Barking & Dagenham

# Notice of Meeting

## PENSIONS COMMITTEE

**Wednesday, 14 September 2022 - 7:00 pm**
**Council Chamber, Town Hall, Barking**

**Members:** Cllr Moin Quadri (Chair), Cllr Olawale Martins (Deputy Chair), Cllr Nashitha Choudhury, Cllr Rocky Gill, Cllr Giasuddin Miah and Cllr Tony Ramsay

**Independent Advisor**: John Raisin

**Observers**: Steve Davies and Susan Parkin

Date of publication: 7 September 2022

Fiona Taylor
Acting Chief Executive

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Please note that this meeting will be webcast via the Council's website. Members of the public wishing to attend the meeting in person can sit in the public gallery on the second floor of the Town Hall, which is not covered by the webcast cameras. To view the webcast online, click here and select the relevant meeting (the weblink will be available at least 24-hours before the meeting).

## AGENDA

**1. Training - Fund Triennial Valuation process**

The training will be led by Barry Mackay, Barnett Waddingham

**2. Apologies for Absence**

**3. Declaration of Members' Interests**

In accordance with the Council's Constitution, Members are asked to declare any interest they may have in any matter which is to be considered at this meeting.

**4. Minutes - To confirm as correct the minutes of the meeting held on 15 June 2022 (Pages 3 - 4)**

**5. Pension Fund Quarterly Monitoring - April to June 2022 (Pages 5 - 38)**

**6. Administration & Governance (Pages 39 - 50)**

7. **Business Plan 2021- 23 Update (Pages 51 - 57)**

8. **Any other public items which the Chair decides are urgent**

9. **To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.**

**Private Business**

The public and press have a legal right to attend Council meetings such as the Pensions Committee except where business is confidential or certain other sensitive information is to be discussed. The item below contains commercially confidential information which is exempt under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

10. **Pension Fund Administration Improvements Proposals (Pages 59 - 64)**

11. **Any other confidential or exempt items which the Chair decides are urgent**

Our Vision for Barking and Dagenham

# ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

## Participation and Engagement

- To collaboratively build the foundations, platforms and networks that enable greater participation by:
  - Building capacity in and with the social sector to improve cross-sector collaboration
  - Developing opportunities to meaningfully participate across the Borough to improve individual agency and social networks
  - Facilitating democratic participation to create a more engaged, trusted and responsive democracy
- To design relational practices into the Council's activity and to focus that activity on the root causes of poverty and deprivation by:
  - Embedding our participatory principles across the Council's activity
  - Focusing our participatory activity on some of the root causes of poverty

## Prevention, Independence and Resilience

- Working together with partners to deliver improved outcomes for children, families and adults
- Providing safe, innovative, strength-based and sustainable practice in all preventative and statutory services
- Every child gets the best start in life
- All children can attend and achieve in inclusive, good quality local schools
- More young people are supported to achieve success in adulthood through higher, further education and access to employment
- More children and young people in care find permanent, safe and stable homes
- All care leavers can access a good, enhanced local offer that meets their health, education, housing and employment needs
- Young people and vulnerable adults are safeguarded in the context of their families, peers, schools and communities

- Our children, young people, and their communities' benefit from a whole systems approach to tackling the impact of knife crime
- Zero tolerance to domestic abuse drives local action that tackles underlying causes, challenges perpetrators and empowers survivors
- All residents with a disability can access from birth, transition to, and in adulthood support that is seamless, personalised and enables them to thrive and contribute to their communities. Families with children who have Special Educational Needs or Disabilities (SEND) can access a good local offer in their communities that enables them independence and to live their lives to the full
- Children, young people and adults can better access social, emotional and mental wellbeing support - including loneliness reduction - in their communities
- All vulnerable adults are supported to access good quality, sustainable care that enables safety, independence, choice and control
- All vulnerable older people can access timely, purposeful integrated care in their communities that helps keep them safe and independent for longer, and in their own homes
- Effective use of public health interventions to reduce health inequalities

## Inclusive Growth

- Homes: For local people and other working Londoners
- Jobs: A thriving and inclusive local economy
- Places: Aspirational and resilient places
- Environment: Becoming the green capital of the capital

## Well Run Organisation

- Delivers value for money for the taxpayer
- Employs capable and values-driven staff, demonstrating excellent people management
- Enables democratic participation, works relationally and is transparent
- Puts the customer at the heart of what it does
- Is equipped and has the capability to deliver its vision

# MINUTES OF
# PENSIONS COMMITTEE

Wednesday, 15 June 2022
(7:00 - 9:10 pm)

**Members Present:** Cllr Olawale Martins (Deputy Chair in the Chair), Cllr Nashitha Choudhury, Cllr Rocky Gill and Cllr Giasuddin Miah

**Also Present:** Cllr Victoria Hornby and Cllr Moin Quadri

**Advisors Present:** John Raisin and Nicholas Jellema

**Apologies:** Cllr Tony Ramsay and Steve Davies

## 1. Declaration of Members' Interests

There were no declarations of interest.

## 2. Minutes (16 March 2022)

The minutes of the informal meeting held on 16 March 2022 were confirmed as correct subject to an amendment to paragraph 3 of Minute 26 (Independent Advisor Contract Renewal) to read as follows:

"Given that John Raisin *Financial Services Limited* had been the Committee's Independent Adviser for a number of years"

The addition of the wording "*Financial Services Limited"* reflected that the appointment had always been between the Council and John Raisin Financial Services Limited and not John Raisin as an individual.

## 3. Pensions Committee Training

Following the Local Elections in May 2022 and forming part of the new Member Induction Programme, the Council's Investment Fund Manager and the Independent Advisor presented an introduction and overview of the Local Government Pension Scheme (LGPS) and an outline for new and reappointed Members to the role and function of the Pensions Committee.

## 4. Pension Fund Quarterly Monitoring 2021/22 - 1 January to 31 March 2022

The Investment Fund Manager provided information for the Committee, employers and other interested parties on how the Fund had performed during the quarter("Q1") - January to March 2022, including a verbal update on the unaudited performance of the Fund up to 14 March 2022. There was also an update on the Fund's investment strategy and performance.

The Committee accordingly **noted:**

(i) The progress on the strategy development within the Pension Fund,

(ii) The daily value movements of the Fund's assets and liabilities outlined in Appendix 1 to the report, and

(iii) The quarterly performance of pension funds collectively and of Fund managers individually.

**5. Administration and Governance**

The report provided an update on the administrative and governance changes that had occurred since the last meeting setting out the potential impact that the changes may have on the Pension Fund, including the £20m prepayment which the Committee approved at the last meeting so as to reduce the overdrawn cash position in 2022/23. It also set out the Fund's one and three-year cashflow forecast (1 April 2021 - 31 March 2024), an update from the Independent Advisor on the London Collective Investment Vehicle (LCIV) as the Fund moves towards more pooled investments and the 2021-2023 Pension Fund Business Plan as set out in Appendix 1.

The report also included a copy of the previously approved Member (including Observers) Training Policy presented in March 2022. Given the membership of the Pensions Committee had changed since the Local Elections in May 2022, it was felt appropriate to represent the Policy as set out in Appendix 2 to the report, which the Independent Advisor went through and outlined the context and basis of the Policy. The Training Policy would be updated and presented for approval at the Pensions Committee in September 2022.

In **noting** the report, Members asked that future training sessions should take place before scheduled meetings of the Committee at 6.00pm with additional sessions conducted online via Teams.

**6. Business Plan Update 2021 to 2023**

The Committee **noted** progress on the delivery of the 2021-2023 Business Plans actions as set out in Appendix 1 to the report.

**PENSIONS COMMITTEE**

**14 September 2022**

| | |
|---|---|
| **Title:** Pension Fund Quarterly Monitoring 2022/23 – 1 April to 30 June 2022 | |
| **Report of the Managing Director** | |
| **Open Report** | **For Information** |
| **Wards Affected:** None | **Key Decision:** No |
| **Report Author:**<br>David Dickinson, Investment Fund Manager | **Contact Details:**<br>Tel: 020 8227 2722<br>E-mail: david.dickinson@lbbd.gov.uk |
| **Accountable Director:** Philip Gregory, Chief Financial Officer | |
| **Accountable Strategic Leadership Director:** Fiona Taylor, Acting Chief Executive | |

**Summary**

This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 April to 30 June 2022.

The report updates the Committee on the Fund's investment strategy and its investment performance.

**Recommendation(s)**

The Pension Committee is recommended to note:

(i) the progress on the strategy development within the Fund;

(ii) the Fund's assets and liabilities daily value movements outlined in Appendix 1; and

(iii) the quarterly performance of the fund collectively and the performance of the fund managers individually.

## 1. Introduction and Background

1.1 This report provides information for employers, members of the LBBD Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 April to 30 June 2022 ("Q2"). The report updates the Committee on the Fund's investment strategy and performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report. A verbal update on the unaudited performance of the Fund for the period to 13 September 2022 will be provided to Members at the Pension Committee.

## 2. Market Background (Q2 2022)

For the second Quarter in a row World Equity and Bond markets declined. World Equity markets as measured by the MSCI World Index fell by 16% (in $ terms) in the April to June 2022 Quarter. This compared with a fall of around 5% in World Equity markets in the January to March 2022 Quarter. The April to June Quarter saw not only significant overall falls in Listed Equity markets but also significant volatility as market participants reacted to anticipated or actual monetary policy and economic developments.

As in the previous Quarter concerns regarding interest rate rises (actual and anticipated tightening of monetary policy by the major central banks) and concerns about heightened inflation were major factors adversely affecting markets. The continuing Russian invasion of Ukraine was another negative factor affecting markets worldwide. In this context Jay Powell Chair of the US Federal Reserve stated (on 4 May 2022) that *"In addition to the effects on inflation, the invasion and related events are likely to restrain economic activity abroad and further disrupt supply chains…"* Concerns regarding economic slowdown or even recession increased. In this climate of rising/anticipated rising interest rates and significant inflationary concerns it was no surprise that both Government and Corporate Bonds also weakened during the April to June Quarter.

The United States continued to experience clearly elevated levels of inflation. The headline CPI index which had reached 8.5% in March 2022 reached 9.1% in June 2022 the largest 12 month increase since November 1981. Far more importantly, from a policy perspective, the Core PCE Index, which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2% inflation. Core CPE inflation which had been clearly above 2% throughout the period April 2021 to March 2022 continued to remain well above target at 4.9% in April, 4.7% in May and 4.8% in June. Unemployment remained low throughout the Quarter at 3.6%.

During the Quarter, in the context of inflation continuing clearly above target and low unemployment the US Federal Reserve acted decisively to seek to curb inflation with Chair Jay Powell stating, for example, at his 15 June 2022 Press Conference *"From the standpoint of our congressional mandate to promote maximum employment and price stability… The labor market is extremely tight, and inflation is much too high."* At its March 2022 meeting the Federal Open Markets Committee (FOMC) had raised its benchmark interest rate, the Federal Funds rate by 0.25%, the first increase since 2018. At its May meeting the FOMC raised the Federal Funds rate by a further 0.5%. At the June meeting the FOMC increased interest rates by a further 0.75%, the first such increase since 1994. As a result of the June policy decision the target range for the Federal Funds rate was 1.5% to 1.75%. Further increases in interest rates were clearly indicated. The press release issued after the June meeting stated that the FOMC *"anticipates that ongoing increases in the target range will be appropriate."* The Summary of Economic Projections issued after the June 2022 FOMC meeting indicated that Federal Reserve Officials anticipate the Federal Funds rate to rise to 3.4% by the end of 2022 compared to their 1.9% estimate of March 2022.

In the context of the ending of ultra-loose monetary policy which had both supported financial markets and the economy in general and the rapid tightening of monetary policy through two successive rises in the Federal Funds rate of 0.5% and 0.75% with more clearly to follow it was little surprise that US equities suffered a very poor quarter.

Having fallen 5% in the previous Quarter the S&P 500 index fell by over 16% during the April to June Quarter which added to its fall in the January to March 2022 Quarter resulted in the worst first half (calendar) year return since 1970. Sentiment was adversely affected not merely by the likely effects of high inflation and rising interest rates on company earnings in general but concerns about the effects of the Federal Reserve's (new) approach to interest rate policy on the wider economy with some market commentators fearing a resultant clear economic slowdown or even recession.

Eurozone Equities had another poor quarter. Having declined by over 9% (in Euro terms) in the January to March 2022 Quarter the MSCI EMU index declined by over 10% in the April to June Quarter. High inflation continued with the Harmonised Index of Consumer Prices (HICP) which was 7.4% in March and April rising to 8.1% in May and 8.6% in June. The Russian invasion of Ukraine was a further clear Eurozone market detractor with the release issued after the April monetary policy meeting of the European Central Bank including the statement *"The conflict and the associated uncertainty are weighing heavily on the confidence of businesses and consumers. Trade disruptions are leading to new shortages of materials and inputs. Surging energy and commodity prices are reducing demand and holding back production."*

The ECB, again, did not increase interest rates during the Quarter. This was in clear contrast to both the Bank of England and in particular the US Federal Reserve. However, while the "Combined monetary policy decisions and statement" issued after the April ECB policy meeting reiterated previous decisions to conclude its asset purchase programme, the statement issued after the June meeting signalled a clear intention to tighten monetary policy further significantly and to adopt an approach closer to that of the Bank of England and US Federal Reserve. At her press conference on 9 June Christine Lagarde President of the ECB announced, based on the latest ECB assessment, an intended 0.25% increase in interest rates at the July policy meeting, a possible 0.5% increase at the September meeting and further increases at later policy meetings. Christine Lagarde's press conference statement included the following *"High inflation is a major challenge for all of us. The Governing Council will make sure that inflation returns to its 2% target over the medium term. In May inflation again rose significantly…inflation pressures have broadened and intensified…Eurosystem staff have revised their baseline inflation projections up significantly. These projections indicate that inflation will remain undesirably elevated for some time…we undertook a careful review of the conditions which, according to our forward guidance, should be satisfied before we start raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied. Accordingly… we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting. Looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting. Third, beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate…*

However, within a week of its June policy setting meeting the ECB Governing Council felt the need to hold an emergency meeting. This was called in the context of a potential sovereign debt crisis after bond yields of weaker Eurozone countries, including Italy and Spain, increased significantly after the ECB's decision on 9 June not merely confirming the end of its asset purchase programme but to start raising interest rates from July 2022. The decision to call this emergency meeting indicated that the ECB had quickly become concerned that their objective of tackling Eurozone inflation could result in significant increases in bond yields and a debt crisis in the Eurozone. The "Statement after the ad hoc meeting of the ECB Governing Council" on 15 June indicated that it *would "…accelerate the completion of the design of a new anti-fragmentation instrument…"* an instrument to support the bonds of the weaker eurozone economies. The form of this instrument, subsequently named the transmission protection instrument or TPI was announced on 21 July 2022.

