Notice of Meeting

PENSIONS PANEL

Monday, 18 September 2017 - 6:00 pm
Committee Room 2, Town Hall, Barking

Members: Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair), Cllr Sade Bright, Cllr Edna Fergus, Cllr James Ogungbose, Cllr Jeff Wade and Cllr John White

Independent Advisor: John Raisin

Observers: John Garnham, Gavin Palmer and Susan Parkin

Date of publication: 7 September 2017

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Tel: 020 8227 2638
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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 2017 (Pages 3 - 9)

4. Pension Fund Quarterly Monitoring report 2017/18- April-June 2017 (Pages 11 - 41)

5. Administration and Governance report (Pages 43 - 50)

6. Business Plan Update 2017 (Pages 51 - 54)

7. Pension Fund Accounts 2016/17 (Pages 55 - 57)
8. Application for Admitted Body Status - Aspens-Services Limited (Pages 59 - 61)

9. Application for Admitted Body Status - Sports & Leisure Management (Pages 63 - 65)

10. Application for Admitted Body Status - Be First

   This report will follow.

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

12. 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 items below contain 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.

13. The Council's Relationship with the Pension Fund Re: Property Investing (Pages 67 - 87)

14. Equity Portfolio Review (Pages 89 - 107)

15. Any other confidential or exempt items which the Chair decides are urgent
Our Vision for Barking and Dagenham

One borough; one community; London’s growth opportunity

Our Priorities

Encouraging civic pride

- Build pride, respect and cohesion across our borough
- Promote a welcoming, safe, and resilient community
- Build civic responsibility and help residents shape their quality of life
- Promote and protect our green and public open spaces
- Narrow the gap in attainment and realise high aspirations for every child

Enabling social responsibility

- Support residents to take responsibility for themselves, their homes and their community
- Protect the most vulnerable, keeping adults and children healthy and safe
- Ensure everyone can access good quality healthcare when they need it
- Ensure children and young people are well-educated and realise their potential
- Fully integrate services for vulnerable children, young people and families

Growing the borough

- Build high quality homes and a sustainable community
- Develop a local, skilled workforce and improve employment opportunities
- Support investment in housing, leisure, the creative industries and public spaces to enhance our environment
- Work with London partners to deliver homes and jobs across our growth hubs
- Enhance the borough's image to attract investment and business growth

Well run organisation

- A digital Council, with appropriate services delivered online
- Promote equalities in the workforce and community
- Implement a smarter working programme, making best use of accommodation and IT
- Allow Members and staff to work flexibly to support the community
- Continue to manage finances efficiently, looking for ways to make savings and generate income
- Be innovative in service delivery
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MINUTES OF
PENSIONS PANEL

Wednesday, 14 June 2017
(6:02 - 8:02 pm)

Members Present: Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair), Cllr Edna Fergus and Cllr Jeff Wade

Observers Present: Bern Hanreck

Advisors Present: John Raisin and Colin Cartwright and Joe Peach

Apologies: Cllr Sade Bright, Cllr John White, Gavin Palmer, David Tyndall and Claire Symonds

1. Declaration of Members' Interests

There were no declarations of interest.

2. Minutes (15/03/17)

The minutes of the meeting held on 15 March 2017 were confirmed as correct.

3. Presentation from Aberdeen Asset Management

Richard Dyson, Alistair Watson and Ben Watson from Aberdeen Asset Management (AAM) provided an oral presentation to the Panel on the following areas:

- Corporate Update
- Portfolio Objective
- Performance
- Outlook- Hedge Fund strategies
- Private Equity – investment highlights

They referred to the proposed merger of AAM and Standard Life in August 2017 and considered that it would mean business as usual for the time being. In fact they felt that with private equity and hedge funds, there was a greater resource available with the merger. The Joint Chief Executives brought different skills to the business.

They highlighted specific slides in the presentation as follows:

Pan Alternatives portfolio objective- the return was not sensitive to the rise and fall of the Financial Times Stock Exchange (FTSE)

Portfolio framework- private equity was now at a 24% allocation and would rise to 40% to 50% in time. The hedge funds generated steady returns and the Kohinoor
Series 3 fund provided the Portfolio with ‘rainy day’ protection during a time of significant stress.

Pan Alternatives performance overview: this had picked up in the last twelve months to May 2017 and it was anticipated that although the 3.2% increase was currently under target, this was expected to rise in time despite hedge fund volatility.

Strategy outlook: this was good and the volatility provided an opportunity for fund managers.

Private equity (PE) is all around us: this area is growing and AAM provided some examples of private equity companies AAM invested in.

Strategy for Private Equity: AAM wanted to invest carefully over a four-year period. They wanted to mitigate the J curve and generate positive returns.

Allegro co-investment: this was an exciting opportunity.

Pipeline: AAM continue to actively review potential opportunities for the LBBD mandate: Primary, Co-Invest and Secondary. There were a number of these being considered.


This report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund had performed during the quarter 1 January 2017 to 31 March 2017 (“Q1”). The report updates the Panel on the Fund’s investment strategy and its investment performance.

A verbal update on the unaudited performance of the Fund for the period 1 April to 12 June 2017 was provided to Members.

The Fund’s externally managed assets closed Quarter 1 2017 valued at £908.7m, an increase of £39.2m from its value of £869.6m as at 31 December 2016. The cash value held by the Council at 31 March 2017 was £6.8m giving a total Fund value of £915.5m.

For Quarter 1, the Fund returned 3.8%, net of manager and custodian fees, outperforming its benchmark by 0.5%. Over one year the Fund returned 18.0%, outperforming its benchmark of by 1.0%. Over three years the Fund trails its benchmark by 0.2%, with a return of 10.7.

For Quarter 1, the Fund returned 3.8%, net of manager and custodian fees, outperforming its benchmark by 0.5%. Over one year the Fund returned 18.0%, outperforming its benchmark of by 1.0%. Over three years the Fund trails its benchmark by 0.2%, with a return of 10.7.

Over two years, most mandates were positive, with returns ranging from (1.3%) with Standish to 16.0% with Kempen. Standish and Aberdeen have significantly underperformed their benchmarks, with a negative return of 6.5% and 3.4% over
the two-year period. The property correction following the referendum result has had an impact on property but the returns over two years remain positive and has outperformed most other asset classes, apart from equities and infrastructure.

Aberdeen Asset Management had been requested to provide a presentation to the Panel at this meeting following this item and although there are grounds for concern at their overall fund performance it was noted that there had been some improvement up to the end of May 2017. AAM had been appointed as a Fund Manager two years ago with a mandate to invest in hedge funds and private equity funds.

It was noted that there remained a great deal of uncertainty in financial markets and hedge funds had performed badly in the last two years.

Members noted the report and would seek an assurance from AAM about its future returns and stability.

The Panel 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; and

(iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually;

5. Administration and Governance report

The report covered three main areas including: Havering College of Further & Higher Education merger with Barking and Dagenham College; Pension Fund Budget 1 April 2017 to 31 March 2020 and cash flow to 31 January 2017.

It was noted that the Havering College of Further and Higher Education (HCFHE) would be merging with Barking College with the target date of 1 August 2017 for the merger. This would involve the transfer of HCFHE support staff into the Fund. This would result in a total of over 800 members, £25m of assets and nearly £30m of liabilities being transferred into the Fund. The Panel agreed to give consideration to where the assets of this merger would be invested, at their meeting in September 2017.

The Panel also noted that as part of the Council’s transformation process, several ‘arms-length’ service delivery units would be agreed in the coming year. The setting up of each delivery unit would require the TUPE (Transfer of Undertakings-Protection of Employment) transfer of staff and each Delivery Unit would need to be admitted as a separate employer to the Fund.

The Council were looking to create several different service delivery vehicles and in October 2017 Be First and the Leisure Services will be admitted to the Fund as admitted bodies. Full reports, including the contribution rates and guarantees would be presented to the Panel meeting in September 2017.
The Panel also noted an update on the London Collective Investment Vehicle (LCIV) and was linked to a recommendation in the Strategy Review report later on the agenda, liaising with the LCIV regarding the appointed managers and arrange a training day to go through potential strategy changes and the options available through the LCIV.

The Panel agreed:

i. That, prior to transferring into the Fund, HCFHE ensure that it provides sufficient contribution to enable it to have the same funding level and contribution rate as BDC;

ii. That LBH transfer the asset values calculated by the actuary as cash, which will then be invested as part of the revised investment strategy;

iii. To delegate authority to the Chief Operating Officer, in consultation with advisors, to negotiate the transfer of HCFHE into the Fund; and

iv. To delegate authority to officer to liaise with the London CIV (LCIV) regarding the newly appointed equity managers that are available via the LCIV investment.

The Panel noted:

i. That the Fund is cash flow positive;

ii. The Fund’s three-year budget for the period 1 April 2017 to 31 March 2020;

iii. That as part of the Council’s transformation process, several arms lengths service delivery units (Delivery Unit) will be agreed over the coming year, with a full report to be presented to the September 2017 Panel; and

iv. That a training day will be arranged on the potential strategy changes and the investment options available through the LCIV.

6. Business Plan Update 2017

The report updated the Panel on progress regarding the Pension Fund’s 2017 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2017 to 31 May 2017 and the actions for the remainder of the year.

The Panel noted progress on the delivery of the 2017 Business Plan.

7. Pension Fund Accounts 2016/17

The report introduced the annual accounts of the London Borough of Barking and Dagenham Pension Fund for the year ended 31 March 2017, which were included as appendix 1.
The Pension Fund Accounts set out the financial position of the Pension Fund as at 31 March 2017 and acted as the basis for understanding the financial well-being of the Pension Fund. It also enabled Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions.

Overall 2016/17 was an exceptional year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 18.0%, 1% higher than its benchmark of 17.0%.

The Panel noted the draft Pension Fund accounts for 2016/17.

8. **Private business**

9. **Strategy Review**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, effective from 1 November 2016, replaced the requirement for the Fund to have a Statement of Investment Principles (SIP) with an Investment Strategy Statement (ISS), by 1 April 2017. The ISS was approved by Members in March 2017.

Every three years the Fund completes a full valuation of its liabilities (triennial valuation), which is completed by the Fund’s actuary. Following the triennial valuation, an investment strategy review is usually completed to ensure that it still reflects the Fund’s cashflow and return requirements.

On 13 March 2017, Members received training on how to set an investment strategy and Aon Hewitt (Aon) presented a summary of their Asset Liability Study.

This report sought to review the current strategy and then proposed several amendments for Members to consider and agree. This included comments from Aon Hewitt and the Independent Adviser.

It was noted that the current objective was for the Fund to be fully-funded and it had a reasonably diverse spread of funds. It was performing well and was on track to be fully funded in due course. Aon Hewitt highlighted key points in utilising the London CIV and rebalancing the portfolio.

The Panel agreed and welcomed the report and would receive an update at its meeting in September 2017.

The Panel noted:

(i) Aon Hewitt’s Investment Strategy Review (appendix 1);
(ii) The Independent Advisers observations of the review (appendix 2); and
(iii) The officer strategy review and economic forecast in section 2 and 3 of this report.

The Panel agreed:
(iv) the revised destination portfolio and amendments to the trigger points for the derisking strategy outlined in section 4;

(v) to include fund manager risk and individual asset risk as part of the derisking strategy;

(vi) that Aon Hewitt write a paper for the September Panel to clarify the relationship between the Council and the Fund. The report will include how the Fund can invest within the Borough and the process the Fund would need to go through to buy assets from the Council.

