



## PENSIONS COMMITTEE

**1 OCTOBER 2024**

**Subject Heading:**

**PENSION FUND PERFORMANCE  
MONITORING FOR THE QUARTER  
ENDED JUNE 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 June 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 **30 June 2024**. Significant events that occur after production of this report will be addressed verbally at the meeting.

## **Pensions Committee, 1 October 2024**

The Fund's value increased by **£13.7m** over the quarter. The overall fund performance of 1.25% underperformed the tactical benchmark by -0.73% and outperformed the strategic benchmark by 2.9%.

The Fund's performance of 1.25% was slightly behind the tactical benchmark but remains ahead of the strategic benchmark over the longer time periods.

All equity mandates continued to deliver positive absolute returns, amid resilient growth and ongoing optimism for AI. However, the majority of equity mandates were marginally behind respective benchmarks over the quarter.

The LCIV Absolute Return Fund and LCIV Global Bond Fund posted modest positive performance.

Over the quarter, wider property markets returned positively as capital values increased modestly. The Fund's property mandates delivered mixed returns. UBS outperformed owing to its overweight allocation to the retail sector, as capital values in the retail sector improved specifically.

Sub-investment grade credit spreads remained tight however RLAM MAC delivered positive returns, only marginally underperforming its benchmark.

Following a wider review of the Fund's RLAM mandate, post quarter-end the Fund's officers agreed to disaggregate the MAC and ILG components within the mandate structure and update the ILG component benchmark to the FTSE Actuaries UK Index-Linked Gilts All Stocks Index (from the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index).

Amid robust economic activity and sticky inflation, real gilt yields rose over the quarter. As a result, the RLAM ILG Fund delivered negative returns – also underperforming its benchmark, given its current longer-term positioning.

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:

### **Legal and General Investment Manager – Passive Equities 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 Passive Equity Manager (Legal and General Asset Management) 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.

