Barking & Dagenham

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 13 December 2023 - 7:00 pm
Council Chamber, Town Hall, Barking

Members: Cllr Moin Quadri (Chair), Cllr Manzoor Hussain (Deputy Chair), Cllr Rocky Gill, Cllr Giasuddin Miah and Cllr Tony Ramsay

Independent Advisor: John Raisin

Observers: Steve Davies and Susan Parkin

Date of publication: 5 December 2023

Fiona Taylor
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. **Apologies for Absence**

2. **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.

3. **Minutes - To confirm as correct the minutes of the meeting held on 14 June 2023 (Pages 3 - 6)**

4. **Quarterly Monitoring 2023/24 - 1 July to 30 September 2023 (Pages 7 - 42)**

5. **Administration and Governance Report (Pages 43 - 59)**

6. **Admitted Body Status (Pages 61 - 62)**

7. **Independent Advisor- LGPS Update (Pages 63 - 69)**

8. Business Plan 2024-26 (Pages 71 - 84)

9. Investment Strategy and Structure Review (Pages 85 - 92)

10. Any other public items which the Chair decides are urgent

11. 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 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.

12. 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

- Residents are supported during the current Cost-of-Living Crisis;
- Residents are safe, protected, and supported at their most vulnerable;
- Residents live healthier, happier, independent lives for longer;
- Residents prosper from good education, skills development, and secure employment;
- Residents benefit from inclusive growth and regeneration;
- Residents live in, and play their part in creating, safer, cleaner, and greener neighbourhoods;
- Residents live in good housing and avoid becoming homeless.

To support the delivery of these priorities, the Council will:

- Work in partnership;
- Engage and facilitate co-production;
- Be evidence-led and data driven;
- Focus on prevention and early intervention;
- Provide value for money;
- Be strengths-based;
- Strengthen risk management and compliance;
- Adopt a “Health in all policies” approach.

The Council has also established the following three objectives that will underpin its approach to equality, diversity, equity and inclusion:

- Addressing structural inequality: activity aimed at addressing inequalities related to the wider determinants of health and wellbeing, including unemployment, debt, and safety;
- Providing leadership in the community: activity related to community leadership, including faith, cohesion and integration; building awareness within the community throughout programme of equalities events;
- Fair and transparent services: activity aimed at addressing workforce issues related to leadership, recruitment, retention, and staff experience; organisational policies and processes including use of Equality Impact Assessments, commissioning practices and approach to social value.

MINUTES OF
PENSIONS COMMITTEE

Wednesday, 14 June 2023
(7:00 - 8:16 pm)

Members Present: Cllr Moin Quadri (Chair), Cllr Manzoor Hussain (Deputy Chair) and Cllr Giasuddin Miah

Advisors Present: John Raisin and Nicholas Jellema

Apologies: Cllr Rocky Gill, Cllr Tony Ramsay, Steve Davies, Susan Parkin and Marc Albano.

1. Declaration of Members' Interests

There were no declarations of interest.

2. Minutes (15 March 2023)

The minutes of the meeting held on 15 March 2023 were confirmed as correct.

3. Pension Fund Quarterly Monitoring Report - 1 January - 31 March 2023

The Investment Fund Manager presented a report on the Fund's performance during the period 1 January to 31 March 2023 (Quarter 1), including details of the performance of individual Fund Managers. The Committee also received a verbal update on the unaudited performance of the Fund up to June 2023, together with an update on the Fund's Investment Strategy and performance, more details of which were contained in a review report presented under agenda item 11. There was also a verbal report from Nick Jellema, Hymans Robertson and input from John Raisin, Independent Adviser to the Committee as to the current economic market position.

The Committee **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.

4. Administrative and Governance Report

The report presented by the Pension Fund Accountant provided an update on the administrative and governance changes that had occurred since the last meeting and the potential impact that the changes may have on the Pension Fund going forward. It set out the Fund's one and three-year cashflow forecast (1 April 2023 - 31 March 2025), as well as an update on the London Collective Investment Vehicle (LCIV) as the Fund moved towards more pooled investments.

The Committee **NOTED** the report.

5. Independent Advisor Report - LGPS Update

The Committee's Independent Advisor presented his quarterly update on the Local Government Pension Scheme (LGPS) which covered the following matters:

- Changes to the Scheme Advisory Board (SAB) Cost Management process,
- Changes to Pension Taxation,
- Further consultation on 'McCloud' (age discrimination in the LGPS),
- Climate Change reporting, and
- Investment Pooling.

The Committee **NOTED** the update.

6. Business Plan Update

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

7. 2022-23 Draft Pension Fund Accounts

The Pension Fund Accountant presented the draft Pension Fund Accounts 2022/23 as set out in Appendix 1. The draft accounts were due to be finalised once the formal external audit had commenced.

The Committee **NOTED** the report.

8. Investment Strategy Review

The Investment Fund Manager introduced a report prepared by Hymans Robertson, the Fund's investment advisors regarding a range of proposals following the recent review of the Fund's Investment Strategy and Structure. He provided the background to the management of the Strategy which following a number of years of underperformance of the Fund had resulted in its complete restructure in 2012. This led to a greater diversified strategy with an increase in the number of fund managers and a move towards more passive equity and bond investments, providing more protection from underperformance by managers whilst at the same time ensuring the Fund provided a return that was sufficient to close its funding gap.

This strategy had over the past ten plus years worked well with an incremental improvement in the Fund's funding levels to the extent that the Fund was now over 100% funded.

Appendix 1 to the report outlined the details of the current review and set out a number of current proposals from Hymans which amounted to a few easy to implement initial strategy changes with a number of further reviews to be carried out during the year.

For the benefit of the Committee Nick Jellema, Hymans Robertson provided a short contextual briefing as to the planned aims of the Review, which was to analysis the current investment strategy so as to assess its effectiveness in meeting the Fund’s objectives and to consider whether a different strategy would be more suitable. In short, to ensure the Fund could continue to pay Members pensions and lump sums as they fall due, reduce the risk of deficits emerging to protect against significant increases in contribution rates, and achieve sufficient investment returns to keep the costs of new benefits accruing reasonably.

Nick explained the approach adopted to conduct the review which he described as strategic versus structural considerations. This involved considering the three key strategic asset classes of Growth (such as equities), Income (such as property, infrastructure and credit) and Protection (such as UK gilts) and the proportion of investment between each. The Fund’s exposure to each of the asset classes was then considered (structural), evaluated through what was known as asset liability modelling, the purpose of which was to re-evaluate the current strategy against a number (in this case three) plausible alternatives, projecting a range of funding outcomes across a wide range of macroeconomic scenarios, calculating key metrics such as the likelihood of full funding and downside funding risks. Each of the three alternative strategies were summarised in the appendix

Given the Fund was currently in surplus (106% funded) it was Hymans view that based on the modelling outcomes over a future 20-year period (to 2042), the probability of retaining a funding level in excess of 100% remained very high, with a slight upward trend in likelihood for the more de-risked strategies as exampled in alternative strategy 1.

The key message from the findings was that the Fund had reached a position where the benefit of limiting downside risks outweighed the additional benefit of higher returns, and that reducing the overall level of investment risk would both limit the level of downside risk and increase the likelihood of maintaining full funding over the medium to long term. This conclusion was supported by John Raisin who supported Hymans recommended way forward.

The Investment Fund Manager concluded that the current investment strategy, in conjunction with the current funding plan, had a good chance of meeting the long-term funding objectives but that there were opportunities to improve the risk and return balance based on the analysis and findings conducted by Hymans which proposed that adopting a revised investment strategy would increase the probability of achieving the long-term objective for the Fund and reduce the potential for adverse outcomes.

Going forward Hymans would work with officers to put together a plan to materialise the proposed changes as part of the structure review, and in those circumstances,

The Committee **AGREED** to:

(1) The adoption of alternative strategy 1 as set out in Appendix 1, which had the highest success measures, and would reduce downside relative to the current strategy,

(2) The changes proposed as part of the structure review, including reducing the strategic allocation to:

- Equities from 52% to 50%

- DGF from 15% to 13%
- Alternatives from 9% to 11%
- Property from 5% to 4%
- Global Credit from 8% to 11

(3) Appoint LCIV PIMCO as the Fund's Global Credit Manager,

(4) Rebalance the current holdings to the revised strategic allocations, as outlined in section 5 of the report,

(5) A series of further strategy reviews over the next year as outlined in the Hymans Robertson report (Appendix 1), including:

- Consideration of any relevant investment options available via the London CIV
- A framework for regular rebalancing of investments
- Review of existing DGF managers
- Review of existing infrastructure manager
- Review of property investments, and allocations to residential / commercial property sectors, and

(6) The changes being reflected in an updated Investment Strategy Statement.

PENSIONS COMMITTEE

13 December 2023

Title: Pension Fund Quarterly Monitoring 2023/24 – 1 July to 30 September 2023	
Report of the Managing Director	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: Jesmine Anwar, Pension Fund Accountant	**Contact Details:** Tel: 020 8227 3763 E-mail: jesmine.anwar@lbbd.gov.uk
Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (Section 151)	
Accountable Strategic Leadership Director: Fiona Taylor, 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 July to 30 September 2023.

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

Recommendation(s)

The Pension Committee is asked to note:

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

(ii) the Fund's assets and liabilities daily value movements outlined in the report,

(iii) Funding level update by Barnett Waddingham, and

(iv) 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 July to 30 September 2023 ("Q3"). 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 12 December 2023 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background (Q3 2023)

In contrast to the previous three Quarterly periods the July to September 2023 period saw a decline in Global Equities. After a positive July both Developed Markets and Asian/Emerging markets suffered declines in August and September with the MSCI World Index declining by over 3% (in $ terms) over the Quarter. An increasing realisation that interest rates will likely remain higher for longer (based on major Central Bank actions and statements) despite it appearing that interest rate rises are drawing to an end, and concerns over the Chinese economy were surely two notable contributory factors. Overall, the major Government Bond markets also declined over the July to September period.

In the US, on 12 July, the Bureau of Labor Statistics announced a sharp drop in the headline US CPI index from 4% in May to 3% in June. However, CPI rose to 3.2% in July and was 3.7% in both August and September. The Core PCE (Personal Consumption Expenditures) Index which is closely observed by the US Federal Reserve when determining monetary policy remained stubbornly above the target of 2%. Core PCE was 4.3 in June (reported in July), 4.3% in July, 3.8% in August and 3.7% in September. Unemployment remained very low but increased over the Quarter to 3.8% at September compared to 3.6% in June.

The June 2023 meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) had held interest rates for the first time since March 2022. At its meeting which concluded on 26 July 2023 the FOMC again increased the Federal Funds rate, this time by 0.25%. The Press Release issued after the July meeting included the statement that “Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated… The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5-1/4 to 5-1/2 percent.” At the FOMC meeting which concluded on 20 September 2023 the FOMC determined not to raise interest rates notwithstanding continuing “elevated” inflation and “low” unemployment. This more cautious approach was not surprising given the extent to which the FOMC had increased rates over the previous 18 months.

At his press conference following the September FOMC meeting Chair Jay Powell made the following statement regarding the future approach to monetary policy “Since early last year, the FOMC has significantly tightened the stance of monetary policy… We’ve covered a lot of ground, and the full effects of our tightening have yet to be felt… Looking ahead, we’re in a position to proceed carefully in determining the extent of additional policy firming that may be appropriate. Our decisions will be based on our ongoing assessments of the incoming data and the evolving outlook and risks.”

US Equities were negative over the Quarter with the S&P 500 declining over 3%. The increase in CPI in July (reported August) and particularly August (reported in September) together with the stubbornly elevated Core PCE inflation raised the possibility of further interest rate increases or the existing rates remaining for longer than perhaps expected/hoped for by markets. Statements by the US Federal Reserve also inclined towards a “high for longer” approach to interest rate policy.

As in the previous Quarter Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) continued to fall from 5.5% in June, to 5.3% in July, 5.2% in August, and 4.3% in September. However, it still remained clearly above the European Central Bank target of 2%. Core inflation also fell from 5.5% in June, to 5.3% by August, and 4.5% in September. Despite eight interest rate rises by the European Central Bank (ECB) between July 2022 and June 2023 Eurozone unemployment remained historically low. Eurozone unemployment was 6.5% in September 2023 only marginally up from the all-time low, in the history of the Eurozone, of 6.4% as at June 2023.

The European Central Bank continued its clear policy of monetary tightening to bring inflation under control and back to the ECB target of 2%. To quote the first two sentences from the Monetary Policy Decisions statement issued after both the July and September 2023 monetary policy meetings “Inflation continues to decline but is still expected to remain too high for too long. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner.” Therefore, at both meetings the ECB increased its benchmark interest rate by 0.25%. Following the September meeting this was at record level of 4%. However, there were clear indications that the ECB may be coming towards the end of its ongoing monetary tightening approach. The Monetary Policy Decisions statement issued after the September meeting including the comment that “Based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target.” Furthermore, at her press conference following the September meeting ECB President Christine Lagarde, in response to a question, indicated that there had been a split in the Governing Council of the ECB over this latest rate rise stating “there are a few members in the Governing Council who would have preferred a pause...”

Eurozone Equities experienced a negative Quarter with the MSCI EMU index falling by over 4% (in Euro terms). News on inflation received during the Quarter (the June, July, and August figures) indicated only a slight downturn while GDP data released by Eurostat showed weakness with figures for the second Quarter of 2023, released on 7 September, indicating that GDP grew by only 0.1% in the Euro area the same as for the first Quarter of 2023. Corporate earnings reports for the second Quarter of 2023 were also disappointing.

In the April to June Quarter UK Equities, in contrast to other major developed market Equities had declined. In the July to September Quarter UK Equities again performed contrary to (most) other developed markets, this time gaining. The FTSE All Share gained almost 2% driven by the performance of the FTSE 100 (mega cap) Index which gained over 2%. The weakness of sterling versus the US dollar boosted returns for those (mainly) large UK listed companies which account/report earnings in US Dollars. The significant weighting of the FTSE All Share to Energy and Basic Materials stocks which had been weak in the previous Quarter clearly contributed to the positivity in the July to September Quarter which saw them rebound.

Fundamentally, however, there are significant questions regarding the FTSE All Share in the long term. This is in a context of, for example, the lack of big technology companies in the index, the weighting of oil and gas in the index, the movement of pension fund investors away from UK equities, and some large companies listing/moving their listing overseas and away from the London Stock Exchange.

There was a further clear decline in UK inflation reported during the Quarter although it remained far above the Bank of England target of 2% and clearly in excess of inflation levels in both the United States and the Eurozone. The June CPI inflation figure (reported in July) was 7.9% compared to 8.7% in May and the July figure (reported in August) was 6.8%. August and September saw CPI at 6.7%.

At the meeting of the Bank of England Monetary Policy Committee (MPC) held on 3 August 2023 the Committee raised Bank Rate (interest rates) by a further 0.25% to 5.25% (a fifteen year high) with 6 Members voting for this increase, two Members for a 0.5% increase and one Member for no increase. In relation to the view of the majority of the Committee who voted for a 0.25% increase the Minutes of the meeting included the statement (at Paragraph 24) that "Six members judged that a 0.25 percentage point increase in Bank Rate, to 5.25%, was warranted at this meeting… Although the monetary stance was weighing on economic activity, a 0.25 percentage point increase in Bank Rate at this meeting was necessary to address the risks from greater inflation persistence."

Bank Rate remained at 5.25% at the MPC meeting on 2 September 2023 following a 5 to 4 vote finally determined by Governor Andrew Bailey's casting vote. The other 4 Members voted for a 0.25% increase. The Minutes of the meeting indicated that the decision making at this meeting had indeed been difficult with (even) 4 of the 5 Members who voted to hold rates considering the decision was "finely balanced." Paragraph 44 of the Minutes included the following "Five members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. There were signs that the labour market was loosening… headline and services CPI inflation had fallen back and were lower than had been expected. Regarding activity, contacts of the Bank's Agents had become more downbeat, and the output PMI in August was now consistent with falling GDP. For most members within this group, the latest developments meant that the judgement to keep Bank Rate unchanged at this meeting rather than increase it was finely balanced." However, the MPC was clear that monetary policy would remain tight and that further interest rate rises could occur – with Paragraph 48 of the Minutes stating "The MPC would continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including the tightness of labour market conditions and the behaviour of wage growth and services price inflation. Monetary policy would need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures."

