

MINUTES OF THE PENSION BOARD

Wednesday 5 October 2022 at 3.30 pm

Members Present:

In Person: Stephen Warren (Chair), Mark Adu-Brobbey, Salena Mulhere

Virtually: Rowann Limond

Officers Present:

In Person: Katharine Nidd (Lead Officer), Committee Officer

Virtually: Chris Flower (Treasury and Investments Manager (TIM))

Apologies: N/A

1. Minutes

RESOLVED that the minutes of the meeting of the Pensions Board held on 22 June 2022 be adopted.

2. Declarations of Interest

Salena Mulhere advised she was a Member of the Pension Fund and that she receives a small pension from the LGPS from a different local government employer.

Rowan Limond and Mark Adu-Brobbey declared interests as members of the Pension Fund.

3. Action log

The report was presented to the Board by the Lead Officer, who provided an overview of the action log. Members were informed that the following actions remained ongoing:

- Board Members were required to complete the Pension Regulator's Toolkit within the next six months (by November 2022,) or within 6 months from their appointment
- An hour of training for Board members would be provided before each Board meeting.
- A routine learning and development item on each agenda, to include recording of the completion of any additional training Members had undertaken.
- Discretions Policy to make clear in a future iteration that it was applicable only to the Council as an employer. The policy would also be legally reviewed.
- The Breaches Log (including a report, if appropriate) would be presented at each Board meeting to confirm that no breaches had arisen since the last meeting and in the event that any occurred between meetings, they were reported to the Chair and members of the Board promptly.
- A commitment to timely communication with Scheme members. The 'other bodies' section would be reviewed to ensure that all relevant parties were identified and service providers and advisors were identified by role rather than name, in order to minimise the risk of the Policy becoming out of date. There would also be a clear articulation of the overall principles for communication, including accessibility.
- Process to establish internal controls. The Board would receive an update detailing the areas in procedures in place and the date of last the review. The Board would

receive an update on the preparation of procedures for benefit calculations to the subsequent meeting of the Board.

- Pooling - the respective responsibilities of the London CIV and the managers appointed by it; the associated control activities undertaken by the London CIV; and the mechanisms for obtaining assurance over the operation of controls operated by the London CIV. An update would be provided to the Board, at the next meeting, scheduled for December 2022.
- Officers would confirm that the work programme included: all areas required to be considered by the Board by legislation and guidance; and all current and planned Council policies relevant to the functions of the Board.

The Lead Officer also advised Members the following actions as outlined in the report, had been completed or would be completed by the end of the current meeting:

- Presentation of the Code and the Code of Conduct for Lewisham Council to the Board.
- To seek professional advice with regard to the application of the Breach of Law Policy to the Board and report back recommendations to the next meeting in light of advice obtained.
- Training Policy to be amended to reflect the identification of collective training needs and the provision of collective training and delegated to the Chair for approval. The Policy was amended and circulated as Appendix 2 to the Board.
- The Breaches Log, as no breaches had occurred.

The Board noted the Lead Officers advice and that the 'Expected date of completion' column of the action log, did not contain any information.

Action:

The Board agreed that as an assurance going forward, officers would provide expected and planned completion dates for actions in the 'Expected date of completion' column of the action log. The action log complete with these dates, would also include any pressures and not be a committee to timelines, which would then be presented to Members at each Board meeting.

The Board were asked to note the contents of the report.

RESOLVED The Board reviewed and noted the report.

4. Breaches log

The Lead Officer presented the report to the board. The members were advised the intention of the breaches log, such as the policy processes. It would remain live and current with regard to processes. The Lead Officer confirmed that at the time of the meeting, there were no breaches.

The Board were asked to note the contents of the report.

RESOLVED The Board reviewed and noted the report.

5. Training log

The report was presented to the board by the Lead Officer, who advised the report should capture three times of training:

Training delivered by:

- Council officers.
- Conferences/seminars
- Pension regulators toolkits, modules, continuing professional development.

