

Notice of Meeting

PENSIONS COMMITTEE

Wednesday 13 March 2019- 7.00 pm
Committee Room 2, Town Hall, Barking

Members: Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Sade Bright, Cllr Laila M. Butt, Cllr Kashif Haroon, Cllr Adegboyega Oluwole and Cllr Foyzur Rahman

Independent Advisor: John Raisin

Observers: Dean Curtis, Gavin Palmer and Susan Parkin

Date of publication: 4 March 2019

Chris Naylor
Chief Executive

Contact Officer: David Symonds
Tel: 020 8227 2638
E-mail: david.symonds@lbbd.gov.uk

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 12 December 2018 (Pages 3 - 7)**
4. **Independent Advisor (Pages 9 - 13)**
5. **Pension Fund Quarterly Monitoring 2018/19: October-December 2018 (Pages 15 - 47)**
6. **Application for Admitted Body Status- Town and Country Cleaners (Pages 49 - 50)**
7. **Administration and Governance Report (Pages 51 - 85)**
8. **London Borough of Barking and Dagenham Pension Fund Business Plan 2019/20 (Pages 87 - 110)**

- 9. Any other public items which the Chair decides are urgent**
- 10. To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.**

Private Business

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

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



Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

A New Kind of Council

- Build a well-run organisation
- Ensure relentlessly reliable services
- Develop place-based partnerships

Empowering People

- Enable greater independence whilst protecting the most vulnerable
- Strengthen our services for all
- Intervene earlier

Inclusive Growth

- Develop our aspirational and affordable housing offer
- Shape great places and strong communities through regeneration
- Encourage enterprise and enable employment

Citizenship and Participation

- Harness culture and increase opportunity
- Encourage civic pride and social responsibility
- Strengthen partnerships, participation and a place-based approach

This page is intentionally left blank

MINUTES OF PENSIONS COMMITTEE

Wednesday, 12 December 2018
(7:05 - 8:35 pm)

Members Present: Cllr Giasuddin Miah (Deputy Chair in the Chair), Cllr Sade Bright, Cllr Laila M. Butt, Cllr Kashif Haroon, Cllr Adegboyega Oluwole and Cllr Foyzur Rahman

Observers Present: Susan Parkin

Advisors Present: John Raisin and Colin Cartwright

Apologies: Cllr Dave Miles, Dean Curtis and Joe Peach

14. Declaration of Members' Interests

There were no declarations of interest.

15. Minutes - To confirm as correct the minutes of the meeting held on 19 September 2018

The minutes of the meeting held on 19 September 2018 were confirmed as correct.

16. Minutes of the Pension Board

The minutes of the Pension Board held on 19 September 2018 were noted.

17. Training- Considerations which may legitimately influence Decision Making

John Raisin, the Independent Adviser, introduced training on the considerations which may legitimately influence Decision-Making as follows:

- Breadth of the Role and Responsibility of the Pensions Committee for Investment issues
- Guidance on considerations that may legitimately influence Investment decisions
- LGPS Investment Regulations 2016
- Environmental, Social and Governance (ESG) issues and Investment decision making
- The Financial Return must be the "*predominant concern*"
- Opinion of Nigel Giffin QC – Duties of Administering Authorities
- Legitimate Investment decision making considerations – Conclusions

The key conclusions in the presentation were that:

- The Committee's primary consideration in relation to any investment must be the financial return
- The 2016 Investment Regulations and accompanying Statutory Guidance encourages consideration of ESG issues

- ESG issues may potentially be “*financially material*”
- Non-Financial issues can be taken into account but this must not result in a “*significant risk of financial detriment to the scheme.*”
- The Committee owe a fiduciary duty to all Fund Employers and individual Scheme Members
- The Committee cannot favour the interests of the LB Barking and Dagenham over those of other Employers in the Pension Fund

The Committee welcomed the presentation and asked questions relating to the Investment Strategy, which would be updated in April/May 2019 and a draft report would be submitted to the Committee meeting in March 2019.

18. Pension Fund Quarterly Monitoring Report

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 has performed during the quarter 1 July to 30 September 2018 (“Q3”). The report updated the Committee on the Fund’s investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provided a definition of terms used in this report and Appendix 3 set out roles and responsibilities of the parties referred to throughout this report.

The Fund’s externally managed assets closed Q3 valued at £1,036.4m, an increase of £21.0m from its value of £1,015.4m at 30 June 2018. The cash value held by the Council at 30 September 2018 was £23.9m giving a total Fund value of £1,060.3m.

For Q3 the Fund returned 2.3%, net of fees, underperforming its benchmark by 1.0% and outperforming the PIRC LGPS Universe (PIRC) by 0.1%. Over one year the Fund returned 7.4%, underperforming its benchmark by 1.4% and underperforming PIRC by 0.4%. Over three years the Fund outperformed its benchmark by 0.3%, with a return of 12.2% and underperformed PIRC by 0.3%.

An oral update on the unaudited performance of the Fund for the period 1 October to 11 December 2018 was provided to the Committee.

It was noted that equities had been performing well up to now, however since October 2018, investors were concerned about the potential for a potential recession in the future, which had influenced equity markets performance.

The Investment Fund Manager highlighted that there were concerns about three fund Managers performance, namely: Bailie Gifford, Newton and Pyford and they would be reviewed in the near future. In addition, he highlighted that BlackRock were now investing in a hotel adjacent to Birmingham Airport. Also, it was advised that Standish (now called Mellon Corporation) had not performed well.

Members were concerned about underperforming Fund Managers and asked what action was taken in dealing with these. The Investment Fund Manager confirmed that not too much change had been made to the Investment Fund Strategy in the short term, however he assured the Committee that Managers have been and would be invited to address the Committee as part of a review, to explain the reasons for under-performance and that dismissals of Fund Managers can be recommended in certain cases. There was a report later in the agenda in relation

to the Diversified Growth and Fixed Income Review in relation to relocation of funds from certain Fund Managers.

The Committee noted:

- (i) The progress on the strategy development within the Pension Fund;
- (ii) The daily value movements of the Fund's assets and liabilities outlined in Appendix 1; and
- (iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually.

19. Administration and Governance Report

This report covered the following areas:

- i. Pension Fund Budget 1 April 2018 to 31 March 2021;
- ii. Cash flow to 31 October 2018; and
- iii. Guaranteed Minimum Pension Reconciliation.

The Investment Fund Manager highlighted the Guaranteed Minimum Pension Reconciliation (GMPR), which is the minimum pension a scheme had to be provided for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. The amount is 'broadly equivalent' to the amount the member would have received had they not been contracted out.

Employees contributing to the LGPS were contracted out of the State Second Pension (S2P). As part of the ending of contracting out from April 2016 schemes were required to ensure that a member's pension is at least equivalent to what they would have earned under S2P, called the GMP. To do this the schemes records and those of the HMRC needed to be reconciled, with any differences resolved. The Investment Fund Manager advised that this reconciliation would be completed in March 2019 and that some pensioners had been overpaid, with letters being sent to those affected and their pensions reduced in future. A full report would be submitted to the March Committee.

The Committee noted:

- i. That the Fund is cash flow positive;
- ii. The Fund's three-year budget for the period 1 April 2018 to 31 March 2021; and
- iii. Update on the Guaranteed Minimum Pension (GMP) Reconciliation.

The Committee agreed:

To delegate authority to the Chief Operating Officer to decide on the final approach taken to rectify the Fund's records and recover any overpayment and make good any underpayments as part of the GMP reconciliation.

20. Business Plan Update

The purpose of the report was to update the Committee on progress regarding the Pension Fund's 2018 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2018 to 30 November 2018 and the actions for the remainder of the year.

The Committee noted progress on the delivery of the 2018/19 Business Plan at Appendix 1 to the report.

21. Private business

22. *Diversified Growth and Fixed Income Review

At the Committee meeting on 19 September 2018, Members asked the Fund's advisers, AonHewitt (Aon), to review Fund's Diversified Growth Funds (DGF) and Fixed Income (FI allocation), with a report to be taken to the Committee in December 2018, covering:

- i. DGF and FI Strategy Review;
- ii. DGF and FI Manager Review;
- iii. Review of the options and opportunities available through the London Collective Investment Vehicle (LCIV);
- iv. Options available through investing passively for FI; and
- v. Taking into consideration the destination portfolio.

Appendix 1 of the report contained the Aon DGF and FI review for Members to consider. The report contained recommendations from the Fund's Independent Adviser. Section 4 of this report provided officers views and recommendations, largely based on Aon's report.

The Committee noted:

- (i) Aon Hewitt's Diversified Growth and Fixed Income Review (appendices 1 and 2)
- (ii) The Independent Advisor's observations on the review (appendix 3); and
- (iii) The officer strategy review and recommendations.

The Committee agreed:

- (iv) That the Fund's current 18% target strategic allocation to Diversified Growth is reduced to 16%, which is in line with the Diversified Growth current allocation;
- (v) That the Fund's allocation to Diversified Alternatives is increased from 6% to 8% through the Fund's current allocation to Aberdeen Standard, with the Funding to be provided through cash;
- (vi) That officers arrange a meeting for Members to meet and interview the DGF managers on the LCIV and that the meeting is held with the following managers:
 1. Baillie Gifford- growth style
 2. Ruffer- capital preservation style

3. Pyford- capital preservation style
4. Newton- capital preservation style

(vii) Following the interviews that Members, following further guidance from advisers, agree an appropriate reallocation of funds to Diversified Growth.