Japanese inflation continued to exceed the Bank of Japan's target of 2% at 3.3% in July, 3.2% in August and 3.0% in September. Core inflation was 3.1% in July and August and 2.8% in September. The Nikkei 225 Index (which measures the performance of 225 large publicly owned companies) declined by 4% over the Quarter (having increased by over 18% in Yen terms in the previous Quarter).

At both its July and September monetary policy meetings the Bank of Japan, yet again, maintained short term interest rates at -0.1% and continued to be the only major Central Bank to retain negative interest rates. However, at the meeting which concluded on 28 July the Bank made a small but symbolically significant alteration to its monetary policy approach. While maintaining the 10 Year Japanese Government Bond Yield target of 0% with range of around plus or minus 0.5% the Minutes of the meeting stated that the Bank would "conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent…" What this means is that in effect Japanese Government Bond Yields will be allowed to move as high as 1% rather than 0.5%. As at the April monetary policy meeting the Bank of Japan under its new Governor, Kazuo Ueda, signalled, at its July meeting, that the long running ultra loose monetary policy approach of the Bank of Japan may change. However, this will not happen until the Bank is clearer that inflation will remain around the Bank's 2% target over the longer term.

Asian Markets (excluding Japan) and Emerging Markets, overall, performed broadly in line with developed markets as a whole. Both the MSCI Emerging Markets Index and the MSCI Asia (excluding Japan) Index declined by approximately 3% (in US $ terms). Chinese Equities experienced another Quarter of decline in the context of concerns regarding the Chinese economy – particularly property (which accounts for a sizeable proportion of all Chinese economic activity) and the extent of government measures to stimulate the economy. The situation regarding China and questions over the global economic outlook and the potential that US interest rates would remain higher for longer were all factors weighting against Asian and Emerging markets more widely.

Overall benchmark Government Bonds (US, UK, and Germany) experiencing another negative Quarter with yields rising and prices therefore falling. Over the Quarter the 10 Year US, UK and German yields all rose. The US 2 year yield also increased while the German 2 year yield remained static and the UK 2 year yield declined. Announcements from the major Central Banks while indicating that monetary policy tightening was drawing to a close, but that rates would likely stay high, was surely a clear factor weighing against benchmark Government Bonds. On 1 August Fitch (one of the three major credit rating agencies) downgraded its rating of US government bonds from AAA to AA+ Summarising the downgrade Fitch referred to "expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to 'AA' and 'AAA' rated peers over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions." The major Corporate bond markets outperformed benchmark Government Bonds with High Yield again (overall) posting positive performance.

3. Overall Fund Performance

3.1 The Fund's closed Q3 valued at £1,328.46m, a decrease of £15.5m from its value of £1,343.97 at 30 June 2023. Cash held by the Fund was £0.3m giving a total Fund value of £1,328.77. The gross value includes a short-term loan of £5.8m. Adjusting for this increases the Q3 value to £1,334.57m, a decrease of £8.62m from the 30 June 2023 figure of £1,343.19m.

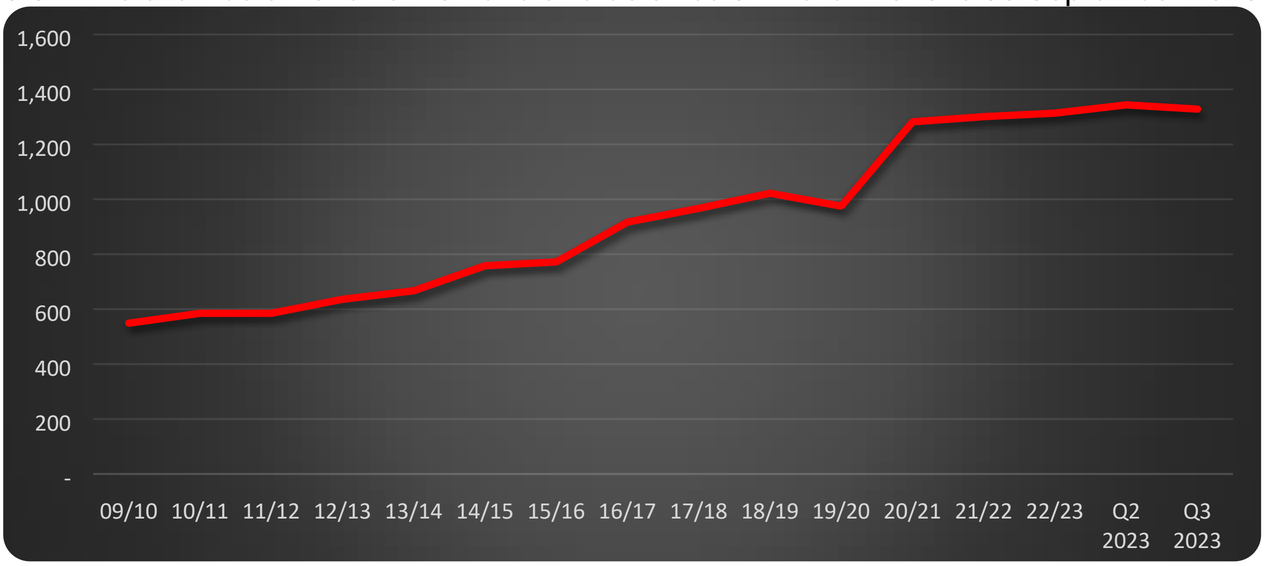
3.2 For Q3 the Fund returned -0.5%, net of fees, underperforming its benchmark of 0.6% by 1.1%. Over one year the Fund underperformed its benchmark by 0.9%, returning 7.6% and underperformed the benchmark by 1.9% over three years, returning 5.7%. The Fund has also underperformed its benchmark over five years by 2.0%, returning 5.1%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has outperformed by 2.1% over one year and underperformed over two years by 1.0%. The Fund's returns are below:

Table1:

Fund's Quarterly and Yearly Returns

Year	2023			2022				2021	One	Two	Three	Five	Ten
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Yr	Yrs	Yrs	Yrs	Yrs
Actual Return	(0.5)	2.0	3.1	2.9	(1.2)	(6.3)	(2.8)	2.6	7.6	(0.0)	5.7	5.1	7.3
Benchmark	0.6	2.9	3.5	1.6	0.1	(4.0)	(0.6)	4.8	8.5	4.4	7.7	7.0	8.5
Difference to Benchmark	(1.1)	(0.9)	(0.4)	1.3	(1.3)	(2.3)	(2.2)	(2.2)	(0.9)	(4.4)	(1.9)	(2.0)	(1.2)
PIRC Universe	0.9	1.9	2.9	1.0	(0.3)	(4.8)	(3.2)	4.4	5.5	1.0	5.8	4.9	7.3
Difference to PIRC	(1.4)	0.1	0.2	1.9	(0.9)	(1.5)	0.4	(1.8)	2.1	(1.0)	(0.1)	0.2	(0.0)

3.3 The chart below shows the Fund's value since 31 March 2010 to 30 September 2023.

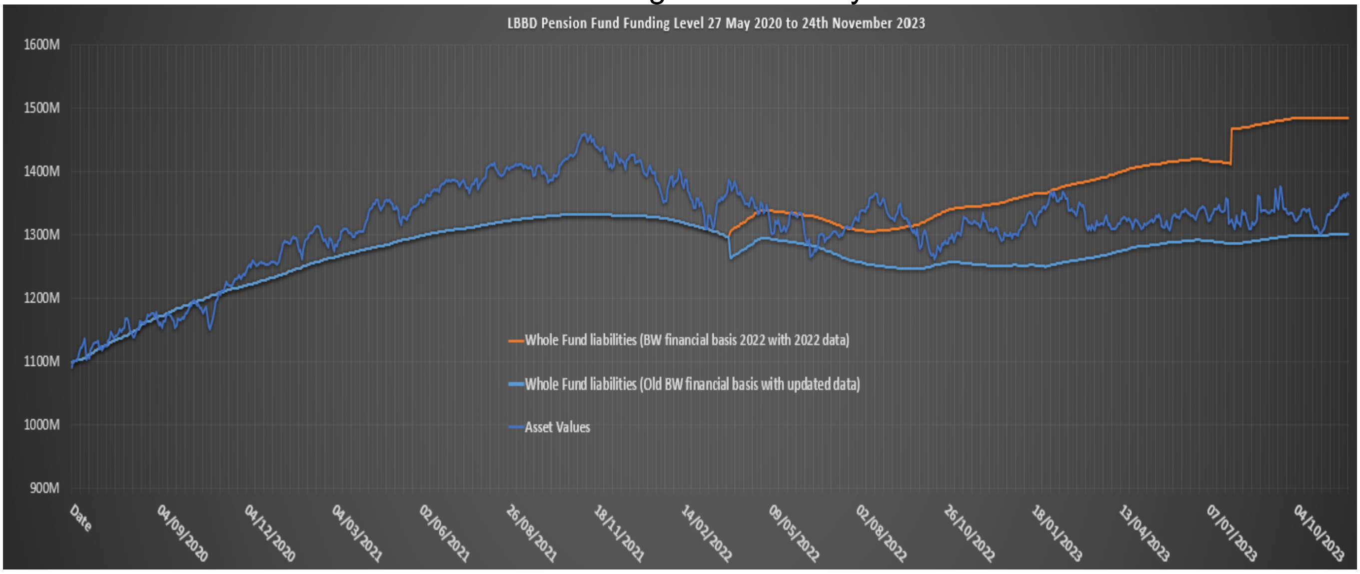


3.5 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below:

	RED- 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

3.6 The chart below illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 24 November 2023. 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. 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.

3.7 The chart below shows the Funds funding Level 27 May 2020 to 24 November 2023



3.8 Funding Level between 27 May 2020 to 24 November 2023

3.9 Currently, given the high interest rates, there has been a reduction in funding level from 100.8% as of 31 March 2022 to 92.4% as at 31 October 2023. Barnett Waddingham have produced a report below with the funding level update explaining these changes.

3.10 **Barnett Waddingham Funding Update**

This summary paper has been requested by and provided to the London Borough of Barking and Dagenham Council as administering authority to the London Borough of Barking and Dagenham Pension Fund (the Fund). Its purpose is to provide an approximate update on the funding position of the Fund as at 31 October 2023. A Results schedule has been provided to the Administering Authority which complies with Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) as issued by the Financial Reporting Council (FRC). This is the only TAS that applies to this work.

3.11 The last full triennial valuation of the London Borough of Barking and Dagenham Pension Fund (the Fund) was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2023.

3.12 To assess the estimated funding position as at 31 October 2023, the value of the Fund's assets and liabilities at 31 March 2022 have been projected forward allowing for changes in actual investment returns on the Fund's assets, market conditions and cashflows paid to and from the Fund, estimated where necessary.

The table below shows the approximate updated funding position of the Fund as at 31 October 2023. The results of the previous actuarial valuation are also shown for comparison.

Ongoing results	31 October 2023	31 March 2022
Liabilities	£1.484bn	£1.306bn
Assets	£1.372bn	£1.317bn
Surplus / (Deficit)	(£112m)	£11m
Funding level	92.4%	100.8%

A summary of the key financial assumptions used for this funding update are shown below, alongside the corresponding assumptions at the last triennial valuation date.

Key assumptions	31 October 2023	31 March 2022
CPI inflation	2.53% p.a.	2.88% p.a.
Salary increases	3.53% p.a. (CPI plus 1.00% p.a.)	3.88% p.a. (CPI plus 1.00% p.a.)
Discount rate	4.13% p.a. (CPI plus 1.60% p.a.)	4.32% p.a. (CPI plus 1.44% p.a.)

3.13 The estimated funding level of the Fund has reduced from 100.8% as at 31 March 2022 to 92.4% as at 31 October 2023. This is largely due to two factors:

- High levels of short-term inflation exceeding the long-term expectation, resulting in an increase in liabilities of circa £123m.
- Investment returns being lower than assumed at the last valuation, resulting in an experience loss of £44m.

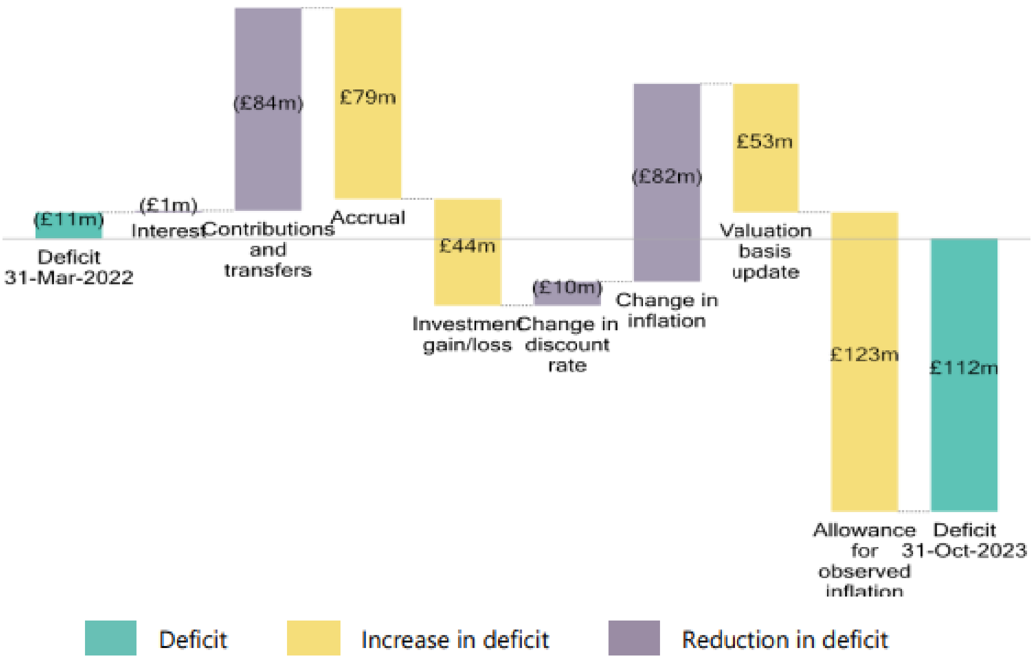
3.14 To assess the Fund's liabilities more accurately, we have adopted an approach to capture inflation experience monthly. Therefore, the funding level as at 31 October 2023 includes the effects of the expected 2024 Pension Increase award of 6.7% and the known increase of 10.1% that was awarded in April 2023. This actual increase in liabilities has been partially offset by the expectation that CPI inflation will be lower over the long-term than assumed at 31 March 2022, as some of the bad news is now in the past.

3.15 Although the Fund returns have outperformed the LGPS benchmark, investment markets have been poor since 31 March 2022 and so investment returns achieved by the Fund over the period have been lower than expected which has contributed to the increase in deficit.

3.16 An adjustment has been made to the derivation of the long-term return estimated on the Fund's holding in absolute return investments. At the 2022 valuation the approach was to set the expected returns of these funds with reference to interest rates. However, given the significant increase in interest rates since the valuation date, and subsequent increase in benchmark returns for these asset classes, our view is that the target returns have become more difficult for investment managers to achieve. Therefore, we have updated the derivation of the expected returns so that they are instead set with reference to the expected returns on gilts and equities. This has led to a reduction in the discount rate as at 31 October 2023 and therefore an increase in the value of the liabilities.

3.17 However, the key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – a higher real discount rate places a lower value on the liabilities. The real discount rate has increased from 1.44% to 1.60% and therefore the overall impact of the change in financial assumptions partially offsets the increase in deficit resulting from the reasons given above i.e., short-term high inflation and low return environment.

3.18 The chart below shows an analysis of the change in the funding position from 31 March 2022 to 31 October 2023.



3.19 **Next Steps**

This is an update for the Committee and for information only. The next full triennial valuation of the Fund is expected to be carried out as at 31 March 2025 with new contribution rates set from 1 April 2026. As part of this review the appropriateness of the assumptions used will be assessed and the funding level of the Fund and employers will be taken into account in setting new contribution rates. This review will seek to maintain stability and consistency in the level of contributions required whilst retaining a prudent long-term view of funding liabilities.

3.20 Inflation is currently running higher than anticipated and asset returns since the last valuation are lower than anticipated, both of which have served to reduce general funding levels within the LGPS, all else being equal. Models that are linked to gilt yields will have projected an increase in LGPS funding levels because of a significant increase in gilt yields since the last valuation date, an increase in the real discount rate and a decrease in liabilities. The Fund valuation model is linked to the actual long-term investment strategy of the Fund and changes in gilt yields have not affected the value of the liabilities materially.