As in the January to March 2022 Quarter UK Listed Equities performed clearly above Global Equities. While in absolute terms the FTSE All Share index performed negatively over the April to June Quarter it lost (only) 5% in £ terms. This relative "success" was, as in the previous Quarter driven by the FTSE 100 index of the largest companies. While the FTSE 100 declined by under 4% the FTSE 250 index declined by 11%.

The Minutes of the June meeting of the Bank of England Monetary Policy Committee included the statement that *"Labour demand indicators had remained strong, alongside evidence of persistently elevated recruitment difficulties..."* The UK Unemployment rate remained low but rose slightly, as reported by the Office for National Statistics, from 3.7% in the January to March 2022 Quarter to 3.8% in the April to June 2022 Quarter. UK CPI which had been 7.0% in March 2022 rose to 9.0% in April 2022, 9.1% in May and 9.4% in June. By June 2022, the Monetary Policy Committee (MPC) of the Bank of England had increased Bank Rate (interest rates) to 1.25% as a result of 0.25% increases at both its May and June 2022 meetings. This approach which resulted in an increase in interest rates of 0.5% during the Quarter was clearly significantly more cautious than that of the US Federal Reserve which increased interest rates by 1.25% during the Quarter and which also clearly indicated significant further future rate increases. The Monetary Policy Summary issued after the May 2022 MPC meeting included the statement *"…given the current tightness of the labour market, continuing signs of robust domestic cost and price pressures, and the risk that those pressures will persist, the Committee voted to increase Bank Rate by 0.25 percentage points at this meeting..."*

The Monetary Policy Summary issued after the June 2022 MPC meeting included the statement *"In view of continuing signs of robust cost and price pressures, including the current tightness of the labour market, and the risk that those pressures become more persistent, the Committee voted to increase Bank Rate by 0.25 percentage points, to 1.25%, at this meeting."* Six Members of the MPC voted for this 0.25% increase while a minority of three Members considered that circumstances were such to justify a 0.5% increase. The Minutes of the June MPC meeting state *"These* [three] *members put a higher weight on the prospect of more resilience in demand or shortfalls in supply or both, such that cost and capacity pressures would remain relatively strong over the forecast period... Faster policy tightening now would help to bring inflation back to the target sustainably in the medium term, and reduce the risks of a more extended and costly tightening cycle later."*

Japanese Equities although posting a negative in absolute terms performed more positively than Global Equities, as in the previous Quarter. The Nikkei 225 Index declined by approximately 5% (in Yen terms) over the April to June Quarter. Japanese inflation finally reached the Bank of Japan's inflation target rising to slightly over 2%.

The Bank of Japan in stark contrast to other major central banks maintained, however, its ultra-loose monetary policy at both its April and June policy meetings. It maintained commitment to its negative (overnight) interest rate of -0.1% and pledged to continue to intervene in markets (through bond purchases) to maintain the yield on 10-year Japanese Government Bonds at around 0%. The Bank of Japan expressed concerns regarding economic weakness and that inflationary increases may be transitory and therefore considered it needed to continue its ultra-loose monetary policy approach. This clearly divergent approach to monetary policy compared to the United States resulted in significant volatility and weakness in the Yen compared to the US dollar.

Although both Asian and Emerging Market equities as a whole declined during the April to June 2022 Quarter, they performed clearly better than world markets as a whole which was in clear contrast to the previous 12 months. Asian (excluding Japan) and Emerging Markets clearly lagged developed western markets during the year April 2021 to March 2022. During this period, the MSCI World index advanced by 10% (in $ terms) while the MSCI AC Asia (excluding Japan) fell over 14% (in $ terms) and the MSCI Emerging Markets index fell over 11% (in $ terms). During the April to June 2022 Quarter while World Markets fell by 16% (in $ terms) the MSCI Asia (excluding Japan) index fell by 9% and the MSCI Emerging Markets index by 11.5%. This relative outperformance by Asia and Emerging Markets may partly reflect the past relative performance of these markets against western developed markets. One positive factor, however, for Asia and Developing Markets was the performance in the later part of the Quarter of China in the context of the positive economic effect of the relaxation of COVID lockdown measures and reductions in quarantine requirements and market expectations of further economic stimulus by the Chinese government.

As in the previous Quarter, benchmark Government bonds, experienced a poor Quarter with yields again rising sharply (and prices therefore falling). The 10 Year Treasury yield increased from 2.34% to 3.01%. The 10 Year Gilt yield rose from 1.61% to 2.23% and the 10 Year German Bund from 0.55% to 1.34%. There were also significant increases in the yields (and therefore price falls) in the major 2 Year Government Bonds. High inflation data, central bank policy tightening and consequent interest rate rises/expectations of further rises were, again, negative factors for both government and Corporate Bonds. Overall Corporate Bonds underperformed the major Government Bonds with concerns regarding the future economic outlook perhaps another negative factor for Corporate Bonds in addition to significant inflation and interest rate concerns.

## 3. Overall Fund Performance

3.1 The Fund’s closed Q2 valued at £1,289.2m, an decrease of £95.5m from its value of £1,384.7m at 31 March 2022. Cash held by the Fund was £196.8k, giving a total Fund value of £1,289.4m. The gross value includes a prepayment of £35.0m, with the short-term loan from the Council now repaid. Adjusting for this reduces the Q2 value to £1,254.4m, a decrease of £86.3m from the 31 March 2022 figure of £1,340.7m.

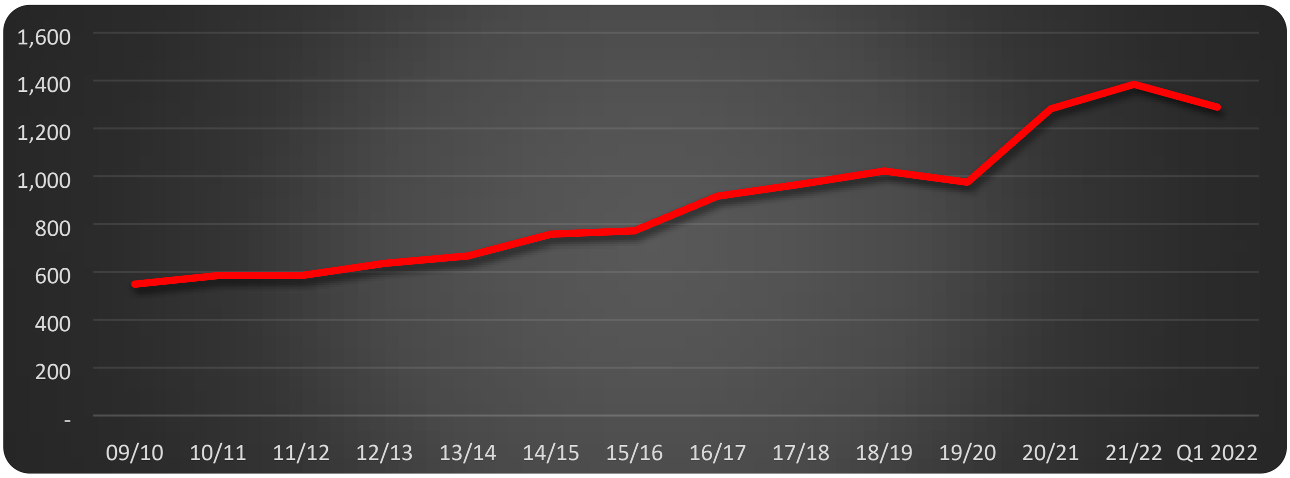
3.2 For Q2 the Fund returned -6.3%, net of fees, underperforming its benchmark of -4.0% by -2.3%. Over one year the Fund underperformed its benchmark by 7.3%, returning 5.4% and underperformed the benchmark by 1.9% over three years, returning 5.4%. The Fund has also underperformed its benchmark over five years by

1.7%, returning 5.8%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has underperformed by xxx% over one year but outperformed over two years by xxx%. The Fund's returns are below:

**Table 1: Fund's Quarterly and Yearly Returns**

| Year | 2022 | | 2021 | | | | 2020 | | One | Two | Three | Five | Ten |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Yr | Yrs | Yrs | Yrs | Yrs |
| Actual Return | (6.3) | (2.8) | 2.6 | 1.1 | 4.2 | 3.6 | 8.0 | 2.8 | (5.4) | 6.6 | 5.4 | 5.9 | 7.9 |
| Benchmark | (4.0) | (0.6) | 4.8 | 1.7 | 4.6 | 2.5 | 5.1 | 2.5 | 1.9 | 8.3 | 7.4 | 7.5 | 8.9 |
| Difference | (2.3) | (2.2) | (2.2) | (0.6) | (0.4) | 1.1 | 2.9 | 0.3 | (7.3) | (1.7) | (1.9) | (1.6) | (1.0) |
| | | | | | | | | | | | | | |
| PIRC | (4.8) | (3.2) | 4.4 | 1.4 | 5.6 | 2.4 | 5.8 | 1.8 | (1.4) | 6.7 | 5.3 | 5.9 | 8.7 |
| Difference | (1.5) | 0.4 | (1.8) | (0.3) | (1.4) | 1.2 | 2.2 | 1.0 | (4.0) | (0.1) | 0.1 | - | (0.8) |

3.3 The chart below shows the Fund's value since 31 March 2010 to 30 June 2022.




3.4 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below:

| | |
|---|---|
| | **R**ED- Fund underperformed by more than 3% against the benchmark |
| Δ | **A**MBER- Fund underperformed by less than 3% against the benchmark |
| O | **G**REEN- Fund is achieving the benchmark return or better |

3.5 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 1 August 2022. Members are asked to note the changes in value and the movements in the Fund's funding level.

3.6 Although the Fund's asset performance has had two negative quarters and is down 5.4% for the year, there has been a greater change in the liability levels, resulting from significant increases in yields. As a result the Fund's funding level has fluctuated between 101% and 106% over the quarter (the Fund was 106.4% funded as at 31 August 2022) and between 101% and 121% based on the Hymans Robertson model.

3.7 The Fund's strategy has been set up to be able to positively respond to increasing yields and therefore the current economic environment supports the strategy, even if the return has been negative. Since 1 August the Fund has continued to increase in value, with liabilities largely stabilising, which has resulted in the funding level improving further. The triennial results will likely change the assumptions used in producing the funding level, although there is the potential for this to improve the position further.

3.8 **Table 2 – Fund Manager Q1 2022 Performance**

| Fund Manager | Actual Returns (%) | Benchmark Returns (%) | Variance (%) | Ranking |
|---|---|---|---|---|
| **Abrdn** | (1.4) | 1.6 | (3.0) | |
| **Baillie Gifford** | (12.1) | (8.4) | (3.7) | |
| **BlackRock** | 2.9 | 3.9 | (1.0) | ∆ |
| **Hermes GPE** | (1.0) | 1.4 | (2.4) | ∆ |
| **Kempen** | (3.1) | (9.1) | 6.0 | O |
| **Newton** | (2.1) | 0.9 | (3.0) | |
| **Pyrford** | (0.8) | 6.3 | (7.0) | |
| **Insight** | (3.8) | 1.0 | (4.8) | |
| **UBS Bonds** | (7.4) | (7.4) | (0.0) | O |
| **UBS Equities** | (12.9) | (12.9) | 0.0 | O |

Table 2 highlights the Q1 2022 returns with a higher than usual number of reds, indicating a number of negative returns. There was a good positive return from BlackRock but large losses from Baillie Gifford and passive equities. Newton's performance was disappointing as it should provide protection in these market conditions. Passive bonds provided large losses for the quarter, reflecting the index linked bond performance for the quarter. Strategies with inflation linkage, such as Kempen, Hermes, and Pyrford performed well considering the market. Pyrford was some way off its benchmark, but the benchmark return was driven by high RPI figures and the protection that Pyrford provided against the performance of GILTS was good.

3.9 **Table 3 – Fund Manager Performance Over One Year**

| Fund Manager | Actual Returns (%) | Benchmark Returns (%) | Variance (%) | Ranking |
|---|---|---|---|---|
| **Abrdn** | 8.7 | 5.1 | 3.6 | O |
| **Baillie Gifford** | (24.9) | (3.2) | (21.8) | |
| **BlackRock** | 20.7 | 21.5 | (0.8) | ∆ |
| **Hermes GPE** | 10.8 | 5.7 | 5.1 | O |
| **Kempen** | 2.9 | (1.8) | 4.7 | O |
| **Newton** | (2.8) | 3.8 | (6.6) | |
| **Pyrford** | 2.3 | 16.0 | (13.7) | |
| **Insight** | (7.1) | 4.0 | (11.1) | |
| **UBS Bonds** | (14.0) | (14.0) | (0.0) | O |
| **UBS Equities** | (8.5) | (8.5) | 0.0 | O |

Over one-year there are even greater variations between managers, with Baillie Gifford providing a negative return of 24.9% and underperforming its benchmark by 21.8%, while BlackRock provided a positive return of 20.7%. Hermes continues to see significant improvements in asset values as a result of their exposure to inflation linked assets, with a number of these being valued significantly higher.