The Committee agreed:

(viii) That the Fund's current 8% target strategic allocation to Credit is maintained;

(ix) That officers arrange a meeting for Members to meet and interview the managers on the LCIV and that the meeting is in line with the following strategies:

1. Global Bonds;
2. Multi-Asset Credit (Long Only)

(x) Following the interviews that Members, following further guidance from advisers, agree to remove funds from Standish and to reallocate funds to one or more of the LCIV global fund and multi-asset credit (long only) managers.

**Item considered following of 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 (as amended).*

This page is intentionally left blank

PENSIONS COMMITTEE

13 March 2019

Title: Independent Advisor	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary: This report outlines the role of the London Borough of Barking and Dagenham Pension Fund's Independent Advisor. The report includes a review of the work the Independent Advisor during the past year.	
Recommendations Members are asked to agree to extend the Independent Advisors contract, currently carried out by John Raisin Financial Services Limited, as the Committee's independent advisors for one year based on the role specification included as appendix 1 of this report.	

1. Introduction and Background

- 1.1 At the December 2014 Pension Committee, Members requested officers to start the procurement of an Independent Advisor ("IA") to support the Committee Members.
- 1.2 On 11 February 2015 a sub-group of six Members interviewed three candidates, with the sub-group Members agreeing to appoint John Raisin, operating as John Raisin Financial Services Limited ("JFRS"), subject to formal agreement by Committee.
- 1.3 Subsequently the Pension Committee have extended JFRS' contract in 2016 to 2018 by one year on each occasion.

2. Review of Independent Advisor during 2018/19

- 2.1 Throughout 2018/19 John Raisin has provided support in several key areas including:

- i. Additional expertise, input and constructive challenge at Committee meetings
- ii. Attendance and input at the Chair's pre-meeting
- iii. Review of draft Committee reports
- iv. Written observations on the review of Diversified Growth and Fixed Income
- v. Provision of a Quarterly Market Background review
- vi. Update paper on major LGPS developments
- vii. Provision of Training to the Pensions Committee (June and December 2018)
- viii. Informal discussion with the Group Manager between Committee meetings

3. Contract Renewal and Recommendation

- 3.1 The IA contract is subject to an annual review. It can be terminated by either not renewing the contract, or by providing three months' notice of the contract termination.
- 3.2 It is expected, were the contract with JRFS extended, that it would continue to include additional support with Member Training. JRFS will also be asked to provide Members a brief summary, prior to each Pensions Committee, of the main issues covered within the Committee Papers. The summary will also include questions that Member can ask of officer, fund managers and the advisors.
- 3.3 After the May 2018 elections new Members of the Pensions Committee were appointed. JFRS will provide training for both the current and new Members where required.
- 3.4 The IA specification is included as appendix 1 of this report for reference.
- 3.5 Members are recommended to agree to extend the contact with JRFS as the Committee's independent advisor for an additional one-year contract to 31 March 2020.

List of appendices:

Appendix 1 - Independent Advisor Specifications for 2019/20



**Independent Advisor
Specifications
2019/20**

Independent Advisor (“IA”)– Role Specifications

Knowledge and Personal Attributes

The responsibilities of the Investment Advisor include, but are not limited to:

1. Providing input and advice on the London Borough of Barking and Dagenham Pension Fund’s (“the Fund”) Strategic Asset Allocation Review and the Fund’s de-risking and currency hedging strategy and support members to consider this.
2. Attending quarterly Pension Committee meetings, including interpreting and reporting on fund performance.
3. Support Members at Pension Committee and Fund Manager meetings to enable Members to sufficiently and suitably interrogate the advice and explanations given by the Fund managers, officers, advisors and the actuary.
4. Advising on the development of Fund Governance arrangements taking into consideration recent and future legislation and regulation changes.
5. Supporting, where required, in the preparation and provision of training, to the Committee, including any new Members that are appointed to the Committee.
6. Advising the Committee on changes and compliance in relation to all statutory documents.

Knowledge, skills and attributes

The IA is expected to have all the essential Knowledge, skills and attributes:

Essential:

- worked at a senior level in the investments/pensions industry;
- an understanding of the implications for pension funds of developments in the economy and financial markets;
- broad-ranging knowledge of the pension environment, in particular the LGPS;
- a good understanding and experience of asset allocation strategies suited to improve long-term investment returns; and
- an ability to communicate and explain economic and investment concepts simply in both verbal and written form.

Desirable:

- an investment-related qualification; and
- experience of interacting with Councillors, acting as Trustees, and an appreciation of the local government environment within which the Fund operates.

This is a one-year appointment; however, it can be terminated by either party with three months' notice. In addition, each year the contract will be reviewed and extended where required.

Remuneration and Expenses:

The annual remuneration for the position of IA is £15k, paid quarterly in arrears. The remuneration will be based on experience, and the requirements outlined below:

The IA is expected to make themselves available to attend:

1. Up to five Committee meetings per year (meetings may take place in Barking and currently start at 19:00 on weekdays);
2. An annual meeting with Fund Managers which may be split over two half days;
3. Two training half sessions of three hours each; and
4. Two ad hoc meetings of no more than 3 hours each a year as required.

It is expected that the IA will sufficiently prepare for the quarterly Pension Committee meetings. The IA is not expected to provide any reports for Members consider but may do so after prior agreement from the Chair.

This page is intentionally left blank

PENSIONS COMMITTEE

13 March 2019

Title: Pension Fund Quarterly Monitoring 2018/19 – October to December 2018	
Report of the Chief Operating Officer	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
<p>Summary</p> <p>This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 October to 30 December 2018.</p> <p>The report updates the Committee on the Fund’s investment strategy and its investment performance.</p>	
<p>Recommendation(s)</p> <p>The Pension Committee is recommended to Note:</p> <ul style="list-style-type: none"> (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. 	

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 October to 31 December 2018 (“Q4”). The report updates the Committee on the Fund’s investment strategy and its investment performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report. Appendix 4 is the Independent Advisors quarterly Market background report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 January to 11 March 2019 will be provided to Members at the Pension Committee.

2. Market Commentary Q4 2018

- 2.1 Volatility marked Q4 as a broad-based equity sell-off accelerated through to the end of December. Global equities fell over 11%, the worst quarterly return since 2011, as investors sought the safety of more defensive assets amid concerns around US interest rates, trade tensions and downgrades to economic growth forecasts. Emerging markets outperformed developed markets, returning -5.2% but still suffered losses. The UK Index returned -10.2%, reflecting deteriorating international trends and the challenges of Brexit. The energy sector underperformed as oil prices fell, while consumer discretionary stocks were weaker as consumers were reluctant to spend. Defensive stocks such as telecoms and consumer staples outperformed.
- 2.2 The Bank of England left rates unchanged and cut its growth forecast to 0.2% for Q4 and Q1 2019. Inflation slowed to 2.3% amid declining fuel prices. Brexit dominated the landscape in Europe and the Europe (ex UK) equity Index dropped 10.9% over the quarter. The European Central Bank also kept rates unchanged.
- 2.3 Having outperformed through 2018, the US stock market lagged in Q4 as the Fed’s monetary policy came under scrutiny from the market. The Fed raised interest rates in December as expected and the equity market posted a negative return of -11.4%. The technology stocks that fuelled the market’s prior outperformance were among the major decliners, alongside industrials and energy shares. Utilities and consumer staples benefited from investors seeking less economically sensitive earnings.
- 2.4 The Japanese stocks held up relatively well until it was swept up in the October global sell-off; the Q4 Index return was -12.7% (-17.6% in local currency terms). In the wider Asia-Pacific region returns were negative with the exceptions of India and Indonesia.
- 2.5 The defensive stance of investors was reflected in positive returns by developed government bonds. UK gilts recovered earlier year losses as heightened uncertainty around Brexit, international trade tensions, tumbling oil prices and

economic growth downgrades stoked investor risk aversion. Investment grade credit spreads widened through Q4 as investors sought the safety of sovereigns.

- 2.6 The GBP Broad Market Index returned 1.4%, UK Gilts Index Linked over 5-year index returned 2.0% and overseas bonds returned 4.6%. Sterling was down 6% against the Japan's yen as the currency benefited from reduced investor risk appetite. The pound also lost 2.4% against the US Dollar and 0.8% against the Euro. Property had a positive quarter, returning 1.1%, bringing the one-year return to 7.5%.

3. Overall Fund Performance

- 3.1 The Fund's externally managed assets closed Q4 valued at £970.1m, a decrease of £66.3m from its value of £1,036.4m at 30 September 2018. The cash value held by the Council at 31 December 2018 was £19.0m giving a total Fund value of £989.1m.