(vii) to review Fund’s equity allocation, with a report to be taken to the September Panel, covering:
  • Equity Strategy Review;
  • Equity Manager Review;
  • Review of the options and opportunities available through the CIV;
  • Options available through investing passively; and
  • taking into consideration the destination portfolio.

(viii) to receive training on Index Linked Gilts;

(ix) to amend the UBS bond mandate to allow investment into Index-Linked Gilts.

(x) delegate authority to Officers to liaise with UBS on the mechanism of implementing a rebalancing strategy for the Fund’s passive equity and bond allocation and to advise Members of the options at the September Panel;

(xi) to amend the Fund’s strategic allocation as follows:

1. Increase the Equity strategic allocation from 45% to 48%;
2. Increase the DGF allocation from 17% to 18%;
3. Reduce the Senior Loan strategic allocation from 1% to 0%;
4. Reduce the Passive Bond strategic allocation from 5% to 4%;
5. Reduce the Alternatives Strategic allocation from 7% to 6%; and
6. Reduce Infrastructure from 10% to 9%.

(xii) that £30m of the cash held within the Fund is invested immediately as follows:

1. £10m to Newton; and
2. £20m to Pyrford.

(xiii) to amend the Investment Strategy Statement to reflect these strategy changes.

*Item considered following the passing of a resolution to exclude the public and press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.*
1. Introduction and Background

1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund has performed during the quarter 1 April 2017 to 30 June 2017 (“Q2”). The report updates the Panel on the Fund’s investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provides a definition of terms used in this report and Appendix 3 sets out roles and responsibilities of the parties referred to throughout this report.

1.2 A verbal update on the unaudited performance of the Fund for the period 1 July to 15 September 2017 will be provided to Members at the Pension Panel.
2. Market Commentary Q2 2017

2.1 In Q2, regional equity markets, except for North America, produced positive returns, the MSCI World Index returned 0.1% to a sterling investor. Europe had the best performance with the FTSE Europe Index returning 5.2%, the S&P 500 the poorest, returning -0.8%. Oil prices ended the quarter down 9.3% at $47.92, giving back all the gains post the OPEC and non-OPEC production cuts agreed late last year. While these production cuts appear to be holding up, increased inventories, weak demand and increased US shale oil production have weighed on the price.

2.2 In the UK, Prime Minister May called a snap general election in April. A Labour party revival led to a hung parliament, leaving the Conservatives reliant on the support of Northern Ireland’s Democratic Unionist Party in a minority government. The implications for the Brexit negotiations remain unclear given May’s weakened position. In equity markets, the FTSE All Share Index returned 1.4%.

2.3 In the US, President Trump has struggled to implement any of his major policy initiatives. Despite this lack of progress, equity markets continued to advance in local terms as corporate earnings have remained strong and the economy has held up well. In June, the Federal Reserve (Fed) raised rates for the second time this year and the market now expects one further hike before the end of the year. The S&P 500 Index was down 0.8% for Q2 for a UK investor, effected by USD weakness against the GBP. Sector leadership came from health care and IT, while telecoms and energy lagged.

2.4 Within Europe politics once again dominated but, from an investment perspective, they didn’t interrupt the positive tone for risk assets in general. At the start of the year, the worry was that political instability could undermine the recovery in the eurozone but President Macron’s success in the French elections reduced this concern. There were also poor municipal election results for the anti-EU Five Star Movement in Italy, while Angela Merkel’s Christian Democrat Party appears to be building momentum ahead of the German state elections in September.

2.5 In Japan the TOPIX index returned 1.9%, dampened by YEN weakness (-4.5%) over the quarter for a UK investor. Aside from energy, all sectors recorded gains in local terms. In May, China saw its credit rating cut by Moody’s for the first time since 1989 citing fears that growth will slow over the coming years, while economy wide debt is rising. Once again, stock market performance in the region was dispersed but overall the MSCI Asia Pacific ex Japan Index returned 2.3%.

2.6 The MSCI Emerging Markets Index returned 2.4% helped by a strengthening global economy and solid growth from technology related companies, despite further political turmoil in Brazil, while the announcement by MSCI on 21st June that it would include China A shares in its EM benchmark index helped to bolster returns. Bond markets ended Q2 on a weak note, the BAML Broad UK Index returned -0.8%, the JPM Global ex UK Index -1.2% and the FTSE Index Linked over 5-year Index returned -2.4%.

2.7 Property posted a positive return, for the third consecutive quarter, bringing the 12 months return to 5%. In currency markets the Euro gained 2.7% on sterling but the USD and JPY both lost ground against GBP by -3.7% and -4.5% respectively.
3. Overall Fund Performance

3.1 The Fund’s externally managed assets closed Q2 2017 valued at £945.8, an increase of £37.1m from its value of £908.7m as at 31 March 2017. The cash value held by the Council at 30 June 2017 was £0.5m giving a total Fund value of £946.3m.

3.2 For Q2 the Fund returned 1.8%, net of all fees, outperforming its benchmark by 0.6%. Over one year the Fund has returned 14.6%, outperforming its benchmark by 2.1%. Over three years the Fund has outperformed its benchmark by 0.1%, with a return of 10.7%. The Fund’s quarterly and annual returns are provided below:

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
</tr>
<tr>
<td>Actual Return</td>
<td>1.8</td>
<td>3.8</td>
<td>3.7</td>
<td>5.3</td>
<td>5.2</td>
<td>2.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.2</td>
<td>3.3</td>
<td>3.6</td>
<td>4.4</td>
<td>5.7</td>
<td>2.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Difference</td>
<td>0.6</td>
<td>0.5</td>
<td>0.1</td>
<td>0.9</td>
<td>(0.5)</td>
<td>0.5</td>
<td>(0.1)</td>
</tr>
</tbody>
</table>

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund’s deficit and the funding level from 31 March 2013 to 31 July 2017. Members are asked to note the significant changes in value and the movements in the Fund’s funding level. Chart 1 below shows the Fund’s value since 31 March 2009.

3.4 Stock selection contributed 0.5%, with asset allocation contributing 0.1% for the quarter. 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 75% below the benchmark
- Δ AMBER- Fund underperformed by less than 75% below the benchmark.
- O GREEN- Fund is achieving the benchmark return or better
3.5 Q2, (table 2), highlights the Q2 return. Pyrford, BlackRock and Hermes underperformed their respective benchmarks. Aberdeen and Baillie Gifford provided good returns of 3.1% and 4.0% respectively.

Table 2 – Fund Manager Q2 2017 Performance

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Actual Returns (%)</th>
<th>Benchmark Returns (%)</th>
<th>Variance (%)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen Asset Man.</td>
<td>4.2</td>
<td>1.1</td>
<td>3.1</td>
<td>O</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>4.6</td>
<td>0.6</td>
<td>4.0</td>
<td>O</td>
</tr>
<tr>
<td>BlackRock</td>
<td>2.0</td>
<td>2.3</td>
<td>(0.3)</td>
<td>Δ</td>
</tr>
<tr>
<td>Hermes GPE</td>
<td>0.8</td>
<td>1.4</td>
<td>(0.6)</td>
<td>Δ</td>
</tr>
<tr>
<td>Kempen</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>O</td>
</tr>
<tr>
<td>Prudential / M&amp;G</td>
<td>1.1</td>
<td>1.1</td>
<td>0.0</td>
<td>O</td>
</tr>
<tr>
<td>Newton</td>
<td>1.0</td>
<td>1.0</td>
<td>0.0</td>
<td>O</td>
</tr>
<tr>
<td>Pyrford</td>
<td>0.1</td>
<td>2.3</td>
<td>(2.2)</td>
<td>Δ</td>
</tr>
<tr>
<td>Schroders</td>
<td>2.8</td>
<td>2.3</td>
<td>0.5</td>
<td>O</td>
</tr>
<tr>
<td>BNY Standish</td>
<td>1.0</td>
<td>1.0</td>
<td>0.0</td>
<td>O</td>
</tr>
<tr>
<td>UBS Bonds</td>
<td>(1.3)</td>
<td>(1.3)</td>
<td>0.0</td>
<td>O</td>
</tr>
<tr>
<td>UBS Equities</td>
<td>2.3</td>
<td>2.2</td>
<td>0.1</td>
<td>O</td>
</tr>
</tbody>
</table>

3.6 Over one-year, (table 3), Schroders and the equity managers provided good returns. BlackRock, Pyrford and Newton have struggled, significantly underperforming their benchmarks, with Newton providing a negative return for the year.

Table 3 – Fund Manager Performance Over One Year

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Actual Returns (%)</th>
<th>Benchmark Returns (%)</th>
<th>Variance (%)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen Asset Man.</td>
<td>5.7</td>
<td>4.4</td>
<td>1.3</td>
<td>O</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>28.2</td>
<td>21.3</td>
<td>6.9</td>
<td>O</td>
</tr>
<tr>
<td>BlackRock</td>
<td>2.5</td>
<td>5.9</td>
<td>(3.4)</td>
<td>Δ</td>
</tr>
<tr>
<td>Hermes GPE</td>
<td>6.1</td>
<td>5.7</td>
<td>0.4</td>
<td>O</td>
</tr>
<tr>
<td>Kempen</td>
<td>24.4</td>
<td>20.2</td>
<td>4.2</td>
<td>O</td>
</tr>
<tr>
<td>Prudential / M&amp;G</td>
<td>4.4</td>
<td>4.3</td>
<td>0.1</td>
<td>O</td>
</tr>
<tr>
<td>Newton</td>
<td>(0.5)</td>
<td>4.2</td>
<td>(4.7)</td>
<td>Δ</td>
</tr>
<tr>
<td>Pyrford</td>
<td>5.5</td>
<td>8.3</td>
<td>(2.8)</td>
<td>Δ</td>
</tr>
<tr>
<td>Schroders</td>
<td>12.4</td>
<td>5.9</td>
<td>6.5</td>
<td>O</td>
</tr>
<tr>
<td>BNY Standish</td>
<td>5.1</td>
<td>4.4</td>
<td>0.7</td>
<td>O</td>
</tr>
<tr>
<td>UBS Bonds</td>
<td>(0.8)</td>
<td>(0.9)</td>
<td>0.1</td>
<td>O</td>
</tr>
<tr>
<td>UBS Equities</td>
<td>22.6</td>
<td>22.3</td>
<td>0.3</td>
<td>O</td>
</tr>
</tbody>
</table>

3.7 Over two years, (table 4), all mandates are positive, with returns ranging from (0.0%) with Standish to 20.0% with Baillie Gifford. Standish has significantly underperformed its benchmarks, with a negative return against benchmark of 5.0%. The very high equity returns are in sharp contrast to the rest of the strategies, where mid-single digit returns are most prevalent.
Table 4 – Fund manager performance over two years