3.10 **Table 4 – Fund manager performance over two years**

| Fund Manager | Actual Returns (%) | Benchmark Returns (%) | Variance (%) | Ranking |
|---|---|---|---|---|
| **Abrdn** | 16.7 | 5.2 | 11.4 | O |

| | | | | |
|---|---|---|---|---|
| **Baillie Gifford** | 15.5 | 19.9 | (4.4) | |
| **BlackRock** | 12.9 | 13.9 | (1.0) | Δ |
| **Hermes GPE** | 4.9 | 6.5 | (1.6) | Δ |
| **Kempen** | 22.5 | 20.2 | 2.2 | |
| **Newton** | 8.8 | 4.4 | 4.4 | O |
| **Pyrford** | 6.0 | 12.9 | (6.9) | |
| **Schroders** | 3.9 | 3.2 | 0.8 | O |
| **Insight** | 0.7 | 4.7 | (4.0) | |
| **UBS Bonds** | (8.9) | (8.9) | 0.0 | O |
| **UBS Equities** | 20.1 | 20.1 | 0.0 | O |

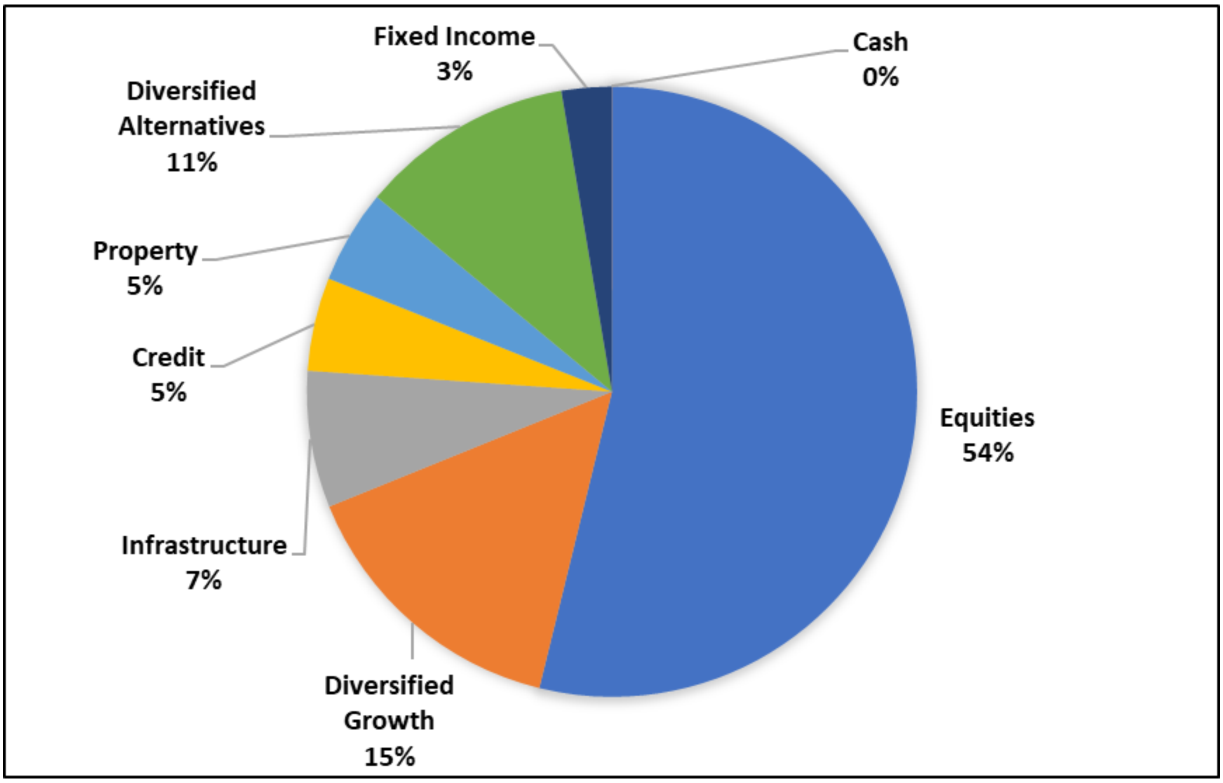
Over two years, (table 4), all mandates apart from passive bonds, are positive. Returns ranged from (8.9%) for UBS bonds to 22.5% for value equities (Kempen). Pyrford and Newton have provided solid returns, with equities, Alternatives and property providing double digit returns. Abrdn continue to performance well as a result of good returns from Private Equity.

4. **Asset Allocations and Benchmark:** Table 5 outlines the Fund's asset allocation, asset value & benchmark at 30 June 2022.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 30 June 2022**

| Fund Manager | Asset (%) | Market Values (£Ms) | Benchmark |
|---|---|---|---|
| Abrdn | 11.3% | 146.05 | 3 Mth LIBOR + 4% per annum |
| Baillie Gifford | 19.9% | 256.47 | MSCI AC World Index |
| BlackRock | 4.7% | 60.83 | AREF/ IPD All Balanced |
| Hermes GPE | 7.2% | 93.37 | Target yield 5.9% per annum |
| Kempen | 15.4% | 198.12 | MSCI World NDR Index |
| Newton | 6.2% | 80.25 | One-month LIBOR +4% per annum |
| Pyrford | 8.8% | 113.50 | UK RPI +5% per annum |
| Schroders | 0.2% | 3.17 | AREF/ IPD All Balanced |
| Insight | 4.9% | 63.77 | 3 Mth LIBOR + 4% per annum |
| UBS Bonds | 2.6% | 34.07 | FTSE UK Gilts All Stocks |
| UBS Equities | 18.6% | 239.40 | FTSE AW Developed Tracker |
| LCIV | 0.0% | 0.15 | None |
| Cash | 0.0% | 0.20 | One-month LIBOR |
| **Fund Value** | 100.0% | **1,289.36** | |
| ST Loan | | - | |
| Prepayment | | (35.00) | |
| **Net Fund Value** | | 1,254.36 | |

4.2 The percentage split by asset class is graphically shown in the pie chart below.




4.3 The strategy is overweight equities, however equities are now nearer the middle of the range at 53.8%. Cash excludes the pre-payment and short-term borrowing from the council and shows that the Fund is fully invested. The Fund is significantly below the exposure to Credit, but this will be reviewed during 2022/23.

The current position, compared to the strategic allocation, is in table 6 below:

**Table 6: Strategic Asset Allocation**

| Asset Class | Current Position | Strategic Allocation Target | Variance | Range |
|---|---|---|---|---|
| Equities | 53.8% | 52% | 1.8% | *50-60* |
| Diversified Growth | 15.0% | 16% | -1.0% | *14-18* |
| Infrastructure | 7.2% | 8% | -0.8% | *7-11* |
| Credit | 4.9% | 6% | -1.1% | *6-10* |
| Property | 5.0% | 5% | 0.0% | *4-7* |
| Diversified Alternatives | 11.3% | 9% | 2.3% | *7-10* |
| Fixed Income | 2.6% | 3% | -0.4% | *3-5* |
| Cash | 0.0% | 0% | 0.0% | *0-1* |

## 5. Fund Manager Performance

### 5.1 Kempen

| Kempen | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 6/2/13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| **£198.12** | **%** | % | % | % | % | % | % | % | **%** | **%** | **%** |
| **Actual Return** | **(3.1)** | 0.1 | 2.9 | 3.0 | 2.9 | 10.2 | 15.3 | (3.2) | 2.9 | 14.0 | 7.9 |
| **Benchmark** | **(9.1)** | (2.4) | 7.3 | 2.5 | 7.6 | 4.0 | 7.8 | 3.2 | (1.8) | 10.3 | 11.7 |
| **Difference** | **6.0** | 2.5 | -4.4 | 0.5 | (4.7) | 6.2 | 7.5 | (6.4) | 4.7 | 3.7 | (3.7) |

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy outperformed its benchmark by 6.0% for Q2 and has outperformed over one-year by 4.7% and over two years by 3.7%. Kempen has underperformed its benchmark since inception by 3.7% but providing an annualised return of 7.9%. Overall the strategy has provide solid returns over a number of quarters, with a strong outperformance against its benchmark.

Strategy Drivers

INFLATION: Increasing demand and disrupted supply is pushing price levels up and price inflation is proving persistent and above expectation across the board. Shortage in basic resources is having an impact throughout the supply chain, with the Ukraine conflict creating additional shortages in energy and food supply that has a global impact on prices. Rising prices for consumption goods are putting pressure on the purchasing power of consumers. Strong labour markets give workers bargaining power for higher wages. Companies are mentioning a negative impact on their margins due to rising input costs and wages

MONETARY TIGHTENING: Central banks across the world are moving forward their projected path of monetary tightening. Strong labour markets mean central banks can be aggressive with monetary tightening. Interest rates have increased sharply on the back of tighter monetary policy and elevated inflation. Real interest rates remain low due to the high level of inflation. Higher rates are putting pressure on valuation multiples and companies with high leverage

RECESSION: Eroding purchasing power of consumers and higher interest rates are slowing down the economy. A wage-price spiral is difficult for central banks to break. Concerns are mounting there may be a recession needed to cool down inflation. If wages manage to keep up with inflation consumer spending should stabilize. Higher input costs and rising wages are a risk to corporate profits. Financial markets appear to already price in a mild recession

## 5.2 Baillie Gifford

| Baillie Gifford | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 6/2/13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| £256.47 | % | % | % | % | % | % | % | % | % | % | % |
| Actual Return | (12.1) | (12.4) | 0.1 | (0.6) | 7.1 | 2.2 | 11.1 | 7.6 | (24.9) | 1.5 | 12.2 |
| Benchmark | (8.4) | (2.5) | 6.3 | 1.5 | 7.4 | 3.7 | 8.6 | 3.5 | (3.2) | 10.0 | 11.4 |
| Difference | (3.7) | (9.9) | (6.2) | (2.0) | (0.3) | (1.5) | 2.6 | 4.1 | (21.8) | (8.5) | 0.8 |

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approx. 90-105 stocks.

In July 2022 the Fund transferred from BG's Global Alpha strategy to the BG Paris Aligned Global Alpha fund (BGPA). The transition was completed between 11 and 14 July. The BGPA Fund aims to outperform the MSCI ACWI Index (in Sterling), by at least 2% per annum over rolling five-year periods. In addition, the Fund commits to having a weighted average greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. BGPA is consistent with the objectives of the Paris Agreement. The portfolio is a variant of the core Global Alpha strategy. It is managed by the same team and with the same investment philosophy and performance objective. However, there is an additional process to screen out carbon intensive companies that do not or will not play a major role in our energy transition.

Performance Review

For Q2 BG returned -12.1%, underperforming its benchmark by 3.7%. BG's one-year return was -24.9%, underperforming its benchmark by 21.8%. Since initial funding, the strategy has returned 12.2% p.a. outperforming its benchmark by 0.8%.

The first half of this year has been a challenging one for stock markets and more so for growth strategies. Share price weakness has been most acute for high-growth companies, where uncertainty about future rewards is highest, with profits and cash flow weighted to future years. These types of companies are a significant part of the Sub-fund, as would be expected given the investment manager's long-term perspective and focus on identifying companies presenting outstanding potential. However, in the current environment the Sub-fund has been severely penalised by a market increasingly focused on shorter term, safer cashflows and low valuations.

Against this backdrop it was not surprising that the largest detractors at the stock level were companies such as Cloudflare and Shopify which spend heavily now to secure future growth as well as companies like Trade Desk and SEA Limited with strong growth prospects but also high sensitivity to consumer sentiment. Despite recent weakness in these names the investment manager remains confident on their long-term prospects.

Consistent with the prevalent market environment was the list of top performance contributors which mainly included stocks rewarded for short term positive cashflows and stability. Two characteristic examples are Prosus where the company management have decided to sell their long-held share in Tencent and return capital to investors and Elevance Health (nee Anthem) where the company's decision to increase their presence into the 'Medicare' segment of the healthcare services market is seen as increasing the stability of cashflows. Elevance (4.2%) and Prosus (3.4%) were the single largest positions in the Sub-fund in absolute terms at the end of Q2.

Positioning

As at the end of June 2022, the Sub-fund maintained a significant regional allocation to North American equities at c. 56% followed by an exposure of 19.6% to European equities. At the sector level, the largest exposure was to consumer discretionary with 19.1% followed by financials at 16.7% and health care at 16.3%.

LCIV Summary

This was the fifth consecutive quarter of negative relative returns for the Subfund with 12-month and 3-year relative performance now firmly into negative territory.

Underperformance of this length and magnitude naturally causes concern about the investment manager's skill and ability to deliver value. The first thing LCIV assess when such concerns arise is the pattern of performance to ensure that it is in line with the investment manager's style and the direction of the market. LCIV also look for changes in trading activity and the structure of the portfolio. Baillie Gifford follows an aggressive growth strategy in the management of the Sub-fund so stylistically the direction of performance was not a surprise and is broadly in line with growth style indices and peers.

However, the magnitude was significantly wider than expected and this triggered extended discussions with the investment manager to understand what drove the level of underperformance.

The conclusion is that the investment manager has remained true to their process through this period. However, there are aspects of the management of the Sub-fund that could have been better. Firstly, the investment manager could have been more aggressive in trimming winners and locking in gains in the early part of 2021. Being more cautious in China, a market where the full intentions of regulators are rarely fully transparent, could have also helped.

Lastly, there were stock specific decisions such as holding Peloton that did not pan out well, but LCIV appreciate that some analytical errors will always happen in an active portfolio.

Going forward LCIV want to see the investment manager sticking to their process and remain fully focused on uncovering those high growth opportunities that have the potential to turn the performance back to positive when the market direction changes. There is evidence this is happening, and LCIV are confident that the portfolio can deliver the growth LCIV expect.

## 5.3 UBS Equities

| UBS Equities | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 31/08/12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| £239.40 | % | % | % | % | % | % | % | % | % | % | % |
| Actual Return | (12.9) | (4.0) | 7.6 | 0.9 | 7.5 | 5.8 | 11.2 | 5.6 | (8.5) | 10.8 | 12.1 |
| Benchmark | (12.9) | (4.0) | 7.6 | 0.9 | 7.5 | 5.8 | 11.2 | 5.6 | (8.5) | 10.8 | 12.1 |
| Difference | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Reason for appointment

UBS are the Fund's passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned -12.9% for Q2 and 11.9% over one year. Since funding in August 2012, the strategy has provided an annualised return of 12.1%.

Equities

Global stock markets fell sharply in June, capping a poor second quarter amid the worst first half of a year for the US market since 1970. The MSCI All Country World index lost 8.4% on the month, and 15.7% on the quarter. The slide was led by the US market, where concerns over the pace of monetary tightening and the drag on consumer spending from inflation left the market returning a negative 8.3% for the month and 16.1% on the quarter. Eurozone equities fell 9.2% in June, making it the worst-performing market for the month, amid mounting concerns over the impact of a reduction in gas supplies from Russia. This has been a particular worry for the region's largest economy, Germany, since its heavy industrial base is reliant on gas from Russia.