3.21 **Table 2 – Fund Manager Q3 2023 Performance**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	1.7	2.7	(1.0)	Δ
Baillie Gifford	(4.4)	0.7	(5.1)	
BlackRock	(0.7)	(0.4)	(0.3)	Δ
Hermes GPE	0.0	1.4	(1.4)	Δ
Kempen	1.9	0.6	1.3	O
Newton	0.3	2.0	(1.7)	Δ
Pimco*	(2.4)	(2.4)	0.0	O
Pyrford	1.4	1.7	(0.3)	Δ
Insight	2.2	1.0	1.2	O
UBS Bonds	(0.6)	(0.6)	0.0	O
UBS Equities	(1.6)	(1.6)	0.0	O

*Part quarter return

Table 2 highlights the Q3 2023 returns with a number of ambers, indicating a number of negative returns. Kempen the funds equity manager returned 1.9% outperforming the benchmark by 1.3%. Baillie Giffords performance was negative returning -4.4% over the quarter underperforming its benchmark by 5.1%. Newton returned 0.3% underperforming the benchmark by 1.7%. This investment is meant to provide protection in the current market conditions. Insight provided a positive return for the quarter, reflecting the index linked bond performance for the quarter.

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

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	5.5	9.8	(4.3)	
Baillie Gifford	4.6	10.7	(6.1)	
BlackRock	(15.5)	(14.3)	(1.2)	Δ
Hermes GPE	1.2	5.8	(4.6)	
Kempen	15.4	11.1	4.3	O
Newton	0.9	7.0	(6.1)	
Pyrford	4.3	13.2	(8.9)	
Insight	12.2	4.0	8.2	O
UBS Bonds	(2.3)	(2.3)	0.0	O
UBS Equities	17.0	17.0	0.0	O

Over one-year there are even greater variations between managers, with Blackrock providing a negative return of 15.5% and underperforming its benchmark by 1.2%, while Insight provided a positive return of 12.2% outperforming the benchmark by 8.2%. 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.

3.23 **Table 4 – Fund manager performance over three years**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	13.1	6.8	6.3	O
Baillie Gifford	(0.6)	9.5	(10.1)	
BlackRock	2.1	3.2	(1.1)	Δ
Hermes GPE	6.7	5.9	0.8	O
Kempen	15.3	10.2	5.1	O
Newton	0.8	5.1	(4.3)	
Pyrford	3.2	13.8	(10.6)	
Schroders	0.0	0.0	0.0	O
Insight	1.9	4.0	(2.1)	Δ
UBS Bonds	(11.3)	(11.3)	0.0	O
UBS Equities	9.4	9.4	0.0	O

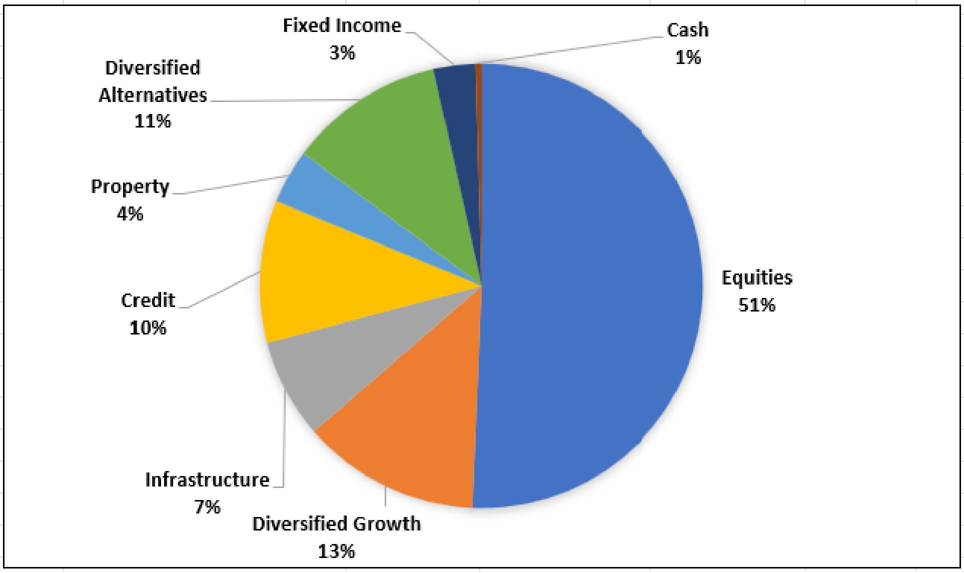
Over three years, returns ranged from (-11.3%) for UBS bonds to 15.3% for Kempen. UBS Equities and Abrdn have provided solid returns, with UBS providing a return of 9.4% and Abrdn providing 13.1% over three years.

4. **Asset Allocations and Benchmark:** Table 5 outlines the Fund's asset allocation, asset value & benchmark at 30 September 2023.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 30 September 2023**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Aberdeen Standard	11.3%	150.78	3 Mth LIBOR + 4% per annum
Baillie Gifford	14.7%	195.80	MSCI AC World Index
BlackRock	3.9%	52.67	AREF/ IPD All Balanced
Hermes GPE	7.2%	96.26	Target yield 5.9% per annum
Kempen	15.5%	207.01	MSCI World NDR Index
Newton	5.8%	77.43	One-month LIBOR +4% per annum
Pimco	5.1%	68.72	Bloomberg Global Aggregate Credit
Pyrford	7.2%	95.53	UK RPI +5% per annum
Mellon Corporation	5.2%	69.62	3 Mth LIBOR + 4% per annum
UBS Bonds	3.1%	40.97	FTSE UK Gilts All Stocks
UBS Equities	20.5%	273.54	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	0.5%	6.10	One-month LIBOR
Fund Value	100.0%	1,334.57	
ST Loan		-5.8	
Net Fund Value		**1,328.77**	

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



4.3 The strategy is slightly overweight equities; however equities are now nearer the middle of the range at 50.7%. Cash excludes the pre-payment and short-term borrowing from the council and shows that the Fund is fully invested. The Fund is below the exposure to infrastructure, but this will be reviewed.

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	50.7%	50%	0.7%	48-53
Diversified Growth	13.0%	13%	0.0%	11-15
Infrastructure	7.2%	8%	-0.8%	6-8
Credit	10.4%	9%	1.4%	6-9
Property	3.9%	4%	-0.1%	3-5
Diversified Alternatives	11.3%	11%	0.3%	10-12
Fixed Income	3.1%	5%	-1.9%	4-5
Cash	0.5%	0%	0.5%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2023			2022				2021	One Year	Three Years	Since Start 6/2/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£207.01m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.9	1.8	1.7	10.0	(1.6)	(3.1)	0.1	2.9	15.4	15.3	8.3
Benchmark	0.6	3.9	4.8	1.9	2.1	(9.1)	(2.4)	7.3	11.1	10.2	11.6
Difference	1.3	(2.1)	(3.1)	8.1	(3.7)	6.0	2.5	(4.4)	4.3	5.1	(3.3)

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 1.3% for Q3 and has outperformed over one-year by 4.3% and outperformed over three years by 5.1%. Kempen has underperformed its benchmark since inception by 3.3% but providing an annualised return of 8.3%. 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	2023			2022				2021	One	Three	Since Start
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	**Year**	**Years**	**6/2/13**
£195.80m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(4.4)**	3.2	4.6	1.2	1.0	(12.1)	(12.4)	0.1	4.6	(0.6)	11.3
Benchmark	**0.7**	3.4	4.5	2.0	1.5	(8.4)	(2.5)	6.3	10.7	9.5	11.2
Difference	**(5.1)**	(0.2)	0.1	(0.8)	(0.5)	(3.7)	(9.9)	(6.2)	(6.1)	(10.1)	0.1

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 Q3 BG returned -4.4%, underperforming its benchmark by 5.1%. BG's one-year return was 4.6%, underperforming its benchmark by 6.1%. Since initial funding, the strategy has returned 11.3% p.a. outperforming its benchmark by 0.1%.

This quarter was a setback for the Sub-fund which in the first half of 2023 had managed to stabilise performance. Over the quarter, once again, macroeconomic uncertainty dominated the news, "short-termism" became the dominant behaviour and stock market participants struggled to assess the impact of inflation and the direction of interest rates. Against this backdrop, many of the Sub-fund's holdings underperformed. This is because despite the 'de-risking' that the investment manager performed over the previous 12 months the Sub-fund by and large maintains its growth orientation and long-term investing horizon.

At the stock level the largest detractors were Chewy, the pet food online retailer, the payments processing company Adyen and two luxury goods companies, Pernod Ricard and Richemont. Chewy was mainly affected by slower new customers' acquisition as well as by comments the company's management made that customers are starting to trade down to value-priced items. Both developments can potentially decelerate growth, but the investment manager advocates that the market overreacted to the news.

Adyen underperformed on the back of concerns that the accelerated hiring of engineers is increasing costs and will hurt the bottom line. The two luxury goods companies, Richemont and Pernod Ricard were mainly hit by concerns about demand for luxury goods in general in the scenario of a recession and specifically by concerns regarding China which remains a key market for these products.

LCIV Summary

At the country level, as of the end of September 2023, the Sub-fund's largest exposure remained the U.S. at 64.5%. At the sector level, the Sub-fund maintained its large exposure to the consumer discretionary sector at 21.2%. This sector remains the largest exposure followed by financials at 17.4% and IT at 16.4%.

Sub-fund turnover remains low which aligns with the long-term investment horizon of the strategy. The investment manager remains, perhaps overly so, confident regarding buying opportunities in the market at reasonable valuations, going as far as stating: "we find ourselves amidst a once-in a generation opportunity stemming from the market's addled state". In this vein, they have taken a new holding in Comfort Systems, one of America's leading industrial mechanical, electrical and plumbing contractors which is expected to benefit from the unfolding US industrial renaissance. They have also taken new positions in Nippon Paint, the Japanese paint business with exposure to the fast-growing Asian market, and Yeti, the US outdoor equipment business, who have built a very strong brand according to the manager.

New purchases and additions have been funded by the sale of Deutsche Boerse, who are the operator of the German stock exchange, Eurex and Clearstream. The shares of Deutsche Boerse saw their valuation rise strongly and opportunities to upgrade the growth profile of the portfolio compelled the investment manager to move on.

The quarter was a setback for the Sub-fund from a performance perspective as the progress made in the first half part of 2023 to stabilise returns was more than offset by a strongly negative Q3. Disappointingly, since inception relative performance numbers, which were marginally positive at the end of Q2, have now moved into negative territory. This remains the main watch point in the monitoring of the Sub-fund, but it is noted that this quarter's rout of performance is driven, to a large extent, by current market dynamics. These are not favouring the Sub-fund's style but nonetheless remain fluid and subject to a reversal. If that occurs, the Sub-fund should be well positioned to benefit.

5.3 UBS Equities

UBS Equities	2023			2022				2021	One	Three	Since Start
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Year	Years	31/08/12
£273.54m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.6)	6.2	6.7	5.8	(3.1)	(12.9)	(4.0)	7.6	17.0	9.4	12.0
Benchmark	(1.6)	6.2	6.7	5.8	(3.1)	(12.9)	(4.0)	7.6	17.0	9.4	12.1
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 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 -1.6% for Q3 and 17.0% over one year. Since funding in August 2012, the strategy has provided an annualised return of 12.0%.

Equities

Following the FTSE quarterly review in September, 14 stocks were added to and 42 stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. During the quarter, Johnson & Johnson's weight in the index decreased following spin-off of Kenvue Inc.

The US economy continued its solid performance in September. The labor market is undergoing a gentle cooling, with non-farm payroll growth of 187,000 in August, better than expected and above negatively-revised July figures. The unemployment rate unexpectedly rose to 3.8% from 3.5%, but this was mainly driven by higher labor force participation as more people stayed in the workforce. On a six month annualized rate of change, aggregate labor income is still broadly slowing, though it has picked up on a higher frequency. Initial jobless claims linger near record lows, pointing to enduring tightness in the labor market.

The August CPI inflation report was largely in-line with expectations, with headline rising 0.6% month-on-month and core up 0.3% on a monthly basis. PCE inflation data released late in the month painted a slightly more subdued picture for price growth, with headline and core up 0.4% and 0.1%, respectively. Both of these figures were lower than anticipated. The Federal Reserve kept rates unchanged at a range of 5.25 to 5.5% at its September meeting, as expected. The central bank's updated forecasts reflected optimism about the economy's ability to withstand higher interest rates. Real GDP projections were revised up materially for 2023, with 2024 estimates increased as well. Monetary policymakers also think the labor market will remain tighter for longer, reducing their forecast for the unemployment rate at the end of 2024 and 2025 to 4.1% from 4.5%. During his press conference, Fed Chair Jerome Powell indicated that the last three months of CPI inflation data had been positive, which suggests that the central bank is not overly concerned about the renewed rise in energy prices or some acceleration in supercore measures of inflation. At the end of the month, Congress reached a bipartisan deal to fund the government for 45 days, narrowly avoiding a government shutdown which was due to start October 1.

5.4 UBS Bonds

UBS Bonds	2023			2022				2021	One Year	Three Years	Since Start 5/7/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£40.97m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(0.6)**	(5.4)	2.1	1.7	(12.9)	(7.4)	(7.2)	2.4	(2.3)	(11.3)	0.3
Benchmark	**(0.6)**	(5.4)	2.1	1.7	(12.9)	(7.4)	(7.2)	2.4	(2.3)	(11.3)	0.3
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 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 -0.6% for Q3, -2.3% for one year and -11.3% for three-year return. Since inception the strategy has returned 0.3%.

Review

The All Stock Gilt index returned -0.63% in sterling terms over the quarter. In yield terms, 2 year nominal yields fell by 0.28% to 4.98% and 10 year nominal yields rose by 0.18% to 4.56%. The modified duration of the index is 8.46 years. The Bank of England's Monetary Policy Committee increased the policy rate to 5.25%. The UK Debt Management Office held 13 nominal bond auctions during the quarter across a range of maturities.

Inflation in Japan came in slightly above expectations in August. Annual headline inflation of 3.2% was a tick above July's reading, but higher than the 3% estimate. Core inflation remained unchanged at 3.1% year-on-year versus the 3% projection. However, labor cash earnings continued to show a marked deceleration from the strong growth seen in May. As of July, labor cash earnings increased 1.3% year-on-year, far below the consensus call for 2.4%, and are deeply negative in real terms. The Bank of Japan kept policy unchanged at its September meeting. Governor Kazuo Ueda indicated that there was a high bar to hike rates back to 0, emphasizing that the central bank could ease more if necessary to ensure that underlying inflation reaches 2% on a durable basis.

5.5 Pimco

Pimco	2023			2022				2021	One Year	Three Years	Since Start 18/07/2023
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£68.72	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(2.1)**										(2.4)
Benchmark	**(2.0)**										(2.4)
Difference	**(0.1)**										0.0

Reason for appointment

Pimco were appointed as the increase in bond yields over the past year significantly increased the attractiveness of fixed income assets, including investment grade credit. Although slowing earnings growth may weigh on company debt affordability going forward, high interest coverage levels and lower leverage mean that the funds advisor doesn't anticipate a very high level of defaults and downgrades. The investment was completed in 3 tranches of £20m in July 2023, £25m in August 2023 and £25m in September 2023.

Performance and Investment Update

Pimco returned -2.1% for Q3 against a benchmark of 2.0% and returned -2.4% since inception. The Q3 return was a part quarter return as the date of inception was 18th July 2023.

Q3 was another challenging quarter for investment grade credit as yields kept rising on the back of monetary policy guidance. Key to this further increase in yields was the 'higher for longer' narrative on interest rates which was reinforced by comments from the U.S. central bank. Against that backdrop, the Sub-fund's incremental increase in duration, particularly through exposure to U.S. credit, was the main headwind for the portfolio.

The Sub-fund's allocation to generic credit risk detracted slightly from performance. Credit spreads tightened slightly over the first half of the quarter and widened in September, ending the quarter broadly unchanged. The investment manager had added to credit risk as spreads widened, resulting in marginal underperformance for the Sub-fund.

The yield to maturity of the Sub-fund increased from 5.6% at the end of Q2 to 6% at the end of Q3, 0.4% higher than the benchmark index. The current yield also increased, by 0.7% to 4.7%. The weighted average rating of the holdings in the Sub-fund is 'A+', compared to 'A' for the benchmark. Borrower exposure is spread across a very large number of companies. In our view, the yield to risk profile of the Sub-fund is attractive when compared to the index.

