



PENSIONS COMMITTEE

10 DECEMBER 2024

Subject Heading:

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

ELT 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 2024

The subject matter of this report deals with the following Council Objectives

People – Supporting our residents to stay safe and well	X
Place – A great place to live, work and enjoy	X
Resources – Enabling a resident-focused and resilient Council	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 2024**.

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

The Fund’s value increased by **£14.8m** over the quarter. The overall fund performance of 1.51% underperformed the tactical benchmark by -0.20% and the strategic benchmark by -0.34%.

Pensions Committee, 10 December 2024

The Fund's performance is behind the tactical benchmark but remains ahead of the strategic benchmark over the longer time periods.

Equities continued to perform well over the quarter, with all the Fund's equity mandates providing positive absolute returns. Most equity mandates were ahead of, or broadly in line with, their respective benchmarks.

The LCIV Global Bond Fund also returned positively and outperformed over the quarter, benefitting from a fall in real gilt yields but also positive sector/stock selection. The bond allocation within the Absolute Return Fund positively contributed to performance.

Real gilt yields fell over the quarter and as such, the Fund's RLAM ILG Fund slightly increased in value. The value of the Fund's liabilities is expected to have increased due to this over the same period (as proxied by the Fund's strategic benchmark).

The Fund's performance of 1.5% was marginally behind the tactical benchmark of 1.7%.

Due to limited reporting available for the Fund's private market funds as at quarter-end, performance figures predominantly account for cashflows/currency movements only over the period. Sterling strengthened significantly against the US Dollar and Euro over the quarter, leading to negative performance of private market assets and CBRE in unhedged Sterling terms.

The currency overlay strategy performed positively and served to mitigate this impact.

Property capital values overall rose modestly over the quarter – particularly in the industrial sector, through continued to decline in the office sector.

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:

UBS – UK 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

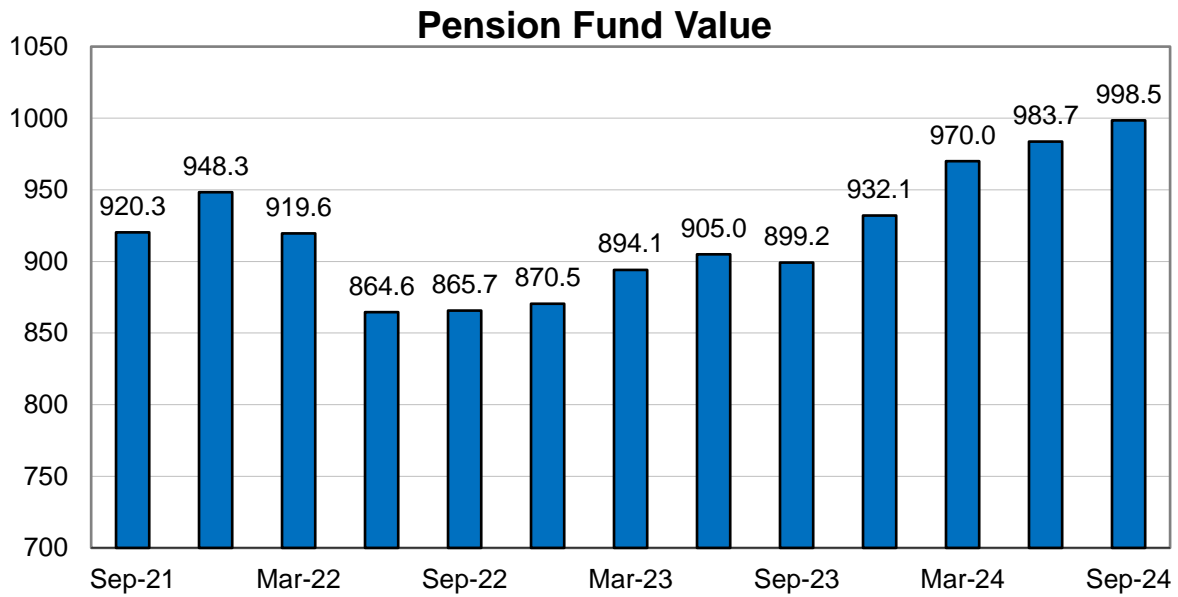
That the Committee:

- 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 Funds UK Property Manager (UBS) 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. **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.
4. **PERFORMANCE**
 - a. The Fund invested asset value at 30 September 2024 was £998.5m compared with £983.7m at 30 June 2024; an increase of £14.8m. The increase in valuation is largely due to the Fund's equity allocations, followed by the Fund's credit allocations (i.e. the LCIV Global Bond Fund and RLAM MAC Fund) which all performed positively.

