

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Pensions Investment Committee – General Update		
<b>KEY DECISION</b>	No	<b>Item No:</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Head of Corporate Resources		
<b>CLASS</b>	Part 1	<b>Date:</b>	September 2018

## 1. PURPOSE

- 1.1. This paper provides members with an update on several general pension related matters in the last quarterly period.

## 2. RECOMMENDATIONS

- 2.1. Members are asked to note the contents of the report, and agree to the following recommendations:
- To delegate the appointment of a carbon footprint provider to officers, with a Single Tender Action report to be signed off at Executive Director level, as per section 4.8
  - To agree to register with the National LGPS Procurement Frameworks and delegate this process to officers, as per section 4.13.

## 3. BACKGROUND

- 3.1. This briefing will provide a summary of current topics relating to the Pension Fund and pensions in general, and address standing items on the agenda, following on from actions requested in previous meetings.

## 4. CURRENT CONSIDERATIONS

### **London Collective Investment Vehicle (CIV) – General Update**

- 4.1. The CIV AGM was held on 12 July 2018; highlights from the meeting sent out to officers include:
- Agreement to begin the process of implementing the new governance changes (agreed in principle in March 2018);
  - Plans to launch five new funds in the current financial year;
  - The CIV now manages, and has oversight of, nearly £15bn of assets, representing around 40% of total assets under management across the thirty-two London Local Authorities and the City of London;
  - Approval has now been obtained from the FCA to manage Unauthorised Alternative Investment Funds (UAIFs), allowing the CIV to offer alternative and illiquid funds as part of their product range;

- The contract for the administration of their alternative funds platform has been awarded to Northern Trust;
  - The new Shareholder Committee is expected to hold its first meeting in mid-October.
- 4.2. To date, none of the funds launched by the CIV have been funds Lewisham are invested in or planning to invest in. The CIV currently manages seventeen operational funds; eight are equity funds, five are fixed income funds, and four are multi-asset funds. Further details on new infrastructure funds are due to be announced in September, with a 'meet the manager' day provisionally scheduled for mid-November.
- 4.3. Representatives from the CIV will be attending the November meeting of PIC to meet Members and provide updates on progress.

### **Infrastructure Procurement and Funding - Update**

- 4.4. Officers completed the on-boarding process with the J.P. Morgan Infrastructure Fund at the end of July, committing \$105m as per the agreed strategic allocation. Funds are due to be called in early October, and plans are underway to make those funds available by selling the necessary equities as agreed at the June meeting of PIC. Hymans will advise and recommend the balance of equities to sell across UK, global and emerging markets.

### **Carbon Footprint Exercise - Update**

- 4.5. Members agreed in June for officers to seek quotes for the undertaking of a carbon footprint exercise, using the London Borough of Hackney's specification as the basis for undertaking the evaluation, to measure the portfolio's current footprint against various measures and use this as a reference for any future decision-making.
- 4.6. Officers are in contact with two organisations who can provide this service and are awaiting additional information. It is expected that the value of work will be low, and as such can be procured via a Single Tender Action.
- 4.7. In addition, officers have requested data on carbon exposure from the Fund's passive managers, BlackRock and UBS. Reports have been received from one manager thus far, the other is in the process of collating the data, and this will be used in conjunction with the work undertaken on the wider portfolio.
- 4.8. A further update will be brought to November's meeting. In order to expedite the process, officers request that the Committee delegate the appointment of the ultimate provider to officers, with a Single Tender Action report to be completed and signed off by the Executive Director for Resources and Regeneration.

### **Retendering of Actuarial and Advisory Services - Update**

- 4.9. Officers continue to explore the available options for the retendering of the Fund's actuarial and advisory services. It is proposed that the National LGPS Procurement Frameworks are used to simplify the process, reducing both the timescales and costs involved.

- 4.10. The frameworks remove the need to run a best-practice, OJEU compliant full tender exercise, as this has already been carried out in order to identify a number of providers that have proved capable of offering the service being procured. All that is required is for the Fund to 'call-off' the framework by running a mini-competition, which usually takes a matter of weeks. Contracts awarded under the frameworks can be for a period of up to seven years.
- 4.11. There are two frameworks relevant to this exercise; one for "Actuarial, Benefits and Governance Consultancy Services", and one for "Investment Management Consultancy Services". Each framework is subdivided into 'lots', and Funds can decide which lots they wish to procure; most relate to long-term key services but within each framework there is also a lot for one-off, specialist services which are unlikely to be procured as part of this proposed tender.
- 4.12. In order to access the framework documentation which includes the guidance notes, supplier catalogues, and tender templates, the Fund is required to pay a joiners fee for each framework, and for each lot within that framework.
- 4.13. Officers recommend that Members agree to sign up to the framework and delegate this to officers, which will require payment of fees and the signing of a confidentiality agreement. The indicative cost for access to the actuarial framework is £4,500, and £7,000 for the consultancy framework. Upon paying the joiners fee and gaining access to the documentation, there is no obligation to commit to using the frameworks. If the Committee decides to proceed, a separate Members Access Agreement will require approval.
- 4.14. At this time officers maintain reservations about the timing of the process, particularly with regards to an actuarial tender and its impact on the triennial valuation due to begin at the end of March 2019. Further discussions will take place with Pensions officers to understand the wider implications of retendering before the end of the calendar year, and any updates will be brought to Committee.