More defensive markets fared better. The UK market, which is heavily weighted towards value sectors, fell a smaller 5.2% in June. The UK is the only major market to be up year-to-date, though by a relatively modest 1.7%.

The other major outlier has been China, which is overcoming a long stretch of underperformance with a 6.6% rally in June, and a 4.5% gain for the quarter. For the year as a whole, the market is down 10%, outperforming the MSCI All Country Global index by 10 percentage points.

Following the FTSE quarterly review in June, five stocks were added to and five stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. Two-way turnover totalled 1.31%.

Also, during the quarter but outside of the review, WarnerMedia was acquired by Discovery Inc following spin-off from AT&T and was renamed Warner Bros Discovery Inc. Woodside Energy Groups weight in the index increased following merger of Woodside Petroleum with BHPs Petroleum business. Cerner Corp was acquired for cash.

## 5.4 UBS Bonds

| UBS Bonds | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 5/7/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| £34.07 | % | % | % | % | % | % | % | % | % | % | % |
| Actual Return | (7.4) | (7.2) | 2.4 | (1.8) | 1.7 | (7.2) | 0.6 | (1.2) | (14.0) | (10.1) | 2.2 |
| Benchmark | (7.4) | (7.2) | 2.4 | (1.8) | 1.7 | (7.2) | 0.6 | (1.2) | (14.0) | (10.1) | 2.1 |
| Difference | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.0) | 0.0 | (0.0) | 0.0 | 0.1 |

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds. There is a link between the bond price and the Fund's liabilities and therefore the reduction in returns will have helped to reduce the Fund's liabilities.

Performance

The fund returned -7.4% for Q1, -14.0% for one year and -10.1% for two-year return. Since inception the strategy has returned 2.2%.

Review

Fixed income markets also had a tough month in June and overall global bond markets have suffered one of the worst starts to the year on record. As of late June, returns across fixed income segments ranged between -20% for emerging market USD sovereign bonds and -4.1% for senior loans.

In June, and for the second quarter overall, US and European government bond yields rose, amid more hawkish signals from both the Fed and the European Central Bank. US government bonds returning -0.9%, for a quarterly loss of 3.8% and a year-to-date loss of 9.1%. EU government bonds fared even worse, returning -2.3% for the month, -5.2% for the second quarter, and -10.9% year-to-date. Riskier parts of the credit market were also affected by a broader risk-off mood in markets, for a 6.8% fall in US high yield bonds for a decline of 14% in the first half of the year.

## 5.5 Schroders Indirect Real Estate (SIRE)

Reason for appointment: Schroders is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties.

The strategy is currently being sold down, although the final sale will be in Q2 2022. The remaining distribution will be approximately 3.1m. This distribution will be used to increase the Fund's cash balance.

## 5.7 BlackRock

| BlackRock | 2022 | 2021 | | | | 2020 | | One Year | Two Years | Since Start 1/1/2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| £60.83 | % | % | % | % | % | % | % | % | % | % | % |
| Actual Return | 2.9 | 6.8 | 6.7 | 4.3 | 2.9 | 2.1 | 2.5 | 0.5 | 20.7 | 14.3 | 2.1 |
| Benchmark | 3.9 | 5.6 | 7.5 | 4.5 | 3.8 | 2.2 | 2.1 | 0.2 | 21.5 | 14.9 | 5.0 |
| Difference | (1.0) | 1.2 | (0.8) | (0.2) | (0.9) | (0.2) | 0.4 | 0.3 | (0.8) | (0.6) | (3.0) |

Reason for appointment: In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK. In 2021 the allocation to BlackRock was increased following the closure of the Schroders SIRE fund.

Q2 2022 Performance and Investment Update

BR returned 2.9% for Q2 against a benchmark of 3.9%, returned 20.7% over one year against a benchmark of 21.5%. The strong absolute returns have been achieved whilst maintaining a lower-than-average risk profile when considering the low vacancy rate, strong tenant credit and highly diversified tenant and asset profiles. Returns have also been delivered with a low level of volatility with the Fund remaining in the top quartile for risk adjusted returns (standard deviation) over the medium/ long term.

**Market Conditions**

Inflation at 9.4% in June 2022 has increased the cost of capital, which has had a number of implications for real estate, the most direct being the immediate rise in the cost of debt, increasing 'all in' borrowing rates and affecting the lowest yielding parts of the market in particular. Indirectly, rate increases will impact occupier businesses as well and could lead to reduced demand. As we write this, we are witnessing a rapid reprice in the market as buyers and sellers look to re-establish the trading levels in Q3 as many market players may choose to wait for evidence of market pricing.

However, market fundamentals remain strong: most notable is the absence of oversupply usually associated with a late real estate cycle. This is different to previous cycles, with low vacancy rates across most of the prime markets. The same caution which curtailed development supply during the pandemic will likely see investors dial back risk appetite for construction and hence the occupational market has firm footings. The ability to provide resilient income streams will be a key driver of performance going forwards and it is likely that there will be a widening spread from a tightening definition of prime to secondary.

**Transactions:** In Q2 the Fund completed one acquisition totalling £11.55m; no sales were completed in Q2. The Fund acquired the long leasehold of three units on Riverside Retail Park, Nottingham; the three units total 43,000 sq. ft. across 3.9 acres (25% of the total park). The entirety of the retail park was already held freehold by BUKPF. On acquisition, the three units had been recently refurbished, reconfigured, and let to JD Sports, Iceland Foods and Home Bargains for a weighted average unexpired lease term of 11.5 years to expiry, providing long term income from strong covenants and value accretive opportunities through pod/drive thru development on the existing car parking space. Acquiring the units secures full control of the park.

## 5.8 Hermes

| Hermes | 2022 | 2021 | | | | 2020 | | | One Year | Two Years | Since Start 9/11/2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| **£93.37** | **%** | % | % | % | % | % | % | % | **%** | **%** | **%** |
| **Actual Return** | **(1.0)** | 10.5 | - 0.9 | 2.2 | (1.1) | 0.6 | (1.5) | 0.0 | 10.8 | 4.4 | 7.8 |
| **Benchmark** | **1.4** | 1.5 | 1.4 | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 | 5.7 | 5.8 | 5.9 |
| **Difference** | **(2.4)** | 9.0 | (2.3) | 0.7 | (2.5) | (0.8) | (2.9) | (1.4) | 5.1 | (1.3) | 1.8 |

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period which ended on 30th April 2020 and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

Hermes returned -1.0% in Q2 underperforming the benchmark by 2.4%. Over one year the strategy reported a one-year return of 10.8%, outperforming its benchmark by 5.1%. Since inception the strategy has provided a good, annualised return of 7.8%, outperforming its benchmark by 1.8%.

**Return of capital**

Hermes returned £9.4m of capital to the Fund in April 2022. This distribution, which followed a similar increase in value in Q1 2022, resulted in the Fund receiving a large cash return, with the value of the holding remaining at roughly the same level of £93m.

On 10 August the Fund received a further distribution of £6.2m comprising almost all of the remaining proceeds from the sale of Anglian Water (which was received earlier than expected) and the proceeds of two stake sales in Viridor Energy. A valuation as at 31 July 2022 valued the Fund's holding at £102.1m and therefore there is likely to be another significant increase in return reported for Q3 2022, with the overall return from Hermes since inception nearing 10%.

Based on the valuation of £102.1m but reduced for the sales and distribution of £6.2m, means the holding is valued at approximately £96m, which equates to around 7.5% of the Fund, which is below the target of 8.0%. There is the potential, as further assets are sold, that further investments will be required within infrastructure. Currently officer are in discussions with Hermes to potentially increase the allocation within the current Hermes Strategy, with an increased investment in renewables. Other options are also being discussed with LCIV around the infrastructure they offer. The discussions are focused on the type of infrastructure, the location (Global and within the UK) and governance as it is likely that any initial investment would be fairly small, unless the strategic allocation target were increased.

These options will be discussed with the Fund's advisors and then training and options will be provided to Members towards the end of 2022 / early 2023.

### 5.9 Abrdn Asset Management

| Abrdn | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 15/9/2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| **£146.05** | **%** | % | % | % | % | % | % | % | % | % | % |
| **Actual Return** | **(1.4)** | 3.7 | 1.6 | 4.9 | 4.4 | 7.4 | 8.3 | 5.1 | 8.7 | 17.0 | 7.8 |
| **Benchmark** | **1.6** | 1.6 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 5.1 | 4.6 | 4.6 |
| **Difference** | (3.0) | 2.1 | 0.6 | 3.9 | 3.4 | 6.5 | 7.3 | 4.1 | 3.6 | 12.4 | 3.2 |

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Abrdn Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling. Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt, and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Over a number of years further investments have been made to ASAM, with the focus on increasing the allocation to Private Equity, with the total holding now £146.1m, which is 11.3% of the Fund, significantly higher than the strategic allocation of 9.0%. As part of the strategy review this overweight position will be reviewed with he potential to reduce the allocation, potentially to Hedge Funds, or to increase the strategic allocation level.

Performance summary

The Portfolio lost around -1.4% (net of fees) over the three months to the end of June. The quarter's loss was primarily driven by lower March 31 valuations for Advent VIII and IX which ASAM were able to reflect in April. Over one year the return of 8.7% outperforms the benchmark return of 5.1% by 3.6%. Since inception the strategy has returned 7.8%, outperforming the benchmark by 3.2%.

ASAM have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time.

The hedge funds selected for the Portfolio include a blend of:

i) relative value strategies, intended to profit from price dislocations across fixed income and equity markets;
ii) ii) macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies; and
iii) iii) tail risk protection which is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Outlook

ASAM maintain a positive outlook for fixed income relative value strategies. The opportunity set for bond basis trading in G3 countries has become very attractive. Significant volatility in Yen basis in June due to the BoJ buying 7yr cash bonds in an unprecedented move to support Yield Curve Control has re-opened the opportunity set in Japan as well as creating spill-over volatility in EUR and USD basis. There is now notable volatility across fixed income instruments in developed markets, with the Fed/BoE/ECB/RBA hiking rates and engaging in quantitative tightening, high levels of uncertainty on inflation and economic projections, high uncertainty on future monetary policy, diminished flows of gas from Russia to Europe and renewed political tensions in Italy. Therefore, the opportunity set is very attractive for fixed income relative managers not only in basis trading, but in other traditional strategies such as asset swap spreads, yield curve arbitrage (cash bonds vs. cash bonds), macro, inflation and cross-currency trading.

ASAM's outlook for discretionary macro also remains positive. ASAM continue to see inflation rhetoric and central bank thinking around interest rate policy being dominant themes for the remainder of the year. ASAM believe that this backdrop will be supportive and allow specialists to identify attractive directional and relative value opportunities, particularly in interest rates and currencies.

In terms of private equity, ASAM have seen a slight slowing in deal activity in Q2 / Q3 as buyers and sellers interpret the geopolitical challenges, public market volatility, supply chain risks and the changing inflationary environment. Deal activity remains robust for the highest quality companies which can typically demonstrate strong resilience through the COVID-19 period and other recent crises. Value and complex deals are difficult to pull off just now with so much uncertainty and gaps in seller / buyer pricing expectations. The fundraising environment has continued to be strong in H1 2022. Periods of volatility typically present significant opportunity for private equity managers and ASAM think the next 12-24 months will be very interesting vintages for PE investment. ASAM remain pleased with the quality of the existing LBBD PE portfolio.

The underlying managers within the portfolio have continued to deploy capital in a disciplined manner to acquire assets with the potential for future earnings growth. ASAM have remained active in committing to focused strategies and to opportunistic co-investment and secondary deals which ASAM think have compelling risk / return characteristics. Encouragingly ASAM have also continued to see a number of exits announced across the portfolio, typically at meaningful uplifts to holding valuations.

The secondary market in particular should yield interesting opportunities in the coming months, as some investors look to decrease their exposure to the asset class, while on the other hand there are compelling opportunities to back existing owners of assets to hold their highest quality companies for longer. For the reasons outlined ASAM are focusing on quality assets alongside specialist managers with a track record across cycles, while remaining opportunistic on value and complex deals.

## 5.10 Pyrford

| Pyrford | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 28/9/2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| £113.50 | % | % | % | % | % | % | % | % | % | % | % |
| Actual Return | (0.8) | 1.5 | 1.3 | 0.3 | 1.1 | 0.9 | 3.1 | (1.6) | 2.3 | 3.0 | 3.3 |
| Benchmark | 6.3 | 3.1 | 4.0 | 2.7 | 3.6 | 1.7 | 1.6 | 1.8 | 16.0 | 12.3 | 8.1 |
| Difference | (7.0) | (1.6) | (2.7) | (2.4) | (2.5) | (0.8) | 1.6 | (3.3) | (13.7) | (9.4) | (4.8) |

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies. AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

The equity segment of the Strategy generated a small profit in Q2 on the strength of positioning in defensive industries and Pyrford's preference for inexpensive yield-paying companies, particularly in the UK. Holdings in UK Gilts, which accounted for more than 46% of the portfolio at the beginning of Q2, were a slight drag on returns. Losses on these positions were offset by gains on overseas bonds, particularly those denominated in U.S. and Canadian Dollars, but this ignores the impact of currency hedges, with hedges costing 1% in Q2.

The Strategy is built around four pillars: sovereign bonds, equities, currencies and cash. The key drivers of returns are allocations across the four pillars, duration management and sovereign bond selection and country and stock selection decisions within the equity segment. Derivatives are used only to manage currency risk. Currency exposure arising from bond and equity selection decisions is adjusted based on long-term valuation models.

The asset allocation process is slow moving. In mid-June, Pyrford made their first change to the model portfolio for the Strategy since the first quarter of 2020. The target allocation to equities was increased by 5% to 40% when triggers linked to the projected real rate of return, over a five-year horizon, were hit. The default response is to implement the change in asset allocation based on the prevailing regional, country and stock weights and make any necessary adjustments at the next quarterly forecasting point for growth and inflation. The investment manager is unlikely to make significant changes to the composition of the equity portfolio in the near term.

Pyrford apply their strategy methodically and consistently. The structure and composition of the Strategy are aligned to our expectations. The strategy remains defensively positioned, both in terms of the overall mix of assets, and the constituents of the equity and bond sub-portfolios. However, now that the initial threshold for reallocation of capital to equities has been hit, and trigger points have been reset, the next increase could come more quickly if volatility remains high. Moving decisively to redeploy capital is important in terms of recovering underperformance relative to the target benchmark.