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Actual Returns (%)</th>
<th>Benchmark Returns (%)</th>
<th>Variance (%)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen Asset Man.</td>
<td>3.4</td>
<td>4.4</td>
<td>(1.0)</td>
<td>△</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>20.0</td>
<td>17.6</td>
<td>2.4</td>
<td>O</td>
</tr>
<tr>
<td>BlackRock</td>
<td>5.0</td>
<td>6.5</td>
<td>(1.5)</td>
<td>△</td>
</tr>
<tr>
<td>Hermes GPE</td>
<td>8.3</td>
<td>5.6</td>
<td>2.7</td>
<td>O</td>
</tr>
<tr>
<td>Kempen</td>
<td>18.9</td>
<td>17.9</td>
<td>1.0</td>
<td>O</td>
</tr>
<tr>
<td>Prudential / M&amp;G</td>
<td>4.4</td>
<td>4.4</td>
<td>0.0</td>
<td>O</td>
</tr>
<tr>
<td>Newton</td>
<td>4.0</td>
<td>4.3</td>
<td>(0.3)</td>
<td>△</td>
</tr>
<tr>
<td>Pyrford</td>
<td>6.4</td>
<td>7.4</td>
<td>(1.0)</td>
<td>△</td>
</tr>
<tr>
<td>Schroders</td>
<td>6.7</td>
<td>6.4</td>
<td>0.3</td>
<td>O</td>
</tr>
<tr>
<td>BNY Standish</td>
<td>0.0</td>
<td>5.0</td>
<td>(5.0)</td>
<td>O</td>
</tr>
<tr>
<td>UBS Bonds</td>
<td>6.2</td>
<td>6.1</td>
<td>0.1</td>
<td>O</td>
</tr>
<tr>
<td>UBS Equities</td>
<td>18.7</td>
<td>18.5</td>
<td>0.2</td>
<td>O</td>
</tr>
</tbody>
</table>

4. Asset Allocations and Benchmark

4.1 Table 5 below outlines the Fund’s strategic asset allocation, asset value and benchmarks:

Table 5: Fund Asset Allocation and Benchmarks as at 31 June 2017

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Asset (%)</th>
<th>Market Values (£000)</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen</td>
<td>5.8%</td>
<td>54,821</td>
<td>Libor + 4% (net of fees)</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>18.2%</td>
<td>172,200</td>
<td>MSCI AC World Index</td>
</tr>
<tr>
<td>BlackRock</td>
<td>4.0%</td>
<td>37,524</td>
<td>IPD PPF All Balanced Property Funds</td>
</tr>
<tr>
<td>Hermes GPE</td>
<td>7.6%</td>
<td>71,666</td>
<td>Target 5.9% per annum</td>
</tr>
<tr>
<td>Kempen</td>
<td>16.0%</td>
<td>151,489</td>
<td>FTSE All World Developed</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>0.1%</td>
<td>1,270</td>
<td>None</td>
</tr>
<tr>
<td>Newton</td>
<td>7.1%</td>
<td>66,732</td>
<td>One-month LIBOR plus 4%</td>
</tr>
<tr>
<td>Pyrford</td>
<td>10.8%</td>
<td>102,349</td>
<td>RPI plus 5%</td>
</tr>
<tr>
<td>Schroders</td>
<td>2.4%</td>
<td>23,119</td>
<td>IPD PPF All Balanced Property Funds</td>
</tr>
<tr>
<td>Standish</td>
<td>7.0%</td>
<td>66,098</td>
<td>6% Target Return</td>
</tr>
<tr>
<td>UBS Bonds</td>
<td>3.7%</td>
<td>35,366</td>
<td>FTSE All Stock Gilt Index</td>
</tr>
<tr>
<td>UBS Equities</td>
<td>17.2%</td>
<td>163,205</td>
<td>MSCI AC World Index</td>
</tr>
<tr>
<td>Cash &amp; Other</td>
<td>0.1%</td>
<td>485</td>
<td>One-month LIBOR</td>
</tr>
<tr>
<td><strong>Total Fund</strong></td>
<td></td>
<td><strong>946,324</strong></td>
<td></td>
</tr>
</tbody>
</table>
4.2 The percentage split by asset class is graphically shown in the pie chart below.

![Chart 2: Fund Allocation by Asset Class as at 30 June 2017](image)

5. Fund Manager Performance

5.1 Kempen

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 6/2/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kempen</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
</tr>
<tr>
<td>£151,489</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Actual Return</td>
<td>0.1</td>
<td>3.2</td>
<td>10.9</td>
<td>10.2</td>
<td>5.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Benchmark</td>
<td>0.1</td>
<td>5.1</td>
<td>7.1</td>
<td>7.9</td>
<td>9.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Difference</td>
<td>0.0</td>
<td>(1.9)</td>
<td>3.8</td>
<td>2.3</td>
<td>(3.9)</td>
<td>3.7</td>
</tr>
</tbody>
</table>

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 matched its benchmark of 0.1% for the quarter and has outperformed its benchmark by 4.2% over one year and 1.0% over two years. Sector allocation and stock selection added to the relative performance during the quarter, with an overweight position to the materials sector and underweight to the information technology sector helping performance. Stock selection was positive within financials, as European financials performed strongly. Stock specifically, the largest contributors were HollyFrontier, Triton International and AbbVie.

During the quarter Kempen sold eleven companies and bought eight companies. Six companies were sold as they passed their dividend threshold (Principal Financial, Bridgestone Corporation, Catcher technology, SKF, Novo Nordisk and UDR). Two companies were sold for valuation reasons (Insurance Australia Group and Tele2). IBM was sold due to deterioration in the underlying business, Mattel was sold as the dividend was cut and AMEC Foster was sold as it is being acquired by Wood Group.

Outlook

The outlook continues to be promising and has improved since the beginning of the year. Overall market multiples are elevated, but the dispersion has widened again, creating more opportunities. Flows into passive strategies have increased valuations in certain sectors while depressing others. Kempen believe this creates the opportunity to invest in areas shunned by the market and it is the expected returns for individual companies that drive the performance of the strategy, and not the flows in and out of sectors.

The strategy now has a forward yield of around 4.8%. Kempen remain optimistic on the dividend growth prospects for 2017.

5.2 Baillie Gifford

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th></th>
<th>2016</th>
<th></th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 6/2/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baillie Gifford</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£172,200</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Actual Return</td>
<td>4.6</td>
<td>7.6</td>
<td>3.9</td>
<td>12.1</td>
<td>6.9</td>
<td>0.3</td>
<td>10.4</td>
<td>(5.8)</td>
</tr>
<tr>
<td>Benchmark</td>
<td>0.6</td>
<td>5.8</td>
<td>6.5</td>
<td>8.5</td>
<td>8.8</td>
<td>2.9</td>
<td>8.1</td>
<td>(5.9)</td>
</tr>
<tr>
<td>Difference</td>
<td>4.0</td>
<td>1.8</td>
<td>(2.6)</td>
<td>3.6</td>
<td>(1.9)</td>
<td>(2.6)</td>
<td>2.3</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that it believes will enjoy sustainable competitive advantages in their industries and which 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 stocks available around the world by combining the specialised knowledge of BG’s investment teams with the experience of their most senior investors. BG holds approximately 90-105 stocks.
Performance Review

Global equity markets have continued to rise, framed by a backdrop of broad-based economic recovery and steadily improving corporate earnings. The operational performance of their holdings remains strong. As bottom-up stock pickers, BG are looking to invest in businesses that can grow their earnings and cash flows at above market rates for sustainable periods of time.

For Q2, BG provided a return of 4.6%, outperforming its benchmark by 4.0%. BG’s one-year return is 28.2%, significantly outperforming its benchmark by 6.9%. Since initial funding the strategy has returned 16.9%, outperforming its benchmark by 3.0%.

Regional Allocation

The strategies regional weighting it provided below, highlighting the sizeable allocation to emerging markets and a lower than benchmark allocation to the US.

5.3 UBS Equities

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 31/8/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBS Equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£163,205</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
</tr>
<tr>
<td>Actual Return</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>2.3</td>
<td>5.5</td>
<td>6.6</td>
<td>8.2</td>
<td>8.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Difference</td>
<td>0.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Reason for appointment

UBS were appointed as the Fund’s passive equity manager to reduce the risk from underperforming equity managers and provides a cost-effective way of accessing the full range of developed market equity growth. UBS track the developed world market benchmark and there will only be an issue with performance were the manager to vary significantly from the benchmark, either positively or negatively.
Performance

The fund returned 2.3% for the quarter and 22.6% for the financial year. Since initial funding in August 2012, the strategy has provided an annualised return of 16.6%. Global equity markets increased in value over the second quarter, making it five positive quarters in a row since the losses seen in early 2016. Emerging markets generally fared best but developed markets were also positive over the three months.

5.4 UBS Bonds

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 5/7/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBS Bonds</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3 Q2 Q1</td>
<td>Q4 Q3</td>
<td></td>
</tr>
<tr>
<td>£35,366</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>% % %</td>
<td>% % %</td>
<td>% % % % % %</td>
</tr>
<tr>
<td>Actual Return</td>
<td>(1.3)</td>
<td>1.5</td>
<td>(3.3)</td>
<td>2.3 6.2</td>
<td>5.0 (1.2)</td>
<td>3.1 (0.8) 6.2</td>
</tr>
<tr>
<td>Benchmark</td>
<td>(1.3)</td>
<td>1.5</td>
<td>(3.4)</td>
<td>2.3 6.2</td>
<td>5.0 (1.2)</td>
<td>3.1 (0.9) 6.1</td>
</tr>
<tr>
<td>Difference</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td>0.1 0.1 0.0</td>
</tr>
</tbody>
</table>

Reason for appointment

UBS were appointed as the Fund’s passive bond manager to allow the Fund to hold a small allocation (5%) of UK fixed income government bonds.

Market Update

Government bonds had a mixed Q2, with prices falling at the end of the June after earlier rises. The shift in tone in central bank comments in June was the main driver of rising yields, with bond prices falling sharply worldwide. Within credit, prices for high yield and investment grade assets continued to rise with spreads tightening further. Emerging market debt enjoyed a strong quarter, and is now amongst the best performing fixed income assets over 2017 to date.

5.5 BlackRock

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 1/1/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3 Q2 Q1</td>
<td>Q4 Q3</td>
<td></td>
</tr>
<tr>
<td>£37,524</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>% % %</td>
<td>% % %</td>
<td>% % % % % %</td>
</tr>
<tr>
<td>Actual Return</td>
<td>2.0</td>
<td>2.5</td>
<td>1.5</td>
<td>(3.5) 1.3</td>
<td>1.2 2.5</td>
<td>2.5 2.5 5.0</td>
</tr>
<tr>
<td>Benchmark</td>
<td>2.3</td>
<td>2.0</td>
<td>2.3</td>
<td>(0.7) 0.1</td>
<td>1.1 3.0</td>
<td>3.0 3.0 6.5</td>
</tr>
<tr>
<td>Difference</td>
<td>(0.3)</td>
<td>0.5</td>
<td>(0.8)</td>
<td>(2.8) 1.2</td>
<td>0.1 (0.5)</td>
<td>(0.5) (3.4) (1.5)</td>
</tr>
</tbody>
</table>

Reason for appointment

In December 2012, a large 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.
Performance and Summary of Fund Activity

The Fund delivered a net return to investors of 2.0% in the Q2 and a return of 2.5% over one year. Since initial funding the strategy has provided a good return of 7.8% but has underperformed its benchmark by 1.7%.

Q2 saw strong performance from both the Fund’s primary healthcare and student accommodation investments which returned c. 3.8% combined. Demand remained strong in both sectors from an occupational and capital markets perspective.

During the quarter, the Fund leased a floor at 25 Bedford Street, London to The New Scientist. The letting was positive for the Fund’s performance and means that the Fund only has one floor let across its Central London office portfolio.