- 3.2 For Q4 the Fund returned -6.3%, net of fees, underperforming its benchmark by 1.7%. Over one year the Fund returned -2.1%%, underperforming its benchmark by 3.2%. Over three years the Fund underperformed its benchmark by 0.4%, with a return of 8.2%. The Fund's returns are below:

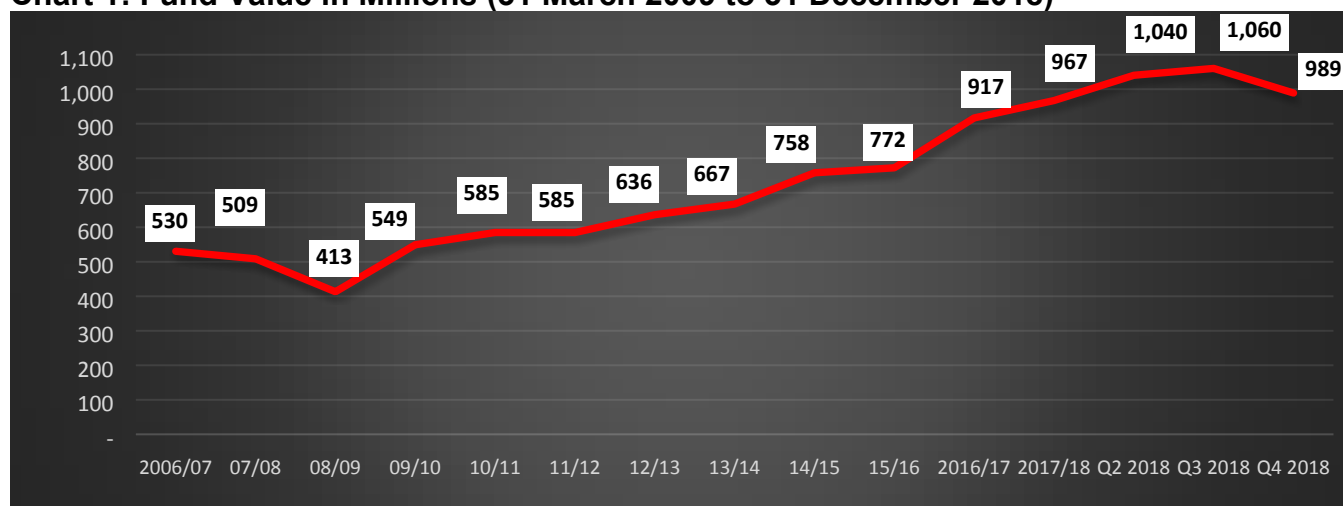
Table 1: Fund's 2018, 2017 Quarterly and Yearly Returns

Year	2018				2017				One Year	Two Years	Three Years	Five Years
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1				
Actual Return	(6.3)	2.3	3.8	(1.9)	3.2	2.2	1.8	3.8	(2.1)	4.5	8.2	7.5
Benchmark	(4.6)	3.3	3.7	(1.3)	3.1	1.8	1.2	3.3	1.1	5.3	8.6	8.1
Difference	(1.7)	(1.0)	0.1	(0.6)	0.1	0.4	0.6	0.5	(3.2)	(0.8)	(0.4)	(0.6)
*PIRC Universe		2.2	4.9	(3.6)	4.0	1.6	0.7		7.8		12.5	9.6

The returns for the latest period are based on the asset allocation of the PIRC Local Authority Universe. The Universe is currently comprised of 60 funds with a value of £162bn.

- 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 December 2018. 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.

Chart 1: Fund Value in Millions (31 March 2009 to 31 December 2018)



3.4 Stock selection contributed -0.4%, with asset allocation contributing -1.3% 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 3% against the benchmark
▲	AMBER- Fund underperformed by less than 3% against the benchmark.
○	GREEN- Fund is achieving the benchmark return or better

3.5 Table 2 highlights the Q4 returns. Equities provided significant actual negative returns for the quarter, with UBS down 12.8% and Baillie Gifford down 12.5%. Kempen performed relatively well outperforming its benchmark by 4.0% but still provided a negative actual return of -7.3%. Newton and Pyrford provided some protection but significantly underperformed their benchmarks. Mellon Corporation (Standish) again provided a negative return for the quarter. Most other manager provided small, but positive returns.

Table 2 – Fund Manager Q4 2018 Performance

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	(0.8)	1.1	(1.9)	▲
Baillie Gifford	(12.5)	(10.6)	(1.9)	▲
BlackRock	1.0	0.9	0.1	○
Hermes GPE	1.1	1.4	(0.3)	▲
Kempen	(7.3)	(11.3)	4.0	○
Prudential / M&G	1.2	1.2	0.0	○
Newton	(1.7)	1.2	(2.9)	▲
Pyrford	(2.0)	1.5	(3.5)	■
Schroders	0.3	0.9	(0.6)	▲
Mellon Corporation (Standish)	(2.7)	1.2	(3.9)	■
UBS Bonds	1.9	1.9	0.0	○
UBS Equities	(12.8)	(12.9)	0.1	○

- 3.6 With two significant negative quarters over the past year, equities have provided negative returns of between -3.1% to -6.1%. Mellon Corporation (Standish) has provided a very disappointing return of -6.2%. The best returns for the quarter was from Aberdeen standard which provided a return of 5.1%, Hermes which provided a return of 5.6% and property with returns of 6.4% from BlackRock and 5.7% from Schroders. M&G Prudential and Hermes also provided good returns over the one year period.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	5.1	4.6	0.5	O
Baillie Gifford	(3.1)	(2.3)	(0.8)	Δ
BlackRock	6.4	6.3	0.1	O
Hermes GPE	5.6	5.7	(0.1)	Δ
Kempen	(4.6)	(1.7)	(2.9)	Δ
Prudential / M&G	4.6	4.5	0.1	O
Newton	0.2	4.5	(4.4)	
Pyrford	(1.5)	7.5	(9.1)	
Schroders	5.7	6.3	(0.6)	Δ
Mellon Corporation (Standish)	(6.2)	4.6	(10.9)	
UBS Bonds	0.7	0.7	0.0	O
UBS Equities	(6.1)	(5.8)	(0.2)	Δ

- 3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -1.5% with Mellon Corporation (Standish) to 9.1% with Baillie Gifford. Absolute return and credit continue to struggle, significantly underperforming their benchmarks.

Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	8.7	4.5	4.2	O
Baillie Gifford	9.1	5.5	3.5	O
BlackRock	7.5	8.0	(0.5)	Δ
Hermes GPE	5.5	5.7	(0.2)	Δ
Kempen	3.7	4.8	(1.1)	Δ
Prudential / M&G	4.5	4.4	0.1	O
Newton	1.3	4.4	(3.0)	
Pyrford	0.0	8.2	(8.2)	
Schroders	8.6	8.0	0.5	O
Mellon Corporation (Standish)	(1.5)	4.5	(6.0)	
UBS Bonds	1.3	1.2	0.1	O
UBS Equities	5.1	5.1	0.0	O

4. Asset Allocations and Benchmark

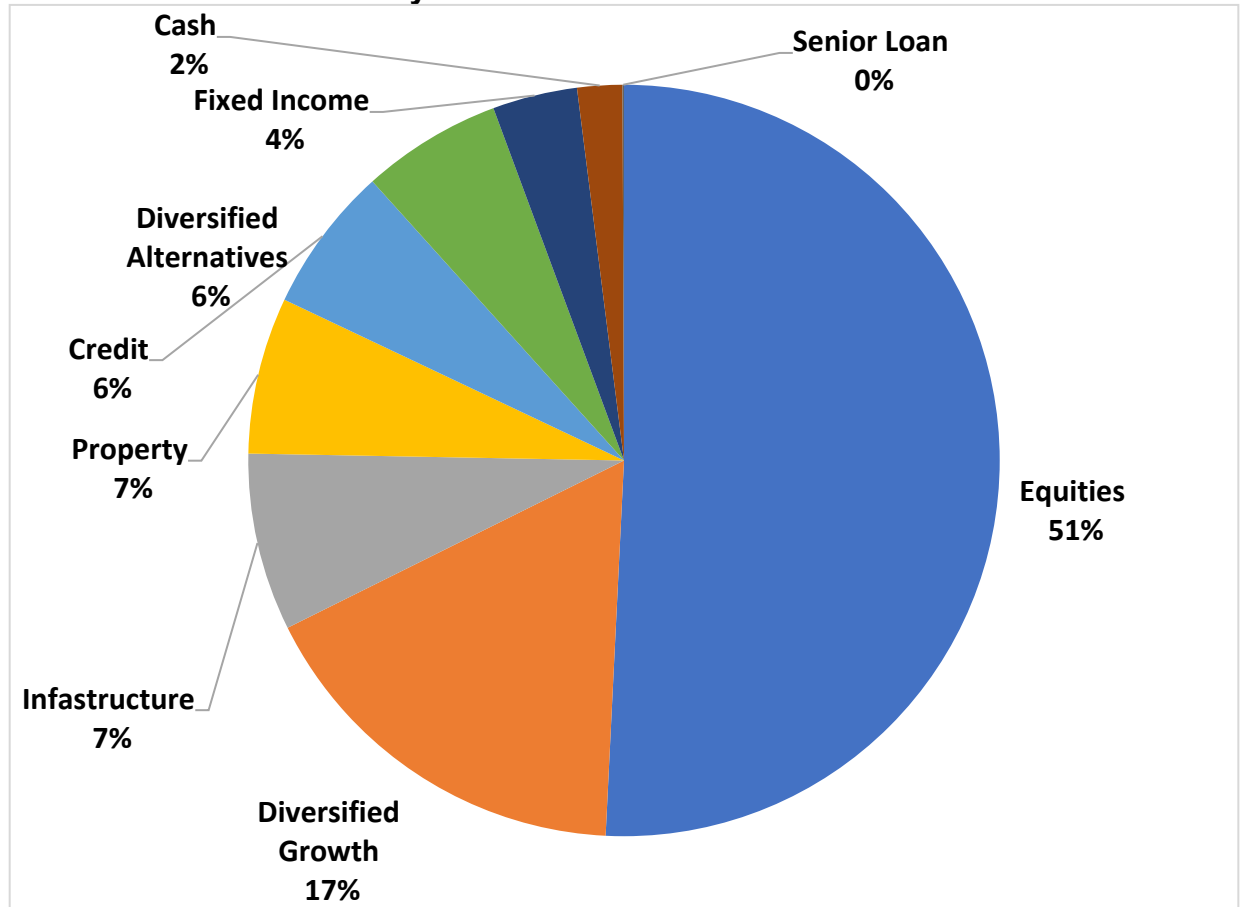
- 4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks:

