



PENSIONS COMMITTEE

24 JUNE 2025

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED MARCH 2025**

ELT Lead:

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Policy context:

Pension Fund performance is regularly monitored to ensure investment objectives are being met and to keep the committee updated with Pension related developments.

Financial summary:

This report comments upon the performance of the Fund for the period ended 31 March 2025

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

**LOLA Module 6 – Investment Performance and Risk Management and LOLA
Module 7 – Financial Markets and products applies**

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 2025**.

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

The total value of the Fund's assets of £1,007.9m as at 31 March 25 decreased by **-£10.7m** over the quarter.

The overall fund performance of -1.24% underperformed the tactical benchmark by -0.57% and underperformed against the strategic benchmark by -.25%.

The decrease in valuation is primarily due to the Fund's allocation to 'Growth' assets – as equity allocations performed negatively over the period, US equities registered their worst quarter since 2022 as anticipation of tariffs and federal spending cuts fuelled concern about slower growth and higher inflation.

The Fund's allocation to 'Income' assets also fell in value and remains c.4% below the fund target allocation.

The Fund's allocation to 'Protection' assets increased in value – primarily due to the increase in cash held by the Fund in its Russell currency hedging overlay, as sterling strengthened significantly against the US Dollar over the quarter.

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:

Russell – Currency Hedging 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 Performance Report (Appendix A **Exempt**)
- 2) Receive presentation from the Funds Currency Hedging Manager Russell for an overview on the Hedging mandate (Appendix B – **Exempt**)
- 3) Consider the quarterly reports sent electronically, provided by each fund manager.
- 4) Note the analysis of the cash balances.

REPORT DETAIL

1. Hymans report, includes asset allocation information, fund manager performance and associated commentary, asset allocation and market background, can be found in Appendix A.
2. Where appropriate, topical LGPS news that may affect the Fund will be included.

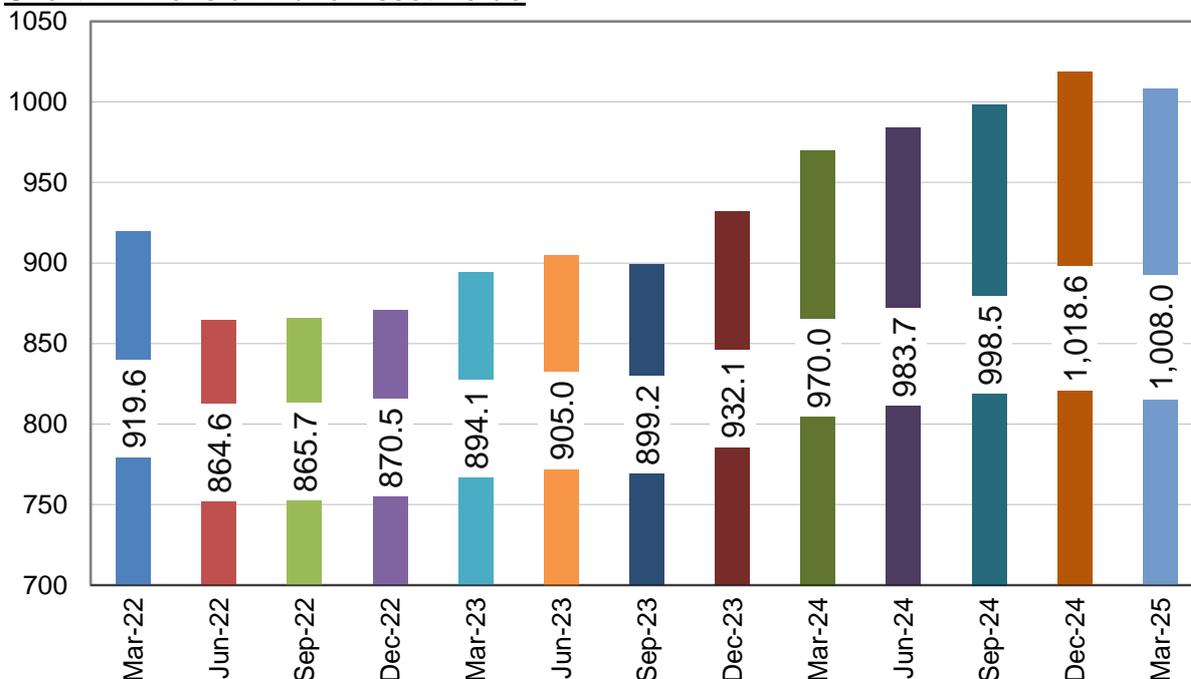
3. BACKGROUND

- 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's invested asset value at 31 March 2025 was £1,007.9m compared with £1,018.6m at 31 December 2024; a decrease of -£10.7m (increase in cash (£4.4m), decrease in assets (-£15.1m)).