The investment manager has achieved a strong recovery over the last year and relative performance is now positive across short and long-term horizons. It is expected that the investment manager to continue to build on this improvement through careful positioning in terms of interest rate risk and credit market beta, as well as diligent selection of borrowers.

5.6 BlackRock

BlackRock	2023			2022				2021	One Year	Three Years	Since Start 1/1/2013
	Q3	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4			
£52.67m	**%**	**%**	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(0.7)**	(0.4)	0.0	(14.4)	(4.4)	2.9	6.8	6.7	(15.5)	2.1	0.7
Benchmark	**(0.4)**	0.4	(0.2)	(14.1)	(4.0)	3.9	5.6	7.5	(14.3)	3.2	3.5
Difference	**(0.3)**	(0.8)	0.2	(0.3)	(0.4)	(1.0)	1.2	(0.8)	(1.2)	(1.1)	(2.8)

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.

Q3 2023 Performance and Investment Update

BR returned -0.7% for Q3 against a benchmark of -0.4%, returned -15.5% over one year against a benchmark of -14.3%. The Fund's valuers have a highlighted increased volatility and uncertainty in their valuations. This is not a 'material uncertainty clause' as was seen during COVID, however the valuers are relying more on sentiment than transaction evidence. The LDI crisis and associated bond market crash had several impacts on the UK property market.

Market Conditions

The UK saw the Bank of England pausing further rate rises at their meeting in September, opting to leave the Base Rate at 5.25% following inflation data surprising on the downside. The manager sees this as a significant step forward as the market moves through the steps of the cycle. It would be wrong to prematurely celebrate, not least because inflation remains well above the 2% pa target, and it should be seen as an inflation spike again then the BoE will respond accordingly. It is certainly a milestone however, following nearly two years of frequent rate rises to attempt to check inflation, that the Bank's decision to pause, we believe, points to more stability in Q4. Uncertainty around inflation and subsequent rate hikes has plagued the property market, negatively impacting transaction activity.

The Fund has received a heightened level of redemption requests, reflecting the actions of a number of UK corporate defined benefit pension scheme clients, many of whom found the macro market changes effectively moved them from underfunded to overfunded. This is clearly good news for many of our clients who have achieved their objectives, however the very same cause of their success simultaneously creates a handbrake on the property market, linked to the rising cost of finance, the impact of an elevated rate environment on occupiers, and inflation on build costs. These opposing forces create tension, with less liquidity due to these challenges.

Transactions: In the third quarter of 2023, the Fund completed the sale of Watling House, a multi-let office building, with ancillary retail and leisure at ground and lower ground floors, in the City of London, EC4. No acquisitions were completed during the quarter.

5.7 Hermes

Hermes	**2023**			**2022**				**2021**	**One Year**	**Three Years**	**Since Start 9/11/2012**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£96.26m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.0**	0.5	(0.1)	0.8	10.5	(1.0)	10.5	(0.9)	1.2	6.7	8.0
Benchmark	**1.4**	1.4	1.5	1.4	1.4	1.4	1.5	1.4	5.8	5.9	5.9
)ifference	**(1.4)**	(1.0)	(1.5)	(0.6)	9.1	(2.4)	9.0	(2.3)	(4.6)	0.8	2.0

<u>Reason for appointment</u>

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%.

<u>Performance</u>

Hermes returned 0.0% in Q3 underperforming the benchmark by 1.4%. Over one year the strategy reported a one-year return of 1.2%, underperforming its benchmark by 4.6%. Since inception the strategy has provided a good, annualised return of 8.0%, outperforming its benchmark by 2.0%.

The remaining interests in HIF I are A Shade Greener I and II ("ASG"), the Innisfree funds and Southern Water. The managers intention is to wind up the Fund through disposal of the remaining assets: A Shade Greener I & II ("ASG") for which the sales process continues to progress, Innisfree M&G PPP 'B commitments' and Innisfree PFI continuation Fund, which continue to yield.

The disposal proceeds, £32.2m, from the previously completed sale of the Innisfree M&G PPP 'A commitments' are due to be received in March 2024. The remaining HIF I Core assets after the completion of the ASG sale are the Innisfree M&G PPP 'B commitments' and Innisfree PFI Continuation fund. The funds distributed twice in 2023 and are forecast to continue to yield in the coming years, more than covering fund expenses.

30 June is the first independent valuation of FHDIF following the close of Project Orion in April. Following the Independent Valuation Committee, the portfolio valuation is down 5.0% (4.6% after accounting for H1 2023 distributions to the Fund) compared to 31 December 2022. The write down of ABP, because of an aborted sale of a stake in ABP rather than any operational issues in the business, as described further in the report, accounts for over two thirds of the portfolio valuation movement. Increased discount rates, particularly for UK assets, and the strengthening of Sterling against the Euro, which negatively impacts the GBP valuations of the Euro denominated assets, account for the balance. Relative to the market, we consider that the FHDIF portfolio has performed robustly, consistent with the design characteristics we sought.

Project Orion

Project Orion aims to combine the Limited Partnership interests of HIF I and two single investor managed accounts into one single diversified Core/Core+ strategy. Orion provides an opportunity to simplify some of the historic administrative complexities of HIF I, whilst leveraging off the proven track record of its asset pool (and that of two HGPE managed accounts) in order to raise additional capital, to further diversify the fund and increase returns for investors.

The completion of Project Orion occurred on Friday 14 April 2023 and the London Borough of Barking and Dagenham Pension Fund has been admitted as a limited partner in Federated Hermes Diversified Infrastructure Fund LP (the "**Orion Partnership**").

5.8 Abrdn Asset Management

Abrdn	2023			2022				2021	One	Three	Since Start
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	**Year**	**Years**	**15/9/2014**
£150.78	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.7**	1.6	3.7	(1.5)	(2.1)	(1.4)	3.7	1.6	5.5	13.1	7.0
Benchmark	**2.7**	2.5	2.4	2.1	1.8	1.6	1.6	1.0	9.8	6.8	5.4
fference	**(1.0)**	(1.1)	1.3	(3.6)	(3.9)	(3.0)	2.1	0.6	(4.3)	6.3	1.6

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 £148m, which is 11% 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 the potential to reduce the allocation, potentially to Hedge Funds, or to increase the strategic allocation level.

Performance summary

The Portfolio posted a solid gain over the three months to the end of September. Returns were led by strong performance from hedge funds including DE Shaw Oculus and Frere Hall, and higher June 30 valuations for private equity investments including Advent VIII and SOF IV (the secondaries fund). Over one year the return of 1.6% underperforms the benchmark return of 8.9% by 7.3%. Since inception the strategy has returned 7.0%, outperforming the benchmark by 1.8%.

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) 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) tail risk protection which is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Outlook

The manager continues to see a broad opportunity set for discretionary macro managers, which in the near term will continue to be driven by inflation dynamics and tight monetary policy. Macro managers remain closely aligned in their views on the path for interest rates, yet the destination and timing differ. Some discretionary specialists, however, are particularly focused on idiosyncratic country-level opportunities, especially within EM as opposed to the bigger macro picture. Rates-focused managers continue to see pockets of value trading G3 rates as well as emerging markets, where some central banks have already started cutting, potentially starting a new multi-year trading opportunity.

The manager outlook for fixed income relative value strategies remains positive. The manager sees dispersion across fixed income instruments in developed markets, with G7 central banks having notably tightened monetary policy, persistent uncertainty on inflation and economic growth (and thus the future course of monetary policy), reduced liquidity and dealers' ability to warehouse risk, as well as on-going geopolitical tensions.

Abrdn Acquisition

On 20th July, Abrdn announced that it has entered into an agreement to transfer the management of approximately $4 billion in assets under management and 30 employees to HighVista Strategies LLC. Abrdn concluded following a comprehensive business review of its private markets business that the US Private Equity and Venture Capital capabilities (from the acquisition of FLAG Capital Management) would be best developed under a different ownership and management structure. The sale is expected to complete later this year. Officers are in talks with Abrdn about the potential impact this would have on the funds investment and will keep the committee updated.

Abrdn recently announced that it has entered into an agreement to sell its European headquartered private equity business ("abrdn Private Equity") to Patria Investments ("Patria"), a leading private markets asset management firm. Patria is a Nasdaq-listed, entrepreneurial global partnership with assets under management in excess of $28 billion and over 30 years of experience in direct private equity, infrastructure, real estate and credit. The sale includes all of the European and Global private equity funds and mandates managed or advised by abrdn Private Equity, representing approximately £7.5 billion in total assets. Officers are currently in discussion with Abrdn and the fund's investment advisor to establish the full impact of this acquisition on the fund and will keep members updated. It The Patria/abrdn transaction is not expected to formally close until March or April 2024.

5.9 Pyrford

Pyrford	**2023**			**2022**				**2021**	**One**	**Three**	**Since Start**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	**Year**	**Years**	**28/9/2012**
£95.53m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.4**	(1.7)	1.4	3.2	(2.4)	(0.8)	1.5	1.3	4.3	3.2	3.1
Benchmark	**1.7**	3.7	3.1	4.7	3.3	6.3	3.1	4.0	13.2	13.8	8.7
Difference	**(0.3)**	(5.4)	(1.7)	(1.5)	(5.7)	(7.1)	(1.6)	(2.7)	(8.9)	(10.6)	(5.6)

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 value of the Sub-fund increased by 1.4% in the third quarter of 2023. Over one year, the Sub-fund has gained 4.3%, whereas the RPI plus 5% benchmark has increased by 16.9%. On an annualised basis, the Sub-fund has returned 3.1% since inception.

The Sub-fund was well positioned to withstand the sharp increase in bond yields and falls in equity markets in the second half of Q3. All of the main blocks of exposure in the Sub-fund made money in Q3.

Bonds are the biggest segment of the portfolio. This segment is invested entirely in short-dated bonds which are less sensitive to changes in reference interest rates. UK (+1.1% contribution to composite performance, source: investment manager) and overseas bonds (+0.4%) both outperformed their respective reference indices by big margins. The Sub-fund holds only developed market government bonds maturing in five years or less.

The Sub-fund 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. The asset allocation process is slow moving. Derivatives are used only to manage currency risk.

5.10 Newton

Newton	**2023**			**2022**				**2021**	**One**	**Three**	**Since Start**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	**Year**	**Years**	**31/8/2012**
£77.43m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.3**	(1.8)	(1.3)	3.7	(4.3)	(2.1)	(4.4)	3.7	0.9	0.8	3.0
Benchmark	**2.0**	1.8	1.7	1.4	1.1	0.9	0.8	1.0	7.0	5.1	4.6
rence	**(1.7)**	(3.6)	(3.0)	2.3	(5.4)	(3.0)	(5.2)	2.7	(6.1)	(4.3)	(1.6)

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 0.3% in Q3, underperforming its benchmark by 1.7%. Over one year the strategy has returned 0.9%, underperforming its benchmark by 6.1%, although the return over three years is 0.8% against a benchmark of 5.1%. Newton’s performance since inception is 3.0% per annum.

The return-seeking segment of the Sub-fund lost 1.1% in Q3 (source: investment manager, before fees). Equities were down (in local currency terms), but protective positions helped mitigate losses in the second half of the quarter. Emerging markets debt also made a small loss, partly because of the performance of the Mexican Peso. Alternatives were weak, mainly because of the impact of higher bond yields on the valuations of renewable energy and infrastructure funds. The equity market beta embedded in listed real assets funds was another headwind.

The stabilising layer was up 0.6% in Q3. The allocation to cash was increased over the quarter, and these holdings generated attractive yields. Government bonds weathered the big rise in yields well, ending the quarter flat. The investment manager actively adjusted positioning in this part of the Sub-fund in Q3, including by taking short positions in interest rate futures. Derivatives made a positive contribution to recover a portion of the losses incurred in the first half of 2023, when equity protection proved to be expensive.

The investment manager's central view remains that the risk of recession or an extended period of sub-par growth is high. Corporate profits have held up well so far, but the investment manager expects consumer spending and capital investment to slow down in the wake of the shift in the rates markets to a 'higher for longer' scenario. The investment manager remains concerned that equity valuations are misaligned to the sharp increase in discount rates in the past 12 to 18 months, and that credit markets are not correctly pricing default and downgrade risk.

5.11 Insight (Mellon Corporation / Standish)

Insight	2023			2022				2021	One	Three	Since Start
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	**Year**	**Years**	**20/8/2013**
£69.62	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**2.2**	1.5	2.8	5.7	(1.3)	(3.8)	(2.6)	(0.7)	12.2	1.9	1.2
Benchmark	**1.0**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.8
Difference	**1.2**	0.5	1.8	4.7	(2.3)	(4.8)	(3.6)	(1.7)	8.2	(2.1)	(3.6)

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

Q3 saw the BNY Mellon Targeted Return Bond Fund outperform its reference benchmark by 1.2%, providing a positive return of 2.2%. Over one year the strategy has returned 12.2% and over three years it has returned 1.9%, with a return of 1.2% since inception.

The third quarter of 2023 saw the BNY Mellon Targeted Return Bond Fund slightly underperform its reference benchmark. The bulk of the period's positive alpha can be attributed to the fund's overweight to credit markets, while this was offset by positioning in duration markets. The best performing rates positions was an underweight in Canada and a 2s10s steepener in the United Kingdom. Small overweights to several other markets including Australia, Korea, Mexico, New Zealand and South Africa underperformed as rates were under pressure. Within European countries the fund continued to benefit from its overweight in Greek debt although this was offset by underperformance from a larger overweight in Italian debt. In aggregate, duration positioning was the main driver of underperformance throughout the quarter.

The fund's large overweight to corporate credit and other risk assets during the spread tightening environment made a large positive contribution to returns on the quarter, and almost offset the underperformance from duration. Specifically material positions in banking, communications, and non-cyclical consumer companies lead the outperformance in spread products. Active FX positioning was not a meaningful source of performance throughout the quarter.

5.12 Currency Hedging

No new currency hedging positions were placed in Q3 2023.

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: David Dickinson, Investment Fund Manager

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 Q3 2023 Report; and
- Fund Manager Q3 2023 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 21 November 2023
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities

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 Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Pathways Riverside Bridge Riverside Free School Riverside School St Joseph's Barking St Joseph's Dagenham St Margarets St Theresa's St Vincents Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy
Admitted Bodies	
	Aspens Aspens 2 BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Lewis and Graves

	Pantry Cleaning Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners

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 2025 and the Actuary must complete his report by March 2026. The results of this Valuation will result in the setting of the Employer Contribution Rates for the three years 2026-2027, 2027-2028 and 2028-2029

- 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."*

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(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;

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- 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:

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- 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

13 December 2023

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: Jesmine Anwar, Pension Fund Accountant	**Contact Details:** Tel: 020 8227 3763 E-mail: jesmine.anwar@lbbd.gov.uk
Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	
Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive	
Summary 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 The Committee is asked to note: i. Pension Fund Budget 1 April 2023 to 31 March 2026, ii. that the Fund is cash flow positive, iii. London CIV update, iv. McCloud summary, v. Member Self Service implementation, and the vi. Internal Audit of the Pension Fund.	

1. Introduction

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

i. Pension Fund Budget 1 April 2023 to 31 March 2026,
ii. Cashflow to 30 September 2023,
iii. London CIV update,
iv. McCloud Summary,
v. Member Self Service implementation, and the
vi. Internal Audit of the Pension Fund

2. Pension Fund Budget 1 April 2023 to 31 March 2026

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2026.