Table 5: Fund Asset Allocation and Benchmarks as at 30 September 2018

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	6.0%	59,598	3 Mth LIBOR + 4% per annum
Baillie Gifford	18.2%	180,176	MSCI AC World Index
BlackRock	4.2%	41,438	AREF/ IPD All Balanced
Hermes GPE	7.6%	75,535	Target yield 5.9% per annum
Kempen	15.9%	157,137	MSCI World NDR Index
Prudential / M&G	0.1%	638	3 Mth LIBOR + 4% per annum
Newton	6.7%	66,442	One-month LIBOR +4% per annum
Pyrford	10.2%	100,476	UK RPI +5% per annum
Schroders	2.6%	25,262	AREF/ IPD All Balanced
Mellon Corporation	6.3%	62,178	3 Mth LIBOR + 4% per annum
UBS Bonds	3.7%	36,104	FTSE UK Gilts All Stocks
UBS Equities	16.7%	164,927	FTSE AW Developed Tracker (partly hedged)
LCIB	0.0%	150	None
Cash	1.9%	19,000	One-month LIBOR
Total Fund	100.0%	989,060	

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 31 December 2018



- 4.3 Overall the strategy is overweight equities and cash, with equities at the top-end of the range. Most other asset classes are underweight, with infrastructure 2% underweight but this is due to the fact that it is still purchasing assets. The current position compared to the strategic allocation is provided in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	50.8%	48%	2.8%	45-53
Diversified Growth	16.9%	16%	0.9%	16-20
Infrastructure	7.6%	9%	-1.4%	4-11
Credit	6.7%	8%	-1.3%	6-10
Property	6.3%	7%	-0.7%	6-9
Diversified Alternatives	6.0%	8%	-2.0%	6-10
Fixed Income	3.7%	4%	-0.3%	3-5
Cash	1.9%	0%	1.9%	0-2
Senior Loan	0.1%	0%	0.1%	0-1

5. Fund Manager Performance

5.1 Kempen

	2018				2017				One Year	Two Years	Since Start 6/2/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
Kempen	%	%	%	%	%	%	%	%	%	%	%
£157.137m											
Actual Return	(7.3)	2.9	7.2	(7.4)	5.5	3.3	0.1	3.2	(4.6)	3.8	8.8
Benchmark	(11.3)	6.3	8.0	(4.7)	4.6	1.5	0.1	5.1	(1.7)	4.8	11.0
Difference	4.0	(3.4)	(0.8)	(2.7)	0.9	1.8	0.0	(1.9)	(2.9)	(1.0)	(2.2)

Reason for appointment

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

Performance Review

The strategy outperformed its benchmark by 4.0% for the quarter but has underperformed its one-year benchmark by 2.9%. Kempen has underperformed its two-year benchmark by 1.1%, providing an annual return of 3.8%. Kempen has underperformed its benchmark since inception by 2.2%, although the return over this period is a good annualised return of 8.8%

Q4 Portfolio Rebalancing

Kempen sold three names: Babcock International, Sun Life and Two Harbors.

Babcock International is encountering the risk of negative revisions of its contracts with the UK government. Two Harbors was sold as the increasingly flat yield curve is not good for the company, which was not yet reflected in the valuation. Sun Life was sold as there is an increased risk of its asset management division to show an eroding profitability.

Six stocks were added: BP, Valeo, easyJet, SKF, Fidelity National and Valero.

BP is an attractively valued major oil & gas company. Valeo's and easyJet share price had been weak and offered an attractive entry point. Sybank (Danish bank) with an above average dividend yield while a lot of worries are priced into the share price. SKF, a Swedish industrial company that underlying is doing well, but its share price was under pressure. Fidelity National Financial is an US insurance company that provides title insurance. Valero is one of the biggest US refiners and the weak share price offered an attractive opportunity.

The more volatile financial markets of the last months, will give Kempen the opportunity to add companies where valuations have become more attractive.

The Fund now has a forward yield of around 5.6%.

5.2 Baillie Gifford

	2018				2017				One Year	Two Years	Since Start 6/2/13
Baillie Gifford	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£180.176m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(12.5)	3.0	7.3	(0.9)	4.9	4.1	4.6	7.6	(3.1)	9.1	13.2
Benchmark	(10.6)	5.7	6.9	(4.3)	5.0	2.0	0.6	5.8	(2.3)	5.5	10.8
Difference	(1.9)	(2.7)	0.4	3.4	(0.1)	2.1	4.1	1.8	(0.8)	3.6	2.4

Reason for appointment

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

Performance Review

For Q4 BG returned -12.5%, underperforming its benchmark by 1.9%. BG's one-year return was -3.1%, outperforming its benchmark by 0.8%. Since initial funding the strategy has returned 13.2% p.a., outperforming its benchmark by 2.4%.

BG's exposure to US, UK and Ireland were among the worst detractors to the portfolio during the quarter as disappointing earnings growth projections caused a mass selloff in the market. The largest positive performance contribution included emerging markets such as India and Brazil.

Long duration stocks were particularly affected in the quarter. Both Grubhub and Amazon fall into these categories. In the case of Grubhub, the selloff had far more to do with sentiment than any change in the prospects for the company, as highlighted by the strong quarterly results reported during October.

Also detracting from performance was the portfolios holding in energy related companies including Apache and EOG, in line with the declining oil price.

Offsetting these to some extent, the portfolio's exposure to emerging market companies contributed positively to performance, particularly the portfolios holding in ICICI and Banco Bradesco. Shares in the latter soared by nearly 50% as they announced results which suggested that difficult economic environment which has persisted over the last few years maybe starting to ease. In the case of ICICI, the shares finished the year strongly rebounding from earlier weakness. Headlines about the tension between the central bank and the government obscure the facts of favourable demographics, (66% of India's population is below 35), the rising number of households and a low level of urbanisation, which, with mortgage is at only 10% of GDP, is likely to drive to long term story for ICICI.

5.3 UBS Equities

UBS Equities	2018				2017				One Year	Two Years	Since Start 31/8/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£164.927m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(12.8)	5.3	4.4	(3.0)	5.7	2.8	2.3	5.5	(6.1)	5.1	12.6
Benchmark	(12.9)	5.7	4.4	(3.0)	5.5	2.8	2.2	5.5	(5.8)	5.1	12.6
Difference	0.1	(0.3)	0.0	0.0	0.2	0.0	0.1	0.0	(0.2)	0.0	0.0

Reason for appointment

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

Performance

The fund returned -12.8% for Q4 and -6.1% over one year. Since funding in August 2012, the strategy has provided an annualised return of 12.6%.

Equities

There was no sign of the hoped for 'Santa rally' in equity markets as the year drew to a close. Instead, widespread losses in the fourth quarter meant that markets globally gave up gains from earlier in 2018 and generally finished in negative territory for the year. Uncertainty over the outlook for economic growth, central bank policy and politics more broadly continued to weigh on sentiment and affected demand for economically exposed assets across equity, fixed income and commodity markets. Meanwhile, assets within the fixed income universe considered to be 'safe havens' were in demand.

Equity markets worldwide saw sharp falls in both October and December as 2018 proved to be the worst year since the global financial crisis for many markets. Major developed bourses such as the US and Japan were amongst the biggest fallers for the quarter. Meanwhile, in contrast to the pattern earlier in the year, emerging markets performed relatively well, although Chinese stocks continued to lag.

Q3 2018 reporting provided another season of strong profit-growth for US companies, underpinned by a robust economy, corporate tax cuts and share buybacks. Nevertheless, even this proved to be a source of disquiet for investors as forward guidance from companies regarding mounting cost pressures and the tangible impact of trade tensions led some to fear we've reached the peak in the cycle for US corporate bottom lines. US stocks gave up the gains seen earlier in 2018, with technology stocks particularly affected.

Japanese stocks fared particularly badly over the quarter as fears over the outlook for global trade and economic growth weighed on the country's exporters. The gloomier outlook for the Chinese economy in particular had a detrimental impact. Similarly, the perception of a more negative growth environment hurt European equity markets, although the news of an agreement on the Italian budget provided a relative boost in December.

UK stocks were impacted as Brexit uncertainty increased and there was increased evidence of companies planning for a 'no deal' exit. However, the resulting falls in the value of sterling produced some element of consolation for more overseas focused stocks on the UK market.

After faring badly in October, emerging markets companies saw limited losses later in the quarter relative to their developed counterparts. The cloudier outlook for US interest rate rises and the prospect of further stimulus to boost the Chinese economy helped sentiment, as did the prospect of better relative economic growth as developed economies were seen to be slowing.

The less certain outlook for global growth also weighed on commodity markets. Oil prices continued to fall, despite news of a production cut from the OPEC group of countries. West Texas Intermediate, a key indicator, has seen a price fall of 40% from its most recent peak in October. Other commodities also suffered, while gold - often thought of as a haven in times of market turbulence - regained some of its losses from earlier in the year.

5.4 UBS Bonds

UBS Bonds	2018				2017				One Year	Two Years	Since Start 5/7/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£36.104m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.9	(1.7)	0.2	0.3	2.2	(0.5)	(1.3)	1.5	0.7	1.3	4.7
Benchmark	1.9	(1.7)	0.2	0.3	2.0	(0.5)	(1.3)	1.5	0.7	1.2	4.6
Difference	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.1

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.