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

	Quarter to 31/03/2025 %	12 Months to 31/03/2025 %	3 Years to 31/03/2025 %	5 years to 31/03/2025 %
Fund	-1.24	3.64	2.38	6.99
Benchmark	-0.67	5.84	6.00	8.54
*Difference in return	-0.57	-2.20	-3.62	-1.55

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 31/03/2025 %	12 Months to 31/03/2025 %	3 Years to 31/03/2025 %	5 years to 31/03/2025 %
Fund	-1.24	3.64	2.38	6.99
Benchmark	-0.99	-6.25	-11.98	-5.39
*Difference in return	-0.25	9.90	14.36	12.38

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 presented by the Investment Adviser (Hymans)

5. CASH FORECAST

- a. At the end of March 2025, the cash balance stood at £16m, which is invested with London Borough of Havering Treasury and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO 31/03/2025 £000	ESTIMATE Year to 31/03/2026 £000	ESTIMATE Year to 31/03/2027 £000	ESTIMATE Year to 31/03/2028 £000
Balance b/f	24,276	16,361	15,214	8,923
Benefits paid	(34,584)	(35,275)	(35,981)	(36,700)
BACS expenses*	(13,337)	(13,604)	(13,876)	(14,153)
Lump sums by faster payment	(3,935)	(3,935)	(3,935)	(3,935)
Transfers in	4,895	4,900	4,900	4,900
Contributions received**	47,329	46,276	42,201	43,045
Pension strain	291	291	300	300
Interest	0	200	100	100
Sweep	1,425	0	0	0
Transferred to NT	(10,000)			
Balance c/f	16,361	15,214	8,923	2,480

* BACS expenses also includes some 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 balances may be retained above the upper limit at the discretion of the Section 151 officer, with these balances reported to the Section 151 officer on a monthly basis.

6. REPORTING ARRANGEMENTS

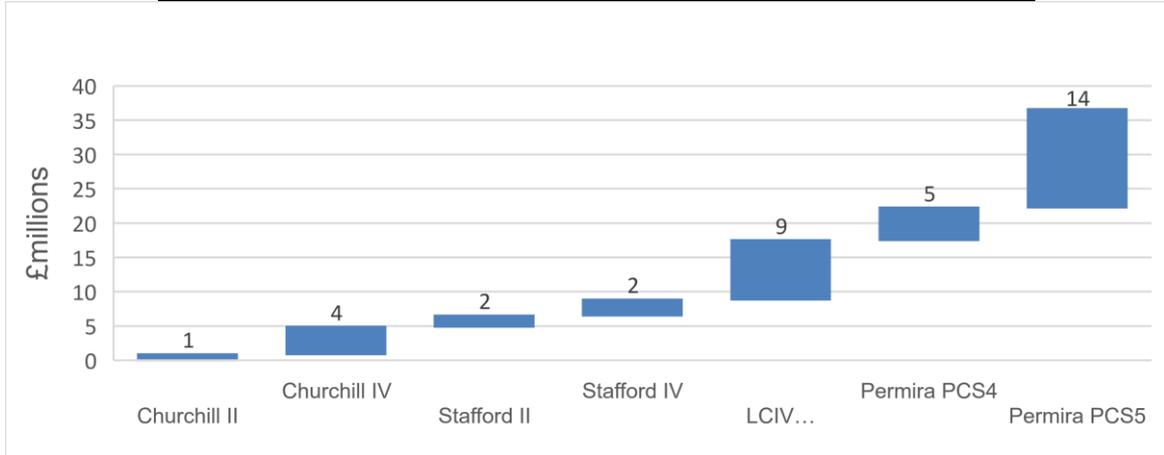
- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.
- b. Summary fund manager reviews are included within Hymans performance report at **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 **Russell** who manage the Funds Currency Hedging portfolio. Their report is attached at **Appendix B (Exempt)**.