## 5.11 Newton

| Newton | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 31/8/2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| **£82.60m** | **%** | % | % | % | % | % | % | % | **%** | **%** | **%** |
| **Actual Return** | **(2.1)** | (4.4) | 3.7 | (0.1) | 2.4 | 1.1 | 5.6 | 3.5 | (2.8) | 4.9 | 3.8 |
| **Benchmark** | **0.9** | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 3.8 | 3.9 | 4.4 |
| **Difference** | **(3.0)** | (5.2) | 2.7 | (1.1) | 1.4 | 0.1 | 4.6 | 2.5 | (6.6) | 1.0 | (0.6) |

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

Newton generated a return of -2.1% in Q2, underperforming its benchmark by 0.9%. Over one year the strategy has returned -2.8%, underperforming its benchmark by 6.6%, although the return over two years is 4.9% against a benchmark of 3.9%. Newton's performance since inception is 3.8%.

The allocation to equities had been reduced late in 2021 and in the first half of this year. The stock portfolio had also been repositioned to reduce exposure to relatively highly valued companies, and those perceived to be vulnerable to the effects of higher inflation and/or slower growth. Despite these measures, this segment of the Strategy lost 3.8% in Q2, and an additional 1% through synthetic exposure created through futures and options. Corporate high yield bonds accounted for 4.8% of the portfolio at the beginning of the quarter.

On a positive note, the stabilising layer of the Strategy reversed its poor performance in Q1 and contributed a profit of 1.9% in Q2. This came mainly from derivatives used to protect the Strategy from losses on equity investments. The investment manager increased the use of short futures positions at the expense of the short and long-dated options which usually form the core of this segment, and the addition of contracts linked to the S&P 500 and Nasdaq indices worked well in Q2.

Gains on the equity hedges were partly offset by small losses on government debt and bond derivatives. The investment manager had bought bonds and allowed duration to increase early in 2022 as a hedge against downside risk. This did not work well but the allocation has been increased and repositioned to capture higher yields on short-dated bonds. The increased allocation to gold, implemented mainly as a hedge against inflation and geo-political risk, also detracted in Q2.

Alternative assets, including renewable energy generators, property stocks, risk premia strategies and exchange traded instruments linked to commodities, including oil, have been the best performers in the Strategy over the course of the past 12months. This segment was flat in Q2, with gains on oil offset by losses on copper and some of the listed real asset positions, including music royalties.

### 5.12 Insight (Mellon Corporation / Standish)

| Insight | 2022 | | 2021 | | | | 2020 | | One Year | Two Years | Since Start 20/8/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | | | |
| £63.77 | % | % | % | % | % | % | % | % | % | % | % |
| Actual Return | (3.8) | (2.6) | - 0.7 | 0.0 | 0.2 | (0.1) | 2.2 | 1.5 | (7.1) | (1.7) | 0.1 |
| Benchmark | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 4.0 | 4.0 | 4.9 |
| Difference | (4.8) | (3.6) | -1.7 | (1.0) | (0.8) | (1.1) | 1.2 | 0.4 | (11.1) | (5.7) | (4.8) |

Reason for appointment

Insight were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt. The return target was later reduced to 4.4%.

Performance

Q2 saw the BNY Mellon Targeted Return Bond Fund significantly underperform its reference benchmark by 4.8%, providing a negative return of 3.8%. The majority of this underperformance can be attributed to the fund's overweight in developed market duration. Over one year the strategy has returned -7.1% and over two years it has returned -1.7%, with a flat since inception return.

Although the strategy has underperformed, returns within this asset class have been poor with double digit losses in other strategies. As the strategy has a fixed benchmark the return looks much worse, but the return is still poor given the ability for the manager to use derivatives to protect the strategy in inflationary markets.

As was the case in Q1, the fund benefitted from a significant underweight in US duration as strong realized inflation and an increasingly hawkish Fed pressured US rates higher. Unfortunately, this was more than offset by the negative alpha associated with positioning in the Australian, European, UK and Mexican local government bond markets. In aggregate, rates positioning was a large drag on Q2 relative performance

The fund's overweight to corporate credit and other spread product was a source of additional negative alpha. Risk assets of all types came under heavy pressure in Q2 with the notable underperformance of HY and EUR denominated credit.

At the country level, the fund benefitted from active positioning in the Italian government bond market as spreads widened steadily in the weeks and months preceding the ECB's mid-June emergency meeting. This alpha was largely offset by negative contributions from Colombian and Romanian hard currency debt.

With risk-free rates rising and spreads pushing wider, most fixed income assets saw negative total returns in Q2. For the second consecutive quarter, cash was one of the best performing sectors.

### 5.13 Currency Hedging

No new currency hedging positions were placed in Q2 2022.

## 6. Consultation

6.1 Council's Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Financial Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

## 7. Financial Implications

*Implications completed by: Philip Gregory,* Chief Financial Officer

7.1 The Council's Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.

7.2 This report updates the Committee on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

## 8. Legal Implications

*Implications completed by: Dr. Paul Feild, Senior Governance Solicitor*

8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the Fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a Fund maintained under the Local Government Pension Scheme.

## 9. Other Implications

9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles

(equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.
Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

**Background Papers Used in the Preparation of the Report:**

- Northern Trust Quarterly Q2 2022 Report; and
- Fund Manager Q2 2022 Reports.

**List of appendices:**

**Appendix 1 -** Fund Asset and Liability Values 31 March 2013 to 1 August 2022
**Appendix 2 -** Definitions
**Appendix 3 -** Roles and Responsibilities

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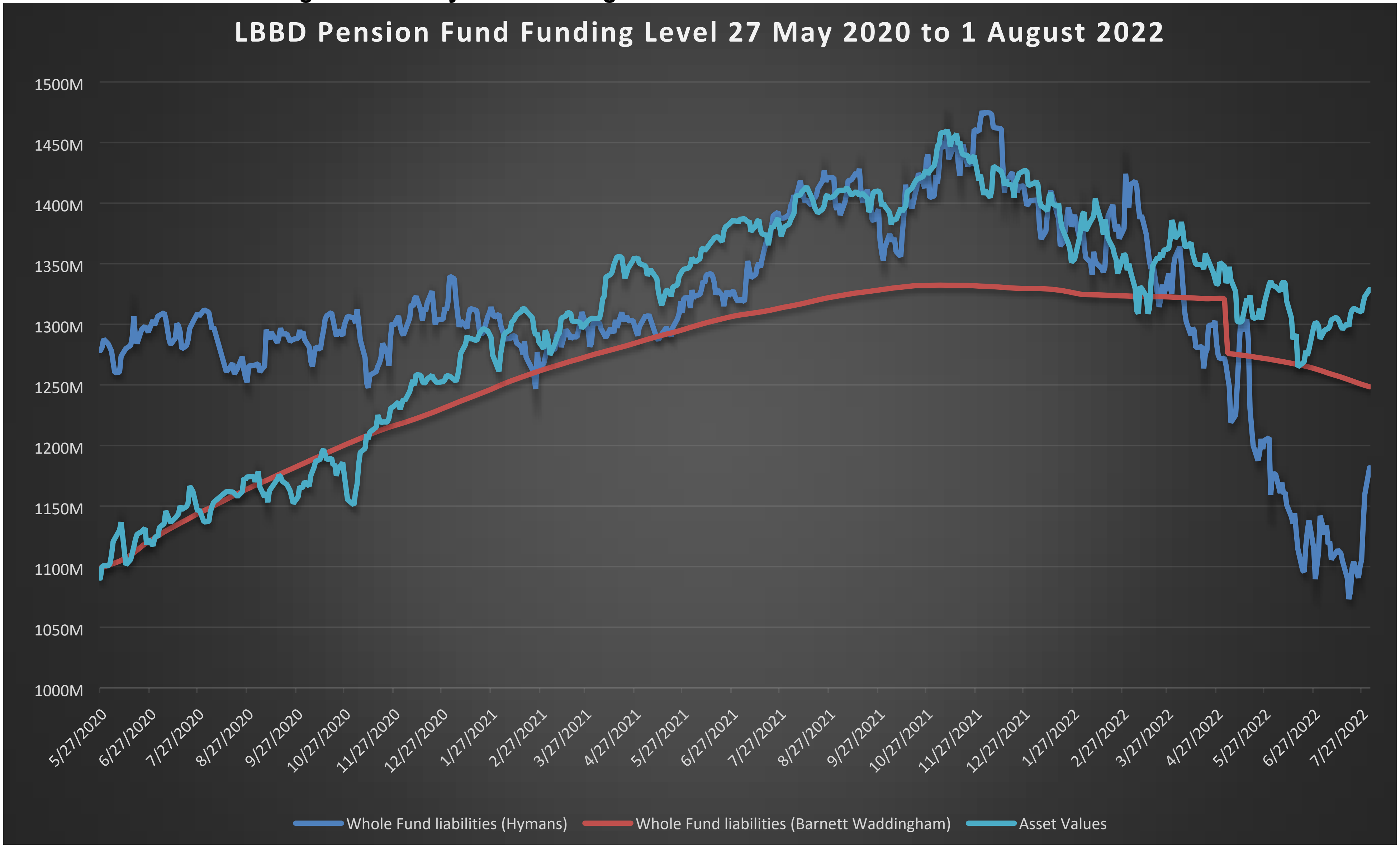
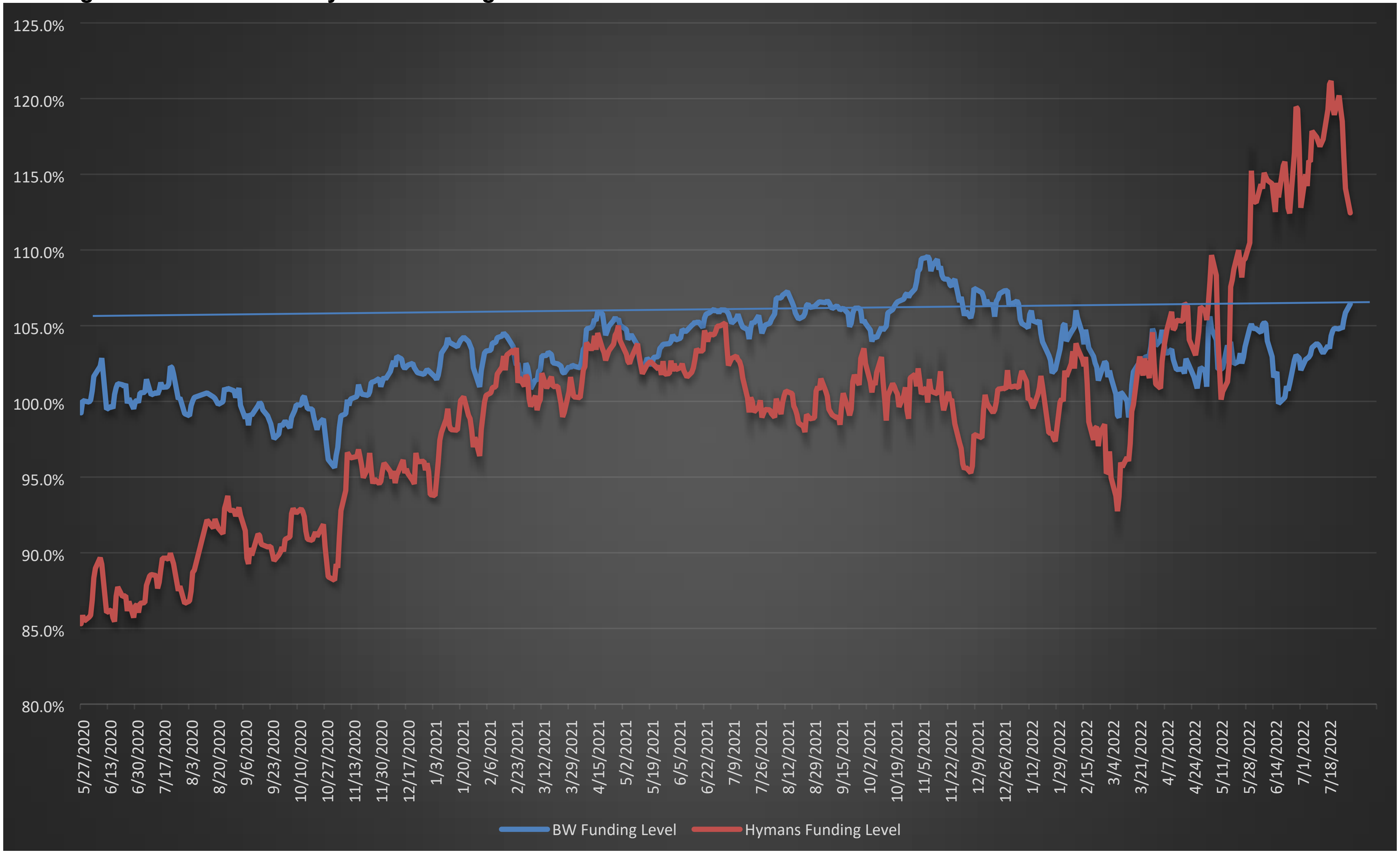
APPENDIX 1 - Fund Funding Level 27 May 2020 to 1 August 2022



**Funding Level between 27 May 2020 to 1 August 2022**



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**APPENDIX 2**

# A Definitions

## A.1 Scheduled bodies

Scheduled bodies have an automatic right, and requirement, to be an employer in the LGPS that covers their geographical area. Therefore, scheduled bodies do not need to sign an admission agreement. Scheduled bodies are defined in the LGPS Regulations 2013 in Schedule 2 Part 1. Common examples of scheduled bodies are Unitary Authorities, Police and Fire Authorities and Academies.

## A.2 Admitted bodies

Admitted Bodies either become members of the LGPS as a result of a TUPE transfer or following an application to the Fund to become an employer in the scheme. In both cases, their admission is subject to the body meeting the eligibility criteria and an admission agreement being signed by all relevant parties.

