

PENSION BOARD			
REPORT TITLE	Pensions Board – General Update		
KEY DECISION	No	Item No:	
WARD	N/A		
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CLASS	Part 1	Date:	22 June 2022

1. PURPOSE

- 1.1. This paper presents any standing items on the agenda and provides the Board with an update on several general matters to have arisen since the last meeting.

2. RECOMMENDATIONS

- 2.1. Members are recommended to:

- review and note the Conflict of Interest policy as per section 3.10;
- review and note the Code of Conduct policy as per section 3.13;
- review and note the Discretions Policy, as per sections 3.15;
- review and note the Breach of Law Policy, as per sections 3.17;
- review and note the Communications Policy, as per section 3.19;
- note the amended timetable to allow more time to produce administration procedures and processes for internal controls, as per 3.21;
- note to amend the timetable to produce the process to record material payment failures, as per section 3.22;
- review and note the update on Pooling arrangements, as per sections 3.23;
- review and note the Internal Audit report, as per section 3.33;
- review and note the Training Policy , as per section 3.37
- note the Training update, as per sections 3.40;
- review and comment on the work plan, as per section 3.45;
- note the remainder of the report.

3. CURRENT CONSIDERATIONS

Monitoring of Investment Performance – see Appendix 1

- 3.1. The Pension Investment Committee is responsible for ensuring that the investment performance of the fund managers is regularly monitored against the agreed performance benchmarks for each mandate. The Funding Strategy drives the creation of the Investment Strategy Statement, which in turn sets the strategic asset allocations and expected performance benchmarks required for each asset class and mandate to ensure that this provides the level of return (balanced against risk) required to ensure that the Fund can meet the current and further liabilities of its Members.
- 3.2. This performance monitoring is undertaken in a variety of ways by both officers, advisors and the Pension Investment Committee and these processes and actions are as described below.
- 3.3. The Fund's custodian Northern Trust has a secure email portal whereby all fund managers can send secure correspondence. When this is received in the portal all officers registered for this, which includes the entire Treasury and Investments team, the Head of Strategic Finance, Planning and Commercial and the Director of Finance. These emails contain a variety of information ranging from capital calls for funding, performance reporting, and possible changes to the mandates themselves. In addition to this, some fund managers send direct communications through, but again this is always to multiple officers within the Council and there is an annual process (as a minimum) to ensure that all contact details remain current. These emails are then reviewed immediately to ascertain the nature of the communication and the response/action that is required.
- 3.4. In addition to this ad hoc contact, the online investment portal provided by Northern Trust allows officers to access the different fund accounts at any point to review the current value of the each mandate, including available cash balances (where applicable) to assist with the cash flow management of the Fund.
- 3.5. At the end of each quarter Northern Trust produce a quarterly performance report for the Fund's investment advisors Hymans Robertson who in return produce a pack which is then presented to the Pension Investment Committee. This pack includes the following sections:
 - a performance dashboard which shows the funds overall performance against benchmark for the previous quarter, previous 12 months, 3 years and since inception;
 - consideration of strategy and risk by comparing the actual asset allocations of each mandate and asset class against the agreed strategic allocations to consider whether the Fund is imbalanced (overweight or underweight) both within and between asset classes. This also includes metrics on sector and currency exposure;
 - individual fund manager performance against agreed benchmarks, again over the 3 month, 12 month, 3 year and inception time frames and including sector and currency exposure;
 - manager ratings utilising the Hymans ratings and the Responsible Investor ratings; and

- discussion and consideration of the wider market background and considerations of the global markets;
- 3.6. At each meeting of the Committee the Funds investment performance is carefully considered. This takes following form: the Investment and Treasury Manager reviews the report produced by Hymans and prepares an officers covering report which summarises the key issues of the previous quarterly report and clearly identifies the recommendations that the Committee are being asked to consider. This report is presented to the Committee and then the advisors pack is presented to the Committee by the advisors themselves. The quarterly performance report for Q1 is appended to this report.
- 3.7. The Committee then ask questions to ensure that any performance issues or risks raised in the report are fully discussed, and the recommendations are discussed and noted. This is included within the minutes of the meeting.
- 3.8. Finally officers and the investment advisors work with the Committee to agree an annual work plan that is forward looking to ensure that any possible changes to the mandates are properly planned to enable these to be robustly developed and brought to the Committee in advance of a decision and which allows sufficient time to implement. An example being the decision taken by the Committee at its February 2022 meeting to invest in the LCIV Private Debt mandate as the Fund had become underweight over time to Private Debt given the closed ended nature of this asset class.
- 3.9. In addition to the specific performance reporting, at each meeting of the Committee there is a general update paper tabled by officers which also includes any specific announcements made by fund managers in the previous period, both those for information and those requiring a decision from the Committee.