Following a Members question, the Lead Officer advised the Board that the Members would be required to contact the Lead Officers with regard to training opportunities, as there were no automatic training notification system available to Members.

The Chair advised that Members could generate certificates of completion of modules undertaken on the Pension regulator toolkits. This evidence of completion would be sufficient to present to Officers.

Action:

The Board agreed that officers would notify Members of pension training opportunities, including pension regulator toolkits.

The Board were asked to note the contents of the report.

RESOLVED The Board reviewed and noted the report.

6. General update

The Lead Officer presented the report and provided members with recommendations:

- review and note the Quarter 2 Investment report as presented to the Pension Investment Committee (PIC) 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.

The Lead Officer introduced the report. The report discussed standing items on the agenda and provided the Board with an update on several general matters that had arisen since the last meeting.

Monitoring of Investment Performance

The Lead Officer advised the Board of the Pension Investment Committee's (PIC) responsibility to ensure that the investment performance of the fund managers was regularly monitored against the agreed performance benchmarks for each mandate. Members were informed the Funding Strategy drove the creation of the Investment Strategy Statement, which would set the strategic asset allocations and expected performance benchmarks required for each asset class and mandate to ensure that this provided the level of return (balanced against risk) required, to ensure the Fund could meet the current and further liabilities of its Members.

This performance monitoring was undertaken in a variety of ways by officers, advisors and the Pension Investment Committee and these processes and actions as outlined below:

The Fund's custodian Northern Trust had secured an email portal whereby all fund managers could send correspondence securely. When the facility was made available, all officers registered for access. That included the entire Treasury and Investments team, the Head of Strategic Finance, Planning and Commercial and the Director of Finance. The emails contained a variety of information that ranged from capital calls for funding, performance reporting, and possible changes to the mandates themselves. In addition to this, some fund managers were able to send direct communications through, but again this was always to multiple officers within the Council. Members were advised there was an annual process (as a minimum) to ensure that all contact details remain current. The emails would then be reviewed immediately, to ascertain the nature of the communication and the response/action that would be required.

The Board were informed that in addition, the online investment portal provided by Northern Trust allowed officers to access the different fund accounts at any point to review the current value of each mandate, which included available cash balances (where applicable) to assist with the cash flow management of the Fund.

Members were advised that at the end of each quarter Northern Trust produced a quarterly performance report for the Fund's investment advisors Hymans Robertson who in return produced a pack which would then be presented to the Pension Investment Committee. The pack would include the following sections:

- a performance dashboard that conveyed 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 was imbalanced (overweight or underweight) both within and between asset classes. This would also include 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 that utilised the Hymans ratings and the Responsible Investor ratings
- discussion and consideration of the wider market background and considerations of the global markets

At each meeting of the PIC the Funds investment performance would be carefully considered in the following format: the Investment and Treasury Manager would review the report produced by Hymans and prepare an officers covering report which summarised the key issues of the previous quarterly report and clearly identified the recommendations that the Committee would be asked to consider. The report would be presented to the Committee, followed by the advisors pack, presented by the advisors to the Committee. The Lead Officer advised the Board that the quarterly performance report for Q2 was also appended to the report presented at the current meeting.

The Committee would then ask questions to ensure that any performance issues or risks raised in the report were fully discussed. The recommendations would be discussed and noted. This would be included within the minutes of the meeting.

Finally officers and the investment advisors would work with the Committee to agree an annual work plan that was forward looking to ensure that any possible changes to the mandates were properly planned. This would then be brought to the Committee in advance of a decision, which allowed sufficient time for implementation. For instance 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 due to the closed ended nature of that particular asset class.

The Lead Officer advised the Board that LCIV had attended the September meeting, as part of a 'Meet the Manager' session and advised the Committees Members of the LCIV Structure and Governance and investment oversight.

In addition to the specific performance reporting, at each meeting of the Committee there would be a general update report presented, as tabled by officers. The report would also include any specific announcements made by fund managers in the previous period, for both information and decision-making purposes.