Table 1: Pension Fund Budget 1 April 2023 to 31 March 2026

	2023/24	2024/25	2025/26
Income	**£000s**	**£000s**	**£000s**
Council	9,529	9,720	9,914
Admitted bodies	453	416	382
Scheduled bodies	2,016	1,954	1,893
Total contributions from members	**11,998**	**12,089**	**12,189**
Council - Normal	30,226	30,830	31,447
Admitted bodies - Normal	1,868	1,715	1,574
Scheduled bodies - Normal	7,692	7,454	7,222
Pension Strain	500	250	250
Total contributions from employers	**40,286**	**40,249**	**40,494**
Total Contributions	52,284	52,338	52,683
Individual Transfers	3,000	3,000	3,000
Total Income Before Investments	**55,284**	**55,338**	**55,683**
Expenses			
Pensions			
Council	-33,937	-34,955	-36,004
Admitted Bodies	-288	-296	-305
Scheduled Bodies	-7,875	-8,111	-8,354
Total	**-42,100**	**-43,363**	**-44,664**
Lump sums			
Council	-4,540	-4,676	-4,817
Admitted Bodies	- 1,139	-1,173	-1,208
Scheduled Bodies	- 213	-219	-226
Total	**- 5,892**	**-6,069**	**-6,251**
Death grants	- 1,500	- 1,600	- 1,600
Payments to and on account of leavers	- 4,500	- 4,500	- 4,500
Total Expense	**-53,991**	**- 55,531**	**-57,014**
Net Income / (Expenditure) Excl Investments and Management Costs	1,293	**- 193**	**- 1,331**
Total Management Costs (cash)	**- 1,887**	**- 1,958**	**- 2,032**
Net Income / (Expenditure) Excluding Investments	**- 594**	**- 2,151**	**- 3,363**
Investment Income			
BlackRock	2,472	2,546	2,623
Hermes	515	530	546
Total	**2,987**	**3,077**	**3,169**
Net Income / (Expenditure) - cash	**2,939**	**926**	**- 194**

2.2 The three-year budget has fairly stable member numbers. A forecast 8.0% increase in pensions in 2023/24 due to the current high level of inflation has risen the total expenses forecasted. There is an average salary increase of 6.0%, however as the council contribution also fell from 23% to 22%, this partially offset the increase in income in 2023/24. Employer contribution will remain at 22% in the next 2 two years. Pension Strain is forecasted to increase in 2023/24 as a result of the council's savings programme due to central government funding cuts then this forecasted to fall in the following years.

2.3 Excluding investments, the fund is expected to be cashflow negative for the next 3 years. There is investment income expected from two investments managers of approximately £3m per annum. Overall, the Fund is expected to be cashflow positive, after investment income, for 2023/24 and 2024/25 and negative in the following year.

3. Cash flow to 30 September 2023

3.1 Table 2 below provides Members with the Fund's Cash flow to 30 September 2023.

Table 2: Actual Pension Fund Cash Flow to 30 September 2023

	2023/24 Budget £000's	2022/23 Forecast £000's	Over / Under £000's
Contributions			
Employee Contributions			
Council	9,500	9,000	-500
Admitted bodies	450	417	-33
Scheduled bodies	2,000	2,073	73
Employer Contributions			
Council	30,000	29,525	-475
Admitted bodies	1,800	1,770	-30
Scheduled bodies	7,700	7,850	150
Pension Strain	500	500.00	-
Transfers In	3,000	1,865	-1,135
Total Member Income	**54,950**	**53,000**	**-1,950**
Expenditure			
Pensions	-42,100	-41,750	350
Lump Sums and Death Grants	-7,500	-8,645	-1,145
Payments to and on account of leavers	-4,500	-4,300	200
Administrative expenses	-800	-800	-
Total Expenditure on members	**-54,900**	**-55,495**	**-595**
Net additions for dealings with members	**50**	**-2,495**	**-2,545**
Returns on Investments			
Investment Income	15,000	15,000	-
Profit (losses)	35,000	35,000	-
Investment management expenses	-4,500	-4,500	-
Net returns on investments	**45,500**	**45,500**	**-**
Net increase (decrease) in the net assets	**45,550**	**43,005**	**-2,545**
Asset Values	**1,406,180**	**1,406,180**	
Liabilities	**1,305,583**	**1,305,583**	
Funding Level	**107.71%**	**107.71%**	

4. London Collective Investment Vehicle (LCIV) Update

4.1 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.

	30/06/2023	Market Move	30/09/2023
Active Investments	**£**	**£**	**£**
LCIV Global Alpha Growth Fund	255,705,776	-59,906,996	195,798,780
LCIV Global Total Return Fund	113,996,254	-18,469,315	95,526,939
LCIV Real Return Fund	77,186,153	243,770	77,429,923
LCIV Global Bond Fund		68,715,907	68,715,907
Total	446,888,183	-9,416,634	437,471,549

4.2 Update from the London CIV

At 30 September 2023, the total assets deemed pooled stood at approximately £27.4bn. Assets under management in the ACS stood at £13.4bn. The value of 'pooled' passive assets was £12.6bn, which is managed by L&G and BlackRock. AUM has decreased due to less favourable market conditions from June 2023 to September 2023 by £0.3bn.

5. McCloud Summary of current position

5.1 Regulations published and effective from 1 October 2023. When the LGP changed from final salary scheme to career average scheme in 2014, older members were protected from the changes. In 2018, the Courts found that younger members had been discriminated against because the protections did not apply to them. The 2023 changes are called the McCloud remedy. They remove the age discrimination found in the McCloud court case.

5.2 However not all LGPS members are affected by the changes. The changes only affect people if:

- they were paying into the LGPS or another public service pension scheme before 1 April 2012
- they were also paying into the LGPS between 1 April 2014 and 31 March 2022
- and they have been a member of a public service pension scheme without a continuous break of more than 5 years

5.3 Cases identified from 1 October 2023 will be automatically assessed and an underpin addition added if applicable. Action for Pension Funds - DLUHC have published a prioritisation list stating the order of cases that funds need to look at to identify those cases within the remedy period that would not have previously been considered for underpin protection. The fund will need to identify and consider whether any retirements, deaths (survivor benefits), trivial commutations and transfers that have been processed in the remedy period will need to be recalculated.

6. Member Self Service Implementation

6.1 The fund recently launched its Member Self Service Pension portal to the active members of the pension scheme following a 12-week implementation and testing project. The cost of the project was £62,659. Registration instructions were communicated to around 6,000 members at the beginning of August and to date, just over 2,000 have registered.

6.2 Fund Members are able to:

- View their annual benefit statements (including a video ABS facility)
- Calculate retirement forecasts
- View and amend personal details such as home address and email
- View and amend beneficiary details

6.3 Subsequent communications will continue to be issued to encourage more members to register. The portal will be launched to the Fund's deferred pensioner members next year. Once this has been achieved, annual benefit statements will be completely paperless resulting in reduced printing and postage costs. Initial feedback has been extremely positive.

7. Internal Audit of the Pension Fund

7.1 An audit of London Borough of Barking and Dagenham (the Council's) Pension Fund Investments was included as part of the Internal Audit Plan for 2023/24 approved by the Audit & Standards Committee. This was carried out in-house in October 2023.

7.2 The London Borough of Barking and Dagenham (the "Council") is responsible for the administration of the London Borough of Barking and Dagenham Pension Fund (the "Fund"), a defined benefit pension fund. As the administrating authority, the Council is responsible, under The Local Government Pension Scheme (LGPS) Regulations 2013, for:

- The collection of contributions; directly from the Council, other participating employers and from their respective contributing employees,
- The investment of funds in accordance with LGPS regulations, and
- The payment of monies to retired Fund members.

7.3 The Council is also required to comply with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "LGPS investment regulations"). This requires that the fund has an investment strategy statement.

7.4 The purpose of this review was to review the design and operation of the controls in place to manage the finances and investments of the fund.

7.5 There were two risk areas identified around Life certificate forms not being sent to overseas Pensioners and pension activity monitoring. The draft internal audit report is included as appendix 1.

8. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

8.1 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.

9. Legal Implications

Implications completed by: Dr Paul Feild Senior Governance Solicitor

9.1 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.

10. Consultation

10.1 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

Appendix 1

Internal Audit Report

Pension Administration Review

19 October 2023

To	Jo Moore	Interim Strategic Director Finance & Investment
	David Dickinson	Investment Funds Manager
	Justine Spring	Pensions Manager

From:	Christopher Martin	Head of Assurance
	Bash Fowora	Internal Audit Manager

We would like to thank management and staff for their time and co-operation during the course of the internal audit.

1. Executive Summary

Assurance Level	Scope Area	Number of recommendations by risk category			
		Critical	High	Medium	Low
Reasonable	Legislation, Policies & Procedures	0	0	0	0
	Joiners, Information and Deductions	0	0	0	0
	Leavers	0	0	0	0
	Transfers	0	0	0	0
	Payments	0	1	0	0
	Refunds	0	0	0	0
	Reconciliations	0	0	0	0
	Monitoring & Review	0	0	1	0

Audit objective and scope

The objective of this audit is to ascertain that the identifications and administration of the pension contributions is being done accurately, effectively and efficiently and that controls are in place to mitigate against potential risks. Specifically, the review considered the following areas detailed within the agreed scope:

Scope Title **–** Scope Objectives

Legislation, Policies & Procedures

All staff act consistently in compliance with legislative and management requirements and administration of the Council's pension is conducted in an economic, efficient and effective manner.

Joiners, Information and Deductions

New employees are provided with adequate and timely information about the Local Government Pension Scheme to ensure correct deductions are made.

Leavers

System is timely updated with leavers to ensure that pension liabilities are accurately reflected.

Transfers

There is a process in place to ensure transfers to / transfers in from other pension funds are correct including the timescale for completion of transfer.

Payments

Processes are in place to ensure that correct, authorised and timely payments to beneficiaries and other third parties are made.

Refunds

There is a process in place to ensure that refunds of pension contributions are valid, correct and appropriately authorised.

Reconciliations

Reconciliations are timely and regularly conducted between the pension system and other key financial management systems to ensure that any errors/ omissions are picked up promptly and alleviating the end of year pressure.

Monitoring and Review

There are performance indicators in place that are monitored by senior management.

Pensions Data and System Security

Controls are in place to prevent unauthorised access to the pensions system leading to personal data being compromised.

An extract from the Terms of Reference detailing the scope of this review is available at Appendix C.

<u>Summary of approach and findings</u>

The Council's pension scheme is part of the Local Government Pension Scheme (LGPS), following the regulations in line with this and the appropriate contribution level thresholds. The Pension Team are responsible for recording new joiners and leavers from the scheme, the calculating and processing of contributions to and from other pension schemes and the calculation of pension payment entitlements.

Audit established that there is an ad hoc pension procedure guidance and LGPS brief guide for the Pension Team while other information and process of the pension scheme are available to all staff on the Council's intranet page.

Audit also established that there is a Pensions Administration Strategy outlining the roles and responsibilities of the key parties in the Pension Funds.

The Council's pension system is administrated using the Altair system, which records the details of all members of the LBBD pension scheme. The Altair system is used for monitoring of pensions information for members of the scheme and calculating amounts with the correct parameters of the LGPS.

The Altair system is hosted and administered by the provider, Heywood Pension Technologies. Documentation and independent ISO certifications were provided to evidenced that the system is regularly backed up, secured and tested for business continuity and disaster recovery.

Separate system; iTrent and E5 are used for processing of payments following appropriate authorisation by a senior member of Pensions staff.

The Council pension scheme works on an opt-out basis for new joiners, and they are processed onto the scheme unless they choose otherwise. Human Resources (HR) notifies the Pensions team of new joiners, including the equivalent full-time salary they are starting at as well as their working patterns i.e. full time or part time, which determines the pay-band they belong to and consequently the percentage level of their pension contribution. This is deducted from their monthly salary payment automatically at source by the iTrent system (payroll system).

From review of 20 selected new joiners by Audit it was established that the records on the Altair system (recording system) included the National insurance (NI) number of the employee, their unique payroll reference number for iTrent system, their contribution percentage level and the start date of the employee. These were then found to match the records recorded on the HR/Payroll records on the iTrent system, with the start date and the percentage level deducted from monthly salary payment matching those documented on the Altair system. Through re-calculations performed by Audit it was established that the value of contributions deducted were accurate in all cases and statutory notices were sent to the selected joiners.

Leavers' information from iTrent are transferred to the Altair System via i-Connect interface for their records to be updated. Leavers between age 55 and State Pension Age are entitled to a claim early pension with reductions, or they can choose to defer their benefits. Ill-health retirements are processed where the employment has been terminated on health grounds due to incapacity and a certificate of permanent incapacity issued. In the case of redundancy retirements termination notice from HR is required. The length of service is automatically calculated by the system when the last day of service is entered onto the system.

From review of 20 selected leavers by Audit it was established that their records were timely and accurately updated with their leavers' dates and the formular for calculating their pension benefits were consistently applied.

The Council allows new joiners to transfer the contributions made to previous pension schemes to the Council pension scheme. Similarly leavers from the scheme also have the option to transfer their LBBD contributions to the scheme of their new employer. These transfers are only processed when the Pension's Team receive written authorisation from the scheme members confirming their wish to transfer the amounts.

From the selected leavers stated above 9 had their pensions contributions transferred to the scheme of their new employers and on review by Audit it was established that the formular for calculating the transfer values were consistently applied and reflected on E5 – Account Payable as accurately paid out.

For the 20 selected samples of pension contributions transferred in by new joiners and reviewed by Audit it was established that the transferred value re-calculations by the Altair system reconciled with the valuation quoted by the previous employers' pension scheme provider and accurately reflected on E5 – General Ledger as paid into the Council's bank account.

On retirement Pensioners can either request to be paid their entitlements monthly or in a lump sum subject to meeting the required criteria. From the samples of 20 selected Pensioners reviewed by Audit it was established that the correct values calculated on the Altair system were accurately paid to them monthly via the iTrent system.

From a review of 20 selected samples of Pensioners that got paid lump sum of their pension entitlements it was established that the retirement lump sum had been accurately calculated and payments made via E5 – Account Payable to the Pensioners.

Audit was informed that for aged pensioners currently, apart from participating in the National Fraud Initiative (NFI), the Pension Team does not monitor life existence. However, they are in talks with the administrators of Altair about entering into a mortality screening exercise and waiting on some information on costings etc. The same applies for oversea pensioners as proof of life are not requested for continue payments of pension entitlements.

In the event of Pensioners' death, the Council requires whoever is looking after the Pensioners' affairs to contact the Pension Team to give the Team copy of the death certificate or complete the Government's "Tell us Once" online system. From the samples of selected 20 deceased Pensioners with death grants pension payments reviewed by Audit it was established that appropriate evidence were in place and Altair and iTrent system accurately and timely updated.

Pension contributions by employees are automatically refunded if they opt out within 3 months of joining the scheme. They could also be eligible for a refund if they have less than 2 years membership, no other LGPS membership and have not transferred in benefits from another scheme. However only their contributions are refundable after tax and National Insurance deductions where applicable, those paid by the Council would not be refunded.

From a review of 20 selected refunds payments reviewed by Audit it was established that the processed refunds were in eligible, accurately calculated and payments made through the E5 – Account Payable for leavers and iTrent system for employees after the deduction of the required income tax.

Audit established that reconciliations are performed by the Pension Fund Accountant between the Altair system and the general ledger transactions on E5 system for pensioners, retirement grants paid, transfer values received, transfer values paid out. Review of supporting documents for the period April to July 2023 were deemed satisfactory by Audit.

Audit identified within the Council's Pension Administration Strategy that legislation dictates that Councils should set minimum standards that pension schemes should meet in providing certain pieces of information to the various stakeholders. Activities were identified by the Council's Pension Team and target days for completion were set for each of them. However only the number of activities delivered during the financial years were reported in the LBBD draft-pension-fund-annual-report-2022-23.

The Council's Pension fund is subject to an actuarial valuation once every three years. A valuation was undertaken by Barnett Waddingham LLP and report issued in March 2023 for the period 1 April 2023 to 31 March 2026. The draft report looks at the position of the fund in relation to the past service liabilities, the amount due to pension scheme members based on their contributions and the current assessed value of assets by the fund.

Audit established that the complaints procedure for pension scheme is known as 'Internal Disputes Resolution Procedure' (IDRP) and available to all on the Council's website.

Audit was informed that all complaints results to IDRP and Barnett Waddingham LLP were appointed by the Council as the Adjudicator for Stage 1 cases under IDRP of the Local Government Pension Scheme (LGPS) under regulation 74(1) of the LGPS Regulations 2013 and are required by the same regulation to decide on the application of the applicant.

Should the applicant not be satisfied with Stage 1 decision they may apply to the relevant LGPS administering authority, the Pension Team, for a further consideration of the case under Stage 2 of the IDRP process.

Audit was informed that at the time of this review there were only 2 cases of complaints and documentations were provided showing that the above procedures were complied with.

We identified one medium and one high risk findings:

- Life certificates form for completion are not sent to oversea pensioners to check that the pensioners are still alive to deter fraudulent payments.
- Pension administration activities target days are not monitored for performance efficiency.