8. FUND UPDATES:

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

- a. In the quarter ending 31 March 2025, the Fund completed £3.8m of capital draw down requests, which were funded from investment income received and held with the Custodian.
- b. At 31 March 2025 there was £37m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 March 2025



- c. On the 10 December 2024, the Committee agreed to reduce the target allocation of the LCIV Global Alpha Growth Paris Aligned (GAGPA) fund from 15% to 12.5% and increase the Legal and General Future World Fund allocation from 10% to 12.5%. The 2.5% adjustment equated to £25m and the transfer of cash was completed on 20 January 2025.
- d. London Borough of Havering (LBH) – Employer Contribution Rate Review:
- Contribution rate reviews are permissible under Regulation 64A of the LGPS Regulations 2013 (“the Regulations”)
 - LBH requested a review of its employer contribution rates for 2025/26, due to a significant change in its ability to meet its obligations and evidenced this to the Fund. The Fund accepted the evidence provided and agreed the conditions of the Funding Strategy Statement were met for the review to proceed. One of those conditions met was the employer’s agreement to meet the costs of the review (£10,300 plus VAT)
 - The Actuary completed a review of the LBH employer contribution rate on the 5 February 2025 and agreed that LBH employer’s contribution rate for 2025/26 can be reduced by £2m, this being 16.5% of pay plus £7.65m (reduced from £9.65m).
 - An element of extra capacity was built into the funding plan when contributions were set at the 2022 valuation. Revisiting the 2022 valuation and utilising this buffer has resulted in the ability to reduce the secondary contribution rate by the £2m without a significant impact on the funding position.
 - A reduction of £2m in 2025/26 will not have a significant impact on the Fund’s cash flow as projections will remain within the operational range set out in the Fund’s cash policy (£5m to £13m)- section 5 – cash flow forecast also refers.
 - LBH agreed the reduction and a non-key executive decision was signed 28 February 2025.

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 now take place quarterly to align with the release of London CIV's Quarterly Investment Reports (QIRs). Last business update meeting on the 12 February 2025 was reported at the last committee meeting. No meetings held in this reporting period. 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.
- c. **Fund Manager 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 the in-depth reviews occurs every six months. Havering investment funds are on **"normal"** **except the LCIV Absolute Return Fund which is now on 'enhanced' monitoring.** 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:
 - **13 March 2025 – Investment Update – LCIV Passive Equity Progressive Paris- Aligned (PEPPA) Fund** - this review covered performance as at 31 December 24 (outperformed benchmark over the quarter by 0.08% and 0.34% since inception). Outcome of the review was that over the period since inception the Fund tracked the benchmark index efficiently and performing to expectations. Carbon footprint reduction is also in line with expectations. The LCIV uses a scoring /rating system as part of its monitoring – using 6 tests to assess the Skills element (Fund manager focus) and two tests to assess the value (execution & cost) element. Overall a score of "1" was assigned to both, this being the highest score available (4 being the lowest score). Next review December 2025.

- d. **Staffing Updates:**
- **Silvia Knott-Martin**, Client Relations Manager left 31 March 2025
- e. **CBRE – Governance change and Fee reduction**
LCIV has been working to establish a pooling solution for property assets. Their proposal covered 2 phases:
- **Phase 1**- Responsibility for oversight of the CBRE Global Alpha Fund transfers to LCIV under an engagement agreement. This approach will see an immediate reduction in fees (10bps but offset by LCIV fees – net saving 5.5bps –a saving of c£16,500 initially per annum). This arrangement has been in place from 1 January 2025 and LCIV will add the CBRE Fund to their manager monitoring programme and the fund will receive its quarterly monitoring updates from LCIV. The CBRE mandate will also count as assets pooled with LCIV, increasing our pooling allocation from 60% to 63%.
 - **Phase 2** - Responsibility for the management of global property allocation transfers to LCIV under an Investment Management Agreement (IMA). LCIV will in turn delegate responsibility for management of the portfolio to CBRE. As the Fund has already carried out phase 1 the Fund will be better placed to consider a migration to the broader global property solution proposed under Step 2. Discussion are ongoing with advisors in regard to Phase 2.
- f. **Capital injection** – LCIV are required to maintain sufficient regulatory capital. It was raised at the January 2025 General Shareholder meeting, that due to growth in Assets under Management, that regulatory capital had to be increased to maintain required levels. Each shareholder has been asked to subscribe to an additional 70,312 B Shares. These will be purchased in June which will bring the total number of B shares held by shareholders to 220,312 each.
- g. **LGPS Pensions Advisory and Support Service** – London CIV launched their new LGPS Pensions Advisory and Support Service (PASS) in May. This service is made up of advisory services and strategy and policy support. Investment advisory services will include support with preparing investment strategy statements and strategic asset allocation advice. The launch of LGPS PASS also complements the government’s “Fit for the Future” consultation, which came out after London CIV began work to put LGPS PASS together. The strategy aligns with the government’s call for LGPS pools to provide more services to Partner Funds, including advice and strategic asset allocation support. Officers will be meeting with LCIV to consider services on offer.