Performance

The return for Q4 was 1.9%, with a one-year return of 0.7% and a two-year return of 1.3%.

It was an eventful quarter within bond markets to end the year. US Treasury yields moved well above 3% at the 10-year point earlier in the quarter, as further rate rises were seen as increasingly likely amidst a hawkish tone from the Fed. However, these moves were more than reversed later in the quarter, with government bond prices rising globally as safe haven assets were in demand. Italian bonds fared well on news of a budget deal with the EU.

The increased economic uncertainty meant rising spreads on most forms of credit assets over the quarter, leading to falls in price. After a strong third quarter, high yield assets were particularly affected. Investment grade credit was somewhat cushioned by the impact of lower government bond yields. Within emerging market debt, it was noticeable that local currency bond yields rallied later in the quarter, relative to their hard currency counterparts, as expectations for a less aggressive US monetary policy increased.

5.5 M&G / Prudential UK

M&G / Prudential	2018				2017				One Year	Two Years	Since Start 31/5/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£0.638m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	4.6	4.5	4.5
Benchmark Return	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.5	4.4	4.4
Difference	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1

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 loans until their maturity.

Performance and Loan Security

The strategy provided a return of 4.6% per year, with a small outperformance against benchmark of 0.1% since inception. The strategies holding has reduced in size to £638k, with most of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.5 years.

5.6 Schroders Indirect Real Estate

Schroder	2018				2017				One Year	Two Years	Since Start 6/8/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£25.262m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.3	1.4	2.3	1.7	3.4	2.0	2.8	3.2	5.7	8.6	6.9
Benchmark	0.9	1.6	1.9	1.9	3.1	2.4	2.3	2.0	6.3	8.0	8.2
Difference	(0.6)	(0.2)	0.4	(0.2)	0.3	(0.4)	0.5	1.2	(0.6)	0.6	(1.3)

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

The return for Q4 was 0.3%, with a one-year return of 5.7% and a two-year return of 8.6%.

Since the market correction in Q3 2016, the strategy has rebounded strongly, with outperformance over one year and two years. In July 2016, the Fund increased its allocation by £5m due to large discounts available. This helped to rebalance the Fund's underweight property position and provided a good return of 15.5%.

5.7 BlackRock

BlackRock	2018				2017				One Year	Two Years	Since Start 1/1/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£41.438m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.0	1.9	2.0	1.5	2.9	1.3	2.0	2.5	6.4	7.5	7.4
Benchmark	0.9	1.6	1.9	1.9	3.1	2.4	2.3	2.0	6.3	8.0	8.7
Difference	0.1	0.3	0.1	(0.4)	(0.2)	(1.1)	(0.3)	0.5	0.1	(0.5)	(1.3)

Reason for appointment

In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q4 2018 Performance

BR returned 1.0% for the quarter against the benchmark of 0.9%, with a return of 6.4% over one year against its benchmark's return of 6.3%.

Investment Update

During the fourth quarter, transactions have focused on acquisitions that may provide growth to current holdings and disposals where business plans have been completed.

The Fund completed the purchase of Forest Trading Estate, Walthamstow, London for £11 million. This terrace of three industrial units, is positioned adjacent to Uplands Business Park, which is owned by the Fund, and provides a further 1.3 acres of land fronting Walthamstow Reservoirs, which may form part of the wider future redevelopment strategy. The sale of the former dairy site on Station Road, Portsmouth was completed for £6.3m. The 6-acre site was purchased in October 2015 for £2.5m and sold following gaining planning consent for 108 residential units.

Vacancies with a total annual rental value of £2.4m were let during the quarter, including a lease for 80,000 sq. ft. at Heathrow Logistics Park to Pop Air Ltd at a rent of £1.2m p.a.. At The Atrium, Uxbridge, a management agreement was completed with Citibase to provide serviced offices, reusing a high quality fit out left by the previous tenant. Not only does this mitigate an existing void and minimise capital expenditure, but it provides flexibility to existing tenants and will attract new occupiers to the building. At The Lansdowne Building, Croydon, a large tenant occupy over 60% of the offices and have agreed to extend their occupation until 2025; this regear sees their rent increase by 25% to £1.7m p.a.

In Q4 the retail valuation declines continued as increased investment activity started to provide evidence and greater clarity of market pricing. This resulted in an acceleration of retail value declines and a catch up in the negative capital value movement of the benchmark's retail assets. At the end of the year BR's retail assets had fallen by 6.7% vs the benchmark's decline of 5.7% (Q4 was -3.9% decline vs the benchmark 3.3%)¹. BR has benefitted from being underweight to retail (24.7% vs the benchmark's 27.7%) and avoided any exposure to the most challenged department store retailers such as House of Fraser and Debenhams. While the early outturn from Christmas trading suggests that the tough environment is persisting, there is a definite nuance which the mainstream media appears to fail to acknowledge.

5.8 Hermes

Hermes	2018				2017				One Year	Two Years	Since Start 9/11/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£75.535m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.1	(2.2)	0.6	6.1	0.8	1.8	0.8	1.9	5.6	5.5	9.2
Benchmark	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	5.7	5.7	5.9
Difference	(0.3)	(3.6)	(0.8)	4.7	(0.6)	0.4	(0.6)	0.5	(0.1)	(0.2)	3.3

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%.

Performance

As at 31 December 2018, the strategy reported a one-year return of 5.6%, underperforming its benchmark by 0.1%. Since inception the strategy has provided a good annualised return of 9.2%, outperforming its benchmark by 3.3%.

Portfolio review

Over Q4 the portfolio continued to perform well. Associated British Ports, Anglian Water, Cadent Gas, Energy Assets, Eurostar and the wind and solar assets all performed on or above budget and continued to trade positively post quarter end. Southern Water's performance was marginally below budget for the quarter, owing to overspend related to the extreme weather conditions experienced earlier in the year, higher than expected costs to prepare the 2019 business plan and unbudgeted expenses relating to negotiations with the Pensions Regulator. Scandlines performed 5% below budget year to date as a result of lower than budgeted traffic volumes (and associated retail spend) over the summer peak months owing to unseasonably hot weather in Scandinavia and the fall in Swedish Krona.

Investments and divestments

HIFI is a member of the Quad Gas consortium that is party to reciprocal option agreements with National Grid relating to a 14% stake (the "Further Acquisition") in Cadent Gas and the remaining 25% stake ("Remaining Acquisition"). On 8 November 2018 National Grid exercised the options in relation to the Further Acquisition and the Remaining Acquisition, thereby selling its entire remaining 39% stake in Cadent to the consortium. The scheduled closing dates are 27 June 2019 for the Further Acquisition and 28 June 2019 for the Remaining Acquisition. The transactions are expected to be funded in the week prior to closing.

Post-completion, HIFI will own a 3.7% interest in Cadent, equivalent to £204m on an investment cost basis. Hermes Infrastructure will manage a 13.6% ownership interest on behalf of clients on completion, with commensurate governance rights. The combined investment is targeting a post-tax nominal IRR within the HIFI Core strategy range. The Further Acquisition and Remaining Acquisition are expected to be accretive to HIF I's initial acquisition in Cadent.

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2018				2017				One Year	Two Years	Since Start 15/9/2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£59.598m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.8)	2.6	2.4	0.9	1.3	6.1	4.2	0.7	5.1	8.7	4.1
Benchmark	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1	4.6	4.5	4.5
Difference	(1.9)	1.5	1.2	(0.2)	0.2	5.0	3.1	(0.4)	0.5	4.2	(0.4)

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Standard Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance

Overall the strategy provided a return of -0.8%, underperforming its benchmark by 1.9%. The Q4 underperformance was predominantly driven by a significant loss from Markel CATCo, a reinsurance manager the mandate is invested in. CATCo's negative return was based on projected losses from the California wildfires and to cover a number of events which took place earlier in the year (Hurricane Michael, Hurricane Florence, and Typhoon Jebi).

Over one year the mandate has outperformed its benchmark, with a return of 5.1% against a benchmark of 4.6%. Since inception in September 2014, the strategy has return 4.1%, underperforming its benchmark by 0.4%.

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

- i. Relative Value strategies, intended to profit from price dislocations across fixed income and equity markets;

- ii. Global Macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies; and
- iii. Tail Risk protection, which in the case of Kohinoor Series Three Fund is intended to offer significant returns at times of stress and more muted returns in normal market environments.

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

5.10 Pyrford

Pyrford	2018				2017				One Year	Two Years	Since Start 28/9/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£100.476m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.0)	0.8	2.0	(2.3)	0.6	(0.9)	0.1	1.7	(1.5)	0.0	3.1
Benchmark	1.5	2.3	2.4	1.3	2.2	2.2	2.3	2.1	7.5	8.2	6.9
Difference	(3.5)	(1.6)	(0.4)	(3.6)	(1.6)	(3.1)	(2.2)	(0.4)	(9.1)	(8.2)	(3.8)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies.

AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a negative return of -2.0% in Q4 and underperformed its benchmark by 3.5%. Over one year the strategy has returned -1.5%, underperforming its benchmark by 9.1%. Pyrford's performance since inception is closer to its benchmark but still underperforms by 3.8% with a return of 3.1%.

Outlook and Strategy

The Fund's asset allocation has remained defensive and unaltered since Q3 2016 and this was beneficial during the quarter. The 30% weighting to equity

helped the mandate as equities fell significantly. Bonds, with a 67% allocation, and cash with a 3% allocation performed well.