2. Findings and Action Plan

REF	FINDING	RISK	RISK CATEGORY	PROPOSED RECOMMENDATIONS & MANAGEMENT ACTION	RESPONSIBLE OFFICER TARGET DATE
1.1	**Oversea Pensioners – Life Certificates** From time-to-time pension administrators need to check that pensioners are still alive and well, and getting the pensions they are entitled to. Audit was informed that for aged pensioners currently, apart from participating in the NFI the Pension Team does not monitor life existence. However, they are in talks with the Administrator of Altair system about entering into a mortality screening exercise and waiting on some information on costings etc. The same applies for overseas pensioners as proof of life are not requested for continued payment of pension entitlements. As of 25th of August 2023 there are 118 LBBD overseas pensioners.	The following are potential frauds for not confirming proof of life: • There is a risk that pension payments continue to be made following the death of a pensioner; and • In the case of incapacitated pensioners, where they have been subject to financial abuse by family members and friend.	**High**	Pension life certificate form should be developed and send to all overseas pensioners for completion. The form should be witnessed by a person (unrelated) in a recognised profession, signed and stamped. The list of recognised profession should be listed on the form. It should be stated in the form that failure to return the completed and witness form within the specified timeframe would result to suspension of pension payments until such time as a completed life certificate is received. The above process could also be used for aged pensioners living in UK. All the above information and form should be available of the Pension Scheme page of the Council's website.	
1.2	**Pension Activities Target Days Monitoring**	Lack of service delivery performance monitoring	Medium	Plans should be put in motion on how to generate the data	

REF	FINDING	RISK	RISK CATEGORY	PROPOSED RECOMMENDATIONS & MANAGEMENT ACTION	RESPONSIBLE OFFICER TARGET DATE
	Audit identified with the Council's Pension Administration Strategy that legislation dictates that Councils should set minimum standards that pension schemes should meet in providing certain pieces of information to the various stakeholders. Pension activities were identified by the Council's Pension Team and target days for completion set for each of the activities. However, it is only the number of activities delivered during the financial years that are reported in the LBBD draft pension fund annual report 2022 – 23.	could result to poor service deliver and complaints from service users.		needed to capture and record the target days set for completion of the pension activities identified for monitoring on the system. Once achieved the target days should be analysed to find and recommend area for improvement. The outcome should be reported as part of the figures stated in the pension fund reports. This would allow management to be proactive in tracking resource consumption, response times, and other performance metrics as well as predict potential issues that requires immediate action before they impact on pensioners.	

Appendix A: Definition of risk categories and assurance levels in the Executive Summary

Risk rating	
Critical ●●	Immediate and significant action required. A finding that could cause: • Life threatening or multiple serious injuries or prolonged workplace stress. Severe impact on morale & service performance (e.g. mass strike actions); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high-profile civil action against the Council, members or officers; or • Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or • Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.
High ●	Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause: • Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or • Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or • Significant disruption of core activities. Key targets missed; some services compromised. Management action required to overcome medium-term difficulties; or • High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
Medium ●	A finding that could cause: • Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or • Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or • Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or • Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.
Low ●	A finding that could cause: • Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or • Minor impact on the reputation of the organisation; or • Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or • Handled within normal day to day routines; or • Minimal financial loss, minimal effect on project budget/cost.
Level of assurance	
Substantial ●	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.
Reasonable ●	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
Limited ●	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
No ●	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.

Appendix B: Internal Audit Roles and Responsibilities

Internal Audit is responsible for this report; however, the actions / implementation of the matters raised in this report are only those that came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all weaknesses that exist nor all improvements that might be made:

- Management are responsible for maintaining effective internal controls including the implementation of audit recommendations and the management of risks attached to this system / service. Internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.
- The responsibility for effective and timely implementation of the recommendations made rests with management and these should be fully assessed for their full impact before they are implemented.

Appendix C: Terms of Reference Extract – Scope of the Review

The audit will consider the potential risks set out in the table below:

Objectives	Risks
Legislation, Policies & Procedures All staff act consistently in compliance with legislative and management requirements and administration of the Council's pension is conducted in an economic, efficient and effective manner.	Failure to comply with legislative requirements and recommended practice could result to litigation and bad publicity against the Council.
Joiners, Information and Deductions New employees are provided with adequate and timely information about the Local Government Pension Scheme to ensure correct deductions are made.	Failure to obtain contributions, incorrect calculation of future liabilities and future administrative complications could result to financial loss or over payments both to and by the Council and employees.
Leavers System is timely updated with leavers to ensure that pension liabilities are accurately reflected.	Incorrect information about current employees on the system as leavers are not timely removed which could result to continuous employer's contribution.
Transfers There is a process in place to ensure transfers to / transfers in from other pension funds are correct including the timescale for completion of transfer.	Financial loss to the Councils due to invalid and inaccurate transfer of pension funds and inaccurate payments of benefits, pensions, and grants.
Payments Processes are in place to ensure that correct, authorised and timely payments to beneficiaries and other third parties are made.	Invalid and erroneous payments made potentially resulting to fraud payments and financial loss to the Council.

Objectives	Risks
Refunds There is a process in place to ensure that refunds of pension contributions are valid, correct and appropriately authorised.	Failure to refund overpayments of contributions in a timely manner can result in financial hardship, reputational damage and a breach of legislative requirements.
Reconciliations Reconciliations are timely and regularly conducted between the pension system and other key financial management systems to ensure that any errors/ omissions are picked up promptly and alleviating the end of year pressure.	Where reconciliations between the Pension System and the iTrent & e5 System are not undertaken there is an increased risk discrepancies remain undetected, and issues are not correctly accounted for.
Monitoring and Review There are performance indicators in place that are monitored by senior management.	Management failure to monitor the administration of the pension administration could lead to: • poor decision making when setting the budget for contribution; • financial loss to the Council; and • legal repercussion.
Pensions Data and System Security Controls are in place to prevent unauthorised access to the pensions system leading to personal data being compromised.	System data may not be secure against inappropriate access and systems failure may result in lack of continuity in service / service failure including late payments.

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PENSIONS COMMITTEE

13 December 2023

Title: Application for Admitted Body Status	
Report of the Strategic Director, Finance & Investment	
Public Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: Jesmine Anwar, Pension Fund Accountant	**Contact Details:** Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	
Accountable Strategic Director: Fiona Taylor, Chief Executive	
Summary: To consider two new applications for Admitted Body status to the Local Government Scheme (LGPS).	
The Committee is asked to agree: • the application for Admitted Body Status by Taylor Shaw and Alliance in Partnership as a ‘closed’ agreement.	

1 Introduction and Background

1.1 At present, the Pension Fund has a number of Admitted Bodies, some of which have been members of the London Borough of Baking and Dagenham Pension Fund (“the Fund”) for a number of years.

1.2 As the Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pension Committee can agree to retrospectively agree an admission agreement.

2 Admission Agreement

2.1 There are two applications for Admitted Body status. Taylor Shaw a catering company for schools have recently won a contract with United Learning Trust / Gorsebrook, and there will be 1 employee who will TUPE transfer to Taylor Shaw. The length of the contract will be 3 years.

2.2 Alliance in Partnership which specialises in Education Catering have won a contract with Parsloes Primary School and Monteagle Primary School. 3 employees will transfer across to Monteagle school a 1 from Parsloes Primary School. The length of the contract will be 3 years.

2.3 The employer will be responsible for the risks, including investment risk, bond yield risk, inflation risk, pay award risk, longevity and regulatory risk. Caterlink will require a bond.

2.4 The Admissions process will be carried out subject to officer's due diligence. The funds Actuary will be calculating the contribution rates to use by the new Admitted Bodies following the completion of the contract gains.

2.5 This Admission Agreements will be a 'closed' agreement.

3. Consultation

3.1 None.

4. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

4.1 It is now usual when considering requests for Admitted Body status to consider the financial risks that can fall upon the fund should the Admitted Body fall into financial difficulties. To mitigate these risks a form of financial guarantee or an indemnity bond is required.

5. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

5.1 As outlined in the report, there is the potential for the fund to carry a risk if the organisation which seeks admission defaults in its obligation. As a result, additional measures need to be taken in the form of an agreement back by a guarantor or a bond to cover possible losses if the organisation cannot meet its liabilities so as to ensure that the admission of the body does not present additional risks to the fund.

PENSIONS COMMITTEE

13 December 2023

Title: Independent Advisors LGPS Update	
Report of the Chief Financial Officer	
Public Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: Jesmine Anwar, Pension Fund Accountant	**Contact Details:** Tel: 020 8227 3763 E-mail: jesmine.anwar@lbbd.gov.uk
Accountable Director: Jo Moore, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive	
Summary This report provides Members with the Independent Advisor's quarterly Local Government Pension Scheme update.	
Recommendations The Committee is asked to note: • The recent Investment Consultation and Consultation Outcome, • Climate Change Reporting – awaiting Regulations and the • Regulations relating to "McCloud" (Age Discrimination in the LGPS).	

1. Introduction

1.1 This paper informs and updates the Committee in respect of a number of important issues relating to the LGPS at a national level. The issues covered in this paper are as follows:

- The recent Investment Consultation and Consultation Outcome.
- Climate Change Reporting – awaiting Regulations.
- Regulations relating to "McCloud" (Age Discrimination in the LGPS).

2. The recent Investment Consultation and Consultation Outcome

2.1 Below is a commentary on the recent Consultation on Investment and the subsequent Consultation Outcome issued by the Government.

2.2 On 11 July 2023 the Department for Levelling Up Housing and Communities (DLUHC) issued a **Consultation "Local Government Pension Scheme (England and Wales): Next steps on Investments."** The Consultation included the long awaited (since 2019) Government proposals on the further development of Investment (Asset) Pooling and proposals in relation to a number of other Investment related issues. This consultation may be accessed at Local Government Pension Scheme (England and Wales): Next steps on investments- GOV.UK (www.gov.uk). The period for responses to the Consultation closed on 2 October 2023. DLUHC received 152 responses including from 82 of the 86 LGPS Administering Authorities (LGPS Funds) in England and Wales. This included a response from the London Borough of Barking and Dagenham which was prepared by the Independent Advisor in consultation with the Fund Officers.

2.3 On 22 November 2022 DLUHC issued its **Consultation outcome** response which may be accessed at Local Government Pension Scheme (England and Wales): Next steps on investments - government response - GOV.UK (www.gov.uk). This states how the Government now intends to proceed.

2.4 The Consultation, issued on 11 July 2023 included proposals relating to:

- Asset Pooling together with Governance and Reporting
- Levelling Up
- Private Equity
- Investment Consultancy Services to the LGPS
- Definition of Investments

2.5 In respect of **Asset Pooling** the Consultation included a number of very significant proposals *"to accelerate and expand pooling…"* These included a deadline of March 2025 for LGPS Funds to transition their assets to their Investment Pool, the expansion of in-house investment by Investment Pools, proposals as to how LGPS Funds and Investment Pools should interact (in essence to increase the influence of Investment Pools over investment issues, see particularly Paragraph 31 of the Consultation), revised guidance on reporting, and a longer term *"transition towards fewer* (Investment) *pools maximise benefits of scale."* The Consultation also included proposals that each Administering Authority (LGPS Fund) set a training policy for Pension Committee members and report in respect of this policy; that there be additional reporting requirements on LGPS Funds to provide "*greater clarity on progress of pooling…"* and that the Scheme Advisory Board (SAB) expand their Scheme Annual Report *"to provide a report on the progress of pooling and on asset allocation across the LGPS."*

2.6 In respect of **Levelling Up** a proposal to amend the LGPS Regulations *"to require* LGPS *funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan."*

2.7 In a chapter titled **Investment opportunities in Private Equity** the Consultation proposed that LGPS Funds should have an ambition to invest 10% of their assets into Private Equity. Although the Consultation did not explicitly state that such investment in Private Equity must be in the United Kingdom the Government's clear preference for this is clear in the narrative within the Consultation (see Paragraphs 84,88,89,90). In respect of Private Equity investment, the Consultation placed some particular emphasis on *"venture capital."*

2.8 With regard to the provision of **Investment consultancy services to the LGPS** the Consultation proposed to clarify that all LGPS Funds be required to set objectives for their providers of Investment Consultancy services. However, where Investment Pools provide any such services to a LGPS Fund they would be exempt from this proposal.

2.9 The Consultation also proposed a technical change to the LGPS **definition of investments** to remedy an omission in the "Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016."

2.10 The Consultation included a range of extremely important and indeed controversial proposals which by their nature were likely to result in a very significant level of response from LGPS stakeholders and in particular the 86 LGPS Funds and 8 Investment (Asset Pools) across England and Wales. By the time the Consultation closed on 22 November 2022 the DLUHC had received 152 responses. In its **Consultation outcome** issued on 22 November 2023 the DLUHC stated (Paragraph 16) that *"There were a wide range of views expressed around our proposals..."* Having considered the analysis of views on each proposal as detailed in the Consultation outcome it is clear there was some significant opposition to those proposals which may reasonably be described as controversial. The Government has however decided to go ahead with almost all its original proposals. In doing this however the Government is proposing an overall approach which is not mandatory and in respect of the crucial issue of transitioning LGPS Fund assets to Pools is a "comply or explain" regime.

2.11 In respect of **Asset Pooling** a clear majority of respondents opposed the March 2025 deadline for transitioning Assets to Pools as proposed in the Consultation. DLUHC has stated in the Consultation Outcome (Paragraph 37) that it will draft guidance to require LGPS Funds to *"either transition assets by March 2025, or set out a detailed rationale for each asset remaining outside the pool…This is effectively a "comply or explain" regime which does not mandate particular investment choices".*

2.12 With regard to the interaction of LGPS Funds and their Pools the Consultation outcome states at Paragraph 49 that *"the government has decided to revise guidance on pooling as proposed. This will set a clear direction for all funds to move towards delegation of strategy implementation and manager selection, in order to deliver the benefits of scale for all."* At Paragraph 50 the Consultation outcome states "*The revised guidance will therefore include a preferred model of pooling which we will expect pools to adopt over time..."* but also states "*The partner funds will remain in control of their pool, and this will be important in ensuring that it delivers the products and services which the funds wish to have…"* Therefore, the Government is proposing a larger role for Pools but within a framework where they remain under the *"control"* of their constituent LGPS Funds. This gives LGPS Funds the opportunity to exercise significant influence over their Pool, but in reality, only if they choose too so do. Despite significant opposition from respondents to the Consultation the Consultation outcome states at Paragraph 51 that *"The government does not consider that it would be a conflict of interest for the pool companies owned by LGPS funds to provide advice on investments…"* This does not mean LGPS Funds must use their Pool to provide investment advice but clearly indicates that they may choose to do so.

2.13 With regard to the longer term the Consultation outcome reaffirmed the Government's view that there should be a reduction in the number of Pools from the current eight, but not in the short term. At Paragraph 27 of the Consultation outcome, it is stated that *there is no intention to take steps to mandate a move to fewer pools in the immediate term. The government's view is that the focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability."*

2.14 The proposal that each Administering Authority (LGPS Fund) set a training policy for Pension Committee members and report in respect of this policy was widely supported by respondents and will be implemented by DLUHC. This is to be welcomed as it will support the good governance of all 86 LGPS Funds in England and Wales.

2.15 With regard to additional reporting requirements in respect of LGPS Funds DLUHC has stated in its Consultation outcome (Paragraph 66) that "*We will revise guidance to implement the proposed changes working with the Scheme Advisory Board…"* but will withdraw a proposal that LGPS Funds report on asset returns against an appropriate and consistent benchmark stating (Paragraph 68) *"In the light of responses highlighting the difficulties of setting benchmarks across the scheme, we intend to require funds to report performance for each asset class against the benchmark of their choice in their annual reports but not to seek to establish consistent benchmarks."* The proposal that SAB expand their Scheme Annual Report to include an update on Pooling was widely supported by respondents and DLUHC have stated that they will implement this proposal.

2.16 While only 25% of respondents supported the proposal that LGPS Funds set a plan to invest up to 5% of assets in projects that support levelling up across the UK the DLUHC have stated in their Consultation outcome (Paragraph 94) that

"We will revise guidance on investment strategy statements to require funds to have a plan to invest up to 5% in levelling up projects…" However, at Paragraph 96 of the outcome the DLUHC also make clear that investing in levelling up projects is not a requirement stating *"… the government's view is that the requirement to set a plan to invest in levelling up does not mandate investment and does not cut across fiduciary duty."* The DLUHC approach is still however an exhortation and clear encouragement to the LGPS to actively support the Government's levelling up agenda.