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 30/09/2024 %	12 Months to 30/09/2024 %	3 Years to 30/09/2024 %	5 years to 30/09/2024 %
Fund	1.51	10.72	20.1	5.08
Benchmark	1.71	12.55	6.40	6.70
*Difference in return	-0.20	-1.83	-4.39	-1.62

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 30/09/2024 %	12 Months to 30/09/2024 %	3 Years to 30/09/2024 %	5 years to 30/09/2024 %
Fund	1.51	10.72	20.1	5.08
Benchmark	1.85	7.79	-9.99	-5.32
*Difference in return	-0.34	2.93	12.00	10.40

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)

5. **CASH FORECAST**

- a. At the end of September 2024, the cash balance stood at £25.0m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO 30/09/2024 £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	24,959	24,263	17,425
Benefits paid	(17,266)	(17,460)	(35,308)	(35,986)
BACS expenses*	(6,490)	(6,910)	(14,030)	(14,321)
Lump sums by faster payment	(1,870)	(1,850)	(3,720)	(3,720)
Transfers in	2,388	3,000	6,000	6,000
Contributions received**	22,800	21,694	39,720	32,620
Pension strain	185	50	300	300
Interest	-	780	200	100
Sweep	936	-	-	-
Balance c/f	24,959	24,263	17,425	2,418

* 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.
- d. Cash balance may be retained above the upper limit at the discretion of the Section 151 officer.

- e. The Section 151 officer has approved the use of some surplus cash for portfolio rebalancing. This will take place in the current quarter (by the end December 2024).

6. REPORTING ARRANGEMENTS

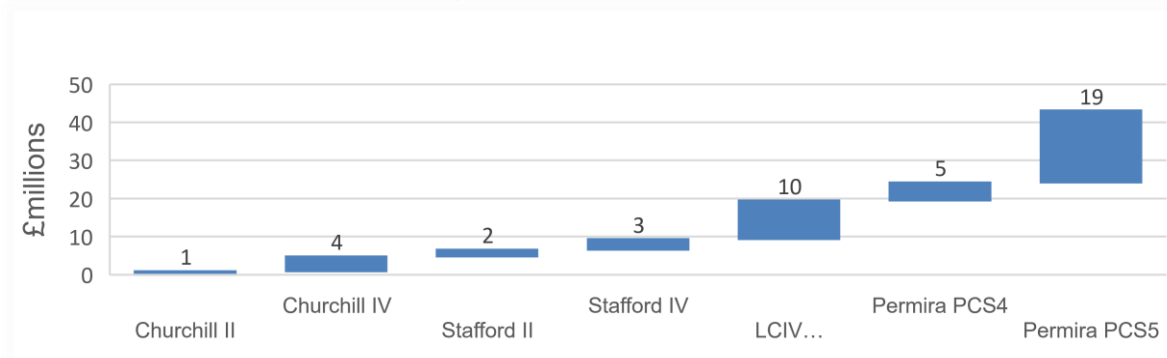
- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.
- b. Summary fund manager reviews are included within Hymans performance report at **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 **UBS** who manage the Funds UK property portfolio. 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 September 2024, the Fund completed £1.2m of capital draw down requests, which were funded from investment income received and held with the Custodian.
- b. The Churchill 'release of pledge' reported to the September committee was related to the termination of a banking contract. The outstanding commitment across Fund's II and IV has been reinstated.
- c. At 30 September 2024 there was £43m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 30 September 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 26 Sept 2024 and the 24 Oct 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 investment reviews and annual in-depth reviews unless there are any concerns, in which case the frequency of reviews occurs every six months. All Havering investment funds are on “**normal**” monitoring. A number of Investment reviews and update meetings have taken place over the last quarter and a summary follows of those that relate to mandates held by Fund:
 - **4 November 2024 Investor update meeting Fixed Income - LCIV Global Bond Fund (GBF)** - this review covered performance as at the end of Sept 24 (outperformed benchmark over the quarter by 0.16% and 0.35% since inception). The LCIV uses traffic light for scoring and the GBF achieved a GREEN score for the categories; Resourcing, Strategy/Process, Responsible Investment & Engagement,

Business Risk, Risk Management & compliance, Cost Transparency/Value for money, Best Execution/liquidity/deployment. An AMBER score was awarded for performance. A deep dive review is scheduled during the quarter ending Dec 2024.

- **7 November 2024 – Investor Update meeting – Equities – LCIV Global Alpha Paris Aligned Fund (GAPAF)** - this review covered performance as at the end of Sept 24 (underperformed benchmark over the quarter by -0.29% and -0.46% since inception). The LCIV uses traffic light for scoring and the GAPAF achieved a GREEN score for the categories; Resourcing, Strategy/Process, Responsible Investment & Engagement, Business Risk, Risk Management & Compliance, Best Execution / liquidity / deployment. An AMBER score was awarded for performance and Cost Transparency/Value for money.

