

PENSION BOARD			
REPORT TITLE	Pensions Board – General Update		
KEY DECISION	No	Item No:	
WARD	N/A		
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CLASS	Part 1	Date:	14 December 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 Draft Pension Fund Annual Report as presented to the Pension Investment Committee on 08/11/2022
- review and note Q3 Investment Performance Report;
- review and note the progress report on the arrangements for Pooling;
- note the remainder of the report.

3. CURRENT CONSIDERATIONS

Draft Pension Fund Annual Report 2021/22 – see Appendix 4

- 3.1. The LGPS (Administration) Regulations 2008 require an administering authority of a Pension Fund to prepare an annual report which summarises the performance, management and administration of the Fund. It consolidates information from the accounts and a number of published statutory statements, including the Investment Strategy Statement and Funding Strategy Statement, into one document. The authority must publish the annual report on or before 1 December following the financial year end.
- 3.2. Included within that document should be a report from the Pension Board summarising the role of the Board, its activities in the year, and any training its members have undertaken.

- 3.3. The Pension Investment Committee reviewed the draft pension fund Annual Report 2021/22 on 8 November 2022. The members scrutinised the annual report and asked questions of the officers regarding the report and asked for a few minor changes. The PIC approved the Draft Annual Report 2021/22 subject to the changes requested and any further amendments required through the finalisation of the audit.
- 3.4. The draft Pension Fund Annual Report 2021/22 was published on 1 December 2022 and once the external auditors have completed their audit the report will be updated to include the auditor's statement. It will return to the Pension Investment Committee in its final form at the February 2023 meeting.
- 3.5. Previously the Board had received and commented on a copy of the proposed Annual Governance Compliance Statement. It is to be noted that rather than have this as a separate document officers have combined this reporting requirement into the Annual Report. The inclusion of this was explicitly drawn to the Pension Investment Committee's attention.

Quarter 3 Investment Performance Report

- 3.6. The latest quarterly performance report from the pension fund's advisors Hymans Robertson is attached in confidential Appendix A.
- 3.7. The report covers:
 - The value of the fund's assets and movements over the quarter to 30 September 2022.
 - The returns generated by the Fund (net of fees) over the quarter, and how these compare to the agreed benchmarks.
 - An assessment of the Fund Managers and any recommendations for the next quarter.

Hymans Q3 Investment Performance Report presented to PIC

- 3.8. The Head of Financial Strategy, Planning and Commercial (HFSPC) provided the PIC Members with an introduction to the quarterly performance report. Hymans then gave a presentation of the report to the Committee.
- 3.9. The Hymans Robertson quarterly performance report covered matters from the last quarterly period.
- 3.10. Members asked questions that were answered by Hymans and the HFSPC. Some of these questions included:
 - Whether LBL should broaden the scope of their investment and at what point should LBL be concerned with regard to the performance of their bonds investment?
 - Would LCIV's net zero goals for its own funds assist LBL achieve its own net zero investment goals?
- 3.11. Hymans answered the Members questions and the Committee were asked to note the contents of the report.

Progress Reports on the Arrangements for Pooling

- 3.12. The Pension Board has previously asked how it can be assured that in delivering on the government mandate to pool, individual LGPS Pension funds can still demonstrate that there is sufficient rigour and robustness in the treatment of pooled fund managers on a par with that of any other fund manager. This is particularly pertinent when considering the London Pension Collective Investment Vehicle (LCIV) as the Authority is also a shareholder in this organisation.
- 3.13. Previously officers have provided content to the Pension Board which described both the extent of the pooling, which asset classes and mandates the Pension Fund had invested in, the regular monitoring of the performance of these, as well as setting out the due diligence and selection process undertaken by the Pensions Investment Committee with the support of Hymans Robertson to ensure that the LCIV mandates were as robustly assessed as all the other options shortlisted.
- 3.14. The Pension Board then asked further questions beyond performance management of existing mandates and selection of new funds, and instead asked how the Committee monitored and gained assurance that the LCIV also could demonstrate its strengths as a fund manager in terms of its governance, oversight, and track record on responsible investment.
- 3.15. This report now provides a further update on the extent of pooling and provides more detail as requested in paragraph 3.14 above.

Update on level of pooling with the London Pension Collective Investment Vehicle (LCIV)

- 3.16. The LCIV Renewable Infrastructure fund has issued a number of drawdowns against the committed allocation of £90m and this brings the current investment to £27.2m (30%) as at the 30 September 2022 with further drawdowns scheduled in the financial year. The Fund is also now receiving equalisation payments as part of the capital call process and these funds are being used to fund further capital calls.
- 3.17. On the 10 February 2022 the Committee approved the investment into the LCIV Private Debt mandate to ensure that the Fund maintained its target allocation of 6% to private debt mandates. A further capital call of £ 340,510 was made on 9 November 2022 which brings the current investment to £49.9m (circa 59%) of the agreed allocation of £85m.
- 3.18. At the June 2022 meeting the Committee received an update on the funding of the Storebrand Global ESG Plus (developed markets) fund and the top up to the PEPPA fund, this top up resulted in the full allocation to PEPPA being achieved, which is 60% of the passive equity portfolio, and 30% of the entire pension fund.
- 3.19. The proportion of the Fund now pooled and under LCIV management continues to increase with the continued funding into the LCIV Renewable Infrastructure Fund, the top up to PEPPA and the funding of the LCIV Private Debt mandate as set out in section 3.6 above.

