

PENSION BOARD			
REPORT TITLE	Pensions Board – General Update		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Katharine Nidd - Head of Strategic Finance, Planning and Commercial Shida Ashrafi - Interim Head of Pensions and Payroll		
CLASS	Part 1	Date:	5 October 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 Quarter 2 Investment report as presented to the Pension Investment Committee on 06/09/2022;
- review and note the Draft Pension Fund Statement of Accounts as presented to the Pension Investment Committee on 06/09/2022;
- review and note the Risk Management Policy, as per section 3.20;
- review and note the Risk Register, as per section 3.22;
- review and note the Governance Compliance Statement, as per section 3.25;
- review and note the processes in place to establish Internal Controls, as per section 3.28;
- review and note the Internal Disputes Resolution Policy, as per section 3.29;
- review the draft Administration Strategy as per section 3.30;
- review and comment on the work plan, as per section 3.31;
- note the remainder of the report.

3. CURRENT CONSIDERATIONS

Monitoring of Investment Performance – see appendix 3

- 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 Q2 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. LCIV attended the September meeting as a ‘Meet the Manager’ session and talked about the LCIV Structure and Governance and investment oversight.
- 3.10. 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.

Draft Pension Fund Statement of Accounts – see appendix 4

- 3.11. The Pension Investment Committee reviewed the draft pension fund statement of accounts as presented on 6th September 2022.
- 3.12. The accounts comprise two main statements with supporting notes: The Fund Account details dealings with members, employers and others directly involved in the scheme as well as returns on investments, and essentially represents the Fund’s revenue account.
- 3.13. The Net Assets Statement details the Fund’s asset holdings and liabilities, and essentially represents the Fund’s balance sheet.
- 3.14. Within the Fund Account, the section “Dealings with members, employers, and others directly involved in the scheme” sets out the movement in the net worth of the Fund in year by analysing the receipt of contributions from employers and active members, and the payment of pensions. This section indicates the Fund is

cash negative, in that the benefits payable exceed the contributions receivable by £7.2m.

- 3.15. Management expenses are analysed in further detail within the notes to the accounts and includes investment management fees, administration expenses, and oversight and governance costs. When including these expenses, net withdrawals from the Fund during the year total £11m.
- 3.16. The section “Returns on investments” details the income received from the investment portfolio and the impact of manager’s activities and market activity on the value of investments. The net return on investments for the year was an increase of £141.4m which includes an increase in market value of £122.6m supplemented by investment income of £18.8m. Overall, the value of the Fund increased by £130.4m during the period.
- 3.17. The Net Assets Statement represents the net worth of the Fund as at 31 March 2022, and reflects how the transactions outlined in the Fund Account have impacted on the value of the Fund’s assets.
- 3.18. Members should note that these accounts are draft and subject to change between now and final sign-off. Any such changes will be detailed in working papers for presentation to external audit, and brought to the Committee later in the year as part of the Annual Report.
- 3.19. The Pension Investment Committee Members ask questions on the draft pension accounts for 2021/22.

Risk Management Policy

- 3.20. Members to review the Risk Management Policy – see Appendix 5.
- 3.21. The document sets out that the London Borough of Lewisham adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund, at a strategic and operational levels.

Risk Register

- 3.22. Members to note the Risk Register – see Appendix 6.
- 3.23. This paper sets out the Fund’s risk register for the financial year 2022/23. It is the responsibility of the Pension Investment Committee to review the register periodically to ensure risks are updated and the relevant mitigations in place are adequate.
- 3.24. The Risk Register was review by the Pension Investment Committee at their meeting of 14 June 2022.

Annual Governance Compliance Statement (draft)

- 3.25. Members to note the draft governance Compliance Statement – see appendix 7
- 3.26. This draft statement sets out the Fund's Governance Structure, scheme of delegation, and the terms of reference for its Governing Bodies, the Pensions Committee and the Local Pensions Board.
- 3.27. The Annual Governance Compliance Statement will go to the next Investment Committee meeting alongside the Pension Fund Annual Report.

Processes in place to establish Internal Controls

- 3.28. Members to review the list of Internal Controls – see list of Processes and Procedures - Appendix 8

Internal Disputes Resolution Policy (IDRP)

- 3.29. Members to review the Internal Disputes Resolution Policy – see Appendix 9

Administration Strategy

- 3.30. Members to review the draft Administration Strategy – see Appendix 10

Work Programme

- 3.31. The work programme is attached at Appendix 11.a to be developed on an ongoing basis, and has been updated to reflect the high priority compliance issues identified from the Aon review.
- 3.32. The work programme has been updated following completion of some of the tasks. Appendix 11.b show a list of the pension fund policies and reports that are required by the pension regulator.
- 3.33. Officers have provided dates of when the tasks are required to be completed or updated. Some of the tasks will be added to the work programme for the next meeting.

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 3a & b – Investment monitoring report and PIC cover report (Part 2)
Appendix 4a & b – Draft Pension Fund Accounts 2021/22 and PIC cover report
Appendix 5 – Risk Management Policy
Appendix 6 – Risk Register
Appendix 7 – Annual Compliance Statement (draft)
Appendix 8 - Processes in place to establish Internal Controls (to follow)
Appendix 9 - Internal Disputes Resolution Policy (to follow)
Appendix 10 – Administration Strategy (draft) (to follow)
Appendix 11a – Pension Board Work Programme
Appendix 11b – List of Policies and reports requirements

FURTHER INFORMATION

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

Katharine Nidd, Head of Strategic Finance, Planning and Commercial at
Katharine.Nidd@lewisham.gov.uk

Shida Ashrafi - Interim Head of Pensions and Payroll at
Shida.Ashrafi@lewisham.gov.uk

Chris Flower, Treasury & Investments Manager at:
Chris.Flower@lewisham.gov.uk