- **Fund Activity - New/Changes to Sub Fund Launches:**
 - *New:* Natural Capital/ Nature Based Solution – launched on the 12 July – 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 – Draft legal documents being finalised and shared with Partner Funds in Nov 2024. Aiming to launch 31 December 2024. Havering currently has no plans to invest in this fund.
 - *New:* Global Equity Value – was launched on the 28 October 2024. Havering currently has no plans to invest in this fund
 - *New:* Buy and maintain Fund - was launched on the 9 October 2024. Havering currently has no plans to invest in this fund
 - *New:* *Private Debt II* – Fund is now available and targeting first close in December 2024.
 - *Change:* LCIV MAC Fund – ESG elements to be strengthened and new Investment Management Agreements came into effect on the 1 October 2024 Havering currently does not invest in this fund.
 - *Change:* LCIV Global Bond Fund – Approvals obtained to enhance the ESG credentials and new Investment Management Agreements came into effect on the 1 October 2024. Havering invests in this fund.

- **Staffing updates:**
 - **Brian Lee**, Chief Financial Officer at the Company will be leaving at the end of October. **Darren Gray** has been appointed as Interim Finance Director whilst the recruitment process is ongoing.
 - **Cameron McMullen**, Client Relations Team Manager will be leaving on the 07 November 2024.
 - **Sian Kunert**, Client Relations Manager joins LCIV from East Sussex County Council in January 2025,
 - **Tim Mpofo**, currently Head of Pensions and Treasury at the London Borough of Haringey will be joining London CIV in January 2025, in the newly-created role Head of Partner Fund Solutions.

8.3 LGPS GENERAL UPDATES:

8.3.1 LGPS – Fit for the Future Consultation

- a. Following the Chancellor's Mansion House speech on the 13th November 2024, the Ministry of Housing, Communities, and Local Government (MHCLG) issued a consultation '*LGPS – Fit for the Future*', with a deadline to respond of 16 January 2025. The consultation being the next step following the launch of the Pension Investment Review and Call for Evidence issued back in September 2024. The consultation sets out the governments intentions for the future path of the LGPS. It covers three main areas:
 - **Pooling.** By 31 March 2026, the government require all pools to be FCA regulated investment management companies. All assets be invested through the pool with implementation of investment strategies fully delegated to pools. Funds maintain the decision regarding investment strategy, but this is to be limited to either high-level investment objectives, or a high-level asset allocation. Pools will advise on the setting of these.
 - **Local investment.** Funds will be required to invest locally, setting out their approach to local investment, including a target range within their investment strategies. Funds will also be required to work with local combined authorities and mayors to achieve this investment. These investments, and their impact, will also be included in annual reports. Pools will be required to undertake the due diligence on potential investments and will decide whether to invest.
 - **Good governance.** After four years, the Government is acting on the recommendations of the Good Governance Review. This includes proposing a requirement that committee members have the appropriate knowledge and skill, funds publish strategies on governance, training and administration (including conflicts of interest), and that a senior LGPS officer is appointed at each fund. A key inclusion is the proposal that funds will be required to participate in a biennial independent governance review to obtain

assurance that they are meeting governance requirements. One new recommendation is the proposal that pension committees appoint an independent advisor to drive governance improvement, challenge and delivery. Similarly, Pool boards may also need to include representatives from their funds and improve transparency,

8.4 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**.
- 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