The Fund completed the sale of two smaller assets for c. £3.7 million, both of which were targeted for sale in 2017. The most significant transaction was the acquisition of the 11.5 acre / 290,000 sq ft Uplands Business Park Blackhorse Road E17, for £50 million. This asset benefits from the severe shortage of industrial stock in Greater London and a significant reversion is subsequently believed to be achievable in the short term. Furthermore, owning 11.5 acres of land with excellent transport links and where the area around is improving and being redeveloped for residential use, means that over the longer term there could be a very interesting change of use upside. It is rare to find such an opportunity, but it is not dissimilar in style to the Fund’s investment in the Aylesham Centre in Peckham which was acquired in 2015 and offers an attractive income yield while the Fund works to unlock the planning gain from a potential c. 600 unit residential lead mixed use scheme.

BlackRock continue to believe that the Fund is well positioned in the sectors that are forecast to outperform over the next 2 – 3 years, and that the portfolio contains a significant number of value adding opportunities that are in the process of being delivered.

5.6 Schroders Indirect Real Estate

<table>
<thead>
<tr>
<th>Schroder</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 6/8/2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>£23,119</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Actual Return</td>
<td>2.8</td>
<td>3.2</td>
<td>2.7</td>
<td>3.7</td>
<td>(5.2)</td>
<td>0.8</td>
</tr>
<tr>
<td>Benchmark</td>
<td>2.3</td>
<td>2.0</td>
<td>2.3</td>
<td>(0.7)</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Difference</td>
<td>0.5</td>
<td>1.2</td>
<td>0.4</td>
<td>4.4</td>
<td>(5.3)</td>
<td>(0.3)</td>
</tr>
</tbody>
</table>

Reason for appointment

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

Since the market correction in Q2 2016, the strategy has rebounded strongly. In July 2016, the Fund increased its allocation to Schroders by £5m due to large discounts available on purchasing units. This has proved to have been both a good opportunity to rebalance the Fund’s underweight property position and a good return of 8.3%.

Over one-year Schroder has returned 12.4%, which is 6.5% above its benchmark. Schroders remain behind their benchmark since initial funding but there is an expectation that the strategy will outperform the market in 2017 as the strategies diversification into alternatives provides support.

5.7 M&G / Prudential UK

<table>
<thead>
<tr>
<th>M&amp;G / Prudential</th>
<th>2017</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 31/5/2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1,270</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
</tr>
<tr>
<td>Actual Return</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Benchmark Return</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>4.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Difference</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees) and provides diversification from active bond management by holding the loans until their maturity. The strategy continues to meet its objectives and there were no issues in the quarter.

The portfolio has reduced its senior loan investments to three, with no changes to their respective credit ratings (BB+). The date of the last loan maturity is 2022, after which the investment will be wound up and the final distributions made.

5.8 Hermes

<table>
<thead>
<tr>
<th>Hermes</th>
<th>2017</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 9/11/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>£71,666</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
</tr>
<tr>
<td>Actual Return</td>
<td>0.8</td>
<td>1.9</td>
<td>1.8</td>
<td>1.6</td>
<td>2.5</td>
<td>5.9</td>
<td>0.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>5.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Difference</td>
<td>(0.6)</td>
<td>0.5</td>
<td>0.4</td>
<td>0.2</td>
<td>1.1</td>
<td>4.5</td>
<td>(1.1)</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Reason for appointment

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

Return and Market Update

As at 30 June 2017, the strategy reported a one-year return of 6.1%, outperforming its benchmark by 0.4%. Since inception the strategy has returned 10.5%, outperforming its benchmark by 4.6%.

Whilst the trading outlook remained cautious during the period, Eurostar experienced an increase in passenger numbers and corresponding revenues in comparison to the same period in 2016 and Associated British Ports performed consistent with budget. Management teams were cautious on the outlook for the rest of the year considering the risk of continued political uncertainty as a result of the election of a minority government, commencement of Brexit negotiations and the continued terrorist threat.

Looking ahead, whilst an extended period of uncertainty may lead to decreased market activity it may also create attractive buying opportunities for long term investors. Hermes Infrastructure’s focus remains on ensuring that potential investments have a high probability of satisfying target return expectations for the relevant strategy over the Fund life and display the investment characteristics, including return volatility, required for such strategy.

Transactions

On 1 March 2017, the strategy, through its existing ownership stake in EAG, acquired Commercial Meters Limited. Post quarter end EAG acquired Dragon Infrastructure Solutions Ltd, one of the UK’s largest Independent Connection Providers and Utility Distribution Networks Ltd. The acquisitions will contribute to growth in recurring revenue and the geographical expansion of EAG’s service based business.

On 31 March 2017, Hermes acquired an 8.5% equity ownership stake in Cadent Gas, previously owned by the National Grid. Hermes invested as part of consortium1 that acquired an initial 61% interest in Cadent Gas. National Grid retains a 39% interest.

5.9 Aberdeen Asset Management

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 15/9/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
</tr>
<tr>
<td>£54,821</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Actual Return</td>
<td>4.2</td>
<td>0.7</td>
<td>0.5</td>
<td>0.3 (1.4)</td>
<td>2.2</td>
<td>(0.1) 0.4 5.7 3.4 3.4</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1      4.4 4.4 4.5</td>
</tr>
<tr>
<td>Difference</td>
<td>3.1</td>
<td>(0.4)</td>
<td>(0.6)</td>
<td>(0.8)</td>
<td>(2.5)</td>
<td>(1.2) (0.7) 1.3 (1.0)</td>
</tr>
</tbody>
</table>

Reason for appointment

As part of the Fund’s diversification away from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Asset Management (AAM) were
appointed to build and maintain a portfolio of Hedge Funds and Private Equity. All positions held within the portfolio are hedged back to Sterling. The currency position of this strategy is currently fully hedged.

**Market Update and Performance Summary**

The trend in recent months of weaker-than-anticipated economic growth and inflation, particularly in the U.S., continued as the Citi Economic Surprise Index hit the lowest level since 2011. During the quarter, the US growth forecast dropped from a forecast above 4% down to just 2.7% as of the end of June. Despite this trend, however, Fed, ECB, and BoE officials, surprised markets during the month, indicating that central banks were biased to look through the current soft patch of data. Their focus, instead, appeared to be on forecasts indicating that diminishing levels of spare capacity in the economy would likely result in upward pressure on inflation over the coming quarters.

Bond investors responded to these comments by pushing nominal yields higher even as market based indicators of inflation expectations were still falling. Equity markets proved resilient to this rise in real yields, but steady performance at the index level masked a wide dispersion of performance across sectors. Investors rotated out of large cap growth and technology names and in to lower valued sectors, particularly financials. The Nasdaq 100 returned a negative -2.4% in June while the KBW Bank Index in the US rallied close to +8% on the month. By region, European stocks were also relative underperformers with the Stoxx 600 declining, held back by a combination of both higher bonds yields and strengthening European currencies.

Finally, in commodities, performance was mixed with strong demand data out of China helping to support prices for industrial metals, while oil prices came under pressure as Department of Energy data showed surprise inventory builds occurring in the US during the month.

**Performance**

Overall the strategy provided a return of 4.2%, outperforming its benchmark by 3.1%. This good quarterly return helped the strategy to outperform its benchmark over one year, with a return of 5.7% against a benchmark of 4.4%. Since inception in September 2014, the strategy has return 2.0%, underperforming its benchmark by 2.5%.

At the June Pension Panel, Aberdeen presented to Members and there was detailed discussion over the underperformance associated with the initial investment period. It is expected that as the investments in Private Equity mature, that the strategy will begin to outperform its benchmark.

**Holdings**

As at the end of 30 June 2017 the portfolio held the following allocation to Hedge Fund’s and Private Equity:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Strategy / Style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge Funds</td>
<td></td>
</tr>
<tr>
<td>Field Street Fund</td>
<td>Fixed Income, Global Macro</td>
</tr>
</tbody>
</table>
### 5.10 Pyrford

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 28/9/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pyrford</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£102,349</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Actual Return</td>
<td>0.1</td>
<td>1.7</td>
<td>0.6</td>
<td>3.1</td>
<td>3.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Benchmark</td>
<td>2.3</td>
<td>2.1</td>
<td>2.0</td>
<td>1.9</td>
<td>2</td>
<td>1.4</td>
</tr>
<tr>
<td>Difference</td>
<td>(2.2)</td>
<td>(0.4)</td>
<td>(1.4)</td>
<td>1.2</td>
<td>1.2</td>
<td>1.0</td>
</tr>
</tbody>
</table>

#### 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 to outperform equities during periods when markets fall.

#### Performance

Pyrford generated a return of 0.1% in Q2, underperforming its benchmark by 2.2%. Over one year the strategy has returned 5.5%, underperforming its benchmark by 2.8%. On 29 June 2017, as agreed at the June Pension Panel, the Fund invested a further £20m with Pyrford from its cash holding.

#### Portfolio Managers Activity Report

Most stock markets continued their rise during the quarter although there was a small correction at the end of June. At the country level, best performers were: Austria +12.55%; Denmark +7.91% and Hong Kong +6.22%. Down at the other end of the league table Pyrford had: Portugal -6.07%; Australia -3.29% and Belgium -3.16%.
Government bond markets at the benchmark 10-year maturity almost universally experienced a sharp up-tick in yield at the end of the June – coinciding with the down-tick in equity prices. Nevertheless, over the quarter some yields fell slightly – US, France, Australia, whilst others rose – UK, Japan, Germany and Canada. The US 10-year bond ended the quarter with a yield of 2.3%. A year ago, the yield was 1.5% - so there has been quite a sizeable yield increase over the 12-month period although all of this occurred in the second half of 2016. In the last few months the yield has been gradually falling, suggestive of an economy that is cooling. The yield curve is relatively flat (30-year bond yield 2.8%; 6-month bill yield 1.15%). The short end of the curve has been steadily rising over the last 12 months.

**Asset Allocation**

In Q2 there were no asset allocation changes made to the portfolio. The current model allocation remains 30% equities, 67% bonds and 3% cash. This reflects Pyrford’s continued view that there is very little fundamental value in either equities or longer duration quality sovereign bonds and that capital market valuations do not discount the significant structural economic problems and material risks that exist.

In bonds, Pyrford continues to adopt a defensive stance by owning short duration securities to protect the capital value of the portfolio from expected rises in yields, as witnessed in the final quarter of 2016 and again in June 2017. At the end of the quarter the modified duration of the fixed income portfolio stood at just 1.5 years. There was no change to the geographical allocation of the fixed income portion of the portfolio. 10% of the portfolio remains invested in overseas government bonds, with 5% in Canada and 5% in Australia.

The equity portfolio remains positioned in defensive sectors such as utilities and telecommunications. These sectors offer predictable revenue streams and attractive valuations. The focus of the portfolio is on balance sheet strength, profitability, earnings visibility and value. In Asia, Pyrford prefer the Southeast Asian markets over Japan as the economies in Southeast Asia offer sustainable economic growth supported by increased labour output or productivity growth and trade at more reasonable valuations.

Finally, there were no further changes to the portfolio’s currency hedging programme during the quarter. In line with Pyrford’s purchasing power parity analysis, the Swiss franc, Aussie dollar and Canadian dollar exposure within the portfolio remains fully hedged, insulating the portfolio against any fall in the value of the currency. Just 10% of the portfolio remains exposed to unhedged non-sterling assets.
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

Overall the strategy provided a 1% return for the quarter, matching its benchmark. Over one year the strategy returned -0.5%, which is 4.7% below its benchmark. The two-year return only 0.3% below its benchmark with a return of 4.0%. Since funding, the strategy has provided an annual return of 3.8%. On 29 June 2017, as agreed at the June Pension Panel, the Fund invested a further £10m with Newton from its cash holding.