The Lead Officer advised the Board that report focused on the last quarter, therefore the conversation at the last PIC meeting was rather staid, as there were no ranges to discuss, for instance from quarter 1 to quarter 2. It was advised that the next PIC meeting would probably therefore have discussion on the performance of gilts.

The Board were asked to review and note the Quarter 2 Investment report as presented to the Pension Investment Committee on 06/09/2022

RESOLVED The Board reviewed and noted the report.

Draft Pension Fund Statement of Accounts

The Lead Officer advised the Board the local authority's external auditors, Grant Thornton had undertaken an audit alongside the accounts, which had been published in draft form on the local authority's website, alongside the main accounts, appearing from the third week of July 2022.

The Members were advised that the external auditor intended to complete the audit in October 2022, to be presented to the Audit Panel in early November 2022. After which the audit would go to PIC in early November 2022 along with the annual report. The

local authority intended to have the final accounts published on the local authority's website by December 2022.

Members were informed that the accounts were in draft and could be subject to change before the final sign-off. The Lead Officer advised the Board that any such changes would be detailed in working papers for presentation to external audit, and brought to the Pension Investment Committee later in the year as part of the Annual Report. The Board were advised that a lot more discussion was expected at the next Pension Investment Committee meeting and Members would be expected to ask questions with regard to the draft pension accounts for 2021/22.

The Chair noted there was not a lot of information reported about the Fund Accounts and enquired if information would be provided in the annual report. The Lead Officer assured the Board that there would be a lot more information provided in the annual report regarding the Fund Accounts. The information would be provided under the local authority's Pension Fund Account website.

The Chair asked whether the annual report would be presented to Members at the next Board meeting. The Lead Officer advised that a draft could be circulated at the next Board meeting scheduled for the 14 December 2022.

Action:

The Board agreed that officers would present a draft of the annual report to Members at the next scheduled Board meeting.

The Board were asked to review and note the Draft Pension Fund Statement of Accounts as presented to the Pension Investment Committee on 06/09/2022

RESOLVED The Board reviewed and noted the report.

Risk Management Policy

Members were advised by the Lead Officer that the Policy had not changed significantly.

The Board were advised that the document set out that the London Borough of Lewisham adopted best practice risk management, which supported a structured and focused approach to managing risks, and ensured risk management was an integral part in the governance of the Fund, at a strategic and operational level.

The Board were asked to review and note the Risk Management Policy, as per section 3.20

RESOLVED The Board reviewed and noted the report.

Risk Register

The Lead Officer informed the Board that the paper set out the Fund's risk register for the financial year 2022/23. The Board were advised that it was the responsibility of the PIC to review the register periodically, to ensure risks were updated and that the relevant mitigations put in place were adequate.

Members were advised that the Risk Register was reviewed by the PIC at their meeting held on 14 June 2022.

A Member advised that whilst they were satisfied with the content of the paper, they noted during the 'High Level Valuation' training provided in the hour before the current meeting began, risk assessment was discussed, but the issue of risk appetite had not been addressed in the report. The Member stated that considering the training received and the current market situation, it would be worth mentioning risk appetite in the report. The Lead Officer advised the Board that it would be made clear in the report that the Policy is set to be effected in accordance with the risk appetite of the Fund, as set out in its investment strategy statement and the funding strategy statement. It would be made clear that the Policy works in accordance with that framework. Members were advised that this approach would be preferable to looking at risk appetite on a line by line basis. The Board were advised it would be best for the risk appetite of the fund would be set through investment strategy statement and the risk then managed accordingly.

The Chair noted there was no mention in the report of risk such as: long-term financial, funding, covenant risks or integrated risk management. The Chair recommended that work should be conducted with regard to the expression of risk in the context of a pension scheme. The Chair enquired if there would be any benefit of the inclusion of key risk areas, such as equity, funding, liquidity and government risks.

The Chair also noted that the report advised that the PIC received the Risk Register annually. It was expected that government bodies would inspect risk registers more frequently.

The Lead Officer advised the Board that the term 'annually' in the report could be reviewed as a minimum of once a year, but usually the Risk Register was inspected by PIC usually 2 times a year. The Lead Officer stated the table in the report which used the term was generic and would be reviewed and improved.

