionate effort or cost.
- c. There are a number of areas of change from the previous guidance and officers will assess these changes as part of their planning and preparation for producing the Annual report.
- d. Annual report must be published before the 1 December.

#### **8.3.2 Economic Activity of Public Bodies (Overseas Matters)**

- a. The Economic Activity of Public Bodies (Overseas Matters) Bill (EAPB (OM) also known as the Boycotts, Divestments and Sanctions Bill, was discussed for a second time in the House of Lords on 17 April 2024.
- b. The Bill seeks to prevent public authorities making decisions or statements of intent about investment which result from political or moral disapproval of the actions of a foreign state which have an overseas impact,
- c. The Bill will not prevent public authorities from complying with formal UK Government legal sanctions, embargoes and restrictions.
- e. The Local Government Association (LGA) has published a technical briefing commenting on proposed amendments and current concerns with the Bill.
- f. The LGA Technical briefing states they do not expect this Bill to have any significant effects on local authority investment or procurement practices but have significant concerns about the effects the current drafting will have on the operation of the Local Government Pensions Scheme (LGPS).
- g. To date, none of the amendments proposed by peers, or by the LGA, have been incorporated into the Bill.
- a. Officers will provide updates as appropriate

#### **8.3.3 Cost Control Mechanism 2020**

- a. The Local Government Pension Scheme cost control valuations at 2020 report was published on the 29 February 2024 (Publication of this report was delayed concerning the outcome of McCloud appeals).
- b. The cost control mechanism was introduced following the recommendations of the Independent Public Pension Commission in 2011. Its aims were to:
  - Ensure a fair balance of risk between members of public service pension schemes and taxpayers with regard to the costs of these schemes.
  - Maintain the value of such schemes to their members.
  - Provide stability and certainty of member benefit and contribution levels, with changes only being triggered by 'extraordinary, unpredictable' events.
- c. The mechanism is calculated by measuring the cost of providing reformed scheme benefits, known as the core cost cap cost of the scheme. If this cost changes by more than 3% of pensionable pay compared to its original level (known as the employer cost cap), a 'breach of the cost cap corridor' is said to have occurred. An 'economic check', using what is known as the economic cost cap cost, is then carried out, which is based on long term economic conditions
- d. When the wider economic situation is taken into account, the cost cap corridor is not breached and as a result there is **no requirement for DLUHC to consult on changes to the scheme.**

#### **8.3.4 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 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.**

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- 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, as follows:

Chart 3 – Pension committee progress LOLA v1

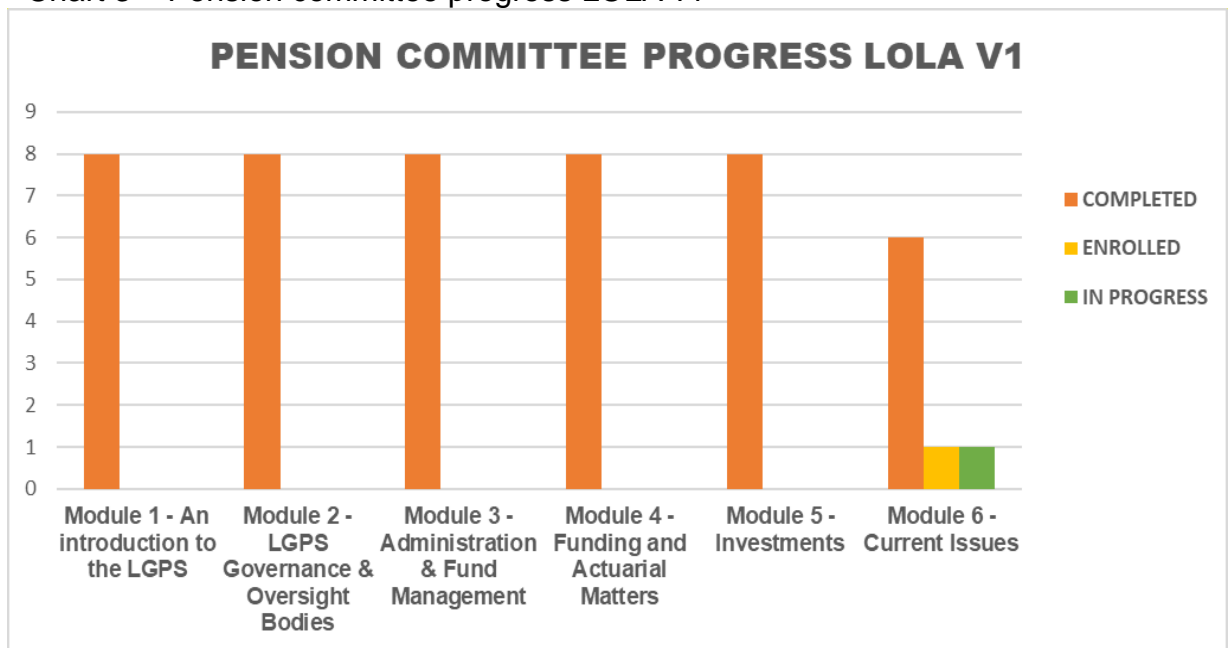
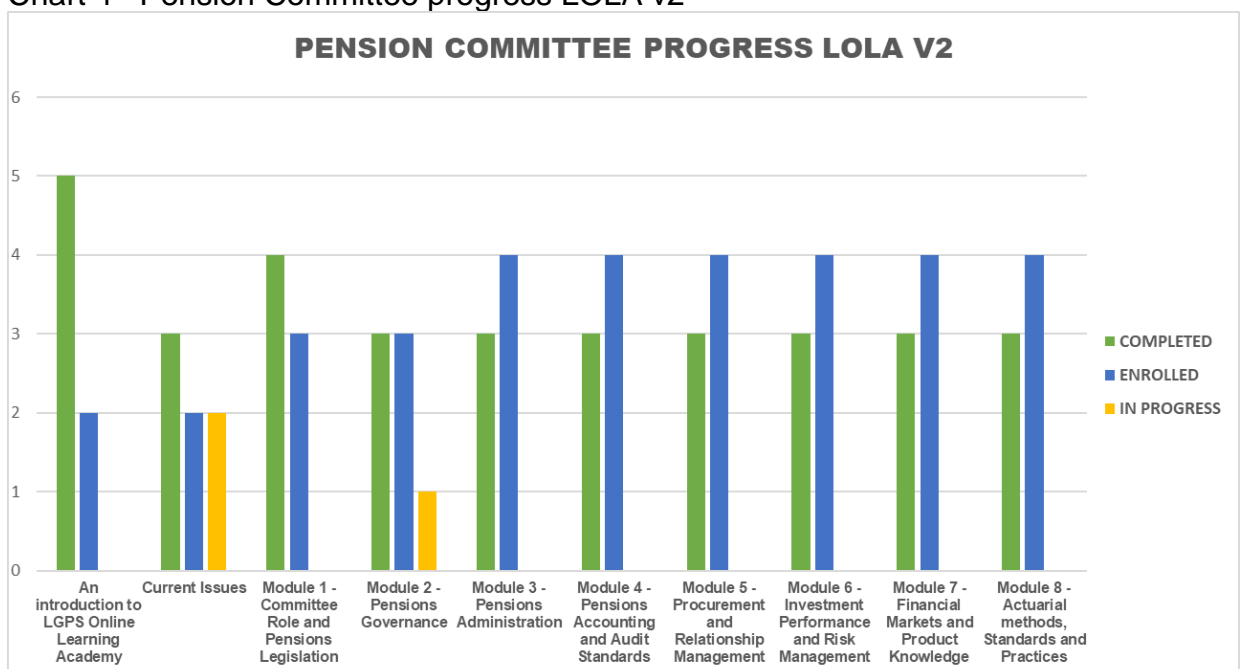


Chart 4 – Pension Committee progress LOLA v2



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

**BACKGROUND PAPERS**

None