Activity

Newton introduced new positions in select financials and oil & gas holdings, which increased the beta of the Fund’s equities (the measure of risk of volatility compared to the overall market). Newton also took advantage of strong performance and took some profits in early June, thereby increasing the cash position by around 10%. Newton continued tactically to reduce the interest-rate sensitivity of the portfolio through bond options. Further hedging activity included reducing the Japanese yen exposure. Finally, Newton purchased added further protection to the fund via placing a hedge on the S&P.

Outlook and Strategy

While markets are conveying mixed messages, Newton continue to believe that a cautious stance in the portfolio is warranted, given the absolute-return nature of the strategy. Despite recent hawkish comments by central bank governors, the backdrop remains deflationary. Several significant risks exist, including China’s efforts to de-risk an over-levered economy and financial system which is likely to affect economic momentum globally. Given the challenging structural backdrop, Newton’s decision to maintain the return- seeking core of the portfolio at historically low levels is justified. Newton believe their global approach based on several main themes, coupled with fundamental valuation support, can identify companies that will benefit from these themes, as well as highlighting areas to be avoided owing.
5.12 BNY Standish

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>One Year</th>
<th>Two Years</th>
<th>Since Start 20/8/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standish</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
</tr>
<tr>
<td>£66,098</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Actual Return</td>
<td>1.0</td>
<td>2.0</td>
<td>0.7</td>
<td>1.4</td>
<td>0.9</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.0</td>
<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Difference</td>
<td>0.0</td>
<td>0.8</td>
<td>(0.4)</td>
<td>0.3</td>
<td>(3.4)</td>
<td>(2.9)</td>
</tr>
</tbody>
</table>

Reason for appointment

Standish 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.

Performance

Overall the strategy provided a 1% return for the quarter, matching its benchmark. Over one year the strategy returned 5.1%, which is 0.7% above its benchmark. The two-year return is zero, underperforming its target return of 5%. Since funding, the strategy has provided an annual return of 1.9%.

Currency positioning was the main detractor over the quarter, with long positioning in the Japanese yen, British pound and Argentine peso (as well as a short position in the euro) influencing performance. This was partially offset by strong performance from longs in the Swedish krona and Mexican peso.

Yield curve/duration positioning lifted performance, and was driven by short duration positions in Europe and the UK and a long position in Mexico, although long duration positioning in the US and Australia were negative. Asset allocation was additive, with outperformance from investment-grade and high-yield corporates.

Ex-ante portfolio tracking errors were reduced during the month and remained concentrated in curve and currency positioning. However, over the course of June, curve risk was reduced by circa 25%, and currency risk was cut in half.

Strategy

Fixed-income markets came under pressure towards the end of June after comments by European Central Bank (ECB) president Mario Draghi at the Sintra conference in Portugal on 27 June. Interpreted as signalling a shift in the ECB’s accommodative stance, said comments’ effect on bond markets was swift and dramatic, with 10-year German Bunds rising by over 20 basis points (bps). Financial markets have become increasingly sensitive to any sign that central-bank accommodation is nearing an end, and so other government-bond markets fell in sympathy, with US 10-year Treasury yields rising by 15bps and UK 10-year Gilts up as well. The moves were in sharp contrast to the muted market reaction to the US Federal Open Market
Committee’s 14 June decision to hike rates for the second time this year, which had been widely predicted.

European peripheral spreads continued to tighten on the month, helped by optimism regarding economic growth and a further consolidation of power by France’s pro-European president Emmanuel Macron after further successes in the parliamentary elections.

**Outlook**

Standish’s global macroeconomic view remains broadly unchanged month over month, and they continue to expect steady global expansion pulled along by above-trend growth in the US and China. Standish believe advanced economies’ steady growth and stable commodity prices should continue to provide a more secure culture for expansion in emerging-market economies. Opportunities for returns look limited, however, and could be easily wiped out by the manifestation of an adverse tail-risk event. In such an environment, they feel it is appropriate to maintain a relatively lean risk budget.

**Key Fund Manager Changes**

Standish have announced a number of changes and promotions in their Global and Emerging Market Debt investment teams and a realignment of their multi sector teams. Raman Srivastava, Co-Deputy Chief Investment Officer left Standish for personal reasons effective August 4th, 2017.

Brendan Murphy, who has been with Standish for over 12 years has been promoted to Managing Director of Global & Multi-Sector strategies. Previously Brendan was Director of Global Fixed Income, responsible for managing the day to day investment activities of the global team. Brendan will report to David Leduc, Chief Executive Officer and Chief Investment Officer.

David Horsfall, Deputy Chief Investment Officer, will continue in his current role and will have direct oversight of Standish’s Global Corporate Credit, Liability Driven Investing, Short Duration and Rates & Securitized investment teams.

Raman was a key man within the funds strategy when Standish were appointed and was one of the Fund managers who presented to Members during the tender process. Although David Horsfall remains a key person within the strategy, officers will continue to closely monitor the impact of Raman leaving and whether there are other significant changes within the Standish.

**5.13 Currency Hedging**

No new currency hedging positions were placed in Q2 2017.

**6. Consultation**

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

7. Financial Implications

Implications completed by: Kathy Freeman, Director of Finance

7.1 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. 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 Panel on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Pension Fund during the period.

8. Legal Implications

Implications completed by: 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 pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council’s Officers and Members.

8.2 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.

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:

- WM Quarterly Q2 2017 Report; and
- Fund Manager Q2 2017 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 July 2017
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities
Funding Level between 31 March 2013 to 31 July 2017

Graph showing the funding level over time from 10/09/2013 to 03/03/2017.
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 2008 (Administration) 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

University of East London
Magistrates Court
Barking College
Thames View Infant Academy
Thames View Junior School
Sydney Russell Academy
Riverside Academy
Riverside Bridge
Riverside Primary
Dorothy Barley Academy
Warren Academy
Goresbrook Free School
Elutec
The James Cambell
Greatfields School

Admitted Bodies

Age UK
Abbeyfield Barking Society
Barking and Dagenham Citizen’s Advice Bureau
Council for Voluntary Service
Disablement Association of Barking and Dagenham
East London E-Learning
Elevate
Kier
London Riverside
Laing O’Rourke
RM Education
CRI
Cleantech
The Broadway Theatre
Schools Offices Services Ltd
B Roles & Responsibilities

B.1 Investment or Pensions Committee

This is the decision-making body within the LGPS scheme. It will probably meet quarterly and could have sub-committees for examining more detailed aspects i.e. investment performance, audit etc.

Membership of the committee will reflect the constitutional nature of the committee within the local authority and the multi–employer nature and size of the local scheme. A county scheme might have the leader of the council, four other councillor members from the host local authority, two district councillors and a staff representative.

As another example, the London Pension Fund Authority, which has separate legal responsibility for certain pensions' administration and investment within London, has a membership of seven to eleven members appointed by the Mayor of London. The Mayor is required to consult local government representatives in London on at least half of the appointments excluding the chairman.

Although appointments from host local authorities will be made on a political basis, a key feature of pensions or investments committees is the non-political nature of much of the decision-making. While sitting on the pensions or investments committee, members will be exercising a duty of care and have a fiduciary responsibility to the fund, employers and potential beneficiaries of the fund.

Responsibilities

The responsibility of an investments or pensions committee may include:

- ensuring all investment activity complies with the requirements of current regulations and best practise;
- approving the statement of investment principles, funding strategy statement, communications strategy and governance policy;
- reviewing and taking action on actuarial valuations;
- appointing investment managers, a fund actuary, custodian(s) and professional advisers;
- agreeing asset allocation strategies following asset liability modelling and a policy for investment in different assets with the investment managers;
- agreeing a rebalancing strategy between different portfolios when asset allocations change due to different market movements of different sectors;
- regularly reviewing investment managers’ performance and expertise against agreed benchmarks and determining any action required;
- ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments;
- monitoring budgets for the fund ensuring there is adequate budgetary control;
- promoting the fund within the authority; and
- ensuring the administration of the fund is appropriately resourced, is effective and meets performance standards.
The committee will also have responsibility for selecting and appointing external additional voluntary contribution (AVC) providers for use by members in purchasing additional benefits. At retirement the accumulated value of the members AVC fund is used to purchase an annuity on the appropriate market, or the value may be taken as a cash sum under specific circumstances.

CLG has reminded administering authorities that elected councillors 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.

Under Section 101 of the Local Government Act 1972, a local authority can choose to delegate their pension investment functions to the council, a committee, a sub-committee or to officers. CLG guidance states that under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001, statutory decisions, taken under schemes made under Sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the executive arrangements introduced by the Local Government Act 2000.

This means that the executive arm of the council cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the pension fund and related matters.

B.2 Quasi Trustees

As the LGPS has a different background, in comparison to corporate pension schemes, members of investments or pensions committees do not have the legal responsibilities of a trustee in a corporate scheme. Nevertheless they still have considerable responsibilities and a general duty of care. Investments or pension’s committee members are often referred to as quasi trustees. Due to the complexity of investment practises, pension benefits, actuarial and funding issues, a high level of knowledge and skills is required and continual training is essential.

LGPS quasi-trustees are responsible for the:

- oversight of the management and resourcing of all fund activities;
- achieving the requirements set out by The Pensions Regulator’s codes of practice;
- ensuring the best possible outcome for the fund, employers and members; and
- taking decisions in accordance with the standing orders of the investments or pensions committee.

B.3 Fund Administrator

The Strategic Director, Finance & Investment is responsible as fund administrator for:

- ensuring compliance with the statutory rules governing the investment of LGPS assets, including the various policy documents and statements required under the regulations;
- acting as a professional advisor to the fund;
• as section 151 officer alerting the investments or pensions committee or the council to any problems with the funding level or the administration of the fund in accordance with section 151 responsibilities;
• ensuring effective audit and governance arrangements; and
• ensuring the effective administration and preparation of the accounts including the annual statement of accounts.

B.4 Administering Authority

There will be a separate pension’s function within a host local authority with responsibility for investment and scheme administration. With a few exceptions, it will not be a separate legally constituted body.

Consequently, subject to LGPS regulations, the legal and administrative processes of the local authority will apply to the fund i.e. employees of the fund will be employees of the local authority and be subject to the local authorities pay and conditions of employment.

Although not a separate body in law, good practice would suggest that the fund should have a title relating to the overall fund, rather than the host authority.

The responsibilities of the administering authority include:

• collecting and accounting for employer and employee contributions;
• investing monies not required for payment benefits, transfers and administration costs;
• paying pension benefits and ensuring cash is available to meet the funds future liabilities;
• managing the fund valuation process;
• preparing and maintaining the statutory statements;
• monitoring and managing all aspects of the fund’s performance; and
• Managing communications with employers, members and pensioners.

B.5 Employers

These will range from the host local authority, which in a county scheme will be the county council, to many other employers, both large and small. Following out-sourcing by local authorities, an increasing feature of LGPS schemes is the extent to which commercial companies are becoming employers (as admitted bodies) within the scheme.

Employers fall into three categories:

• **Scheduled**
  These are the organisations listed in the Local Government Pension Scheme (Administration) Regulations 2008 (Schedule 2, Part 1) and include county councils and district councils.