Although the strategy benefited from a lower equity allocation, its stock selection did underperform. The effect of currency management was positive in Q4 as sterling rose. The strategy added US Dollar to the hedged currency list in December, which means that only 13% of the portfolio remains unhedged.

Overall Pyrford remains content with the defensive attribution of the equity holdings and sees capital preservation as key and, to that end, keeping duration low will provide this protection. Pyrford awaits the expected return of fair value with a policy that first seeks to avoid capital loss and then permits long term returns, given the right market access point.

5.11 Newton

Newton	2018				2017				One Year	Two Years	Since Start 31/8/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£66.442m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.7)	2.1	2.4	(2.6)	0.3	(0.8)	1.0	2.0	0.2	1.3	2.8
Benchmark	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.1	4.5	4.4	4.5
Difference	(2.9)	0.9	1.3	(3.7)	(0.8)	(1.8)	0.0	0.9	(4.3)	(3.1)	(1.7)

Reason for appointment

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

Performance

Newton generated a negative return of -1.7% in Q4 and underperformed its benchmark by 2.9%. Over one year the strategy has returned 0.2%, underperforming its benchmark by 4.3%. Newton's performance since inception is 2.8% and underperforms its benchmark by 1.7%.

The main change during Q4 was the reduction in the mandate's return seeking core and an increase in the stabilising and defensive holdings. Equity exposure was reduced in November on a pro-rata basis, just before the December decline but after the initial decline in October. The portfolio's exposure is summarised below:

Portfolio Exposures		
	30 September 2018	31 December 2018
Equity	48.09	32.94
UK	9.15	5.92
North America	14.00	9.67
Europe	16.93	12.62
Japan	0.77	0.69
Pacific Basin	3.28	1.56
Emerging Markets	3.96	2.48
Fixed Income	30.11	42.03
Government Bonds	19.47	31.68
Corporate Bonds	5.31	5.63
Index Linked Government	2.40	1.95
Emerging Debt	2.93	2.77
Alternatives	21.80	25.03
Infrastructure Funds	2.52	7.55
Renewable Energy	2.48	0.00
Precious Metals	3.21	6.53
Derivative Instruments	0.06	0.00
Cash and FX Forwards	13.53	10.95
Total	100.00	100.00

5.12 Mellon Corporation (Standish)

Mellon Corporation	2018				2017				One Year	Two Years	Since Start 20/8/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£62.178m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.7)	0.1	(3.9)	0.3	(0.5)	0.7	1.0	2.0	(6.2)	(1.5)	0.0
Benchmark	1.2	1.1	1.2	1.1	1.1	1.0	1.0	1.2	4.6	4.5	5.2
Difference	(3.9)	(1.1)	(5.1)	(0.8)	(1.6)	(0.3)	0.0	0.8	(10.8)	(6.0)	(5.2)

Reason for appointment

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

Performance

The Fund lagged its benchmark over the quarter, returning -2.7% against a benchmark return of 1.2%. Over one year the strategy has underperformed its benchmark of 4.6% by 10.8%, providing a return of -6.2%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0.0%.

Positive Contributors:

Currency positioning in the Argentine Peso, Japanese Yen, Indonesian Rupiah and the European Euro were the largest drivers of positive performance. Yield Curve Allocation in the US was beneficial to performance for the quarter.

Negative Contributors:

Asset Allocation was a detractor in the 4th quarter. An overweight position to inflation linked bonds in New Zealand, Canada, Europe, the US and Japan all detracted from performance. An overweight position in US investment grade and high yield corporate bonds was also a large detractor.

Foreign Currency positioning detracted from performance. A short position in the US Dollars, along with long positioning in Norwegian Kroner, Australian Dollar and British pound all contributed to under performance.

Portfolio Composition:

Tracking error was increased on a quarter-over-quarter basis and the composition of risk has been modified. The biggest increase in tracking error was through EM spread risk but was slightly offset by a decrease in curve risk. Other risks including yield curve, government spreads and securitised exposure remained flat. Corporate credit positioning remains biased to financials and industrials. Securitised positioning continues to favour Asset Backed Securities.

Strategy Review

Given the consistent underperformance of the strategy both against the benchmark and peer groups, at the September 2018 Pension Committee, Members agreed to formally review Mellon Corporation, with alternative managers through the London CIV considered.

An initial review has been completed by Aon Hewitt, the Fund's independent advisors and officers, with a report included in a separate report.

5.13 Currency Hedging

No new currency hedging positions were placed in Q4 2018.

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: Claire Symonds, Chief Operating Officer

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

8. Legal Implications

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

- 8.1 **The Council** operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the 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 Q4 2018 Report; and
- Fund Manager Q4 2018 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 December 2018