Register of Conflicts of Interest

- 3.10. At the start of the Pension Board and Pension Investment Committee meetings members are require to make any declaration of conflicts of interest. If there are any declarations these are reviewed against the policy and if any meet the conditions will be recorded on the register.
- 3.11. The Register of Conflicts of Interest will be updated at each meeting and will be published on the website.
- 3.12. Members to review the Conflict of Interest Policy - see Appendix 2

Code of Conduct Policy

- 3.13. Member to review the Code of Conduct Policy – see Appendix 3
- 3.14. This is to ensure that the Pension Board does not act improperly as it could have an impact on good governance.

Discretions Policies

- 3.15. Members to review the Discretions Policy – see Appendix 4
- 3.16. The document summarises the Authority's policies for the pension scheme with regards to discretionary compensation and discretionary payments, as required by Regulation 60 of the Local Government Pensions Scheme Regulations (2013).

Breaches of Law Policy

- 3.17. Members to review the Breaches of Law Policy – see Appendix 5.
- 3.18. The document outlines the importance of the identification, management and reporting of breaches. It is a requirement of the Code of Practice; failure to report a material breach is a civil offence that can result in civil penalties.

Communication Policy

- 3.19. Members to review the Communication Policy – see Appendix 6.
- 3.20. The document sets out the mechanisms which are used to meet our communication needs. We aim to use the most appropriate communication method for the audience's receiving the information. This may involve using more than one type of communication.

Processes in place to establish internal controls

- 3.21. The administration procedures and processes for internal controls will take some time to write and we will seek assistance from our pension advisors for the scope of the document.

To Assess the Materiality of any Payment Failures

- 3.22. This is to record the process to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period. The officers want to include this as part of the administration procedures and processes in 3.21 and will be produced in conjunction with that task.

Pooling Arrangements

- 3.23. In 2015 the Chancellor of the Exchequer announced that local LGPS Pension Funds should seek to pool funds. This led to a change in the investment regulations to encourage LGPS administering authorities to pool assets as a way of improving economies of scale and increasing their capacity to invest in infrastructure.
- 3.24. In the investment strategy statement they are required to produce under the 2016 investment regulations, administering authorities must include their approach to pooling investments. Guidance published in September 2016 required administering authorities to commit to a suitable investment pool to achieve benefits of scale. To date the Lewisham Pension Fund has invested in the London

Collective Investment Vehicle (LCIV), established in 2015 and collectively owned by the 32 London Boroughs and the City of London.

- 3.25. The regulations give the Secretary of State the power to intervene in the investment function of an administering authority if satisfied that it is failing to act in accordance with the regulations and guidance.
- 3.26. Therefore whilst the regulations require the Fund to actively consider pooling, the overriding fiduciary duty pertains, meaning that the Fund must treat any pooled funds as it would any other fund manager. This means that the Fund must:
- undertake robust due diligence on any potential new mandates prior to investing (including consideration of whether the pooled mandates offer economies of scale and value for money when compared to direct procurements);
 - monitor investment performance and risk of any pooled mandates; and
 - be satisfied more generally that the pooled fund managers have the necessary skill, expertise, capacity and administrative rigour to operate as required under the regulations.
- 3.27. The way in which the Fund does this is as set out below.
- 3.28. The primary drivers for the Fund to consider new mandates is either because the current mandates no longer align to the Investment Strategy Statement or because the fund has become underweight and new mandates of the relevant asset class are required. Regardless of the rationale, the Fund will follow a robust process to identify a preferred fund manager and mandate before asking the Committee to agree to the investment. This process is generally led by the Fund's investment advisors with support from officers and the Committee. The requirement to pool therefore means that pooled fund manager mandates are considered, but these are always considered alongside non pooled funds and the due diligence process in the shortlisting and final assessment is equivalent. This assessment considers as a minimum: structure, governance and senior leadership of the manager; investment team; philosophy and process; product design and investment strategy; responsible investment integration; fund structure; fees and additional costs; and performance and risk.
- 3.29. The Board is recommended to review the Committee papers over the period February 2019 – September 2021 produced to support the decision to transfer the Funds passive equities (developed and emerging markets) from its previous UBS and Blackrock mandates to the current Storebrand Global ESG Plus and LCIV Passive Equity Progressive Paris Aligned (PEPPA) funds to gain assurance of this process.
- 3.30. With regards to investment performance, the pooled funds are monitored using the exact same process as all other fund managers, as set out in the section above in this report titled 'Monitoring of Investment Performance'.
- 3.31. The ongoing review and consideration of the LCIV's skill, expertise, capacity and administration is delivered in a number of ways. Officers ensure that they meet regularly with the LCIV both via one-two-one meetings and wider forums and presentations from the LCIV. This covers: fund performance, new mandates via Seed Investor Groups, ESG considerations, and the annual business plan and budget presentations to name a few. The Committee's work plan includes 'Meet the Manager' sessions whereby fund managers attend a Committee meeting and

are directly asked questions by the Committee and it is proposed that the LCIV attend the September 2022 Committee meeting. Furthermore, as the Council's Shareholder Representative the Chair of the Pensions Investment Committee attends regular meetings and the Annual General Meeting of the LCIV, voting on behalf of the Council where required.