• **Designated (resolution) bodies**
  These are employers that have the power to decide if an employee or a group of employees can belong to the LGPS and they pass a resolution accordingly. They are
listed in the Local Government Pension Scheme (Administration) Regulations 2008 (Schedule 2, Part 2).

- **Admitted bodies**

  These are bodies whose staff can become members of an LGPS fund, if the administering body agrees, under provisions of governing regulations by virtue of an admission agreement between the administering authority and the relevant body.

  Responsibilities of employers include:
  - deducting pension contributions and together with employer contributions, remitting to the administering authority in accordance with the required timescale;
  - exercising benefit discretions in accordance with the agreed policy and keeping the administering authority informed;
  - notifying the administering authority of all relevant membership changes (e.g. retirement etc) and other required issues; and
  - Complying with the valuation timetable.

  Employers have a particular responsibility for notifying the administering authority as soon as it becomes evident that an outsourcing or external partnership arrangement might be a possibility. There are many complex issues to be considered by the administering authority which could involve seeking actuarial and financial advice. Employers need to ensure that tender documents clarify pension funding obligations which should be covered subsequently in a commercial contract.

  Contact should be made at an early stage with the administering authority if consideration is being given to an employee retiring early or being made redundant. When considering early retirement, employers need to ensure that they identify the need to make a payment to the pension fund for the early release of pension benefits. This is called the pension fund strain; it can be a significant cost and normally needs to be funded immediately by the employer.

**B.6 Investment Managers**

With some exceptions, in larger LGPS funds most investment managers are external appointments. A feature of the LGPS is the extent to which the majority of mandates are held by a relatively few managers. In 2006 over 50 percent of LGPS funds were managed by the top five managers. In total there were over 80 different external managers involved with LGPS funds.

  Investment manager responsibilities include:

  - investment of pension fund assets in compliance with current LGPS legislation, any constraints set by the investments or pensions committee in the statement of investment principles and investment management agreement;
  - asset allocation if a balanced manager, otherwise as directed by the investments or pensions committee;
  - selection of securities within asset classes;
  - attending meetings and presenting reports to the investments or pensions committee as required, including regular reports on performance, voting and transactions;
  - active management of any cash balances (unless this responsibility is delegated to the custodian); and
• engaging with companies and taking shareholder action in accordance with the fund’s policy.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 contain clauses on:

• the requirements for being an investment manager;
• choice of investment manager;
• terms of appointment for an investment manager; and
• Reviewing the performance of an investment manager.

B.7 Custodian(s)

The custodian(s) is responsible for the safekeeping of the fund’s securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian(s).

The duties may include:

• settlement of purchases and sales;
• advising managers of cash available for investment;
• safe custody of securities and cash;
• acting as banker to the fund;
• cash reconciliations;
• collection of dividends, income and overseas tax reclaims;
• ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
• ensuring the necessary approvals are in place to invest in certain overseas markets; and
• Providing (monthly) valuations of scheme assets, details of all transactions and accounting reports.

The custodian may also offer access to commission recapture, security lending programmes, comparative performance measurement and voting of shares in accordance with an agreed policy.

The appointment of a custodian might require specialist advice to be obtained. The risks to be addressed include:

• financial risk around the financial viability and stability of the custodian including ability to support long term investment in the business and withstand operational losses;
• asset risk including risk that in the event of default, client securities are treated as part of the assets of the bank which has gone into default and belong to creditors rather than clients, and cash risk that in the event of default clients are exposed to losses of cash placed with the bank; and
• Asset servicing risk such that a client is exposed to a loss due to a weakness in the custodian’s operations.

Funds need to consider the importance of ensuring that all these areas are considered. This might involve using specialist advisers. Particular consideration should be given to risks if a sub-custodian is involved.
B.8 Actuary

The scheme actuary is an independent and appropriately qualified adviser who carries out statutory requirements for fund valuations and other valuations as required and who will also provide general actuarial advice.

The actuary will:

• prepare fund valuations, including setting employers contribution rates, after agreeing valuation assumptions with the administering authority;
• agree a timetable for the valuation with the administering authority; and
• Prepare timely advice and calculations in connection with bulk transfers and benefit matters.

The results of the valuation determine the rate of the employer's contribution for the subsequent three years. The actuary is required to certify employer's contribution rates that will achieve full solvency over the longer term, while keeping contribution rules as stable as possible.

The contribution rate will consist of a common rate for the fund and an individual employer rate. To achieve this, the actuary needs to ensure compliance with legislative requirements, assess current solvency levels, monitor actual experience compared with previous assumptions, and assess reserves needed for accrued liabilities. In carrying out this work, the actuary must have regard to the funding strategy statement, which might need to be revised to incorporate any new approach to be followed in the valuation.

The administering authority may also instruct the actuary to carry out an interim valuation if stock market conditions change, or if the characteristics of the membership changes e.g. as a result of a large transfer of staff.

The actuary will advise on other scheme matters, e.g. funding levels and the funding strategy statement and asset liability reviews. The most recent valuation of LGPS funds in England and Wales was at 31 March 2013 with revised employer contribution rates payable from April 2014.

The Myner's report (Institutional Investment in the United Kingdom: A Review) highlighted the need for funds to consider whether the roles of actuary and investment adviser should be held by separate companies. Notwithstanding this, many continue to have these roles provided by the same company, although there will be separate contracts.

B.9 Professional Advisers

Professional advisers should be appointed to advise the pensions or investments committee and the fund administrator on scheme matters. As in the case of investment managers, these appointments tend to be held by a relatively few appointees. Professional advisors should not be committee members.

Funds usually have a sole investment adviser. Consideration might be given to using a framework list of consultants, in order to use specific advisers to reflect each firm’s strength and fees. In comparison with the usual approach of advertising in the EU journal, subject to the size of the fee, framework lists afford much more flexibility in procuring these services.
Advisers may be needed for advice on:

- asset allocation strategies;
- the selection of new managers and custodians;
- the preparation of the various strategy documents required under LGPS regulations; and
- To assist in reviewing and monitoring managers’ performance.

Legal advice will need to be available to the fund, which might involve the appointment of specialist legal advisers for particular aspects of fund management i.e. appointing a private equity manager.
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AGENDA ITEM 5

PENSIONS PANEL
18 September 2017

Title: Administration and Governance Report

Report of the Chief Operating Officer

Public Report | For Information
---|---

**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:** Kathy Freeman, Director of Finance

**Accountable Strategic Director:** Claire Symonds, Chief Operating Officer

**Recommendations**

The Panel is recommended to note:

i. that the Fund is cash flow positive;

ii. the Fund’s three-year budget for the period 1 April 2017 to 31 March 2020;

iii. that Havering College for Further Education will now not transfer its support staff into the Fund; and

iv. that interview dates for the actuarial tender will likely be in late November. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions.

The Panel is recommended to agree:

v. that the Fund should seek to Opt Up to Professional Investor;

vi. to delegate authority to the Sections 151 officer to complete the Opt Up process; and

vii. to agree to delegate authority to officers to commence procurement for an actuary, using the National LGPS Framework.

1. **Introduction**

1.1 It is best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. This paper covers three main areas including:

i. Pension Fund Budget 1 April 2017 to 31 March 2020;

ii. Cash flow to 31 July 2017;

iii. Update on the Havering College of Further & Higher Education merger with Barking and Dagenham College;
iv. The London Collective Investment Vehicle (LCIV)
v. Update on MiFID 2; and
vi. Actuary Contract Tender.

2. Pension Fund Budget 1 April 2017 to 31 March 2020

2.1 Table 1 provides Members with the Fund’s three-year budget to 31 March 2020.

<table>
<thead>
<tr>
<th>Contributions</th>
<th>2017/18 Budget</th>
<th>2018/19 Budget</th>
<th>2019/20 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contributions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council</td>
<td>6,000</td>
<td>5,500</td>
<td>5,000</td>
</tr>
<tr>
<td>Admitted bodies</td>
<td>800</td>
<td>1,200</td>
<td>1,500</td>
</tr>
<tr>
<td>Scheduled bodies</td>
<td>2,400</td>
<td>2,500</td>
<td>2,800</td>
</tr>
<tr>
<td><strong>Employer Contributions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council</td>
<td>22,500</td>
<td>20,000</td>
<td>18,200</td>
</tr>
<tr>
<td>Admitted bodies</td>
<td>2,000</td>
<td>3,000</td>
<td>3,750</td>
</tr>
<tr>
<td>Scheduled bodies</td>
<td>8,900</td>
<td>9,300</td>
<td>10,500</td>
</tr>
<tr>
<td>Pension Strain</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Transfers In</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Total Member Income</strong></td>
<td>46,100</td>
<td>45,000</td>
<td>45,250</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>(30,000)</td>
<td>(31,000)</td>
<td>(32,000)</td>
</tr>
<tr>
<td>Lump Sums and Death Grants</td>
<td>(6,000)</td>
<td>(6,000)</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Payments to and on account of leavers</td>
<td>(3,500)</td>
<td>(3,500)</td>
<td>(3,500)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(550)</td>
<td>(550)</td>
<td>(500)</td>
</tr>
<tr>
<td><strong>Total Expenditure on members</strong></td>
<td>(40,050)</td>
<td>(41,050)</td>
<td>(42,000)</td>
</tr>
<tr>
<td><strong>Net additions for dealings with members</strong></td>
<td>6,050</td>
<td>3,950</td>
<td>3,250</td>
</tr>
<tr>
<td><strong>Returns on Investments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income</td>
<td>6,000</td>
<td>7,000</td>
<td>7,500</td>
</tr>
<tr>
<td>Profit (losses)</td>
<td>35,000</td>
<td>35,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Investment management expenses</td>
<td>(3,300)</td>
<td>(3,100)</td>
<td>(3,000)</td>
</tr>
<tr>
<td><strong>Net returns on investments</strong></td>
<td>37,700</td>
<td>38,900</td>
<td>39,500</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in the net assets</strong></td>
<td>43,750</td>
<td>42,850</td>
<td>42,750</td>
</tr>
<tr>
<td><strong>Asset Values</strong></td>
<td>938,750</td>
<td>981,600</td>
<td>1,024,350</td>
</tr>
</tbody>
</table>

2.2 The cashflow forecast shows a movement from members being directly employed by the Council to some members being funded by admitted bodies and academies. An increase in lump sum payments is projected but will be mitigated by an increase in pension strain. Pension strain costs reflect the payment of early retirements over 5-years rather than as a one-off payment.