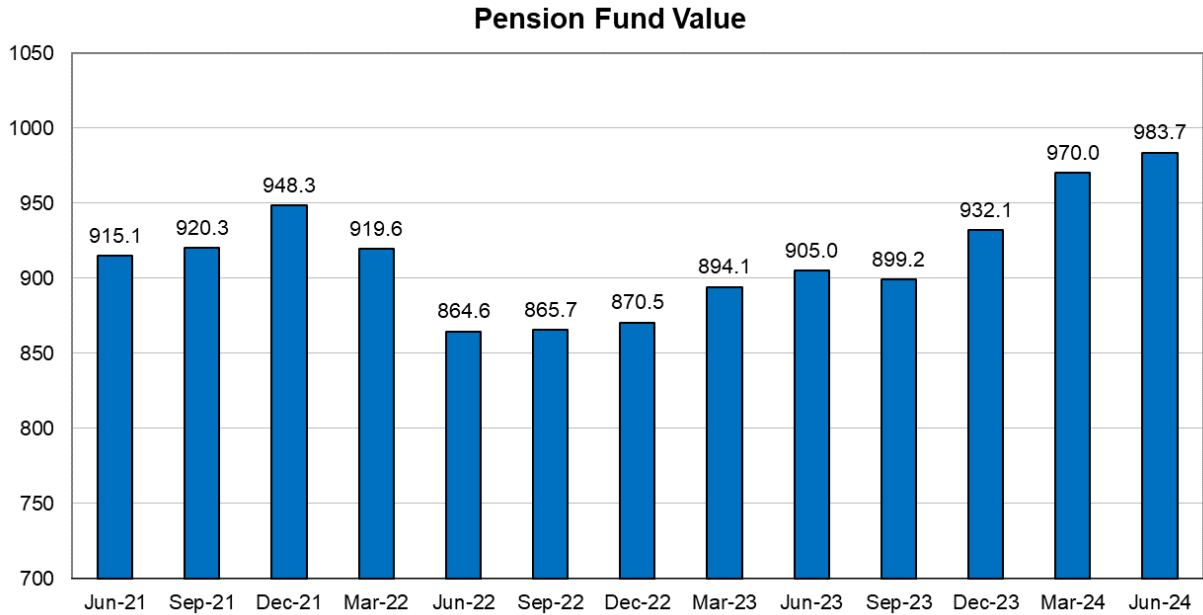
**4. BACKGROUND**

- 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 30 June 2024 was **£983.7m** compared with £932.1m at 31 March 2024; an **increase of £13.7m**. This movement is largely attributable to increases in the equity holdings asset classes and a decrease in LCIV renewable infrastructure (2.2m).

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 30/06/2024 %</b>	<b>12 Months to 30/06/2024 %</b>	<b>3 Years to 30/06/2024 %</b>	<b>5 years to 30/06/2024 %</b>
Fund	1.25	8.50	1.69	5.40
Benchmark	1.98	11.81	6.19	6.92
*Difference in return	<b>-0.73</b>	<b>3.31</b>	<b>-4.49</b>	<b>-1.52</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).

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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 30/06/2024 %	12 Months to 30/06/2024 %	3 Years to 30/06/2024 %	5 years to 30/06/2024 %
Fund	1.25	8.50	1.69	5.40
Benchmark	-1.65	1.32	-9.78	-4.18
*Difference in return	2.90	7.18	11.47	9.58

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 2024, the cash balance stood at £25.1m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO 30/06/2024 £000	ESTIMATE Year to 31/03/2025 £000	ESTIMATE Year to 31/03/2026 £000	ESTIMATE Year to 31/03/2027 £000
Balance b/f	24,276	25,008	30,420	18,480
Benefits paid	(8,550)	(34,173)	(44,430)	(46,207)
BACS expenses*	(2,643)	(9,993)	(13,140)	(13,666)
Lump sums by faster payment	(840)	(2,640)	(3,580)	(3,687)
Transfers in	462	5,862	6,510	6,705
Contributions received**	10,858	42,088	41,640	42,473
Pension strain	185	685	500	510
Interest	0	780	560	560
Sweep	1,260	2,804	0	0
Balance c/f	25,008	30,420	18,480	5,168

\* 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**