- 3.32. To date, the Fund has agreed to invest in three of the LCIV mandates, and actually invested in two of these, with the Private Debt on-boarding and investment due by the 30 June 2022. The table below describes the nature and scale of the Funds pooling to date, and its anticipated total allocation. Note that the Blackrock passive equities have been classed as proxy pooled funds and included in our reporting of pooled funds.

LCIV Fund Mandates LBL invested in (<i>and asset class</i>)	Value @ 31/03/2022	% of LBL Fund - current	% of LBL Fund - benchmark
Passive Equity Progressive Paris Aligned Fund PEPPA (<i>equities/growth</i>)	459.2	6.7	30
LCIV Renewable Infrastructure (<i>property/income</i>)	24.9	1.4	6
LCIV Private Debt (<i>income</i>)	0	0	~ 4

Internal Audit

- 3.33. The final report for the internal audit of the Pension Scheme Administration 2021-22 was released in May 2022 and is attached at Appendix 7. Pensions received a satisfactory assurance rating overall, with no high priority recommendation, three medium priority recommendations in relation to pension payments, contributions and reconciliations and two low priority recommendations to update the Communication Policy Statement and other reconciliations.
- 3.34. The report summarises the key findings of the audit, including areas that worked well, and then presents the detailed findings and agreed management action plan. Officers are required to provide regular progress updates on audit recommendations via an internal recommendations site; the Council's Internal Control Board and Audit Panel receive regular reports on this progress.
- 3.35. Due dates for the medium and low priority recommendations are June and July 2022. Work is in progress to complete these tasks in a reasonable time.
- 3.36. The Internal Audit results give assurance that there are sufficient processes and procedures in place to provide reliance on the internal controls.

Knowledge and Training Policy

- 3.37. Members to review the Knowledge and Training Policy - see Appendix 8
- 3.38. This sets out the requirement knowledge and training requirements for member of the Pension Board.

- 3.39. Members are reminded that they need to inform officers of all training completed so that officers can update the training log published on the website.

Training update

- 3.40. At the March 2022 meeting members agreed to complete a Learning Needs Analysis and return it to officers by the end of April 2022. All five members learning needs returns have been submitted.
- 3.41. At the March 2022 members agreed to complete the Pension Regulator's Public Service Toolkit within six months of the meeting date or their date of appointment. Two new members have since joined the board and have completed the Learning Needs Assessment. The Pension Toolkit is a self-learning modular resource which includes modules on areas that Board members are expected to be conversant with.
- 3.42. Prior to the June meeting the officers presented an introductory pension session which included a list of additional helpful resources which members are recommended to review.
- 3.43. External training opportunities, workshops and conferences will continue to be recommended by officers for members' attention. Appendix 7 lists a number of upcoming events; should members find any of the sessions of interest, or have identified and attended any other training or events, please can they keep the Principal Accountant informed so that the statutory training log can be updated.
- 3.44. Members are reminded that there is a small budget in place for training; please contact the Treasury and Investment Manager for further information should you wish to attend a fee-paying event.

Work Programme

- 3.45. The work programme is attached at Appendix 9 to be developed on an ongoing basis, and has been updated to reflect the high priority compliance issues identified from the Aon review. The review identified several items of partial compliance, and these will be incorporated into the plan against set deadlines.

4. FINANCIAL IMPLICATIONS

- 4.1. There are no direct financial implications arising from this report.

5. LEGAL IMPLICATIONS

- 5.1. There are no direct legal implications arising from this report.

6. CRIME AND DISORDER IMPLICATIONS

- 6.1. There are no crime and disorder implications directly arising from this report.

7. EQUALITIES IMPLICATIONS

- 7.1. There are no equalities implications directly arising from this report.

8. ENVIRONMENTAL IMPLICATIONS

8.1. There are no environmental implications directly arising from this report.

APPENDICES

Appendix 1 – Investment monitoring report

Appendix 2 – Conflicts of Interest Policy

Appendix 3 – Code of Conduct Policy

Appendix 4 – Discretions Policy

Appendix 5 – Breaches of Law Policy

Appendix 6 – Communications Policy

Appendix 7 – Final Internal Audit of Pensions Administration Report 2021/22

Appendix 8 – Knowledge and Training Policy

Appendix 9 – Pension Board Work Programme

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact either:

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