2.3 Overall the Fund is expected to remain cash flow positive for the duration of the three years but for the net dealing with members to reduce to £3.25m by 2020. Fund manager fees are forecast to drop from £3.5m to £3.0m by 2020.
3. Cash flow to 31 July 2017

3.1 Table 2 below provides Members with the Fund’s Cash flow to 30 July 2017.

<table>
<thead>
<tr>
<th>Table 2: 2016/17 Forecast Pension Fund Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td><strong>Contributions</strong></td>
</tr>
<tr>
<td><strong>Employee Contributions</strong></td>
</tr>
<tr>
<td>Council</td>
</tr>
<tr>
<td>Admitted bodies</td>
</tr>
<tr>
<td>Scheduled bodies</td>
</tr>
<tr>
<td><strong>Employer Contributions</strong></td>
</tr>
<tr>
<td>Council</td>
</tr>
<tr>
<td>Admitted bodies</td>
</tr>
<tr>
<td>Scheduled bodies</td>
</tr>
<tr>
<td>Pension Strain</td>
</tr>
<tr>
<td>Transfers In</td>
</tr>
<tr>
<td><strong>Total Member Income</strong></td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
</tr>
<tr>
<td>Pensions</td>
</tr>
<tr>
<td>Lump Sums and Death Grants</td>
</tr>
<tr>
<td>Payments to and on account of leavers</td>
</tr>
<tr>
<td>Administrative expenses</td>
</tr>
<tr>
<td><strong>Total Expenditure on members</strong></td>
</tr>
<tr>
<td><strong>Net additions for dealings with members</strong></td>
</tr>
<tr>
<td><strong>Returns on Investments</strong></td>
</tr>
<tr>
<td>Investment Income</td>
</tr>
<tr>
<td>Profit (losses)</td>
</tr>
<tr>
<td>Investment management expenses</td>
</tr>
<tr>
<td><strong>Net returns on investments</strong></td>
</tr>
<tr>
<td>Net increase (decrease) in the net assets</td>
</tr>
<tr>
<td><strong>Asset Values</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

3.2 As the forecast only includes one month of information most of the forecast numbers are similar to the budget.

3.3 Administration costs are forecast to be £100k higher than budget as an external company will complete the Fund’s Guaranteed Minimum Pension reconciliation.

3.4 Overall the Fund is forecast to end the financial year at around 83.2% funded based on a prudent gilt plus model. This compares favourably with the triennial valuation results where the fund is 77.6% funded and is due to higher than expected returns and a decrease in inflation expectations.
4. **Havering College of Further & Higher Education merger with Barking College**

4.1 On 10 April 2017 the Boards of Governors of Barking and Dagenham College (BDC) and Havering College of Further & Higher Education (HCFHE) announced the commencement of public consultation on a proposal to merge the Colleges with the target date being 1st August 2017. The aim was to bring a significant range of long-term benefits to students, employers and the local community.

4.2 HCFHE and BDC have advised that the merger would involve the transfer in of HCFHE support staff into the Fund. This would have resulted in a total of over 800 members, £25m of assets and £30m of liabilities being transferred into the Fund.

4.3 On 28 July 2017 Barking College advised that the Havering board decided not to pursue the merger. As a result, HCFHE will now not transfer its support staff into the Fund.

5. **London Collective Investment Vehicle (LCIV) Update**

5.1 Below provides a brief update on the progress of the London CIV:

5.2 **Investment Advisory Committee (IAC) Membership**

The membership of the IAC is reviewed on annual basis with members asked for nominations. The Group Manager for Treasury and Pensions was nominated to be a member and to represent the Fund on the IAC. In total 28 nominations were received representing 29 London Local Authorities.

5.3 **Sub-funds available within the London CIV now includes:**

   i. Four global equity funds: Allianz, Baillie Gifford, Longview and Newton.
   ii. One United Kingdom equity: Majedie.
   iii. Four multi-asset funds: Baillie Gifford, Newton, Pyrford and Ruffer.

Over the next three months, a further four sub-funds are scheduled for launch on the CIV platform, including three that have come from a global equity procurement process. The Funds are summarised below, with their proposed launch date in brackets:

   i. Henderson Emerging Markets (17-07-17)
   ii. Epoch Global Equity Income (09/17)
   iii. RBC Sustainable Equity (09/17)

5.4 **Fixed Income and Cashflow Strategies**

Fixed Income and Cashflow Strategies has been the prime focus for LCIV since June 2017, with regular meetings of the fixed income working group taking place to review a range of approaches. LCIV are currently undertaking a tender process for an adviser prior to commencing a full search for managers in key fixed income products.

The timetable for launching funds in this area is being progressed and it is anticipated that sub-funds will be launched in advance of the business plan date of March 2018. LCIV and the fixed income working group are currently working to a timeline of sub-fund launches towards the end of the calendar year 2017 or early 2018.
After the LCIV have appointed managers then the Fund will looks to reviews its fixed income and credit strategies, in a similar approach to the Fund’s equity review.

6. MiFID II update

6.1 The MiFID Background

The European Commission instigated a review of MiFID due to increasing complexity of financial products and issues related to the 2008 financial crisis. The outcome of the review was a revised Directive, MiFID II, which is to take effect from 3 January 2018.

During 2016 and early 2017, the FCA consulted on the implementation proposals for MiFID II. On 3 July, the FCA published a policy statement setting out the final rules on several matters.

6.2 The Financial Conduct Authority (“FCA”) has now issued its final policy statement setting out the rules for implementation of the Markets in Financial Instruments Directive (“MiFID II”), effective from 3 January 2018. A key change is that there is now greater clarity in the “opt-up” criteria that is expected to make it easier for local authorities administering LGPS pension funds to elect to be treated as “professional” (rather than “retail”) clients.

The FCA reiterates that it is a MiFID II requirement for local authorities (currently treated as professional) to be classified as retail clients by default. Under such a classification LGPS Funds would face a reduced investment opportunity set and the potential need to offload assets in advance of MiFID II coming into effect. However, the FCA has acknowledged this and, recognizing that the LGPS already has its own governing regulations and oversight bodies, has revised its criteria for opting-up with the aim of making “it easier for local authorities investing on behalf of a LGPS pension fund to opt-up to professional client status”.

6.3 Opting-up criteria

The opt-up criteria will continue to be a combination of quantitative and qualitative “tests”.

6.3.1 Quantitative test

To pass the quantitative test, local authorities must meet a portfolio size requirement of £10m, (this amount reflects a lowering of the previous portfolio size threshold of £15m). The FCA thinks that £10m is more suitable to its policy goal, which is “restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily (provided they meet the other criteria).” AND

One of the following tests (noting that iii has been newly added):

i. the client has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters; or
ii. the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged; or

iii. the client is an ‘administering authority’ of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity.

Based on these criteria all administering authorities of all LGPS Funds will satisfy at least two of these quantitative criteria and therefore pass the test.

6.3.2 Qualitative test

The qualitative test remains unchanged, requiring:

“Adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved.”

However, the final policy statement acknowledges the typical LGPS governance arrangements (including the role of the elected committees) and states the following: “Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions.”

6.3.3 Transitional arrangements

The FCA says that it has limited discretion with regard to transitional arrangements. Given this, it is important that any Funds that are invested in asset classes that are deemed as being unsuitable for retail investors are upgraded to professional client status before 3 January 2018 - therefore should treat this as a priority.

6.3.4 Ongoing updates

The FCA notes that professional clients have a responsibility to keep investment firms informed about any changes that affect their current categorisation. It also notes that if a client no longer fulfils the initial conditions that made it eligible to be opted-up to professional, “appropriate action” must be taken, highlighting that judgement must be made as to what action may be appropriate.

6.4 Next steps

The Local Government Association is developing a reporting template with the Investment Association that will simplify the opting-up process for investment managers, investment advisors and custodians.

Officers have drafted forms to the Fund’s investment managers, investment advisors and custodians requesting to Opt Up. However, prior to agreeing to Opt Up a Fund, Members first need to agree that the Fund should seek to Opt Up.
Members are therefore recommended to agree:

i. that the Fund should seek to Opt Up to Professional Investor; and
ii. to delegate authority to the Sections 151 officer to complete the Opt Up process.

7. **Actuarial Contract Tender**

7.1 The Fund currently uses Hymans Robertson as its actuary, with the contract agreed through a framework agreement established by the London Borough of Croydon Pension Fund. The Croydon framework ended on 31 March 2017, with the Fund’s contract with Hymans Robertson ending towards the end of 2017.

7.2 It is proposed that the Fund seek to join the National LGPS Framework for Actuarial and Benefit Consulting which has 37 LGPS funds from across the UK. Using a framework saves considerable time and money, whilst still delivering a service specified to the Fund’s requirements.

7.3 Members are asked to agree to delegate authority to officers to commence procurement for an actuary, using the National LGPS Framework.

7.4 If agreed, the interview dates will likely be in late November. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions and you will be included.

6. **Consultation**

6.1 Council’s Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The Strategic Director, Finance & Investment and the Fund’s Chair have been informed of the commentary in this report.

7. **Financial Implications**

*Implications completed by: Kathy Freeman, Director of Finance*

7.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits and governance of the Fund rests with the Pension Panel.

8. **Legal Implications**

*Implications completed by: 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 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.

9. Other Implications

9.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long-term workload of the Pension Fund. This will continue to be monitored.

**Background Papers Used in the Preparation of the Report:** None

**List of appendices:** None
Recommendations

The Panel is asked to note progress on the delivery of the 2017 Business Plan at Appendix 1 to the report

1. Introduction and Background

1.1 The purpose of this report is to update the Pension Panel on progress regarding the Pension Fund’s 2017 business plan.

1.2 Appendix 1 provides a summary of the Business Plan actions from 1 January 2017 to 31 August 2017 and the actions for the remainder of the year.

2. Comments of the Finance Officer

2.1 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.

2.2 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.

2.3 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.
3. Comments of the Legal Officer

3.1 The Panel 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. Panel Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions.

List of appendices:

Appendix 1 - Business Plan Update
### Appendix 1: 2017 Business Plan

<table>
<thead>
<tr>
<th>Month</th>
<th>Action Scheduled</th>
<th>By</th>
<th>Actual Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 17</td>
<td><strong>Review: Actuarial Contract</strong></td>
<td>Officers</td>
<td>Contract reviewed. Will tender as part of the national framework.</td>
</tr>
<tr>
<td></td>
<td><strong>Fund Manager Meetings:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Equities: Kempen</td>
<td>Officers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Equities: BlackRock</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Training: Strategy Development (Aon / In-house)</strong></td>
<td>Officers / Advisors</td>
<td>Moved to 13 March 2017</td>
</tr>
<tr>
<td>Feb 17</td>
<td><strong>Pension Board Meeting</strong></td>
<td>Officers / Pension Board</td>
<td>Done – 27 February 2017</td>
</tr>
<tr>
<td>Mar 17</td>
<td><strong>IAS 19 Calculations</strong></td>
<td>Officers</td>
<td>Moved to 13 March 2017</td>
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<td></td>
<td><strong>Review: Independent Advisor</strong></td>
<td>Officers / Members</td>
<td>Contract Recommendation to extend for one year</td>
</tr>
<tr>
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<td><strong>Quarterly Pension Panel Meeting</strong></td>
<td>Officers / Advisors / Members</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td><strong>Cash Flow Update (Report to March Pension Panel)</strong></td>
<td>Officers</td>
<td>Completed</td>
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<td><strong>Fund Manager Meetings:</strong></td>
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<tr>
<td></td>
<td>• Absolute Return: Pyrford and Newton</td>
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<td></td>
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<tr>
<td></td>
<td>• Global Credit: BNY Standish</td>
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<tr>
<td></td>
<td>• Diversified Alternatives: Aberdeen</td>
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<tr>
<td></td>
<td>• Equities: Baillie Gifford</td>
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</tr>
<tr>
<td></td>
<td><strong>Closure of Accounts</strong></td>
<td>Officers</td>
<td>Completed</td>
</tr>
<tr>
<td>Apr 17</td>
<td><strong>Framework Tender for Custodian (Report to June Panel)</strong></td>
<td>Officers / Members</td>
<td>Moved to December 2017</td>
</tr>
<tr>
<td></td>
<td><strong>Provide Triennial Valuation data to the Actuary</strong></td>
<td>Officers</td>
<td>Completed</td>
</tr>
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<td><strong>Fund Manager Meetings:</strong></td>
<td>Officers / Advisors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Infrastructure: Hermes</td>
<td></td>
<td>Held on 24 May 2017</td>
</tr>
<tr>
<td></td>
<td>• Property Manager: BlackRock</td>
<td></td>
<td>To be Held in June 2017</td>
</tr>
<tr>
<td>May 17</td>
<td><strong>Draft Annual report and annual accounts to June Panel</strong></td>
<td>Officers</td>
<td>Draft Annual Report Completed</td>
</tr>
<tr>
<td></td>
<td>• Quarterly Pension Panel Meeting</td>
<td>Officers / Advisors / Members</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td><strong>Cash Flow Update- Report to June Pension Panel</strong></td>
<td>Officers</td>
<td>Completed</td>
</tr>
<tr>
<td>Jun 17</td>
<td><strong>Pension Board Meeting</strong></td>
<td>Officers / Pension Board</td>
<td>Held September 2017</td>
</tr>
<tr>
<td></td>
<td><strong>FRS17 Data Collection – UEL and Barking College</strong></td>
<td>Officers</td>
<td>Completed</td>
</tr>
<tr>
<td>Jul 17</td>
<td><strong>Fund Manager Meetings:</strong></td>
<td>Officers</td>
<td>Moved to September 2017</td>
</tr>
<tr>
<td></td>
<td>• Property Manager: Schroders</td>
<td></td>
<td>Moved to September 2017</td>
</tr>
<tr>
<td></td>
<td>• Equities: Kempen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Responsible</td>
<td>Status</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------------------------------------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>Aug 17</td>
<td>Annual Benefit Statement (deadline of 31 August 2017)</td>
<td>Officers</td>
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<td>• FRS17 Data Collection – Academies</td>
<td>Officers</td>
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<tr>
<td>Sep 17</td>
<td>Quarterly Pension Panel Meeting</td>
<td>Officers / Members</td>
<td>This Panel</td>
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<td></td>
<td>• Fund Expenses Review (Report to December Panel)</td>
<td>Officers</td>
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<td></td>
<td>Auto-enrolment</td>
<td>Officers / Members</td>
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<tr>
<td>Oct 17</td>
<td>Meeting with Employers to discuss Triennial Results</td>
<td>Officers / Employers</td>
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<td>Review Risk Register - Report to December Panel</td>
<td>Officers</td>
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<td>Cash Flow Update- Report to December Pension Panel</td>
<td>Officers</td>
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<tr>
<td></td>
<td>Tender for Actuarial Provider</td>
<td>Officers / Members</td>
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<tr>
<td>Nov 17</td>
<td>Quarterly Pension Panel Meeting</td>
<td>Officers / Members</td>
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<td></td>
<td>Pension Fund Stakeholder Meeting</td>
<td>Officers / Members</td>
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<td></td>
<td>Strategic Asset Allocation Review</td>
<td>All</td>
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<tr>
<td>Dec 17</td>
<td>Fund Manager Meetings:</td>
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<td></td>
<td>• Absolute Return: Pyrford and Newton</td>
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<td>• Global Credit: BNY Standish</td>
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<td>• Diversified Alternatives: Aberdeen</td>
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PENSIONS PANEL
18 September 2017

<table>
<thead>
<tr>
<th>Title: Pension Fund Accounts 2016/17</th>
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Report of the Chief Operating Officer

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<tr>
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<th>Wards Affected: None</th>
<th>Key Decision: No</th>
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<tr>
<th>Report Author:</th>
<th>Contact Details:</th>
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<tbody>
<tr>
<td>David Dickinson, Group Manager Pensions and Treasury</td>
<td>Tel: 020 8227 2722 E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a></td>
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<th>Accountable Director: Kathy Freeman, Director of Finance</th>
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<th>Accountable Strategic Director: Claire Symonds, Chief Operating Officer</th>
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Summary:

This report presents the Pension Panel with the Annual Report for the year ended 31 March 2017 and includes the 2016/17 Audited Pension Fund Accounts.

The Annual Report is available on the Council’s website at:


Recommendations

The Panel is asked to consider and note the Pension Fund Annual Report for 2016/17.

1. Introduction and Background

1.1 The Local Government Pension Scheme (Administration) Regulations 2008 (No. 239) requires each administering authority to prepare an annual report for the pension fund. The regulations prescribe that the following should be included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
• the current version of the governance compliance statement;
• the fund account and net asset statement with supporting notes and disclosures;
• the extent to which the fund has achieved its required performance levels; and
• the current version of the funding strategy statement, the statement of investment principles and communications policy and any other information the authority considers appropriate.

1.2 The Annual Report of the Pension Fund has been prepared and subjected to audit by KPMG prior to being released for publication. Several additional disclosures are now required to assist with the production of the LGPS annual report. The additional reporting includes:

   i. Fund Age Distribution as at 31 March 2017;
   ii. Pension Fund Three Year Budget;
   iii. An analysis of fund assets as at 31 March 2017;
   iv. An analysis of investment income as at 31 March 2017; and
   v. A separately reported Pension Board section.

1.3 The Panel is recommended to note the Pension Fund Annual Report for 2016/17.

2. Consultation

2.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The Chief Operating Officer and the Fund’s Chair have been informed of the commentary in this report.

3. Financial Implications

Implications completed by: Kathy Freeman, Director of Finance

3.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The Pension Panel is responsible for agreeing and monitoring the investment strategy and formally reviewing the Fund’s governance and administration of the Fund. This paper forms part of the strategy and governance reviewing process.

4. Legal Implications

Implications completed by: Paul Feild, Senior Governance Solicitor

4.1 As observed in the main body of the report The Local Government Pension Scheme (Administration) Regulations 2008 (No. 239) requires each administering authority to prepare an annual report for the pension fund. This report serves that purpose.
5. **Other Implications**

5.1 There are no other immediate implications arising from this report.

Public Background Papers Used in the Preparation of the Report:

The Local Government Pension Scheme (Administration) Regulations 2008 (No. 239)

List of appendices:

None
Title: Application for Admitted Body Status – Aspens-Services Limited

Report of the Strategic Director, Finance & Investment

Public Report | For Information
---|---

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@lbld.gov.uk

Accountable Director: Kathy Freeman, Director of Finance

Accountable Strategic Director: Claire Symonds, Chief Operating Officer

Summary:

To consider the application for Admitted Body status from Aspens-Services Limited (Aspens) to the Local Government Scheme (LGPS).

The Panel is asked to agree:

- the application for Admitted Body Status by ASPENS, 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 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 Panel can agree to retrospectively agree an admission agreement.
2 Aspens-Services Limited Admission Agreement

2.1 In early 2017 Partnership Learning (PL) carried out a tender for catering services for three academies, namely Sydney Russell Primary & Secondary, Riverside School, Greatlands School and one council run school, Dagenham Park School.

2.2 PL appointed Aspens-Services Limited (Aspens) as their catering contractor on a three-year contract, with options to extend the contract by a further two years. The previous catering contractor was the London Borough of Barking and Dagenham. The start date of the transfer was 1 August 2017.

2.3 ASPENS will be a Transferee Admission Bodies (TAB) within the LGPS. These are typically private sector companies or charities. They take on staff from a scheduled body as a result of an outsourcing of services and the transferring employees had a right to remain in the LGPS or a “broadly equivalent” scheme.

2.4 Aspens will be responsible for the risks, including investment risk, bond yield risk, inflation risk, pay award risk, longevity and regulatory risk. PL have agreed to act guarantor for Aspens, which is allowed by the LGPS regulations. This means that were Aspens to fail to pay any sum due to the Administering Authority, PL shall be liable for any shortfall in contribution and any funding shortfall.

2.5 The transfer of the staff from the Council to Aspens was completed on a fully funded basis, with the pension deficit remaining with the Council. The contribution rate calculated by the actuary for Aspens is 31.3%.

2.6 This Admission Agreement is a ‘closed’ agreement covering those employees currently working on the contract and will not include new staff. A total of 31 staff employed by the Council were TUPE transfer from the Council to Aspens. Of the 31 staff, 22 are currently members of the Fund.

2.7 A review of the admitted body’s accounts and security provided by PL will occur on an annual basis with a summary of the results for all Admitted Bodies taken to Panel.

3. Consultation

3.1 None.

4. Financial Implications

*Implications completed by: Kathy Freeman, Director of Finance*

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. In order 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.

5.2 In the current application Partnership Learning are to be guarantor, the Council will take responsibility for the existing deficit and so the admission will be to a fully funded transfer of staff that will be closed to new entrants.
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## Title: Application for Admitted Body Status – Sports & Leisure Management

### Report of the Strategic Director, Finance & Investment

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<tr>
<td><strong>Wards Affected:</strong> None</td>
<td><strong>Key Decision:</strong> No</td>
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**Report Author:** David Dickinson, Group Manager Pensions and Treasury  
**Contact Details:**  
Tel: 020 8227 2722  
E-mail: david.dickinson@lbld.gov.uk

**Accountable Director:** Kathy Freeman, Director of Finance

**Accountable Strategic Director:** Claire Symonds, Chief Operating Officer

### Summary:

To consider the application for Admitted Body status from Sports & Leisure Management (SLM) to the Local Government Scheme (LGPS).

The Panel is asked to agree:

- the application for Admitted Body Status by SLM, 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 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 Panel can agree to retrospectively agree an admission agreement.

1.3 At the March and June 2017 Pension Panel, Members were advised that the Council was looking to create several different service delivery vehicles including, transferring
its Leisure Services and establishing a company, Be First, to manage the implementation of its investment and regeneration strategy. In addition, a number of Traded Services will be set up.

2 Sports & Leisure Management Admission Agreement

2.1 The Council has now completed the tender for leisure services to run its two Leisure Centres and the Jim Peters Sports Arena and has now appointed Sports & Leisure Management (SLM) from 1 September 2017 on a ten-year contract, with options to extend the contract by a further five years.

2.2 SLM will be a Transferee Admission Bodies (TAB) within the LGPS. These are typically private sector companies or charities. They take on staff from a scheduled body as a result of an outsourcing of services and the transferring employees had a right to remain in the LGPS or a “broadly equivalent” scheme.

2.3 The contract with SLM will be based on passthrough arrangement. With passthrough SLM will be responsible for:

- pay increases above local government levels
- redundancies
- early retirements including due to ill health
- discretions and augmentations

The Council retain risk around the assumptions below:

- actuarial assumptions
- mortality rates
- inflation
- regulatory change
- discount rates

2.4 This means that the Council will be responsible for any additional contribution caused by the contribution rate increasing due to changes in the actuarial assumptions. To secure the liability transferred across, SLM will be required to take out a bond, which will be reviewed annually.

2.5 The transfer of the staff from the Council to SLM was completed on a fully funded basis, with the pension deficit remaining with the Council. The contribution rate calculated by the actuary for SLM is provisionally 21%.

2.6 This Admission Agreement is a ‘closed’ agreement covering those employees currently working on the contract and will not include new staff. A total of 388 staff employed by the Council were TUPE transfer from the Council to SLM. Of the 388 staff, 282 are currently members of the Fund.

2.7 A review of the admitted body’s accounts will occur on an annual basis with a summary of the results for all Admitted Bodies taken to Panel.
3. Consultation

3.1 None.

4. Financial Implications

Implications completed by: Kathy Freeman, Director of Finance

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. In order 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.

5.2 In the current application a bond will need to be executed to cover any potential losses.
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