8.3 “Fit for the Future” - LCIV Pooling update

- 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.
- As part of the Pensions review, MHCLG asked all eight LGPS pools across England and Wales to submit a strategic plan detailing how they would take forward their pooling proposals in order to meet the requirements set out in the consultation. This plan was submitted by London CIV in February 2025.
- In April 2025 – MHCLG wrote to pools and administering authorities with their decision on those plans submitted by the pools. **MHCLG is supportive of the LCIV’s plan and for them to proceed in line with meeting the March 2026 deadline.** Two pools were not given approval to proceed (Brunel & Access) as they did not meet requirements set out by the Government.
- Whilst a formal response to the consultation has yet to be issued, officers met with the CEO of the LCIV to discuss next steps:
 - **Passive assets-** An Investment Management Agreement (IMA) will need to be put in place so that management of these funds can be transferred to LCIV (this covers the passive mandates held with Legal & General)
 - **Off pool liquid** – This will require a direct transfer of assets to LCIV (covers the mandates held with Royal London).
 - **Off pool illiquid** – An IMA to be put in place so that management can transfer to LCIV (this covers mandates held with JPMorgan, Stafford, Churchill & Permira)
 - Primary strategic advice will also transfer to the LCIV and representatives from LCIV will be attending future Committee meetings alongside Hymans once the assets have transitioned across.
- LCIV officers will be contacting the Fund to set out a transition plan for the transfer/management of assets.
- Yet to be confirmed are how to address individual funds responsible investment requirements and resources to manage Local investments requests.

8.3 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

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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 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