## A.3 Schedule of Admitted and Scheduled bodies

A list of scheduled and Admitted Bodies is provided below

| **Scheduled bodies** | LBBD |
|---|---|
| | Barking College<br>Dorothy Barely Academy<br>Eastbury Academy<br>Elutec<br>Goresbrook Free School<br>Greatfields Free School<br>James Campbell Primary<br>Partnerships Learning<br>Pathways<br>Riverside Bridge<br>Riverside Free School<br>Riverside School<br>St Joseph’s Barking<br>St Joseph’s Dagenham<br>St Margarets<br>St Theresa’s<br>Sydney Russell<br>Thames View Infants Academy<br>Thames View Junior Academy<br>University of East London<br>Warren Academy |
| | |
| **Admitted Bodies** | |
| | Aspens<br>Aspens 2<br>B&D Citizen's Advice Bureau<br>BD Corporate Cleaning<br>BD Schools Improvement Partnership<br>BD Together<br>Be First<br>BD Trading Partner<br>Caterlink |

| | |
|---|---|
| | Cleantech<br>Elevate East London LLP<br>Laing O'Rourke<br>Lewis and Graves<br>Schools Offices Services Ltd<br>Sports Leisure Management<br>The Broadway Theatre<br>Town and Country Cleaners |

**APPENDIX 3**

## B Roles & Responsibilities

### B.1 Administering Authority

The London Borough of Barking and Dagenham is, by virtue of Regulation 53 and Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013 the "Administering Authority" for the Local Government Pension Scheme within the geographic area of the London Borough of Barking and Dagenham. In its role as Administrating Authority (also known as Scheme Manager) the Council is responsible for *"managing and administering the Scheme."*

It is normal practice within the Local Government Pension Scheme (LGPS) for the role of the Administering Authority to be exercised by a Pensions Committee. In the case of the London Borough of Barking and Dagenham the Council has delegated the exercise of its role as Administering Authority to the Pensions Committee.

Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (As amended), Pensions is not an Executive Function. Therefore, the Cabinet cannot make decisions in respect of a LGPS Pension Fund. The committee responsible for the Pension Fund must report to the Council and cannot be subject to the Cabinet.

### B.2 Pensions Committee

Under the Constitution of the London Borough of Barking and Dagenham (May 2018) the Pensions Committee exercises *"on behalf of the Council all the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Barking and Dagenham Pension Fund."*

The voting membership of the Pensions Committee is seven Councillors. The Committee may also appoint representatives of interested parties (Trade Unions, Admitted Bodies, pensioners etc) as non-voting members.

**Responsibilities**

As already stated the Pensions Committee exercises all the powers and duties of the Council in relation to the Local Government Pension Scheme (LGPS). As detailed in the Council's Constitution this includes:

(i) To approve all policy statements required or prepared under the LGPS Regulations;

(ii) To be responsible for the overall investment policy, strategy and operation of the Fund and its overall performance, including taking into account the profile of Fund liabilities;

(iii) To appoint and terminate the appointments of the Fund Actuary, Custodian, professional advisors to, and external managers of, the Fund and agree the basis of their remuneration;

(iv) To monitor and review the performance of the Fund's investments including receiving a quarterly report from the Chief Operating Officer;

(v) To receive actuarial valuations of the Fund;

(vi) To monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board as they apply to pension benefits and the payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme;

(vii) Selection, appointment and termination of external Additional Voluntary Contribution (AVC) providers and reviewing performance;

(viii) To consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

Individual members of the Pensions Committee have a responsibility to obtain a high level of knowledge and skills in relation to their broad ranging responsibilities in respect of the Local Government Pension Scheme. Therefore, ongoing training is essential.

In 2010/2011 CIPFA produced a Pensions Finance, Knowledge & Skills Framework and a Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Barking and Dagenham Pension Fund subsequently adopted the recommendations of the CIPFA Code of Practice and accepted the need for competencies by both Members and Officers in the six technical areas of knowledge and skills as then set out by CIPFA:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and product knowledge (including Investment Strategy)
- Actuarial methods, standards and practices

As a result of changes to the Local Government Pension Scheme and CIPFA guidance since 2014 it is also necessary for members of the Pensions Committee to have clear knowledge and understanding of:

- Pensions Administration (including the role of The Pensions Regulator)

### B.3 Fund Administrator

The Chief Operating Officer is responsible as the Fund Administrator for:

- Acting as principal advisor to the Fund
- Ensuring compliance with Legislation, Regulation and Statutory Guidance including advising in respect of the various policy documents and statements required under the LGPS Regulations
- Ensuring effective governance and audit arrangements

On a day-to-day basis the management and co-ordination of all Pension Fund activity is led by the Investment Fund Manager.

### B.4 Fund Actuary

The appointment of a Fund Actuary required in order to comply with Regulations 62 and 64 of the LGPS Regulations 2013.

The Fund Actuary is a completely independent and appropriately qualified adviser who carries out statutorily required Fund Actuarial Valuations and other valuations as required and who will also provide general actuarial advice. The work of the Actuary includes (but is not limited to):

- Undertaking an Actuarial Valuation of the Fund every three years. The next Valuation will be as at 31 March 2019 and the Actuary must complete his report by March 2020. The results of this Valuation will result in the setting of the Employer Contribution Rates for the three years 2020-2021, 2021-2022 and 2022-2023

- Undertaking more limited Valuations in respect of New Employers, Exiting Employers, Bulk Transfers and for accounting purposes

### B.5 Investment Advisor

The Investment Advisor (otherwise known as the Investment Consultant) is completely independent of the Fund and provides advice in respect of investment matters. This includes:

- The Fund's Investment Strategy Statement including its asset allocation

- The selection of investment managers

- Monitoring and reviewing Investment Managers' performance

### B.6 The Independent Advisor

The Independent Advisor who is also completely independent of the Fund provides governance and investment challenge and input together with training across the activities and responsibilities of the Fund.

### B.7 Investment Managers

External Investment Managers manage the Funds' investments on behalf of the Pensions Committee.

The Investment Managers' responsibilities include

- Investment of Pension Fund assets in compliance with legislation, the Fund's Investment Strategy Statement and the Investment Management Agreement between the Pension Fund and the Investment manager

- The selection of investments

- Providing regular reports on performance to the Fund Officers

- Attending the Pensions Committee if requested

As a result of the Government's Investment Pooling initiative the relationship between Investment Managers and the London Borough of Barking and Dagenham Pension Fund will, over an extended period of time, become an indirect relationship due to the increasing involvement of the London Collective Investment Vehicle (London CIV) in the selection and monitoring of Investment Managers.

**B.8 Employers**

The Employers within the London Borough of Barking and Dagenham Pension Fund are listed at Appendix 2.

Employers have a wide range of responsibilities which include

- Automatically enrolling eligible Employees in the LGPS
- Providing timely and accurate data to the Administering Authority in respect of individual members including joiners, leavers, pay details etc
- Deducting contributions from Employees pay correctly
- Paying to the Administering Authority both Employers and Employees contributions by the due date
- Determining their Discretions policy in accordance with the LGPS Regulations
- Operating Stage 1 of the Internal Dispute Resolution Procedure
- Communicating, as appropriate, with both Scheme Members and the London Borough of Barking and Dagenham Pensions Team

In undertaking their responsibilities Employers should have regard to any documentation issued by the London Borough of Barking and Dagenham in its role as Administering Authority including any Pension Administration Strategy issued in accordance with the LGPS Regulations.

Employers should also be aware of the requirements placed upon them as detailed in the Pension Regulator's Code of Practice No 14 *"Governance and Administration of Public Service Pension Schemes."*

**PENSIONS COMMITTEE**

**14 September 2022**

| | |
|---|---|
| **Title:** Administration and Governance Report | |
| **Report of the Chief Operating Officer** | |
| Public Report | **For Information** |
| **Wards Affected:** None | **Key Decision:** No |
| **Report Author:**<br>David Dickinson, Investment Fund Manager | **Contact Details:**<br>Tel: 020 8227 2722<br>E-mail: david.dickinson@lbbd.gov.uk |
| **Accountable Director:** Philip Gregory, Chief Financial Officer | |
| **Accountable Strategic Leadership Director:** Fiona Taylor, Acting Chief Executive | |
| **Summary**<br><br>This report provides Members with an update on any administration and governance changes that have occurred and the potential impact that these changes may have on the Pension Fund. The report also provides an update on the Fund's one year and three-year cashflow forecast and on the London Collective Investment Vehicle (LCIV) as the Fund moves towards more pooled investments. | |
| **Recommendations**<br><br>The Committee is recommended to note:<br>i. Pension Fund Budget 1 April 2022 to 31 March 2025;<br>ii. London CIV update;<br>iii. London Borough of Barking and Dagenham Pension Fund Business Plan Update and Training Requirements; and<br>iv. Update from the Independent Advisor to the Committee. | |

## 1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. This report covers four main areas including:

i. Pension Fund Budget 1 April 2022 to 31 March 2025;
ii. London CIV update;
iii. London Borough of Barking and Dagenham Pension Fund Business Plan Update and Training Requirements; and
iv. Update from the Independent Investment Advisor.

## 2. Pension Fund Budget 1 April 2022 to 31 March 2025

2.1 Table 1 below provides Members with the Fund's three-year budget to 31 March 2025.

| **Contributions** | **2022/23 Budget** | **2023/24 Budget** | **2024/25 Budget** |
|---|---|---|---|
| **Opening Market Value** | **1,341,280** | **1,406,180** | **1,472,350** |
| **Employee Contributions** | | | |
| Council | 8,700 | 9,000 | 9,400 |
| Admitted bodies | 500 | 500 | 500 |
| Scheduled bodies | 2,000 | 2,100 | 2,100 |
| **Employer Contributions** | | | |
| Council | 28,200 | 29,300 | 30,500 |
| Admitted bodies | 2,100 | 2,200 | 2,200 |
| Scheduled bodies | 7,700 | 8,000 | 8,300 |
| Pension Strain | 1,000 | 1,000 | 1,000 |
| Transfers In | 3,500 | 3,500 | 3,500 |
| **Total Member Income** | **53,700** | **55,600** | **57,500** |
| | | | |
| **Expenditure** | | | |
| Pensions | -37,600 | -39,200 | -40,700 |
| Lump Sums and Death Grants | -6,500 | -6,800 | -7,000 |
| Transfers Out | -4,400 | -4,400 | -4,400 |
| Administrative expenses | -800 | -800 | -900 |
| **Total Expenditure on members** | **-49,300** | **-51,200** | **-53,000** |
| | | | |
| **Net dealings with members** | **4,400** | **2,870** | **1,850** |
| | | | |
| **Returns on Investments** | | | |
| Investment Income | 15,000 | 16,000 | 17,000 |
| Profit (losses) | 50,000 | 52,000 | 54,000 |
| Investment management expenses | -4,500 | -4,700 | -4,900 |
| Net returns on investments | **60,500** | **63,300** | **66,100** |
| Net increase (decrease) in assets | **64,900** | **66,170** | **67,950** |
| **Closing Market Value** | **1,406,180** | **1,472,350** | **1,540,300** |

2.2 The three-year budget fairly stable member numbers, although a 4% increase in contributions and pensions has been assumed due to the current high level of inflation. The Council contribution for 2022/23 is 23.0% and it has been assumed that the contribution rate will remain the same for all employers. An increase in management expenses is being forecasted as asset values increase thus increasing the expenses. Overall, the Fund is expected to be cashflow positive.

2.3 On 1 April 2022 a £20m prepayment was paid to the Pension Fund from the Council, as agreed by Members at the March 2022 Committee. This prepayment helped to repay a short-term loan made to the Fund from the Council.

## 3. London Collective Investment Vehicle (LCIV) Update

3.1 LCIV is the first fully authorised investment management company set up by Local Government. It is the LGPS pool for London to enable Local Authorities to achieve their pooling requirements. Below are the investments the Fund currently has with CIV.

| | 30/09/2021 | Market Move | 31/12/2021 |
|---|---|---|---|
| **Active Investments** | **£** | **£** | **£** |
| LCIV Global Alpha Growth Fund | 291,693,254 | -35,224,598 | 256,468,656 |
| LCIV Global Total Return Fund | 114,399,956 | -900,787 | 113,499,169 |
| LCIV Real Return Fund | 81,935,950 | -1,690,854 | 80,245,096 |
| **Total** | **488,029,160** | **-37,816,239** | **450,212,921** |

3.2 Update from the London CIV

At 30 June 2022, the total assets deemed pooled stood at £24.7bn, of which £13bn are in funds managed by the LCIV. Assets under management in the ACS stood at £12bn and assets in private market funds stood at £840.6m on 31 March 2022. Over Q2, LCIV had £85m of additional commitment to the LCIV Private Debt Fund, bringing a total of assets raised by our private market funds as of 30 June 2022 to £2.3bn. The value of 'pooled' passive assets was £11.7bn, with £8.3bn managed by L&G and £3.4bn managed by BlackRock.

## 4. London Borough of Barking and Dagenham Pension Fund Business Plan Update and Training Requirements

4.1 To allow a training programme to be arranged a knowledge and skills questionnaire will be sent out to Members to complete, with a training programme set accordingly, to be agreed at the Pensions Committee in December 2022.

4.2 Subsequently a Business Plan will be taken to the Pensions Committee in March 2023 and will be based on a revised three-year period, to align with the Triennial Valuation.

**5. Independent Advisor Update: John Raisin**

5.1 This section informs and updates the Committee in respect of a number of important issues relating to the ongoing development of the LGPS at a national level. This includes developments since the last Independent Advisor's LGPS Update which was considered at the 16 March 2022 meeting of the Committee.

5.2 The issues covered here will, in due course, inform the decision making of each of the 86 LGPS Funds in England and Wales including the London Borough of Barking and Dagenham Fund. The paper informs the Pensions Committee of developments relating to the Department for Levelling Up Housing and Communities (DLUHC) which is the Government department responsible for the LGPS in England and Wales. This includes an update on the Consultation which, in the Summer, had been expected to be issued by the DLUHC in Autumn 2022. The paper also provides the background to and an update on a number of important national issues which will be consulted upon by the DLUHC at some point in the future. These issues covered in this paper are:

1. Developments relating to the DLUHC and issues upon which a Consultation had been anticipated in Autumn 2022.
2. Investment Pooling
3. Climate Reporting – Task Force on Climate Related Financial Disclosures Reporting
4. Good Governance in the LGPS
5. Age Discrimination in the LGPS (commonly referred to as "McCloud")

5.3 It is hoped that this paper will be informative to all Members of the Pensions Committee and in particular to those who have joined the Committee following the May 2022 Council elections. Given likely changes to the Government following the appointment of the new Prime Minister, on 5 September 2022, it may be necessary to provide an update on some issues in this paper at the Committee.