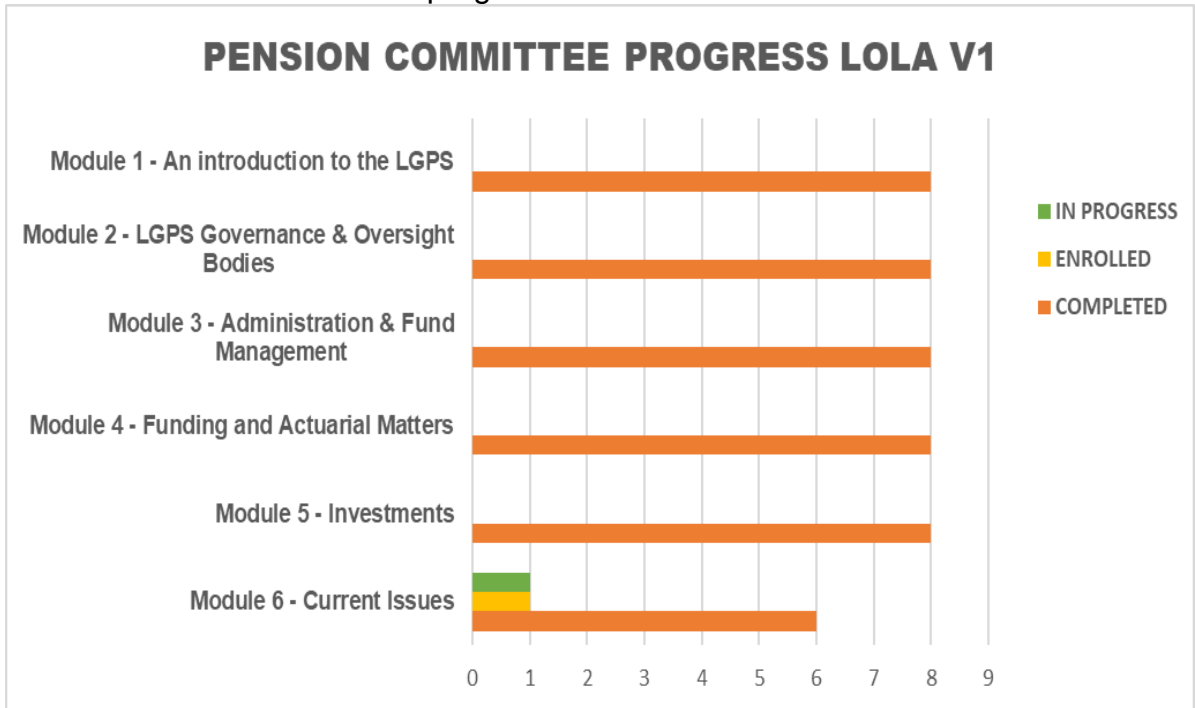
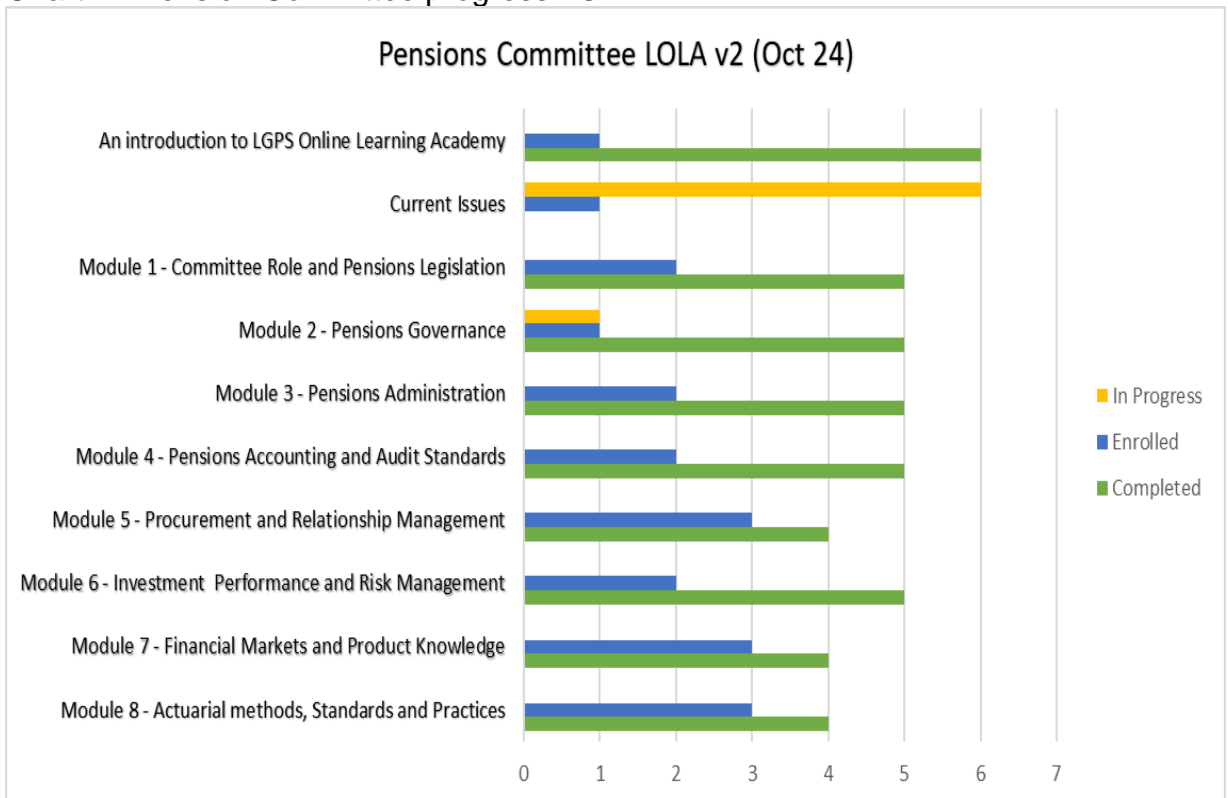


Chart 4 – Pension Committee progress LOLA v2



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.

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 EHIA (Equality and Health Impact Assessment) is usually carried out and on this occasion this is/isn't required/attached

The Council seeks to ensure equality, inclusion, and dignity for all in all situations.

There are no equalities and social inclusion implications and risks associated with this decision

BACKGROUND PAPERS

None