2.17 The Consultation proposed that LGPS Funds should have an ambition to invest 10% of their assets into Private Equity. In relation to this the Consultation outcome states (Paragraph 103) *"There were 144 responses to this question and 84% were opposed to the proposal…"* In response DLUHC at Paragraph 110 of the Consultation outcome *states "However, setting an ambition to invest 10% in private equity would not mandate investment. Administering authorities would be under the same requirement as currently to act in the interests of members under their fiduciary duty..."* and at Paragraph 111 that *"The government will therefore set a new ambition for funds to invest 10% of assets in private equity in revised guidance on investment strategy statements…"* Again, like with levelling up, the Government's approach though not mandating investment in private equity is an exhortation and clear encouragement to the LGPS to support a particular Government agenda.

2.18 The proposal in the Consultation that all LGPS Funds be required to set objectives for their providers of Investment Consultancy services was widely supported by respondents and will be implemented by the Government through amendments to Regulations/Guidance. The proposal in the Consultation that where Investment Pools provide such services to a LGPS Fund they be exempt from this proposal was clearly questioned by respondents (see Paragraph 118 of the Consultation outcome) and the DLUHC has consequently stated in Paragraph 119 that *"With regard to the application of the requirements to pool companies owned by LGPS funds, we* [consider] *that it would be good practice to set objectives for all investment consultancy providers including pools, and will set this out in revised guidance."*

2.19 The technical change to the LGPS definition of investments proposed in the Consultation received, overall, support from respondents and the DLUHC will now amend the LGPS Regulations accordingly.

2.20 In summary the Government has now confirmed that it intends to strengthen the Pooling regime and to seek to accelerate the transition of all LGPS assets into the Investment Pools. It has however stated that it will apply a "comply or explain" regime (Paragraph 37 of the Consultation outcome) in relation to asset transfers to Pools, and that Pools are required to *"act in the best interests of* [LGPS] *funds"* (Paragraph 50 of the Consultation outcome). While not mandating investment in Levelling Up projects or Private Equity the Government is clearly and actively encouraging these in support of wider Government policy.

3. Climate Change Reporting – Awaiting Regulations

3.1 In the March 2023 LGPS Update it was reported that it was anticipated that Regulations to introduce Climate Change reporting into the LGPS would be issued retrospectively, after 1 April 2023, but would apply from 1 April 2023. No such Regulations were, however, issued in April 2023.

3.2 In the June 2023 LGPS Update it was reported that on 23 May 2023 the Scheme Advisory Board stated on its website that the implementation of Climate Risk reporting in the LGPS – "*is now expected to commence from 1 April 2024, with first reports due in late 2025.*"

3.3 As at the date of this Update (1 December 2023) no proposed Regulations have been issued to implement Climate Change reporting. Therefore, unless the DLUHC acts soon it is likely that mandatory and consistent Climate Change reporting by LGPS Funds may be further delayed. This would be extremely disappointing given a Consultation on this matter was issued on 1 September 2022 and closed on 24 November 2022 which is now over a year ago.

4. Regulations relating to 'McCloud' (Age Discrimination in the LGPS)

4.1 As reported in the June 2023 LGPS Update the DLUHC issued on 30 May 2023 a further Consultation ***"'McCloud' remedy in the LGPS – supplementary issues and scheme regulations."*** This Consultation closed on 30 June 2023. The DLUHC issued the outcome to this Consultation on 8 September 2023 and on that day also issued The Local Government Pension Scheme (Amendment) (No 3) Regulations 2023 which came into effect from 1 October 2023.

4.2 These new Regulations implement the "McCloud" remedy in the LGPS by removing age discrimination in the LGPS in accordance with the Court of Appeal decision of 2018 and the Government's confirmation, of July 2019, that there would be changes to all public service pension schemes, including the LGPS, to remedy this issue.

4.3 In summary to qualify for the new (underpin) protections individual Members of the LGPS need to meet the following criteria:

- Were a member of the LGPS or another public service pension scheme before 1 April 2012.
- Contributed to the LGPS at some point during the period between 1 April 2014 and 31 March 2022 or transferred in another public service pension scheme membership where the Member contributed to the Scheme at some time during this period.
- Have been a member of the LGPS or another public service pension scheme without a continuous break of more than 5 years.

4.4 Underpin protection only applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022. The underpin ceases earlier if the Member left the scheme or reached their Final Salary normal retirement age (usually 65) before 31 March 2022. From 1 April 2022, there is no underpin protection. Pension built up after this date is based on the Career Average Scheme only and there is no further link to the former Final Salary Scheme.

4.5 The McCloud remedy, including the implications for the Barking and Dagenham Fund is considered further in the **Administration and Governance** report elsewhere on this agenda.

5. Financial Implications

Implications completed by: Jo Moore, Chief Financial Officer

5.1 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.

6. Legal Implications

Implications completed by: Dr Paul Feild Senior Governance Solicitor

6.1 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.

7. Consultation

7.1 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.

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PENSIONS COMMITTEE

13 December 2023

Title: London Borough of Barking and Dagenham Pension Fund Business Plan 2024 to 2026	
Report of the Strategic Director, Finance & Investment	
Public Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: David Dickinson, Group Manager Pensions and Treasury	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Nish Popat – Deputy Section 151 Officer	
Accountable Strategic Director: Jo Moore, Strategic Director, Finance & Investment (S151 Officer)	

Summary:

The Pension Fund Business Plan sets out the key tasks for the Pension Committee in respect to Pension Fund issues for the period 1 January 2024 to 31 December 2026 and reflects the Pension Committee's commitment to put into action the investment strategy and monitor procedures for the future to ensure that the Fund meets its objectives and complies with best practice. The intention is that the Business Plan will cover the triennial valuation cycle.

The Committee is asked to:

1. Agree the Business Plan for 1 January 2024 to 31 December 2026, subject to amendments following matters raised on this agenda.

London Borough of Barking and Dagenham Pension Fund

2024 to 2026 Business Plan

1 Introduction and Background

1.1. The Local Government Pension Scheme (“the LGPS) is an occupational pension scheme that has been established by Act of Parliament and is governed by regulations made under the Superannuation Act 1972 and Public Service Pensions Act 2013. The London Borough of Barking and Dagenham Pension Fund (“the Fund”) is maintained under the Act.

1.2. The Fund is responsible for providing retirement and other benefits to employees of The London Borough of Barking and Dagenham (“the Council”). Fund membership is approaching 20,000 with 47 employers, including admitted and scheduled bodies. Administration of the Fund is the responsibility of the Council, which also has overall responsibility for the investment of the Fund’s assets and pension administration services to members of the Fund and their employers.

1.3. The publication of the Myners Report and the subsequent CIPFA “Principles for Investment Decision Making in the LGPS in the United Kingdom” (CIPFA’s Investment Code of Practice) and “Investment Decision Making and Disclosure”, recommends that the Section 151 officer prepare and submit to the Pension Committee (“the Committee”) an annual business plan (“the BP”) for the Fund.

1.4. The BP identifies and outlines the key tasks for the period 1 January 2024 to 31 December 2026, with progress reported on at each quarterly Committee. The key tasks identified reflect the Committee’s commitment to developing a suitable investment strategy and monitoring procedures for the coming year which meet the Fund’s objectives and complies with best practice.

1.5. The BP outlines the operation of the Fund and includes provision for training and development. The proposed training and development will equip Committee Members with the necessary skills to make informed decisions on the Fund’s investments.

1.6. CIPFA recommends that all Committee Members should have the necessary skills and knowledge to adequately fulfil their governance and fiduciary duties to the Fund Members. This is also a requirement of the Pensions Regulator, who from time to time, monitors compliance with this requirement. The November 2023 Autumn Statement included a requirement that all funds to publish formal training policies for their committees and report on the training undertaken.

1.7. In addition, as a result of opting the Fund up to Professional Investor status, there is an expectation that Members will receive relevant, detailed and timely training, with updates of the training and attendance provided to the various fund managers, advisors and custodians that the Fund uses.

1.8. 2022/23 was the completion of the Fund’s triennial valuation, which had a significant impact on the employers within the Fund. A review of the Fund’s investment strategy has been completed and the initial proposals have been implemented. Full training will be provided to Members during 2024 on any new asset classes being proposed.

2. Pension Committee

2.1 The Council has delegated responsibility for the management of the Fund's investments to the Pension Committee ("the Committee"). The Committee comprises of seven councillors (currently 2 vacancies) and three non-voting representatives, including a Union, an employer and an employee representative, as per below:

Chair:	Cllr Moin Quadri
Deputy:	Cllr Manzoor Hussain
	Cllr Rocky Gill
	Cllr Giasuddin Miah
	Cllr Tony Ramsay
Committee Observers	
Union:	GMB - Steve Davies
Member:	Unison - Susan Parkin
Employer:	UEL – Marc Albano

Advisors:	Hymans Robertson - Nicholas Jellema
Independent Advisors:	John Raisin Financial Services Limited
Actuary:	Barnett Waddingham
Custodian:	Northern Trust

2.2 The Committee meets at least quarterly, and its role is to deal with the management of Fund's investments in accordance with Regulations issued by the Secretary of State under Section 7 of the Superannuation Act 1972.

2.3 The Section 151 officer has overall responsibility for the financial management of the Fund and the administration of the pension scheme.

2.4 The Committee's objectives are to:

i. approve all policy statements prepared under the LGPS Regulations.
ii. be responsible for the investment policy, strategy and operation of the Fund and its overall performance, including considering the Fund's liability profile.
iii. appoint and retendering of the Fund Actuary, Custodian, advisors to and external managers of, the Fund and agree the basis of their remuneration.
iv. monitor and review the performance of the Fund's investments including receiving a quarterly report from the Chief Finance Officer.
v. receive actuarial valuations of the Fund.
vi. monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board.
vii. select, appoint and terminate of external Additional Voluntary Contribution (AVC) providers and review performance.
viii. consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

3. Pension Administration

3.1 The Council's Pensions Administration Team manage the administration of the Fund and are responsible for paying the benefits to the scheme members and for keeping the records of all other scheme members until their benefits become due.

3.2 Over the past 20 years the LGPS has had many minor adjustments and a few large-scale changes to its benefit structure. With these changes, transitional relief between schemes has occurred, which in practice means that the administration team must be conversant with the regulations throughout this period.

3.3 The Fund uses Altair, a system supported by Heywood Limited to manage its administration. All member records are now electronically held within Altair.

3.4 The quality of the data held is vital to the running of the Pension Fund and there are several additional checks undertaken to ensure information is held correctly, including annual benefit statements, national fraud initiatives, regular data reconciliations between payroll and the pension administration system, the use of a tracing agent and quality checking via Club Vita. The Fund also uses the Government's Tell Us Once service, which is a service that informs the Fund when a death has been registered. Where pensioners live abroad a "certificate of existence" is sent out as a further measure to prevent fraud within the Fund.

3.5 The Pensions Regulator specified measure of the Fund's data quality was:

Common	**96.4%**	**Scheme-specific**	**92.2%**

3.6 These scores represent a good level of data quality, but work will be undertaken in 2024 to improve this figure.

3.7 Pension Administration costs and activities are included in the appropriate CIPFA benchmarking group and the Government SF3 return. The most recent report is the SF3 2023/24, which compares the Fund with similar Councils within London.

3.8 A Pension Administration Strategy has been agreed and has been implemented.

3.9 The main activities covered by the Pension Administration Team between 2020/21 to 2022/23 is summarised in table 1 below:

Type of Activity	2020/21	2021/22	2022/23
Number of Starters	607	770	783
Number of Transfer Value Actual	89	93	115
Number of Refunds	87	102	143
Number of Deferred Benefits	257	459	508
Number of Estimates	1,396	1,457	1,412
Number of Retirements	264	294	278
Number of Death in Service	12	6	5
Death in Retirement	219	191	188

4. The Funding Level and Employers' Contribution Rate

4.1 The Fund's triennial review was last completed on 31 March 2022. Following strong investment growth, the funding level increased from 90% at 31 March 2019 to 101% at 31 March 2022.

4.2 The Fund's estimated funding level as at 31 March 2023 was 106.2%.

4.3 The Council's contribution rates for the triennial period is 22.0%.

4.4 To maintain an over 100% funding level and allow a stable contribution rate the Committee are committed to:

- ➢ commissioning a full actuarial valuation of the Fund every three years;
- ➢ reviewing funding level reports from the Fund's actuary, Barnett Waddingham;
- ➢ agree with the actuary to recover deficits through appropriate mechanisms;
- ➢ monitor and review the actuarial and consultancy services; and
- ➢ implement a de-risking strategy as the Fund's funding level improves.

4.4 Funding strategy and links to investment strategy

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions or asset returns and income. To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The Actuary's assumptions for future investment returns are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

5. Management of Fund Investments

5.1 The Committee seeks a return on the investments of the Fund that enable 100% funding to be achieved from a stable employers' contribution rate by:

- ➢ reviewing managers' performance against those targets over quarterly, annual and three-year rolling periods, at quarterly Committee meetings;
- ➢ having officers monitor the level of transaction costs (brokerage and stamp duty) incurred;
- ➢ having officers meet quarterly with most fund managers or at least annually with all the fund managers; and
- ➢ ensuring officers monitor the external managers' use of soft commission arrangements, if any.

5.2 The Fund's strategy was reviewed in 2023 and any recommendations from the review have now been implemented.

5.3 The strategic asset allocation of the Fund, together with control ranges, the current allocation and the benchmark index for each asset class is as follows:

Asset class	Strategic Allocation %	Strategy Control Range %	Allocation as at 30/11/12023 %	Benchmark Index
Growth				
Equities				
Kempen - Active Value	15.0%	13-17%	15.1%	MSCI World ND
LCIV Baillie Gifford – Active Growth	15.0%	13-17%	14.8%	MSCI ACWI GD
UBS - Passive Hedged	15.0%	13-17%	15.5%	FTSE Developed Index Hedged
UBS - Passive Unhedged	5.0%	4-6%	5.5%	FTSE Developed Index
Total	**50.0%**	**48 - 53%**	**50.9%**	
DGF				
Pyrford - Bonds	7.0%	6-8%	7.1%	UK RPI + 5%
Newton - Equity	6.0%	5-7%	5.8%	SONIA + 3%
Total	**13.0%**	**11-15%**	**12.9%**	
Alternatives				
Abrdn - Private Equity + Cash	8.0%	7-8%	8.3%	SONIA + 6%
Abrdn - Hedge Fund	3.0%	2-4%	2.8%	SONIA + 6%
Total	**11.0%**	**10-12%**	**11.0%**	
Income				
BlackRock - Property	4.0%	3-5%	3.9%	MSCI All Balanced Prop
Hermes - Infrastructure	8.0%	6-10%	7.1%	5.9% Hurdle Rate
Insight - Global credit	5.0%	4-5%	5.1%	Target Return 4.0%
LCIV PIMCO - Global Credit	6.0%	4-5%	5.1%	Bloomberg Global Agg
Total	**23.0%**	**19-25%**	**21.3%**	
Protection				
UBS Fixed Interest gilts	3.0%	2-4%	3.1%	FTSE All Stock Gilt Index
Cash	0%	0-2%	0.9%	Base Rate
Total	**100.0%**		**100.0%**	

6. Arrangements for Additional Voluntary Contributions (AVCs)

6.1 The Committee aims to ensure that there is a varied selection of high-performing investment options available for contributors who wish to make additional voluntary contributions (AVCs).

6.2 The Committee will review the Fund's AVC arrangements regularly, with the next review scheduled for early 2025.

6.3 Currently the Fund's AVC is managed by Prudential Plc. The performance and options offered will be monitored by officers who, in the event of issues arising, will report this to the Committee.

7. Legislation

7.1 The Committee aims to respond promptly to legislative changes with implications for the management and administration of the Fund. It seeks to achieve this by:

- considering reports on the implications for the Fund of relevant draft legislation;
- closely monitoring new legislation affecting the LGPS; and
- agreeing any actions necessary to ensure full compliance when the final legislation is enacted including any deadlines.

8. Myners Principles on Investment Decision-making

8.1 A revised statement of the Myners principles for investment management by institutional investors were published by the Government in 2008. CIPFA has subsequently issued guidance to local authority pension funds on the application of the principles in a local authority context.

8.2 Principle 1 of the revised principles states that administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary for them to take them effectively and monitor their implementation; and

- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

9. Decision Making

9.1 The Committee will take advice as necessary to ensure that all decisions are made in the best interests of the Fund and its members. Advice is provided by the:

- Section 151 officer and their staff;
- Fund's Actuary, Investment Advisor and Independent Advisor; and
- External fund managers.