The Board were assured that the Risk Register would be circulated more frequently to the PIC at a minimum of twice annually. The twice annual circulation would be a minimum, with the intention of more frequent circulations, until there are any changes. Members were advised the criteria for the Risk Register was also set out in the investment strategy statement. The Lead Officer also noted that the Risk Register had been subject to review and consideration at the PIC June 2022 meeting. The minutes of the PIC June 2022 meeting noted that the Risk Register had been considered.

A Member asked a question with regard to risk ownership, noting that in the report the Risk Owner Key listed the Board as a risk owner. The Member commented that whilst the Board could influence the risks owned by others listed in the key, it would be useful to have the Board's own risks highlighted, because the Board would have to spend time on working to mitigate those risks identified.

The Chair advised that the Board operated as a quasi-audit committee, the Board would be required to identify its risks itself, as opposed to an external body do so. The Chair advised that the Board was not managing risk, but making recommendations to the local authority.

The Board recommended to the local authority is that it should not place the Board as risk owners and that there should be a further session at the next Board meeting, where the Board would identify the most significant risks that it would like to focus its attention upon.

The Lead Officer identified two risks that the Board were responsible for:

- 1) inappropriate decision-making noting that the Boards oversight was required to assist the scheme secure compliance with relevant LGPS regulations, reviews and comments on governance, administration and decision-making within the scheme.

The Lead Officer advised the Board the risk is with regard to matters, for example:

- High staff turnover at officer, PIC or Pension Board level or
- Lack of oversight at senior officer, PIC or Pension Board level.
- Undisclosed conflicts of interest

The Lead Officer noted that the risk was not the Boards alone and was shared with the Director of Resources, as well as the Director of Finance sharing the risk.

- 2) Inadequate Knowledge and Skills

The Lead Officer advised the Board this risk was shared with the PIC, the risk identified was that the Board did not have sufficient training to conduct risk mitigation. The Lead Officer noted that if there was concern with regard decision-making then that element of risk could be assessed. The Board were advised that the Director of Finance and two other named officers managed risk.

A Member appreciated that the Board represented part of the controls for risk and enquired if there were any other controls at the local authority's disposal, apart from the PIC where decisions were made.

Action:

Officers would review the wording of the Risk Register.

The Board were asked to review and note the Risk Register, as per section 3.22

RESOLVED The Board reviewed and noted the report.

Annual Governance Compliance Statement (draft)

The Lead Officer advised the Board that the Annual Governance Compliance Statement (AGCS) had never been a standalone document. It has always been produced by the officers, but was part of the Annual Report. Now the AGCS would be drawn out of the annual report and published on the local authority's website.

The Lead Officer informed the Members that the AGCS was presented to the Board at the current meeting for review and comment. It would then be reviewed and amended, as required. The AGCS would then be included in the 2021/22 annual report, as an appendix,

The Members were advised that the AGCS after review, would return to the Board again, when it was also published as usual, in the annual report.

The Chair expressed areas of concern in the AGCS and requested clarification. The areas of concern were:

The secondary committee and the pensions table. The Chair enquired what the intention was.

Statements of compliance, when Board meetings had not been convened for part of the year and the statement that the Board meet quarterly, when it in fact did not.

The Chair made the recommendation that the wording of the AGCS should be reconsidered in the context that the Board had not been operational for a portion of the year being reported.

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.

A Member enquired if there was any back up documentation such as minutes available that would support statements made in the report, so that auditors would be able to review them as evidence of compliance or if the statements were challenged. The Lead Officer informed the Board that the Board according to the Boards terms of reference, the terminology advised meetings were to be conducted at least annually, with a recommendation of more frequent meetings. The Lead Officer advised the Members that the Board met once in 2021. The meetings are described as secondary or panel meetings at least twice a year and were synchronised. The Lead Officer acknowledged an error in the report and advised that amendments would be made to the report to reconcile it with the terms of reference. The Board were assured by the Lead Officer that the Board was performing at the minimum requirement. The Lead Officer advised the Board that all back up documentation was available and that officers could also add a statement to the AGCS to confirm that fact.