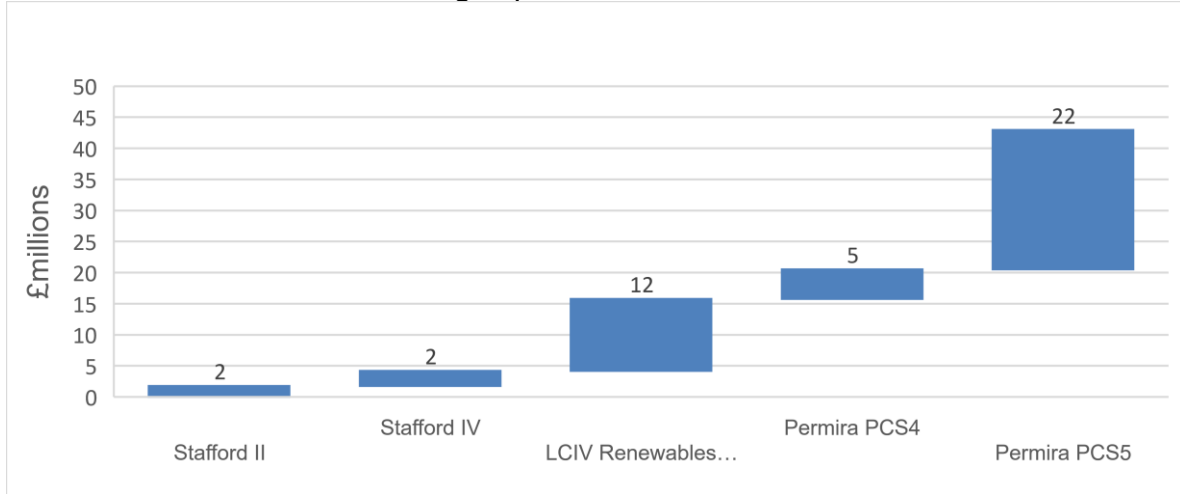
- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.
- b. Summary fund manager reviews are included within Hymans performance report at **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 **Legal and General Asset Management (LGIM)** who manage three separate passive equity portfolios: **All World Equity Index Fund**, **World Emerging Market Fund** and the **Future World Index Fund**. 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 30 June 2024, the Fund completed £1.5m of capital draw down requests.
- b. The capital calls were funded with cash received from investment income which is held with the Custodian
- c. Churchill II and IV received formal notification of release of pledge thereby releasing the Fund from any further capital commitments.
- d. At 30 June 2024 there was £43m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 30 June 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. Recordings can be made available to members on request.
- b. Business Update Meetings take place monthly (currently held virtually) – since the last report, meetings were held on the 30 May 2024, 27 June 2024, and 22 August 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 LCIV sub funds undergo in-depth reviews annually unless there are any concerns, in which case the frequency of reviews occurs every six months. All Havering investment funds are on "normal" monitoring. Three investment review and update meetings have taken place since the last report:
    - **30 July 2024 – LCIV Equity Funds** - this review included an overview of the monitoring outcomes for the **Global Alpha Growth Paris Aligned Fund**. This sub fund is currently on 'normal' monitoring status but