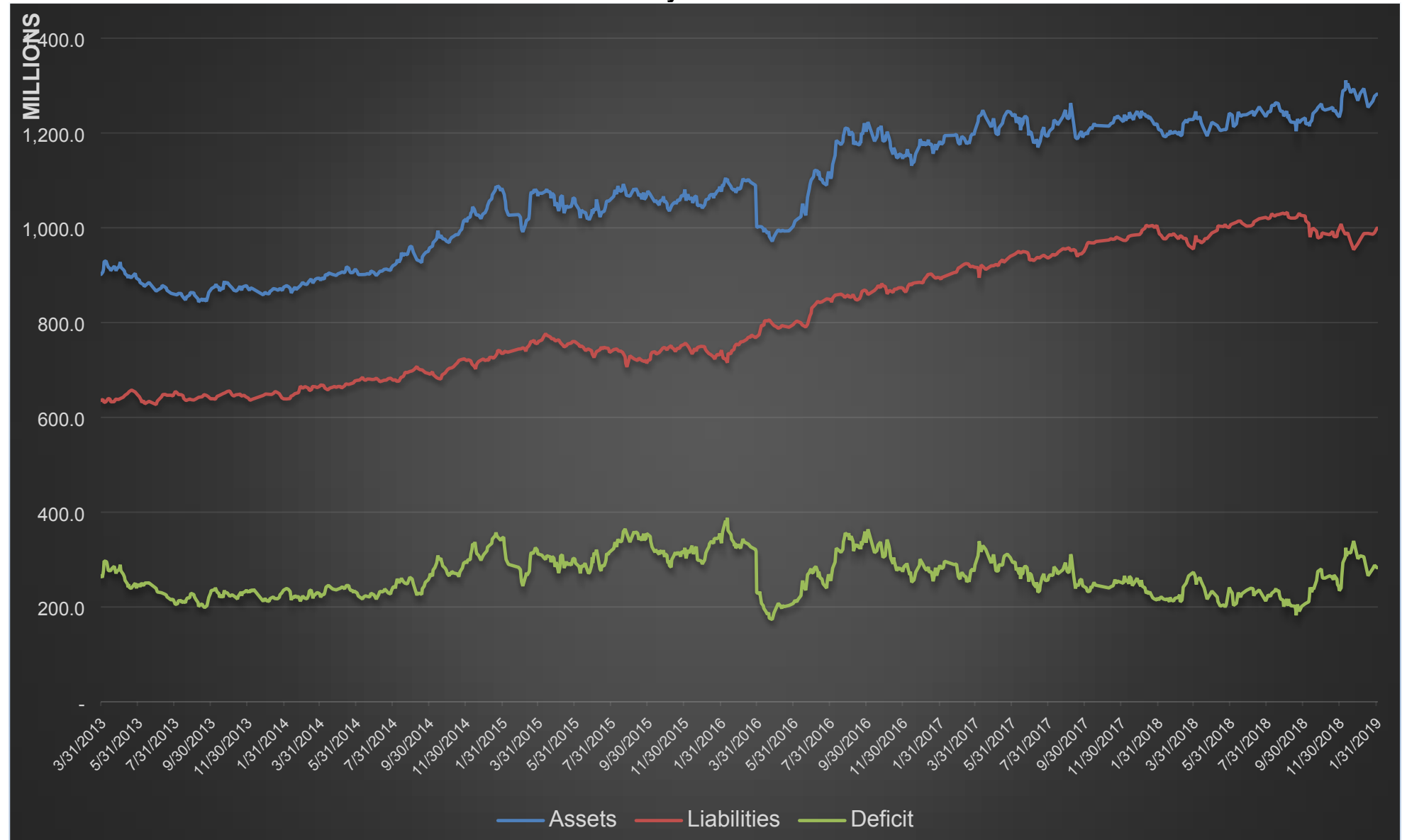
Appendix 2 – Definitions

Appendix 3 - Roles and Responsibilities

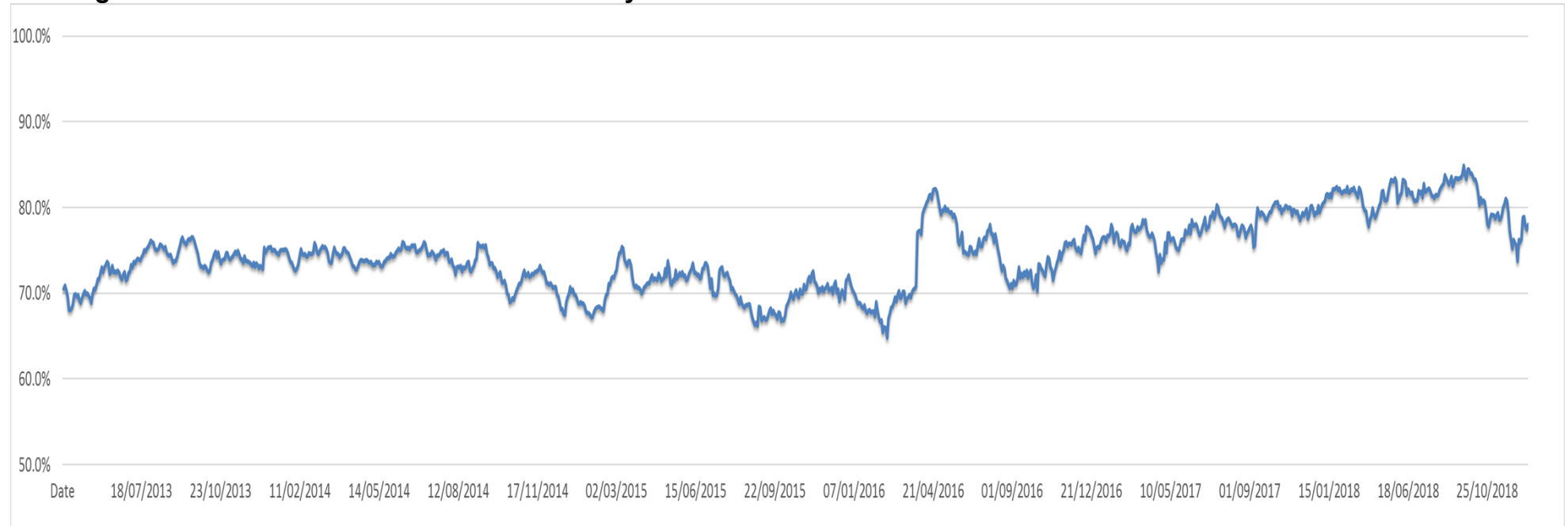
Appendix 4 – Independent Advisors Market Background Note, Q4 2018

This page is intentionally left blank

APPENDIX 1 - Fund Asset Values 31 March 2013 to 1 February 2019



Funding Level between 31 March 2013 to 1 February 2019



A Definitions

A.1 Scheduled bodies

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

A.2 Admitted bodies

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

A.3 Schedule of Admitted and Scheduled bodies

A list of scheduled and Admitted Bodies is provided below

Scheduled bodies	University of East London
	Magistrates Court
	Barking and Dagenham 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
	Aspens
	Laing O'Rourke
	RM Education
	CRI
	Cleantech
	The Broadway Theatre
	Schools Offices Services Ltd
	SLM

	Be First B&D School Improvements Partnership B&D Traded Services
--	--

B Roles & Responsibilities

B.1 Administering Authority

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

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

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

B.2 Pensions Committee

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

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

Responsibilities

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

- (i) To approve all policy statements required or prepared under the LGPS Regulations;
- (ii) To be responsible for the overall investment policy, strategy and operation of the Fund and its overall performance, including taking into account the profile of Fund liabilities;
- (iii) To appoint and terminate the appointments of the Fund Actuary, Custodian, professional advisors to, and external managers of, the Fund and agree the basis of their remuneration;
- (iv) To monitor and review the performance of the Fund’s investments including receiving a quarterly report from the Chief Operating Officer;
- (v) To receive actuarial valuations of the Fund;

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

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

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

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

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

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

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

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

B.3 Fund Administrator

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

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

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

B.4 Fund Actuary

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

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

- Undertaking an Actuarial Valuation of the Fund every three years. The next Valuation will be as at 31 March 2019 and the Actuary must complete his report by March 2020. The results of this Valuation will result in the setting of the Employer Contribution Rates for the three years 2020-2021, 2021-2022 and 2022-2023
- Undertaking more limited Valuations in respect of New Employers, Exiting Employers, Bulk Transfers and for Accounting purposes

B.5 Investment Advisor

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

- The Fund's Investment Strategy Statement including its asset allocation
- The selection of investment managers
- Monitoring and reviewing Investment Managers' performance

B.6 The Independent Advisor

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

B.7 Investment Managers

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

The Investment Managers' responsibilities include

- Investment of Pension Fund assets in compliance with legislation, the Fund's Investment Strategy Statement and the Investment Management Agreement between the Pension Fund and the Investment manager
- The selection of investments
- Providing regular reports on performance to the Fund Officers
- Attending the Pensions Committee if requested

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

B.8 Employers

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

Employers have a wide range of responsibilities which include

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

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

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

JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background October to December 2018

In contrast to the two previous quarters the period October to December 2018 saw a sharp decline in equity markets. Concerns regarding a global slowdown in economic growth, US trade policy, the rate of future interest rate rises by the US Federal Reserve, Brexit, the budget standoff between Italy and the European Union all weighed against equity markets. The MSCI World Index fell by 13% over the period. US, European and Japanese equities all experienced significant declines. As in the previous Quarter UK and emerging market equities continued to experience difficulties. The price of 2, 10 and 30 year major Government Bonds – US, UK, Germany - all rose during the quarter indicating risk aversion and uncertainty.

The US S&P 500 Index fell from 2,914 at the end of September to 2,507 at the end of December a fall of 14% over the quarter. Both October and December were torrid months for US equities. Factors weighing on US markets included fears over slower earnings growth (which is not surprising as the effects of the late 2017 tax cuts fade), continuing US China trade conflicts, concerns about the rate of interest rate rises and continued political tensions in Washington. Technology stocks which had previously been very positive endured a difficult quarter with expectations of a slowdown in expansion.

US unemployment which had been 3.7% in September had risen to 3.9% by December but this was largely due to more people coming into the labour market. The share of the adult population either employed or looking for work increased to 63.1%, its highest level for almost five years. US core inflation which had been 2.2% in September was still 2.2% in December. The University of Michigan Surveys of Consumers continued to indicate positive views. The December survey report indicated that consumer confidence remained at *“record favourable levels”* and referred to *“consumers very favourable evaluations of their personal financial situation.”*

There are however some possible early warning signs appearing in both the US consumer and corporate economy. House prices have increased by more than 50% since 2012 but the level of house sales at December 2018 was 10.3% lower than a year ago. Also, some commentators, including former Federal Reserve Chair Janet Yellen, raised concerns in late 2018 about the level of leveraged loans – loans to highly indebted companies – which are also *“covenant light”* meaning creditors have little protection. This market has massively expanded and in a downturn, investors may seek to rush out of the asset class creating a liquidity crunch. Whether either of these issues are indicators of, or possible contributors to a future downturn only time will tell.

Notwithstanding demands from President Donald Trump for unchanged rates the US Federal Reserve confirmed its independence at its December meeting by voting

unanimously to increase its benchmark interest rate by 0.25% from 2.0-2.25% to 2.25-2.50% the ninth increase in the current cycle.

Eurozone equities adversely affected by European and wider issues experienced a poor quarter with the MSCI EMU Index down over 12%. Although Eurozone seasonally adjusted unemployment was 7.9% in November and December 2018, its lowest rate since October 2008 inflation appears as a continuing negative indicator. As measured by the Harmonised Indices of Consumer Prices (HICP), inflation, which had been 1.3% in March 2018 and had reached 2.1% in September fell back to 1.5% in December compared to the European Central Bank (ECB) policy objective of inflation below, but close to, 2% over the medium term. Additionally, core inflation which excludes the more volatile elements of energy, food, alcohol and tobacco and is seen as a better indicator of longer term inflationary pressure was 0.9% at the end of December having remained close to 1% throughout 2018.

Evidence of a slowdown in the Eurozone became clearer. Growth was at a four year low of 0.2% during the quarter. There was also fall in German industrial activity during the quarter. This is noteworthy as the heavily manufacturing reliant German economy accounts for about a third of Eurozone output.

At its December meeting the European Central Bank, as expected, ended its asset purchase programme (APP) of monthly purchases of new government and corporate bonds after nearly four years. The ECB will however continue to reinvest the principal payments from maturing securities purchased under the APP and maintain extremely low interest rates.

The FTSE All Share Index fell by over 10% during the quarter. Concerns over global growth and trade adversely affected those UK listed stocks significantly exposed to world markets while continuing and increasingly serious Brexit concerns will not have aided the UK focused mid cap (FTSE 250) stocks.

UK unemployment remained at 4% during the quarter - its lowest rate since 1975. Consumer Price Index (CPI) inflation which had remained above the Bank of England's target of 2% since February 2017 was only 2.1% at December 2018. At its December 2018 meeting the Monetary Policy Committee (MPC), as expected, voted unanimously to maintain Bank Rate at 0.75%.

The Nikkei 225 Index, adversely affected by the strength of the yen as well as wider global issues fell by over 17% during the quarter. Japan's export driven economy is particularly vulnerable to economic slowdown and the adverse effects of trade disputes. At its October and December monetary policy meetings the Bank of Japan continued to maintain its commitment to what might be described as financial crisis-era stimulus policies. This was in the context of Japanese inflation continuing to remain well below the Bank of Japan's target of 2% despite huge monetary policy stimulus since 2013.

China and Asian emerging markets had another generally negative but overall less negative quarter than developed markets despite continuing US-China trade tensions and concerns about a slowing global economy. Further evidence emerged of slowing

Chinese economic activity with the Chinese government announcing that growth in the July to September quarter had slowed to 6.5% the lowest since the 2009 crisis. There were also indications of weakening consumer confidence and of a weakening housing market across the country with the Financial Times (online) reporting (27 December 2018) that *“housing developers across all city tiers reported that sales fell for a sixth month, while those in second-tier and smaller cities reported fresh price falls.”*

In conclusion, the fourth quarter of 2018 highlighted that the continuation of the positive economic backdrop, which had been facilitated by unprecedented monetary support by the world’s major Central Banks is now in doubt. Equity markets are now also subject to a number of significant potentially negative factors and this raises clear questions regarding how long the trend of generally upward equity prices witnessed for several years can continue.