A Member:

- Commented that from their experience compliance statements were like an external regulatory questionnaire that required completion by the local authority.
- Enquired:
 - If the local authority's compliance statement was the same type of regulatory document or documentation developed by the local authority? As the Lead Officer had just indicated they would be able to change the AGCS.
 - Could the AGCS be adapted?

The Lead Officer advised the Board:

- The AGCS had been issued by the pension's regulator.
- They would investigate whether the AGCS could be adapted. As the Lead Officer has seen from experience of reviewing other funds statements where there had been changes and amendments to the text. The Lead Officer assured Members they would investigate further.
- The terms of reference did stipulate that the Board meet annually and they were confident that the terms of reference were in accordance with the pension regulators' guidance.

The Chair recommended that back up documentation should be in place to support the AGCS.

Action:

The local authority would ensure the required supporting documentation was made available to support the AGCS.

Processes in place to establish Internal Controls

The Lead Officer advised the Members the report under consideration, was an internal list of current processes and procedures that exist within the administration team. It would be an ongoing exercise, to prepare what would eventually become a holistic and comprehensive statement of internal controls.

The Chair enquired if the report would return to the Board in the future. The Lead Officer advised the Board that the report should be reviewed at Board meetings, as part of the Work Programme. The Board were advised they could decide the regularity with which they would like to see the report for review.

The Chair recommended that the Board would want to be:

- Involved in reviewing the procedure notes and policy documentation.
- Updated on the adoption date of each procedure note and policy document.
- Assured of an internal audit review of the procedure notes and policy documentation.

The Lead Officer agreed and assured the Board that in order to inspire confidence in the internal controls an internal audit of the procedure notes and policy documentation, would be arranged.

Action:

The Lead Officer will report back to the Board at the next scheduled meeting on their progress with the ongoing report and arrangement of an internal audit of the procedure notes and policy documentation.

The Board were asked to review the list of Internal Controls – see list of Processes and Procedures - Appendix 8

RESOLVED The Board reviewed and noted the report.

Internal Disputes Resolution Policy (IDRP)

The Lead Officer advised the Board that whilst a standard approach had been adopted to draft the Policy, it had been tailored and made bespoke to the local authority, it draws on best practice from the industry.

A Member commented that they were not clear who managed the stage 1 or stage 2 complaints. The Chair noted, there is reference to a nominated person, who dealt with the complaints.

The Lead Officer acknowledged the comments and noted that the addition of a glossary was required, that would identify roles, with pictures of the individuals holding those roles within the local authority.

Action:

The Lead Officer would review the Policy, so there would be clarity with regard the post holders performing functions, within the local authority.

The Board were asked to review the Internal Disputes Resolution Policy – see Appendix 9

RESOLVED The Board reviewed and noted the report.

Administration Strategy

The Lead Officer advised the Board the strategy was currently in its first draft form. There was a requirement to consult with all employers within the scheme. The Lead Officer confirmed that the consultation had not yet occurred. There was also a requirement for the document to be signed off by the PIC.

The Board were advised there was a lot of work put into the first draft, with professional input from the local authority's external advisors. It covers all the requirements as stipulated by the industry regulator. The Board were assured the document presented was comprehensive, but had not yet been completed. The Board were informed there was more tailoring of the strategy required, it would then go out to consultation and then presented to the PIC for sign-off.

A Member sought clarification with regard to who would be consulted.

The Lead Officer advised the Board just the employers and contractors would be consulted, such as Lewisham Homes, not all members of the scheme.

The Chair:

- Referred to the section 'Monitoring and Engagement' page 7 of the strategy. The Chair quoted from the section: '...Various means will be employed, as determined from time to time, to assist in monitoring compliance with this Strategy...' and enquired what were the mechanisms that would be employed to this end.
- Recommended that the strategy should be reviewed and the mechanisms identified in order to move the advice provided from being generic to specific to the local authority.