5.4 <u>Developments relating to the DLUHC and issues upon which a Consultation had been anticipated in Autumn 2022</u>

The Department for Levelling Up Housing and Communities (DLUHC) is the government department responsible for the LGPS in England and Wales. The DLUHC is responsible (after due Consultation) for issuing the Regulations and Statutory Guidance in accordance with which each of the 86 LGPS Funds in England and Wales (known as Administering Authorities in the LGPS Regulations) operate the LGPS locally.

The DLUHC is headed by the Secretary of State for Levelling Up Housing and Communities who is assisted by a number of Ministers including a Minister of State whose responsibilities include Local Government and therefore the LGPS. As reported in the March 2022 Update the Rt Hon Michael Gove MP was appointed Secretary of State in mid-September 2021 and in early October 2021 it was announced Kemi

Badenoch MP had been appointed Minister of State whose responsibilities were to include Local Government and therefore the LGPS. As the LGPS Scheme Advisory Board for England and Wales (SAB) correctly stated on its website on 6 October 2021 *"…We would expect that the change of minister would lead to some delays in the current workstream…"*

On 19 April 2022, the SAB website reported that the Board Chair and Board Secretary had met with Kemi Badenoch MP. It was stated that *"Cllr Roger Phillips and Board Secretary Jo Donnelly had a useful meeting with the Minister after the Easter weekend. Topics discussed included climate risk and reporting regulations for the LGPS…; levelling up; pooling…"* By June 2022 it was anticipated that a Consultation covering a number of important outstanding issues would be published by the DLUHC in Autumn 2022. For example the Minutes of the SAB Investment, Governance and Engagement Committee of 6 June 2022 record that the representative from the DLUHC on the Committee *"reminded members that the forthcoming public consultation is now likely to be published in the Autumn and will cover a range of elements including TCFD reporting, levelling up, and pooling guidance for administering authorities."*

However, on 6 July 2022 Kemi Badenoch MP resigned as Minister of State at the DLUHC and on the same day Rt Hon Michael Gove MP was dismissed from his post as Secretary of State. On 7 July 2022 Rt Hon Greg Clark MP was appointed Secretary of State at the DLUHC and Paul Scully MP Minister of State whose responsibilities include Local Government and therefore the LGPS. When a new Minister of State responsible for Local Government is appointed, it is inevitable that there will likely be delays in further developing LGPS policy proposals particularly given that the LGPS is only a small part of the Minister's overall responsibilities and inevitably a lower priority than overall Local Government policy and finance matters.

The replacement of Kemi Badenoch MP by Paul Scully MP as the Minister directly responsible for the LGPS is further complicated by the fact that a new Prime Minister will be appointed in September 2022. They will then appoint their own Ministers. This could result in the replacement of either or both Rt Hon Greg Clark MP and Paul Scully MP. Therefore, it is no surprise that on 21 July 2022, in relation to the appointment of Paul Scully MP, a news update was posted on the SAB website which stated *"We expect that the change of minister, and the process of electing a new Conservative party leader / Prime Minister, may lead to some delays in current workstreams…"* The situation is further complicated by the fact that one issue (Investment Pooling guidance) that was expected to be included in the anticipated Autumn 2022 consultation is particularly complex and any Consultation on this matter will need to be/should be particularly carefully considered and approved at Ministerial level before it is issued.

Therefore, the issuing of the anticipated Autumn 2022 Consultation covering TCFD (climate) reporting, Investment Pooling, and Levelling Up in the context of the LGPS must be in clear doubt. The SAB has however actively sought to encourage the Government not to delay the issuing of the expected Autumn Consultation also stating on 21 July 2022 that the SAB *"will continue to work with the Department to minimise"* delays in the current workstream *"as much as possible."* The SAB has particularly sought to encourage the DLUHC to at least issue a Consultation covering Climate/ Task Force on Climate Related Financial Disclosures (TCFD) Reporting for the LGPS. On 15 July 2022 the Chair of SAB (Councillor Roger Phillips) wrote to the Secretary of State (Rt Hon Greg Clark MP) – this letter included the following *"The main purpose of this letter is to convey the Board's hope that the timetable for public consultations on* *changes to the Scheme which, up to now, had been planned for the Autumn will not be delayed by the recent changes in the Ministerial team.*

*Those consultations were likely to cover a number of different areas relevant to the scheme, however, our main concern centres on the introduction of a framework for LGPS administering authorities to report on climate change risks, as stipulated by the Taskforce on Climate Related Financial Disclosures (TCFD).*

*Corresponding regulations for private sector pension schemes came into force in October last year and reports for the 2021/22 period are now being published. The LGPS is therefore already a year behind the private sector and delaying the planned consultation beyond the Autumn risks even further delay and the resultant criticism that the scheme, and those responsible for making scheme regulations, are dragging their heels on this key issue.*

*I very much hope that you will feel able to give an early assurance to the Board that the anticipated public consultations, and in particular that the reporting of climate related risk, will proceed in time for the necessary regulations and associated guidance to be introduced by April next year. This is necessary to enable LGPS administering authorities to put in place arrangements to report on climate risks and progress against emissions targets for the period 2022/23. Any delay beyond then would put us a further year behind the private sector, which would be regrettable for a globally significant investor like the LGPS."*

A letter from the Chair of SAB to Paul Scully MP of 21 July 2022 referred to the fact that they had met on 19 July 2022 and included the following – *"Can I first of all reaffirm my request to you in Tuesday's meeting for the Department to publish the TCFD consultation and regulations as soon as possible. We have been waiting to move forward with this since last October and there is growing concern about the delay in the LGPS when the DWP regulations and guidance are already out for private sector schemes, with the reports from the largest schemes already being published for 2021/22. As a more public facing scheme it is important that we can demonstrate our commitment to climate risk reporting transparency, and other key issues.*

*Similarly, I will support both the Board's Secretariat and your officials working closely on getting the broader consultations due out after the recess..."* Therefore, the SAB has clearly engaged with the DLUHC following the appointment of the new Ministers in July 2022 to seek to facilitate the issuing of the anticipated broad ranging LGPS Consultation in Autumn 2022. In particular the SAB has sought to encourage DLUHC not to delay a Consultation covering Climate/TCFD reporting for the LGPS.

It is not possible to state categorically whether the full expected Autumn 2022 Consultation will now be issued but given the circumstances this would seem unlikely. However, it is particularly to be hoped (and is urgently needed) that a Consultation will be issued in Autumn 2022 which will facilitate LGPS wide reporting on climate risks and progress against emissions targets for the period 2022-23. LGPS Funds and other LGPS stakeholders can only wait and see if such a Consultation is issued in 2022.

5.5 Investment Pooling

A Consultation including proposals on further developing Investment (Asset) Pooling expected since 2019 had, as explained in Section 1 of this paper, been expected in the Autumn of 2022. This may however now be possibly delayed until 2023.

In November 2015, the government issued guidance entitled ***"Local Government Pension Scheme Investment Reform Criteria and Guidance."*** This set out criteria for the (then) 89 LGPS Funds in England and Wales to form Investment Pools whose fundamental role is to select asset managers to implement the Investment Strategy determined by each individual LGPS Fund. This resulted in the creation of 8 Investment Pools across the LGPS. These had a wide range of both regulatory and governance structures and have, individually, developed very differently since 2015. All London Borough LGPS Funds (and the City of London) became members of the London Collective Investment Vehicle (London CIV).

**Crucially, however, all Pools are creations of their constituent LGPS Funds, owned by them, and ultimately accountable to them. Furthermore, all assets continue to belong to the individual LGPS Funds not the Pools.**

The sole fundamental role of Investment Pools, including the London CIV, is to select and monitor investment managers to implement the Investment Strategy of their constituent (individual) LGPS Fund's. The setting of Investment Strategy (including the types of Assets and their proportions) which academic studies clearly demonstrate is the primary driver of investment returns remains the responsibility of each individual LGPS Fund. To fulfil its role, it is crucial that an Investment Pool provides/procures investment product that meet the needs of its constituent LGPS Funds.

The (then) MHCLG issued a Consultation on a new framework for Pooling in January 2019 but subsequently withdrew this. In November 2020, the Government stated in writing (in ***"The Balance Sheet Review Report"*** issued by HM Treasury) that it would *"consult"* in 2021 *"on next steps"* to implement *"a strengthened framework for LGPS investment and pooling"* but this did not occur. Therefore, the mandate for Pooling within the actual LGPS Regulations remains limited to one statement in the LGPS (Management and Investment of Funds) Regulations 2016. This is, that the Investment Strategy of an LGPS Fund must include *"the authority's approach to pooling investments, including the use of collective investment vehicles and shared services."* In reality the present position with Investment Pooling is therefore that while LGPS Funds need to demonstrate commitment to the principle, the actual pooling of particular assets is in essence ultimately voluntary. The extent to which individual LGPS Funds across both England and Wales, and within London itself, have pooled their assets varies enormously. Some Funds have now placed the majority of their assets with their Pool while some have placed very little.

There can be no doubt, however, based on both written statements and speeches made by Civil Servants that Pooling is here to stay and that the DLUHC intend to develop it further. The question is how? The DLUHC will certainly need to think carefully given responses to the Consultation of 2019 and the 2020 Supreme Court case relating to another LGPS issue which resulted in a judgement which included reference to the (limited) extent to which the Secretary of State (DLUHC) can use Statutory Guidance (rather than Regulations) to mandate how LGPS Funds should act.

There have been various suggestions as to the nature of the Consultation that the DLUHC will issue. Particular important themes will be the extent of mandation which could cover a range of issues including the structures and governance of Investment Pools, and possible timescales. One suggestion is that the Consultation might include "comply or explain" provisions. Whatever the contents of the Consultation, however, given the broad range of views amongst the 86 LGPS Funds together with the diverse approach to Pooling that has developed since 2015 there will doubtlessly be a vigorous response from the LGPS community when the Consultation is (finally) issued.

5.6 <u>Climate Reporting – Task Force on Climate Related Financial Disclosures Reporting</u>

In 2015 the Financial Stability Board (established in 2009 by the G20 countries) created the Task Force on Climate Related Financial Disclosures (TFCFD) to develop consistent climate related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

In 2017 the TCFD published its final recommendations. The Task Force recommendations were structured around four thematic areas that represent core elements of how organisations operate - Governance, Strategy, Risk Management, Metrics and Targets. The 2017 report summarised these as follows

1. **Governance:** *"Disclose the organization's governance around climate- related risks and opportunities."*

2. **Strategy:** *"Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material."*

3. **Risk Management:** *"Disclose how the organization identifies, assesses, and manages climate-related risks."*

4. **Metrics and Targets:** *"Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material."*

In the United Kingdom, the Department for Work and Pensions (DWP) has already consulted upon in January 2021 and issued final Regulations (***The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021***) on TCFD reporting by Private Sector Pension Schemes. These set out how private sector schemes are required to report against the TFCFD Framework. These Regulations came into force from 1 October 2021. The DWP Regulations do not apply to the LGPS as the DWP has no role in relation to the Regulations relating to the governance and investment of the LGPS. This responsibility lies with the Department for Levelling Up, Housing & Communities (DLUHC), formerly the Ministry of Housing, Communities & Local Government (MHCLG).

A Consultation to amend the LGPS Regulations to apply Climate/TFCFD reporting to Local Government Pension Funds had been expected to be issued by early 2021, in respect of which the Scheme Advisory Board (SAB) had previously made very clear representations to DLUHC in July 2022 (to the then new Secretary of State) requesting that there should be no delay in issuing such a consultation to enable *"the necessary regulations and associated guidance to be introduced by April next year."*

Furthermore, the SAB considered that urgently issuing a consultation on Climate/TFCFD reporting was of far greater importance and priority than a Consultation on Investment Pooling (as referred to in Section 1 of this paper), seeing the LGPS as a whole would be unable to report on climate risks and progress against emissions targets for 2022-23, and that consequently the LGPS as a Scheme could appear, through absolutely no fault of its own, not to be serious when it comes to Climate/TFCFD reporting. Of course, any such perception would be absolutely and totally erroneous!

This was in stark contrast to the Regulations on Climate/TFCFD reporting which are already in force from 1 October 2021 for Private Sector Pension Schemes with assets over £5bn and which will come into force from 1 October 2022 for Private Sector Pension Schemes with assets over £1bn.

A consultation paper was eventually issued by the DLUHC on 1 September 2022. To summarise it individual Pension Funds such as Barking & Dagenham (known as Administering Authorities (AA's) of which there are 86 in the LGPS), are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance considerations. They also must have a policy stating how such considerations will be considered in setting their investment strategies. The aim of the proposals in the consultation are to build on that position by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by AAs, and that they report transparently on their approach in line with broader UK policy.

It should be noted that this consultation only deals with TFCFD related issues and consequently other matters such Investment Pooling and Levelling Up, will be the subject to further consultations.

The Government's view is that the requirements for the LGPS should set as high a standard as for private schemes. Consequently, they have made the requirements for private schemes the starting point for their proposals but have aimed to take account of the unique features of the LGPS including its local administration and democratic accountability through the AAs.

It is important that the Barking and Dagenham Fund carefully considers and responds as appropriate to the consultation, as the DLUHC have stated to the SAB that the regulatory requirement to report on TFCFD in the context of the LGPS Regulations will lie with individual AA's rather than their Asset Pool. The consultation lasts for 12 weeks from 1 September to 24 November 2022, to which the Investment Fund Manager in liaison with the Independent Advisor will respond to on behalf of the Fund, a copy of which will be circulated to Members of the Committee for noting in due course.

5.7 Age Discrimination in the LGPS (commonly referred to as "McCloud")

The Public Service Pensions Act 2013 which reformed all the major public service pension schemes from 2014 or 2015 included provision for protections for older members designed to ensure they would not be worse off as a result of the introduction of the new schemes. In 2018 the Court of Appeal ruled that in the case of the Judges' and Firefighters Pension Schemes this was (age) discriminatory against younger members. In July 2019, the Government confirmed that there would be changes to all public service pension schemes, including the LGPS, to remove this age discrimination. This whole issue is now commonly referred to as "McCloud."