- has received amber scores against the criteria for performance and cost transparency/value for money.
  - **31 July 2024 - LCIV Fixed Income Funds** - this review included an overview of the monitoring outcomes for the **Global Bond Fund**. This sub fund is currently on 'normal' monitoring status and received an amber score against the criteria for performance.
  - **1 August 2024 - LCIV Multi Asset Funds** – this review included the monitoring outcomes for the **Absolute Return Fund**. In-depth review meeting brought forward over concerns about performance, the manager has fallen behind performance target over three years. This sub fund is currently on a six monthly monitoring cycle. Whilst “Normal” monitoring status continues, LCIV will be closely monitoring the against the tests for Resourcing and Business Management. The scores for Resourcing and Responsible Investment/ engagement have been upgraded from amber to green. Amber scores in place against the criteria for Business Risk, Risk Management & Compliance, Cost Transparency/value for money. Officers attended an update review meeting on the 11 July 2024 where the review was covered in detail. Next review update will be provided in January 2025.
- **Fund Activity - New/Changes to Sub Fund Launches:**
  - *New:* Natural Capital/ Nature Based Solution – launched on the 12 July – Implementation stage - 3 managers appointed. Legal and tax due diligence underway with manager names to be announced in due course. Havering currently has no plans to invest in this fund
  - *New:* Private Debt II Fund – launched on 28 June 2024 - Implementation stage - four managers appointed. Legal and tax due diligence underway with names to be announced in due course. The Fund could consider this mandate when more details are available.
  - *New:* Indirect Property Pooling – launched – Initiation stage - continue to engage with CBRE regarding project plan and operational requirements. Moving forward with due diligence checks and aiming to go live at end of the year. Havering currently has no plans to invest in this fund.
  - *New:* Global Equity Value – Launch stage – date to be finalised with initial investors, expected October 2024. Havering currently has no plans to invest in this fund
  - *New:* Buy and maintain Fund Launch stage - date to be finalised with initial investors, expected October 2024. 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 MAC Fund – ESG elements to be strengthened. Transition period to be agreed with manager but expected by end of 2024. No changes to the investment objective. Havering currently does not invest in this fund.
  - *Change:* LCIV Global Bond Fund – Approvals obtained to enhance the ESG credentials. Transition period to be agreed with manager. slight reduction of 0.1%. Havering invests in this fund.
- **London CIV Indirect Real Estate Pooling (IREP) Initiative:**
    - New initiative being launched by LCIV with CBRE as the investment manager sub advisor
    - Partner funds will be offered the opportunity to transfer investment management of existing indirect real estate to the LCIV.
    - Each holding will be held on a separately managed account and transitioned to converge with the IREP overtime to collectively benefits of scale.
    - More details will be required to determine whether product is suitable for the Havering Fund.
- **Staffing updates:**
    - **Andrien Meyers**, Head of Pensions Investments at the London Borough of Sutton and Royal Borough of Kingston upon Thames, has agreed to join London CIV in a newly-created role as Chief Proposition Officer, starting September 2024.
    - **Aoifinn Devitt** has decided to move on from her role as London CIV's CIO and will be leaving in Q4. Rob Treich, Head of Public Markets will support oversight of the investment team during the period of transition.