Action:

The local authority would review the strategy and provide specific clarification with regard to the mechanisms and timetables that would be employed for monitoring and engagement in the final draft.

The Board were asked to review the draft Administration Strategy – see Appendix 10

RESOLVED The Board reviewed and noted the report.

Work Programme

The Lead Officer informed the Board that the report was also accompanied by:

- 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.
- 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.

Officers had provided dates of when the tasks were required to be completed or updated. Some of the tasks would be added to the work programme for the next meeting.

The Lead Officer advised the Board they could advise on what it would want to review over the next 12 month rolling period.

A Member advised there was a lot of information to consider during a limited amount of meeting time the Board had. The Member stated they would appreciate a steer from the Chair or Officer.

The Lead Officer advised Members that in the past an external auditor conducted an independent review of the local authority's pension investment administration. From this exercise the auditor produced a comprehensive document that contained all requirements in accordance to the industry regulators' best practice and guidance. The Lead Officer assured the Board the guidance in the auditors feedback documents had been used in drafting the strategy. The Lead Officer advised Members that the relevant officers work collectively on addressing the 'amber' highlighted issues that were no longer 'green'. The Lead Officer advised the approach was used to list and check all policies against the green/amber system. The Lead Officer advised the results of the exercise would be shared with the Chair, but Members were also asked to review the results to ascertain if the officers had missed anything, request further checks or agree on officer proposals. The Lead Officer also noted the pandemic meant there was a backlog.

The Chair:

- Noted there were not a lot of policy considerations listed for quarter 1/2023, but there were a lot listed for quarter 4/2022.
- Suggested this imbalance would result in a demanding agenda for the Board in December 2022.

The Chair recommended that officers would review the listed policy considerations for quarter 4/2022 and they be moved to quarter 1/2023.

Action:

Officers would review and amend the Work Programme, then return the proposal to the Chair initially, then routinely include the Work Programme to the Board meeting agendas, going forward.

A Member left the meeting at 4.40pm. The Clerk confirmed to the Chair the meeting was still quorate.

The Chair:

- Commented on the section included in the agenda pack: 'Code of Conduct Policy' stating it had not been discussed the current meeting.
- Quoted from Section 2 of the report: 2.1: 'As per the Terms of Reference and where relevant, Lewisham Pension Board adopts the existing Code of Conduct...' and enquired when the existing Code of Conduct is referred to the wording is inconsistent with the aforementioned as it refers to 'Members' requirements. The Chair noted that the principles listed could be adopted, but outside of that, there would be issues, as the Members of the Board were not elected Members.
- Mentioned the training log was listed, noting that it had been discussed at the last meeting, but not at the current meeting.

The Lead Officer advised the Board the item was added to the action log that was discussed earlier in the meeting.

The Board were asked to note the contents of the report.

RESOLVED The Board reviewed and noted the report.

7. Work Programme

The Chair and Lead Officer confirmed the proposed work programme had just been discussed and did not require further discussion.

8. Any Other Business

The Lead Officer:

- Noted that the Board had a requirement under the Boards terms of reference for quorum to be maintained, that one of each representative type to be present at the meetings.
- Requested the Board consider and agree what is considered the definition of 'present' in terms of in person or virtual attendance.
- Advised that whilst the Board had similar comparity with constituted council committees, the Board is not bound by legislation

The Chair recommended that at least the Chair and the Clerk be present in person and that all other Members may be present either in attendance or virtually.

9. Future Meeting Dates

The dates were confirmed as:

14 December 2022
16 March 2023

Action:

Committee Officer to check availability of Members for the meetings set provisionally and also consult with the Chair and Members to set dates for the rest of the rest of 2022.

10. Exclusion of Press and Public Notice

Not required

11. Appendix 3a - Quarterly Investment Monitoring Report - PIC Cover Report

Not presented to or considered by the Board

12. Appendix 3b - Quarterly Investment Report Q2 2022

Not presented to or considered by the Board

The meeting ended at 4.50 pm

DRAFT