On 16 July 2020, the then MHCLG issued a Consultation called ***"Amendments to the statutory underpin"*** to address the age discrimination identified in the LGPS. However, given the age discrimination in the LGPS and other public service pension schemes had resulted from the Public Service Pensions Act 2013 there was a need for revision to primary legislation before the LGPS Regulations could be amended. On 11 May 2021, the Government confirmed that a Public Service Pensions and Judicial Offices Bill would introduce amendments to incorporate the McCloud judgment into public service pension schemes. On 13 May 2021, in a Ministerial Statement, Luke Hall MP, the then Minister of State with responsibility for the LGPS, confirmed that it was intended that these remedial Regulations would come into force on 1 April 2023 but *“will be retrospective to 1st April 2014.”* Referring to the Consultation of July 2020 it was confirmed that key elements of this would form changes to the LGPS Regulations which would be made after the Public Service Pensions and Judicial Offices Bill had become an Act.

The Public Service Pensions and Judicial Offices Act came into effect from 10 March 2022. In an update issued by the DLUHC on 27 July 2022 it was stated that *“Later this year”* the DLUHC will publish its formal response to the July 2020 Consultation and also *“an updated version of the draft regulations implementing the McCloud remedy.”* Given that this statement was issued by the DLUHC **after** the appointment of Rt Hon Greg Clark MP as the Secretary of State and Paul Scully MP as the Minister of State responsible for the LGPS it appears that the Consultation response and draft Regulations to remedy McCloud, which had been expected during the calendar year 2022, will still be issued notwithstanding any further changes to the Ministers responsible for the LGPS.

However, there is already clarity regarding the overall nature of the remedy from the Ministerial Statement of 13 May 2021 and a letter issued from the Head of Local Government Pensions at the DLUHC on 22 March 2022 which suggested that for purposes of the 2022 Actuarial Valuations Funds apply the following:

- *It should be assumed that the current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap.*

- *The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).*

- *Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner).*

- *Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.*

- *The underpin will consider when members take their benefit so they can be assured they are getting the higher benefit.*

The update from the DLUHC on “McCloud” issued on 27 July 2022 provided clear assurance that the Government intends to act in a timely fashion to seek to put in place Regulations and Statutory Guidance to enable the 86 individual LGPS Funds (Administering Authorities) in England and Wales to apply a finalised remedy to the benefit entitlement of individual members of the LGPS. The DLUHC communication of 27 July 2022 included the following: *“Later this year, we intend to publish the*

*Government's response to our 2020 consultation, in which we'll set out our decisions on the matters covered in that consultation…*

*Alongside the Government response, we intend to publish an updated version of the draft regulations implementing the McCloud remedy. The updated draft regulations will reflect the new powers in Chapter 3 of Part 1 the 2022 Act governing the statutory underpin, as well as technical feedback we received at the 2020 consultation and any changes in policy. To ensure the updated draft regulations are accurate in light of the changes made, they will be subject to a further period of consultation early in 2023. At that time, we will also consult on other aspects of the McCloud remedy which did not feature in our original consultation (for example, compensation and rates of interest). The regulations will be made later in 2023 and will come into force on 1 October 2023. We intend to issue statutory guidance on the implementation of McCloud in 2023 following a period of consultation.*

*This approach will ensure that the regulations, when made, will reflect all aspects of the remedy and have been appropriately scrutinised. We would encourage LGPS administrators to begin taking steps towards the implementation of McCloud remedy following the publication of the Government response and will shortly be holding a meeting with software suppliers to discuss the implementation of the McCloud remedy to this timetable."*

In conclusion, there is now clarity as to the remedy for "McCloud" in the context of the LGPS particularly in the light of the enactment of the Public Service Pensions and Judicial Offices Act 2022, and the statements from the DLUHC issued on 22 March 2022 and 27 July 2022. However, for Barking and Dagenham (and every other individual LGPS Fund) there is a huge amount of work to be undertaken, by the Pensions Administration Team, to apply the finalised remedy (when fully issued and known) to the benefit entitlement of individual members of the LGPS.

## 6. Financial Implications

*Implications completed by:* Philip Gregory, Chief Financial Officer

6.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits the Fund is supported and monitored by the Pension Board.

## 7. Legal Implications

*Implications completed by: Dr. Paul Feild Senior Governance Solicitor*

7.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

## 8. Consultation

8.1 The Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Finance Director and the Fund's Chair have been informed of the commentary in this report.

**Background Papers Used in the Preparation of the Report:**

**None**

**PENSIONS COMMITTEE**

**14 September 2022**

| | |
|---|---|
| **Title:** Business Plan Update 2021 to 2023 | |
| **Report of the Managing Director** | |
| Public Report | For Information |
| **Wards Affected:** None | **Wards Affected:** None |
| **Report Author:**<br>David Dickinson, Investment Fund Manager | **Contact Details:**<br>Tel: 020 8227 2722<br>E-mail: david.dickinson@lbbd.gov.uk |
| **Accountable Director:** Philip Gregory, Chief Financial Officer | |
| **Accountable Strategic Leadership Director:** Fiona Taylor, Acting Chief Executive | |
| **Recommendations**<br><br>The Committee is asked to note progress on the delivery of the 2021 to 2023 Business Plan actions in Appendix 1 to the report | |

## 1. Introduction and Background

1.1 The purpose of this report is to update the Pension Committee on the progress of the Pension Fund's 2021 to 2023 business plan. Appendix 1 provides a summary of the Business Plan actions from 1 April 2021 to 31 August 2022.

1.2 A Strategic Asset Allocation Review is being carried out by the funds Actuary and a full business plan for 2021 to 2023 has been drafted alongside this. This sets out the key tasks for the Pension Committee in respect to the Pension Fund issues for 2021/22 and was agreed by members in the meeting of the Committee in December 2020.

## 2. Comments of the Finance Director

2.1 The Business Plan includes the major milestones and issues to be considered by the Committee and includes financial estimates for the investment and administration of the fund and appropriate provision for training.

2.2 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

## 3. Comments of the Legal Officer

3.1 The Committee has been constituted by the Council to perform the role of administering authority to manage the Fund and as such has legal authority to make the decisions sought by the recommendations. Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions.

**List of appendices:**

**Appendix 1 -** Business Plan Update

**Appendix 1**

**Business Plan Update**

| Month | Action Scheduled | By | Actual Activity |
|---|---|---|---|
| **Jan 20** | Fund Manager Meetings: | | |
| | • Schroders | Officers | Meeting held with Schroders on 7th January 2020 |
| | Meet the Manager: Baillie Gifford (BG) | Officers | Session with LCIV and BG attended on 16th January 2020 |
| | Tender for Actuary and Investment Advisor | Officers | Invitation to tender issued |
| **Feb 20** | IAS 19 Data Collection (LBBD) | Officers | Submitted to Hymans Robertson |
| | Fund Manager Meetings: | | |
| | • Equities: Kempen | Officers | Meeting held with Kempen on 5th February 2020 |
| | • Equities: UBS | Officers | Meeting held with UBS on 27th February 2020 |
| | Tender for Actuary and Investment Advisor | Officers | Interviews held on 24th and 26th February 2020 |
| **Mar 20** | Fund Manager Meetings: | | |
| | • Equities: Aberdeen Standard | Officers | Meeting held with Aberdeen Standard on 3rd March 2020 |
| | Quarterly Pension Committee Meeting | All | Held on 11th March 2020 |
| | Appointment of new Investment Advisor and Actuary | Officers | Contract to commence on 1st April 2020 and 1st July 2020 respectively |
| **Apr 20** | IAS 19 Results | Officers | To be included in Council's accounts |
| | Closure of Accounts | Officers | |
| | Fund Manager Meeting: | | |
| | • Baillie Gifford | Officers | Meeting held on 22nd April 2020 |
| | • Global Credit: BNY Standish | Officers | Meeting held on 17th April 2020 |
| **May 20** | Closure of Accounts | Officers | |
| | Fund Manager Meetings: | Officers | |
| | LCIV Business Update | Officers | Meeting held on 21st May 2020 |
| **Jun 20** | Quarterly Pension Committee Meeting | All | Held on 10th June 2020 |
| | Cash Flow Report to June Committee | Officers | Presented in June Committee |

| Month | Action Scheduled | By | Actual Activity |
|---|---|---|---|
| | Investment Beliefs Session | Members | Presented in June Committee |
| **Jul 20** | Strategic Asset Allocation Review | Investment Advisor | On-going |
| | Review and update of 2020/21 Business Plan | Officers | On-going |
| | Review of Risk Register | Officers | On-going |
| | FRS102 Data Collection – UEL and Barking College | Officers | To be submitted in July |
| **Aug 20** | London CIV Business Update | Officers | Held on 20th August |
| | FRS102 Data Collection – UEL and Barking College | Officers | Reports issued to the employers |
| | Draft Statement of Accounts produced | Officers | Deadline 31st August 2020 |
| **Sep 20** | Quarterly Pension Committee | All | To be held on 16th September 2020 |
| | Draft Statement of Accounts to Sep Committee | Officers | Draft to be included in Sep Committee Papers |
| | Strategic Asset Allocation to be agreed in Committee | Members | Investment Advisors to attend Committee to present this |
| | FRS102 Data Collection – Academies | Officers | To be submitted in September |
| **Oct 20** | Fund Manager Meetings: | | |
| | • Diversified Alternatives: Aberdeen Standard | Officers | Held on 16th October 2020 |
| | • Infrastructure: Hermes | Officers | Held on 21st October 2020 |
| **Nov 20** | Fund Manager Meetings: | | |
| | • Credit: BNY Mellon | Officers | Held on 20th November 2020 |
| | • London CIV Business Update | Officers | Held on 19th November 2020 |
| | Pension Fund Annual Report | | |
| **Dec 20** | Quarterly Pension Committee | All | To be held on 16th December 2020 |
| | Business Plan to be agreed in December Committee | Members | |
| | Fund Manager Meetings: | | |
| | • Property: Schroders | Officers | Meeting to be held in March 2021 |
| | • Property: Blackrock | Officers | Meeting to be held in March 2021 |

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|---|---|---|---|
| **Jan 21** | Fund Manager Meetings: | | |
| | • London CIV | Officers | Meeting held with LCIV on 15th |
| | External Audit | Officers | On-going |
| **Feb 21** | Pensions Committee Training: Equities | All | Training held on 25th |
| **Mar 21** | Fund Manager Meetings: | | |
| | • Alternatives: Aberdeen Standard | Officers | Meeting held with Aberdeen Standard on 23rd |
| | • Property: Schroders | Officers | Meeting held with Schroders on 24th |
| | • Property: Blackrock | Officers | Meeting held with Blackrock on 16th |
| | Quarterly Pension Committee Meeting | All | Held on 17th |
| | Bi-annual Pension Board | Officers | Held on 17th |
| | Closure of Accounts | Officers | On-going |
| | Pension Internal Audit | Officers | On-going |
| **Apr 21** | Submission of Data for Employers Accounting report | Officers | Report produced by Barnett Waddingham in May |
| | Fund Manager Meetings: | | |
| | • Property: Schroders | Officers | Meeting held with Schroders on 1st |
| | • Infrastructure: Hermes | Officers | Meeting held with Hermes on 26th |
| **May 21** | • Fund Manager Meetings: | | |
| | • Property: Schroders | Officers | Meeting held with Schroders on 5th |
| | Credit: BNY Mellon | Officers | Meeting held with BNY Mellon on 26th |
| **Jun 21** | Quarterly Pension Committee Meeting | All | Held on 16th June 2021 |
| | Fund Manager Meetings: | | |
| | • Infrastructure: Hermes | Officers | Meeting held with Hermes on 8th |
| | • Equities: Kempen | Officers | Meeting held with Kempen on 17th |
| **Jul 21** | LCIV Business Update | All | Held on 16th |
| | Fund Manager Meetings: | | |
| | • Contract Review: Heywood | Officers | Meeting held with Heywood on Administration Systems and Costs on 27th |
| **Sep 21** | Quarterly Pension Committee Meeting | All | Held on 15th |
| | Fund Manager Meetings: | | |
| | • LCIV | Officers | Meeting held with LCIV on 17th |
| | • Insight (Mellon Corp) | Officers | Meeting held with Insight on 20th |

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|---|---|---|---|
| | • Hymans | Officers | Meeting held with Hymans on 21st |
| **Oct 21** | Fund Manager Meetings: | | |
| | • Insight (Mellon Corp) | Officers | Meeting held with Insight on 5th |
| **Nov 21** | Fund Manager Meetings: | | |
| | • London CIV Business Update | Officers | Held on 18th |
| | Pension Fund Annual Report | | |
| **Dec 21** | Quarterly Pension Committee | All | Held on 14th |
| | Fund Manager Meetings: | | |
| | • LCIV | Officers | Meeting held with LCIV on 16th |
| **Jan 22** | Fund Manager Meetings: | | |
| | • London CIV | Officers | Meeting held with LCIV on 20th |
| | External Audit | Officers | Postponed |
| **Feb 22** | Pensions Committee Training<br>• Diversified Growth Funds (DGFs)<br>• Multi Asset Credit (MAC)<br>• Residential Property<br>• Global Property | All | Held on 8 February |
| | Fund Manager Meetings: | | |
| | Infrastructure: Hermes | Officers | Held 10th |
| **Mar 22** | Fund Manager Meetings: | | |
| | • LCIV | Officers | Held 17th |
| | Quarterly Pension Committee Meeting | All | Held on 16th |
| | Bi-annual Pension Board | Officers | Held on 16th |
| | Closure of Accounts | Officers | Ongoing |
| **Apr 22** | Submission of Data for Employers Accounting report | Officers | 30th and ongoing |
| | Prepayment | Officers | Paid on 1st |
| **May 22** | Fund Manager Meetings: | | |
| | • Infrastructure: Hermes AGM | Officers | Held 5th |
| | • Contract Review: Heywood | Officers | Meeting held with Heywood on Administration Systems and Costs on 24th |
| **Jun 21** | Quarterly Pension Committee Meeting | All | Held on 15th June 2022 |

| | | | |
|---|---|---|---|
| **Jul 21** | LCIV Business Update | All | Held on 21st |
| **August 21** | Fund Manager Meetings: | | |
| | • BW: Triennial Valuation | Officers | Meeting held with Actuary on 9th |
| | • Infrastructure: Hermes Update | Officers | Held 12th |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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