London CIV Structure & Governance Investment Oversight

- 3.20. It was agreed that the Pension Investment Committee return to the practice of meeting with fund managers to monitor performance, operational assurance and to track market developments.
- 3.21. The London CIV attended the PIC meeting on 8 September 2022 and provided a presentation on the workings of LCIV. This included details of their governance arrangements as set out in their Investment Governance Document and the Stewardship and voting system.
- 3.22. LCIV also explained how their Investment Oversight Committee worked and how it selected funds for new investments.
- 3.23. LCIV have a Fund Manager Monitoring Framework that sets out how LCIV monitor the investment fund and the funds are scored on a Red, Amber or Green rating. Green being normal monitoring, Amber being enhanced monitoring and Red being on the Watch List.
- 3.24. LCIV explained their policy on Pathway to Net-Zero and ESG reporting and Members asked questions to help their understanding of LCIV processes and how LCIV plan to meet the TCFD reporting requirements in 2023.
- 3.25. LCIV provided detail of how the efficiencies and cost savings that they had achieved for the mandates were calculated on a fund and then authority level and offered to provide a more detailed explanation to the Committee if helpful.
- 3.26. The level of detail and extent of the content was appreciated by the Committee and the questions by Committee Members, officers and Hymans allowed the Committee to gain greater insight into the governance, control frameworks, and delivery of ESG and responsible investor objectives. The future sessions of 'meet the manager' are following a similar approach although tailored to each mandate as appropriate.

LCIV Business Updates

- 3.27. In addition to the regular performance reporting and the specific 'meet the manager' sessions, the Pension Investment Committee (PIC) are kept abreast and invited to the regular sessions hosted by LCIV where they provide business updates. The most recent one was held in November and officers sent a copy of LCIV's business update to the Committee which gave a detailed report on their funds. The key messages from this report are as follows:
- 3.28. LCIV forecast that the overall level of Assets Under Management (AUM) will be impacted by adverse markets and slower pooling than budget (forecasting @£1.7bn lower than budget). They also state that inflation has impacted on their cost base.
- 3.29. LCIV state they will continue to work on achieving further net fee savings for client funds e.g. securities lending, MAC and ACF operating cost reductions allowing London CIV to participate in the benefits.
- 3.30. There is a continued focus on fund costs through external benchmarking and cost allocations and delivering value for money.

- 3.31. They do not anticipate an increase in fixed fees next year but an updated review of the funding model is proposed.

Chair & Vice Chair & Officers Pension Forum

- 3.32. Whilst not direct engagement with the LCIV, there is a forum titled the Chair, Vice Chairs and Officers Pension Forum that is regularly attended by officers and Members of the Pension Fund. The focus of this group is to provide an opportunity to specifically discuss pooling and how the Council can drive the new investment products to be brought forward by LCIV to meet collective Funds mandate requirements.
- 3.33. Value for money and the operational effectiveness of the LCIV is also discussed at the forum to seek to drive efficiencies within LCIV.
- 3.34. Officers and Committee Members continue to engage with the LCIV to ensure that both those assets under management and any potential suitable mandates are properly reviewed and assessed.
- 3.35. Finally, as recently highlighted as part of the initial results from the triennial valuation, the LCIV currently has no distributing funds, and given the maturity of the Fund and the increase in pension benefits as at 1 April 2023, officers will need to work with advisors to prepare a short and medium term cash flow for the Fund and then assess the options for and impact on investments. This will form part of the considerations and development of the new Investment Strategy Statement, but the requirement to continue to pool will need to be considered alongside this.

Initial results of the Triennial Fund Valuation

- 3.36. At the November meeting the Committee received a presentation from the actuary Hymans Robertson which set out the initial high level results from the triennial valuation. This is appended as a confidential appendix to this report. See confidential Appendix B
- 3.37. The initial results are broadly positive and officers are working with the Actuaries and the Advisors to ensure that the Funding Strategy Statement is prepared and ready for implementation for the 1 April 2023. More detail on this is in the sections below.

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

Part one

Appendix 4 – Draft Pension Fund Annual Report 2021/22

Part Two confidential:

Appendix A – Q3 Investment Fund Performance Report

Appendix B – Lewisham Pension Fund Valuation Results 2022

FURTHER INFORMATION

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

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