10. Pension Boards

10.1 As part of a Review of Public Service Pensions, published March 2011, Lord Hutton recommended several changes to "make public service pension schemes simpler and more transparent". The Government carried this forward into the Public Service Pensions Act 2013, which requires the Department for Communities and Local Government (DCLG) to make regulations to establish a national Scheme Advisory Board and enabling each LGPS administering authority to establish local pension boards. The names and the roles of the Pension Board Members are below:

Paul Feild (Chair)	Steve Davies
Hugo Wuyts (Deputy Chair)	Steve Ridley
Marc Albano	Susan Parkin

10.2 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

10.3 A Pension Board (“PB”) was established by 1 April 2015. The PB has the following Terms of Reference, which will be subject to an annual review:

i. There will be a separate Committee and PB, with the PB functions as per those prescribed within the regulations.

ii. The PB will contain 3 employer and 3 scheme member representatives.

iii. PB Members will not be remunerated apart from reimbursement of basic transport and training costs.

iv. Biannual PB meetings to be held as a minimum, prior to the June and December Pension Committees. The PB will follow the Aon Hewitt method for governance:

1) Direction – what is the fund trying to achieve (legislation, strategy and policy);
2) Delivery – how the Fund meets its aims (business planning, performance monitoring and risk management); and
3) Decisions – does the Fund have effective decision making (governance structure, behaviour and Pension Skills and Knowledge).

v. Should the PB be unhappy with the implementation of its recommendation(s) a report will be submitted to the next possible Council Assembly for consideration.

vi. The PB will be chaired on an annual rotational basis.

vii. Training will be provided prior to each Board Meeting, with two additional half day training sessions held during the year. Bespoke training will be provided to new PB Members as required.

11. Training and Development for Fund Committee Members

11.1 The Review on Institutional Investment in the UK called the Myners Review, recommended that trustees should receive more formal training "to be able to take decisions with the skill and care of someone familiar with the issues concerned". The Committee aims to keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice when necessary from external fund managers, external consultants and council officers.

11.2 The Committee expects the Officers and Members to keep up to date with developments in pensions and investment matters and to undertake training as required. In addition, the best practice guidance on the governance of pension funds issued by the CLG and the CIPFA guidance on the application of the Myners principles emphasise the importance of appropriate training and development for Committee Members to allow them to carry out their responsibilities effectively.

11.3 CIPFA's Knowledge and Skills Framework

CIPFA has development a Knowledge and Skills Framework for Committee Members and separately, for pension fund professionals with responsibilities in this area. The framework is intended to have two primary purposes:

- as a tool for organisations to determine whether they have the right mix of skills to carry out their responsibilities for the fund; and
- as an assessment tool for individual Members to measure their progress and plan their development.

There are seven areas of knowledge and skills relating to the LGPS, which CIPFA has identified as being the core technical requirements for those involved in decision-making. These will be covered at training to be provided prior to each Committee meeting over a three-year period.

11.4 General training and annual events will be provided and are outlined below:

Training	2024	2025	2026
ESG and Private Equity	March		
Property Investments	March		
Actuarial methods standards and practices -		March	March
Investment Performance and Risk management	June	June	June
Financial Markets and Products Knowledge	June	June	June
Legislative and Governance context	September	September	September
Accounting and Auditing Standards	September	September	September
Legislative and Governance context	December	December	December
Financial Services procurement & relationship management	December	December	December

12. Key Fund Activities 2024 - 2026

12.1 Over a triennial valuation period there are several key activities that are repeated each year and some that lead up to and then follow the production of the triennial valuation period.

12.2 Meetings with Fund managers will take place biannually as outlined in the table below. A meeting with the Fund's passive equity and fixed income manager, currently managed by UBS, will be once a year.

12.3 A Business Plan Update report will be taken to each Committee containing an update of progress made against the business plan and will include a summary of the meeting held with each fund manager.

Activity	2024	2025	2026
Administration			
Pension Admin. Software Tender			January to March
Pension Internal Audit	March		March
Data Cleanse	February / March	February / March	February / March
Valuation – collection of data		April to July	
Triennial Valuation		Apr to July	January - March
Valuation Results to Employers		Nov - December	
Submission of Data for Employers	April to July	April to July	April to July
Admin. Performance Review	Quarterly	Quarterly	Quarterly
Business Plan Review		March	March
Annual Benefit Statements	May to August	May to August	May to August
Refresh pensions website	August	August	August
Investments and Accounting			
Investment Strategy Review			July to December
Investment Performance Review	September	September	September
Review of Strategy (Annual)	December	December	December
Employer Accounting Reports	July, Aug & March	July, Aug & March	July, Aug & March
Governance			
Annual Report and Accounts	Apr to June	Apr to June	Apr to June
Pension Board Meeting	Biannual	Biannual	Biannual
Review Risk Register	August	August	August
Review AVC Provider		March	
Independent Adviser contract	March	March	March
Fund Manager Meetings			
Equities	January / July	January / July	January / July
Fixed Income	February / August	February / August	February / August
Property	Mar / September	Mar / September	Mar / September
Diversified Growth	April / October	April / October	April / October
Infrastructure	May / November	May / November	May / November
Diversified Alternatives	June / December	June / December	June / December

13. Assessment of training needs

13.1 CIPFA recognises that there may be a wide range of skills and experience among councillors who are nominated to serve on Committee. They may include Committee Members with specialist expertise in investment matters on the one hand and those with no prior pension knowledge on the other. In these circumstances a ‘one-size-fits-all” approach to training for Committee Members may not be appropriate.

13.2 A questionnaire will be sent to all Members to help identify additional training needs. The 2024-25 training plan will be structured around the development needs of Members and observers.

14. Communication

14.1 The Committee will plan to keep the Fund's participating employers and members informed on matters that affect them by publishing a variety of documents, details of which can be found in the Fund's Communications Policy.

14.2 A pension specific website has been set up which includes details on pension administration and pension investments.

14.3 A Fund Annual Report is produced annually and placed on the Council's website, with a summary version distributed to all Fund members.

15. Review and Evaluation of BP

15.1 A new BP will be produced after each triennial valuation, with an annual review at the March Committee meeting. The Committee will be provided with a BP update and a reminder of the next quarter's training at each quarterly Committee meetings.

16. Risk Monitoring

16.1 Risk has always been a part of the Fund but the past five years have shown that the failure to adequately identify, analyse and manage risk can have dramatic and wide-ranging consequences.

16.2 Managing the risk of an overall reduction in the value of the fund and maximising the opportunities for gains across the whole fund portfolio is a top priority. However, while the management of investment risk is rightly a fundamental concern, there is a great deal more to the effective management of risk in the LGPS.

16.3 The risk register provides a summary of the key risks the Fund is exposed to and how these risks are managed and / or avoided. The risk register will be updated at least annually and will be taken to Members as part of the BP each year for noting.

17. Performance Management

17.1 The monitoring of the returns on the Fund Investments is undertaken by officers on a daily basis with a quarterly return provided by Northern Trust and PIRC.

17.2 At each Pension Committee a summary of the Fund's performance over the prior quarter is provided, with comparison of the actual returns after fees achieved against each manager's agreed investment benchmarks and targets.

17.3 Where a fund manager has underperformed over three consecutive quarters they will be asked to attend the next Pension Committee, where Members will be able to ask the fund manager questions and to gain an understanding of the reasons for the underperformance.

17.4 Where a fund manager has underperformed its benchmark over a rolling two-year period officers will provide a review paper on the manager to be taken to the next available Committee. The review paper will outline the reasons for the underperformance and will include an overall recommendation as to whether the manager and their strategy are still appropriate for the Fund.

17.5 Where a significant change in strategy, personnel, general operations, or any other relevant issue is identified with a fund manager a paper will be taken to the next available Committee outlining the issue and recommending a course of action if required. If the issue is significant then an emergency meeting can be called following agreement by the Chair or deputy Chair.

17.6 Performance reports will include, where applicable, returns for the previous four quarters, year to date, one year, two years continuing to up to five years. Underperformance will include any red returns.

17.7 The fund manager's performance will be scored using a quantitative analysis compared to the benchmark returns, defined as follows:

	RED- Fund underperformed by more than 75% below the benchmark
Δ	**A**MBER- Fund underperformed by less than 75% below the benchmark
O	**G**REEN- Fund is achieving the benchmark return or better

17.9 All reports contain returns are provided net of fees. PIRC have advised that reporting net of fees will likely reduce the Fund's returns by 0.3% to 0.4% compared to gross returns. If compared to some local authorities, this can be significantly higher if fund manager fees are high.

18. Corporate Governance

18.1 The Regulations require that the Fund's ISS reflect the agreed investment policies and procedures which govern Fund's operation. The appointment of any new fund managers and any other changes that the Committee makes to current investment procedures will need to be incorporated in the ISS. In any event, the Committee will review the Statement annually, to ensure compliance with best practice.

19. Finance implications

19.1 Regulation 59 of the Local Government Pension Scheme Regulations 2013 sets out the framework to produce a Pensions Administration Strategy which would include business planning.

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

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

20. Legal Implications

20.1 The Pensions 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.

PENSIONS COMMITTEE

13 December 2023

Title: Investment Strategy and Structure Review	
Report of the Chief Operating Officer	
Public Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: Jesmine Anwar, Pension Fund Accountant	**Contact Details:** Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk
Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	
Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive	
Summary This paper gives members an outline of the strategy review and an update on the implementation of this. This review considers any scope to improve the chances of achieving the Fund's primary objective and the risk return profile of the Fund's investments, optimising diversification benefits where possible, whilst being mindful of contribution rate affordability and income requirements.	
Recommendation(s) The Pension Committee is asked to note: i) the Investment Strategy and Structure Review proposals put forward by Hymans Robertson; and ii) the implementation of the Strategy Review and the next steps following agreement at the last Committee.	

1. Introduction and Background

1.1 Following the 2022 triennial valuation, the Fund's advisors, Hymans Robertson (Hymans), has carried out a review of the strategy and has put forward several recommendations. Prior discussions have taken place between Hymans and officers to streamline the number of options and changes within the strategy, with a few easy to implement strategy changes proposed initially, with further reviews carried out during the year.

1.2 The further reviews will be for smaller changes and will focus on adjusting the current allocations to Diversified Growth, Infrastructure, property and Alternatives.

2. Hymans Strategic and Structural Recommendations

2.1 The recommendation was to reduce the Fund's allocation to growth and increase its allocation to income. The recommendations are summarised below and are supported by officers:

- **i.** Strategy 1 was recommended for consideration by the Pensions Committee. This strategy involves a reduced allocation to growth assets and an increased allocation to corporate bonds ('global credit'). This change would reflect the significant improvement in funding position since the last valuation and involves reducing the allocation to equities/DGF and increasing allocations to Income assets.
- **ii.** The strategy would involve a modest de-risking step and should be straightforward to implement as it involves asset classes which have a good level of liquidity and are not overly complex.
- **iii.** The strategy also takes advantage of the improved expected returns in excess of 5% for investment grade corporate bonds, which means that these offer lower-risk long-term expected returns with a high degree of certainty.
- **iv.** If a higher allocation to Protection assets was considered, we would support an allocation to inflation linked gilts within that portfolio to provide diversification and explicit inflation protection, as this remains a significant risk for the Fund.
- **v.** The changes at a strategic level are shown below:

Asset class	Current (%)	Strategy 1 (%)	Allocation change
Growth	76.0	74.0	(2)
Equities	52.0	50.0	(2)
Diversified Growth Funds	15.0	13.0	(2)
Private Equity + Hedge Funds	9.0	11.0	2
Income	21.0	23.0	2
Property	5.0	4.0	(1)
Infrastructure	8.0	8.0	-
Global credit	8.0	11.0	3
Protection	3.0	3.0	-
Fixed Interest gilts	3.0	3.0	-
Total	100.0	100.0	-
Expected return p.a. (10y)	7.2%	7.1%	-0.1%
Downside Risk (3y, 1 in 20)	c.£500m	c.£489m	-£11m

2.2 The proposals put forward by Hymans are a number of relatively small changes to the Fund's strategic allocation. Although fairly small at a strategic level there will be a more significant change when taking into account the current overweight positions to equity and the underweight position to global credit and fixed interest gilts.

2.3 The Fund's current allocation against the proposed revised strategic allocation is provided in the table below, along with the estimated cash movements to reduce equities and DGF and fund Global Credit and Gilts.

Asset class	Actual £Ms	Actual %	Strategy 1 %	Change £Ms
Growth				
Equities				
Kempen - Active Value	220.0	16.7%	15.0%	- 21.0
LCIV Baillie Gifford - Active Growth	244.0	18.5%	15.0%	- 45.0
UBS - Passive Hedged	194.3	14.7%	15.0%	
UBS - Passive Unhedged	69.5	5.3%	5.0%	
Total	**727.8**	**55.2%**	**50.0%**	**- 66.0**
DGF	-			
Pyrford - Bonds	116.7	8.8%	7.0%	- 24.0
Newton - Equity	79.1	6.0%	6.0%	
Total	**195.8**	**14.8%**	**13.0%**	**- 24.0**
Alternatives				
Abrdn - Private Equity + Cash	109.9	8.3%	8.0%	
Abrdn - Hedge Fund	35.9	2.7%	3.0%	
Total	**145.7**	**11.1%**	**11.0%**	**-**
Income				
BlackRock - Property	54.9	4.2%	4.0%	
Hermes - Infrastructure	95.8	7.3%	8.0%	
Insight - Global credit	68.5	5.2%	5.0%	
LCIV PIMCO - Global Credit	-		6.0%	80.0
Total	**219.2**	**16.6%**	**23.0%**	**80.0**
Protection				
UBS Fixed Interest gilts	30.0	2.3%	3.0%	10.0
Total	**1,318.5**	**100.0%**	**100.0%**	**-**

3. Implementation of the Strategy Review

3.1 At the meeting in June this year, Members agreed the following:

i) the adoption of alternative strategy 1, which has the highest success measures, and reduces downside relative to the current strategy,

ii) the changes proposed as part of the structure review, including recommending:

- reducing the strategic allocation to equities from 52% to 50%;
- reducing the strategic allocation to DGF from 15% to 13%;
- increase the strategic allocation to Alternatives from 9% to 11%;
- reducing the strategic allocation to Property from 5% to 4%;
- increase the strategic allocation to global credit from 8% to 11%;

iii) the appointment of LCIV PIMCO as the Fund's Global Credit Manager;

iv) to rebalance the current holdings to the revised strategic allocations, as outlined in section 5;

v) a series of number of further strategy reviews over the next year as outlined in the Hymans Robertson report, including:

- Consideration of any relevant investments' options available via the London CIV
- A framework for regular rebalancing of investments
- Review of existing DGF managers
- Review of existing Infrastructure Manager
- Review of property investments, and allocations to residential / commercial property sectors, and

vi) All agreed changes to be reflected in an updated Investment Strategy Statement.

3.2.1 Following members agreement of the above proposals, the following changes have been implemented to the strategy to date:

<u>July 2023</u>

- £20m of the Fund's passive equity investments with Kempen were redeemed.
- £20m of the LCIV Global Total Return Fund (Pyrford) was redeemed at trade date 24th July 2023. Funds were directly re-invested into the PIMCO Global Bond Fund via the London CIV with trade date 26th July 2023.

<u>August 2023</u>

- From the Kempen redemption, £8m was held in the Pension Fund bank account for the running of the fund and with the remaining £12m, the fund purchased gilts via the UBS Fixed Income strategy with trade date 3rd August 2023.
- £25m of the LCIV Global Alpha Growth Paris Aligned Fund (Equity fund) was redeemed at trade date 29th August 2023. Funds were directly re-invested into the PIMCO Global Bond Fund via the London CIV with trade date 30th August 2023.

<u>September 2023</u>

- £25m of the LCIV Global Alpha Growth Paris Aligned Fund (Equity fund) was redeemed at trade date 19th September 2023. Funds were directly re-invested into the PIMCO Global Bond Fund via the London CIV with trade date 20th September 2023.
- At the end of September 2023, the fund subscribed £70m to the PIMCO Global Bond Fund.

- The investment strategy statement has been updated to reflect the recommendations from the review.

4. Consultation

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

5. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

5.1 The Council's Pension 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.

5.2 This report outlines the investment strategy changes proposed by the Fund's investment advisors, Hymans Robertson.

6. Legal Implications

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

6.1 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.

6.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension 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 pension fund maintained under the Local Government Pension Scheme.

7. Other Implications

7.1 **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 a significant review completed every three years. This report and its appendices is part of this triennial review of the strategy.

List of appendices:

None

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