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

#### **8.3.1 Funding Strategy Statement (FSS) Guidance**

- a. The current FSS guidance was last updated in 2016. The Scheme Advisory Board (SAB), has set up a working group and has begun its review of the guidance. Key aims are to make the guidance shorter, sharper and more accessible for all stakeholders. Aiming to issue revised guidance before the end of December 2024.

### **8.3.2 Pensions Review**

- a. Launched on the 19 August 2024, the Chancellor has announced a Pensions Review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme, to develop policy across four areas:
  - Driving scale and consolidation of defined contribution workplace schemes;
  - Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance;
  - The structure of the pensions ecosystem and achieving a greater focus on value to deliver better outcomes for future pensioners, rather than cost; and
  - Encouraging further pension investment into UK assets to boost growth across the country.
- b. Phase one - the review will focus on investment and findings are expected later this year ahead of the introduction of the Pension Schemes Bill.
- c. Phase two is expected to launch later in the year and will consider further steps to improve pensions outcomes and increase investments in the UK.
- d. Officers will provide updates as appropriate
- e. Main focus for the LGPS will be on consolidation and encouragement of further pension investment into UK assets to boost growth.

### **8.3.3 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**.
- 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.

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- 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

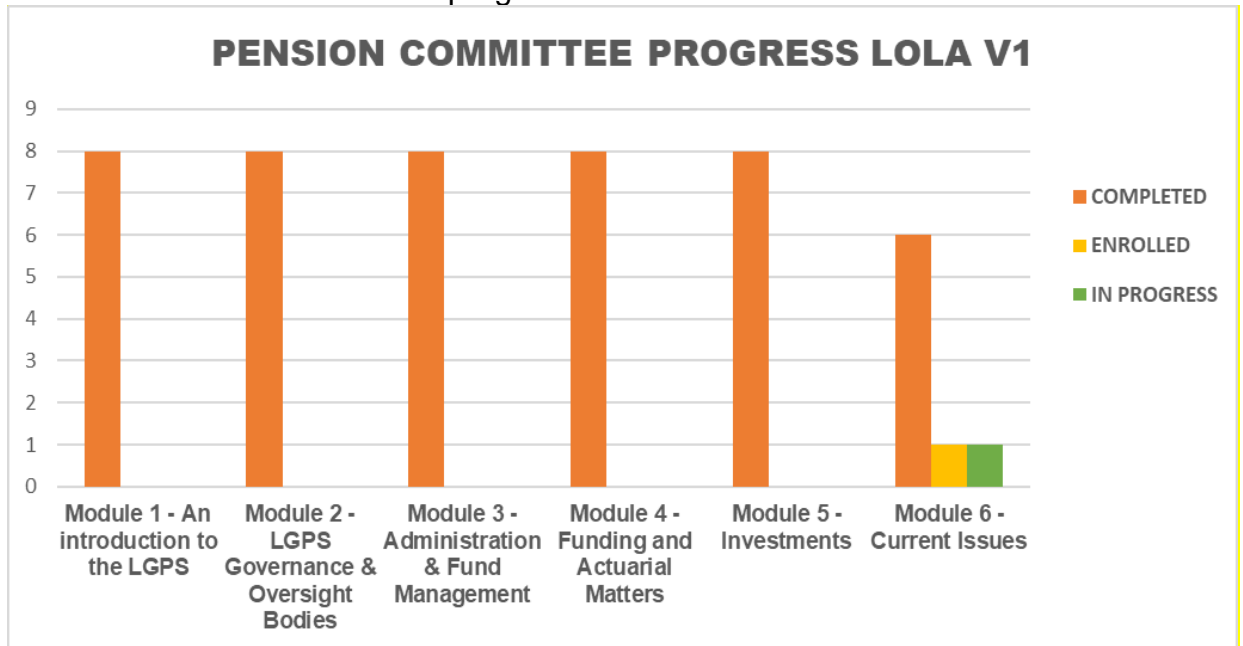
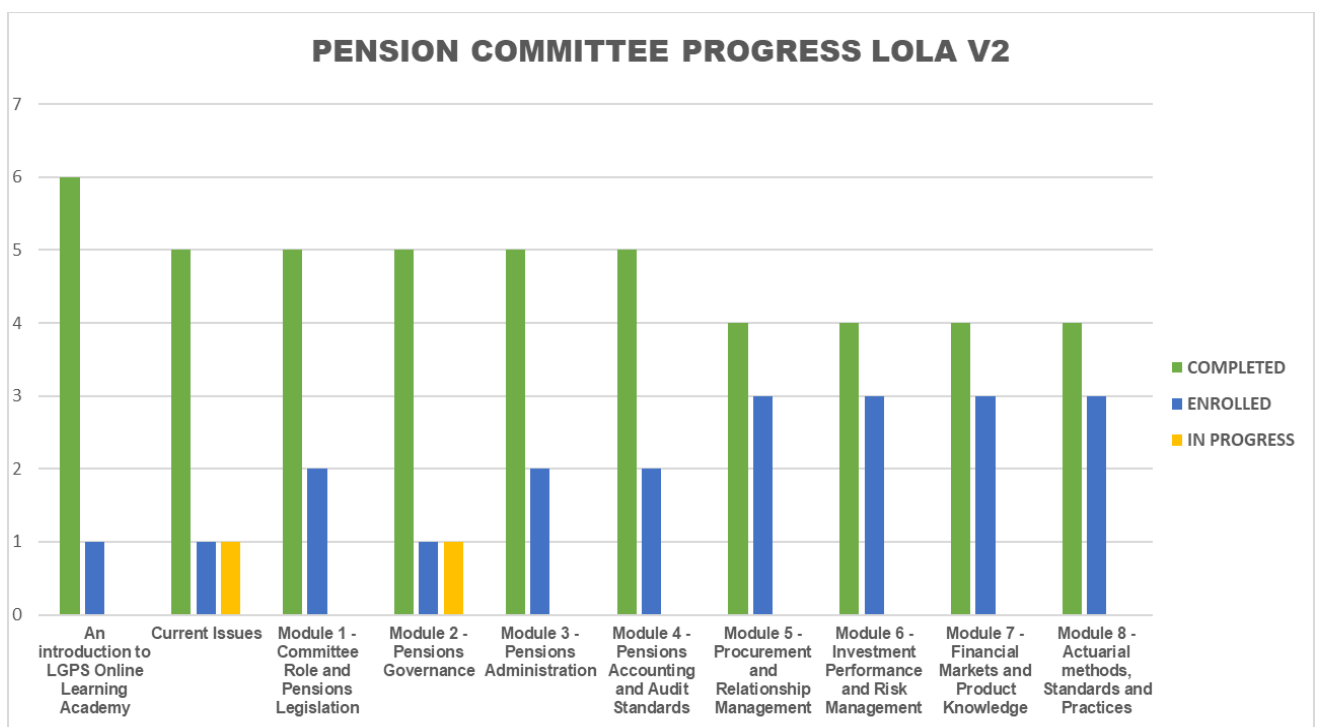


Chart 4 –Pension Committee progress LOLA v2 – as at 31 August 2024



**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**

**Pensions Committee, 1 October 2024**

None