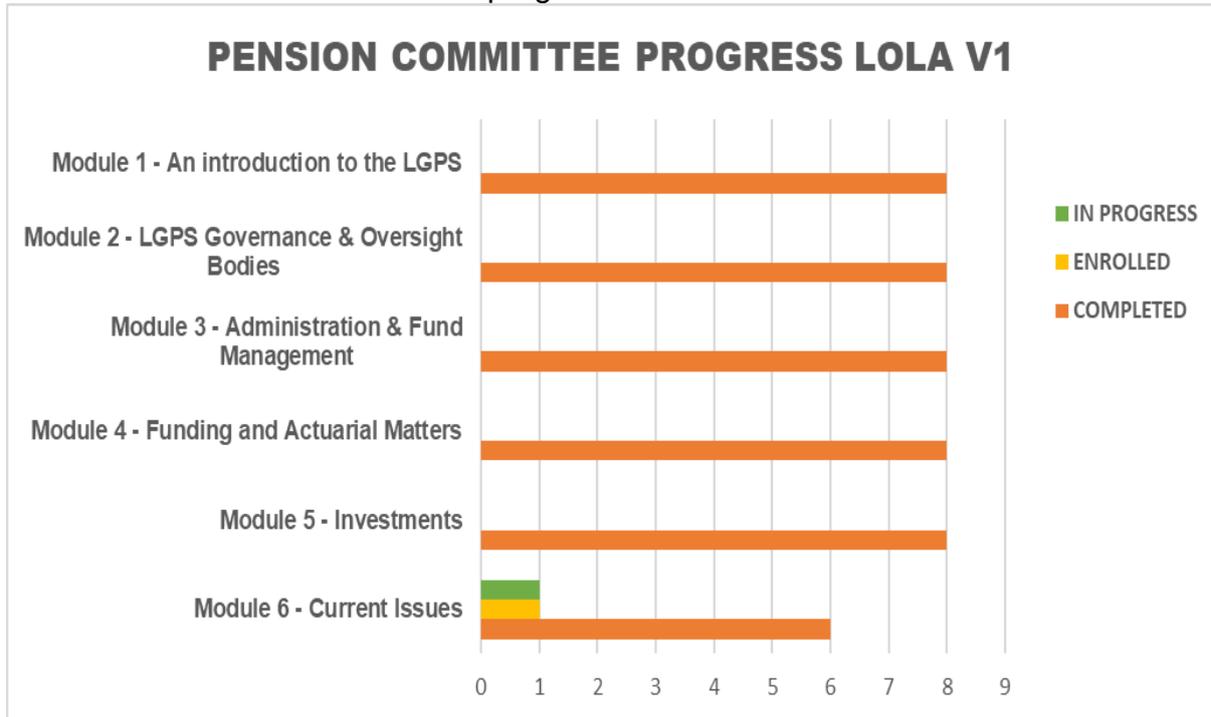
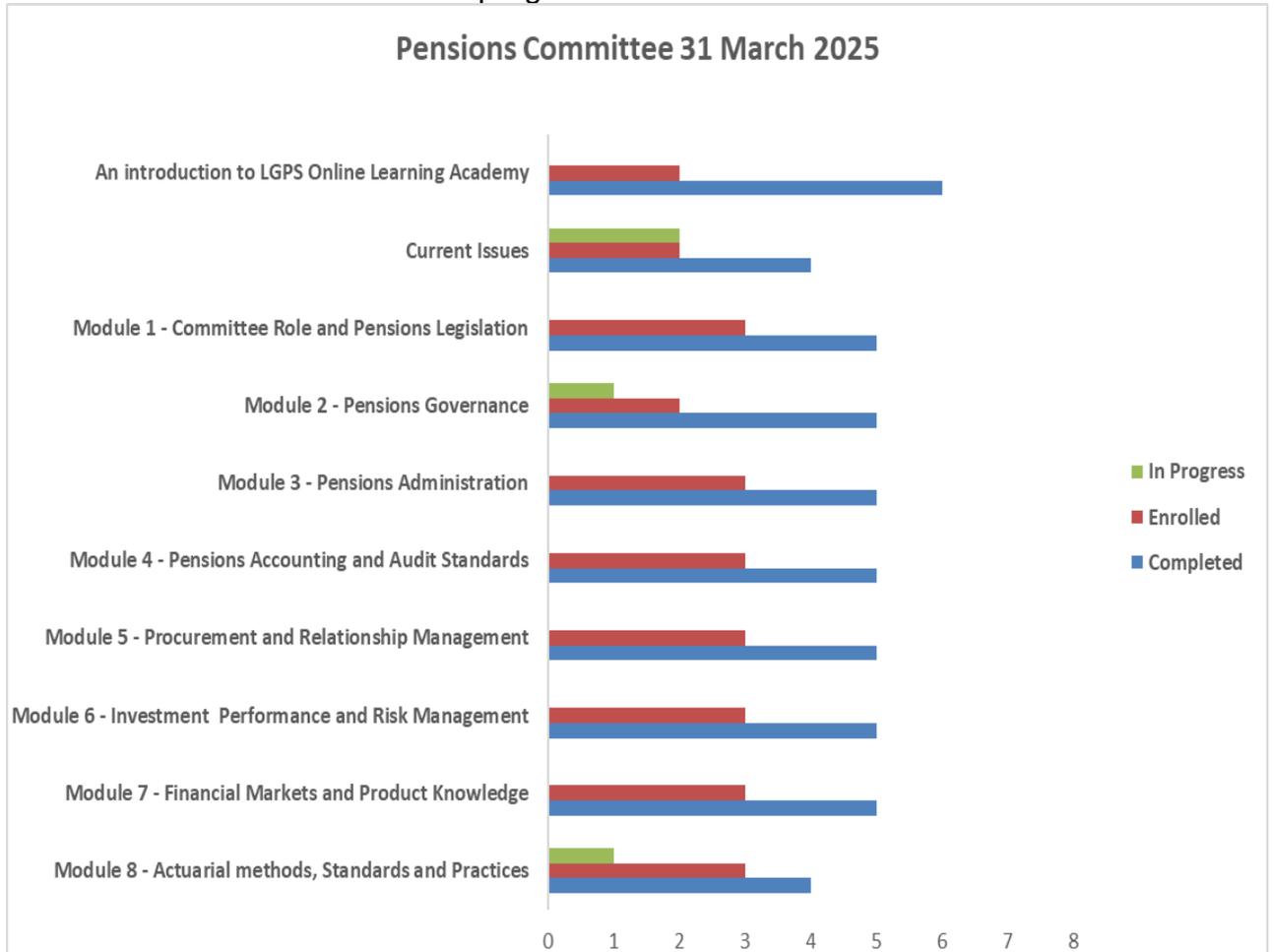


Chart 4 –Pension Committee progress LOLA v2



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:

An EHIA (Equality and Health Impact Assessment) has not been completed and is not required for this decision. The Council seeks to ensure equality, inclusion, and dignity for all. There are no equalities and social inclusion implications and risks associated with this decision.

BACKGROUND PAPERS

None