#### **Investment Strategy Statement - Update**

- 4.15. At the February meeting of PIC the draft update to the ISS was presented to Members for review and approval, with officers delegated the authority to finalise the document based on Member feedback before presenting it for consultation to employers of the fund, as required by legislation.
- 4.16. The final ISS is presented at Appendix 1, having been updated where requested (with additions also made to reflect the recent appointment of J.P. Morgan). The document is currently out for consultation and, pending feedback, will be published on the Fund's website and included as part of the Annual Report which will be presented to PIC for approval at the November meeting.

#### **Pension Board – Update**

- 4.17. The Pension Board has not met in the last quarter; the next meeting is scheduled to take place in October 2018
- 4.18. The Board have requested a review, on a risk basis, of the Council's arrangements for complying with the Pension Regulator's requirements.

#### **Confidence Assessment Tool - Results**

- 4.19. Members were recently asked to complete a Confidence Assessment questionnaire prepared by Hymans Robertson, the results of which would feed into targeted training where areas of low confidence were identified and addressed. Hymans have now released the results of the assessment, which are presented at Appendix 2.
- 4.20. The overall indication is that the Committee feels less confident in all areas of pension fund management compared to the national LGPS average, possibly reflecting the new membership of the Committee for this administration. Particular areas that scored low, where fewer Members indicated they are confident, include:
- Actuarial Methods, Standards and Practices
  - Pensions Administration
  - Pensions Accounting and Audit Standards
- 4.21. Training and other learning opportunities will be specifically presented to the Committee in the coming months to address these areas of low confidence. The following is already planned;
- Actuarial training will be provided at either the November or February meeting to tie in with the triennial valuation taking place next year.
  - The Fund's custodians will be invited to an upcoming meeting to explain to Members their role in the accounting and audit of the accounts.
- 4.22. In addition, officers continue to recommend the Pension Regulator's Trustee Toolkit, a self-learning modular resource which includes modules on running and funding a scheme, pension law, and how a DB scheme works, elements of which will address those areas listed above at 4.19. See the standing item at section 4.24 for the link to the online resource.

## **Training**

- 4.23. A selection of conferences, workshops and seminars for the second half of 2018 has been listed in Appendix 3. Should members find any of the sessions of interest, or have identified other training they would like to attend, please can they keep the Governance Team and Principal Accountant for Treasury and Pensions informed.
- 4.24. The recommended sessions form part of the main training offering to Members; other sessions arranged by fund managers or the Fund's advisors will also form part of regular Committee business. It is vital that Members develop and maintain their knowledge of the overall sector, and in particular the LGPS, for preserving our professional client status under MiFID II regulations; should Fund Managers deem the Committee to be lacking in knowledge or ability, it is within their powers to withdraw their services.
- 4.25. Officers continue to recommend the excellent training tools available via the Pensions Regulator at: <http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-service-schemes.aspx>.
- 4.26. In addition, as members have previously reported that this was a helpful resource, Russell's Fiduciary Handbooks are available to order online at: <https://russellinvestments.com/us/resources/institutions/investment-handbooks>

## **5. FINANCIAL IMPLICATIONS**

- 5.1. As per the agreed strategic allocation, 6% of the Fund will be allocated to infrastructure via the \$105m commitment to the J.P. Morgan IIF, which will be financed by the sale of equities from UBS. This will see the Fund's target allocation to equities reduce from 55% to 49%.
- 5.2. Officers will act on the advice of our advisors Hymans Robertson when deciding the allocation of equities to sell from the Fund's UBS holdings in UK, global and emerging market funds, although an element of risk remains in making any judgement about which equities to retain or sell. Additionally, there are likely to be transaction costs incurred in the selling of equities, but officers cannot advise what these may be at this stage.
- 5.3. There will be a cost involved in the procurement of a carbon footprint provider; this is estimated to be up to £25k.
- 5.4. There is a cost of signing up to the National LGPS Procurement Frameworks; it is expected that this will total £11.5k for access to the two frameworks for actuarial and consultancy services, and for the lots contained therein.

## **6. LEGAL IMPLICATIONS**

- 6.1. There are no legal implications directly arising from this report.

## **7. CRIME AND DISORDER IMPLICATIONS**

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

## **8. EQUALITIES IMPLICATIONS**

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

## **9. ENVIRONMENTAL IMPLICATIONS**

- 9.1. There are no environmental implications directly arising from this report.

## **APPENDICES**

Appendix 1 – Investment Strategy Statement (September 2018)

Appendix 2 – National Confidence Assessment Results

Appendix 3 – Training and Conference Programme 2018, Quarters 3 and 4

## **FURTHER INFORMATION**

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

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