John Raisin Financial Services Limited
Company Number 7049666 registered in England and Wales.
Registered Office 130 Goldington Road, Bedford, MK40 3EA
VAT Registration Number 990 8211 06

“Strategic and Operational Support for Pension Funds and their Stakeholders”
www.jrfspensions.com

This page is intentionally left blank

PENSIONS COMMITTEE**13 March 2019**

Title: Application for Admitted Body Status – Town and Country Cleaners	
Report of the Strategic Director, Finance & Investment	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary:	
To consider the application for Admitted Body status from Town and Country Cleaners (T&CC) to the Local Government Scheme (LGPS).	
The Committee is asked to agree:	
<ul style="list-style-type: none"> the application for Admitted Body Status by Town and Country Cleaners, 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 Barking 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 Committee can agree to retrospectively agree an admission agreement.

2 T&CC Admission Agreement

- 2.1 In 2018 the Jo Richardson Community School carried out a tender for cleaning services.

- 2.2 The Jo Richardson Community School appointed Town and Country Cleaners (T&CC) as their cleaning 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 January 2019.
- 2.3 T&CC 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 T&CC will be responsible for the risks, including investment risk, bond yield risk, inflation risk, pay award risk, longevity and regulatory risk. T&CC will require a bond.
- 2.5 The transfer of the staff from the Council to T&CC was completed on a fully funded basis, with the pension deficit remaining with the Council. The contribution rate calculated by the actuary for T&CC is 24.7%.
- 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 20 staff employed by the Council were TUPE transferred from the Council to Aspens. Of the 20 staff, 16 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 Committee.

4. Consultation

- 4.1 None.

5. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

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

6. Legal Implications

Dr. Paul Feild, Senior Governance Solicitor

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

PENSIONS COMMITTEE

13 March 2019

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, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Recommendations	
<p>The Committee is recommended to note:</p> <ul style="list-style-type: none"> i. that the Fund is cash flow positive; ii. the Fund's three-year budget for the period 1 April 2018 to 31 March 2021; iii. the appointment of Northern Trust as the Fund's Custody and Performance monitoring provider; iv. the extension of the actuarial and investment consultant contract to 30 June 2020; v. the Independent Advisor's LGPS Update in appendix 1; vi. the Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling in Appendix 2. <p>The Committee is recommended to delegate to the Chief Operating Officer to submit a response to the MHCLG on the informal consultation on Asset Pooling.</p>	

1. Introduction

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

- i. Pension Fund Budget 1 April 2018 to 31 March 2021;
- ii. Cash flow to 31 January 2019;
- iii. Update on the investment consultant, actuary and custodian tender;
- iv. An LGPS update by the Independent Advisor (appendix 1); and
- v. Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling (appendix 2).

2. Pension Fund Budget 1 April 2018 to 31 March 2021

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2021.

Table 1: Pension Fund Budget 1 April 2018 to 31 March 2021

<u>Contributions</u>	2018/19 Budget	2019/20 Budget	2020/21 Budget
Opening Market Value	1,000,000	1,040,500	1,077,300
Employee Contributions			
Council	4,500	4,000	3,500
Admitted bodies	2,200	2,000	1,800
Scheduled bodies	2,500	2,600	2,700
Employer Contributions			
Council	18,000	16,000	14,000
Admitted bodies	5,000	4,500	4,000
Scheduled bodies	9,000	9,400	9,700
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	44,700	42,000	39,200
<u>Expenditure</u>			
Pensions	- 33,000	- 34,500	- 36,000
Lump Sums and Death Grants	- 6,000	- 6,000	- 6,000
Transfers Out	- 3,500	- 3,500	- 3,500
Administrative expenses	- 600	- 600	- 600
<u>Total Expenditure on members</u>	- 43,100	- 44,600	- 46,100
<u>Net dealings with members</u>	1,600	- 2,600	- 6,900
<u>Returns on Investments</u>			
Investment Income	7,000	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	- 3,100	- 3,100	- 3,100
<u>Net returns on investments</u>	38,900	39,400	39,400
<u>Net increase (decrease) in assets</u>	40,500	36,800	32,500
<u>Closing Market Value</u>	1,008,876	1,045,676	1,078,176

2.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move across to the various companies set up by the Council, including Be First, Traded Services, Home Services and Schools Improvement Partnership. The forecast is for the Council contribution to decrease and the admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time. Due to these changes, the overall member income will decrease in 2019/20 and 2020/21.

2.3 An increase in lump sum payments is projected but it is expected that this will be mitigated by an increase in pension strain. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 3.0% for 2018/19 and 2.4% for 2019/20.

2.4 Overall the Fund is expected to be cashflow negative in 2020/21 if investment income and management expenses are included but return is excluded.

3. Cash flow to 31 January 2019

3.1 Table 2 below provides Members with the Fund's Cash flow to 31 January 2019.

Table 2: Forecast Pension Fund Cash Flow to 31 January 2019

	2018/19 Budget £000's	2018/19 Forecast £000's	Over / Under £000's
<u>Contributions</u>			
Employee Contributions			
Council	4,500	6,702	2,202
Admitted bodies	2,200	2,091	(109)
Scheduled bodies	2,500	1,916	(584)
Employer Contributions			
Council	18,000	20,102	2,102
Admitted bodies	5,000	7,025	2,025
Scheduled bodies	9,000	7,268	(1,732)
Pension Strain	1,000	1,500	500
Transfers In	2,500	2,910	410
<u>Total Member Income</u>	44,700	49,515	4,815
<u>Expenditure</u>			
Pensions	(33,000)	(33,400)	(400)
Lump Sums and Death Grants	(6,000)	(8,105)	(2,105)
Payments to and on account of leavers	(3,500)	(1,820)	1,680
Administrative expenses	(600)	(650)	(50)
Total Expenditure on members	(43,100)	(43,975)	(875)
<u>Net additions</u>	1,600	5,540	3,940
<u>Returns on Investments</u>			
Investment Income	7,000	7,000	-
Profit (losses)	35,000	25,000	(10,000)
Investment management expenses	(3,100)	(3,700)	(600)
Net returns on investments	38,900	28,300	(10,600)
Net increase (decrease) in the assets	40,500	33,840	(6,660)
Asset Values	1,008,876	1,002,216	
Liabilities	(1,200,000)	(1,280,000)	
Funding Level	84.1%	78.3%	

4. Update on the investment consultant, actuary and custodian tender

4.1 Custodian Tender

On 1 February 2019 the Fund tendered for Custody and Performance monitoring, using the National LGPS Framework for Global Custody Services. The Fund used a Further Competition to assess and evaluate which Custodian best meets the Fund's requirements.

Mercer Sentinel, the technical advisors to the framework, independently evaluated and scored each service provider, based on specific and targeted technical

proposals submitted in providers' applications to join the framework. In addition, specific additional requirements included as part of the evaluation criteria. The evaluation criteria used is summarised below and included a combination of scoring using Mercer Sentinel, Specific Questions and the Model Portfolio provided:

Evaluation Criteria	Percentage	Basis
Quality Offered	20%	Mercer Sentinel Score + Specific Questions
Service Fit	40%	Mercer Sentinel Score + Specific Questions
Value for Money	40%	Model Fund Portfolio

A deadline for receipt of proposals was set at 17:00 on 12 February 2019.

Scoring was completed on the 13th February and Northern Trust were appointed, subject to a 10-day standstill period.

Transition arrangements are being discussed with State Street, with a termination date of 31 May 2019 agreed. State Street will continue to provide custody and performance monitoring to 31 May 2019.

4.2 Actuary and Investment Consultant Contract

Members have previously been advised that the Fund's contract with Hymans and Aon Hewitt were going to be tendered for in November 2018. To allow the Fund to complete the triennial valuation process using the current actuary and advisor, the Section 151 officer has agreed to extend the contracts until the end of June 2020.

In May 2020 the Fund will use the National Framework to tender for both the Actuary and Investment Consultant contract, with both contracts to be awarded over a 6-year period, which will cover the subsequent two triennial valuations. The result of this extension will be to bring the contracts in line with the triennial valuation and strategy review process.

5. Consultation

- 5.1 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.

6. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

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

7. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

- 7.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such

funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

8. Other Implications

- 8.1 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:

- i. the Independent Advisor's LGPS Update;
- ii. the Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling.
- iii. Draft guidance on pooling - consultation

This page is intentionally left blank

JOHN RAISIN FINANCIAL SERVICES LIMITED

London Borough of Barking & Dagenham Pension Fund

LGPS Update

A paper by the Independent Advisor
February 2019

Introduction

The purpose of this paper is to update the Pensions Committee on developments in respect of a range of important issues in the Local Government Pension Scheme (LGPS). This paper does not seek to address every significant issue relevant to the LGPS but rather those which appear to be the most relevant to the Barking and Dagenham Pensions Committee at this time.

The issues covered in this paper are:

- Scheme Advisory Board project – Good Governance in the LGPS Project
- Investment Pooling
- Investment Cost Transparency
- Section 13 Review of the 2016 LGPS Actuarial Valuation
- The Pensions Regulator and the LGPS

Scheme Advisory Board project – Good Governance in the LGPS

The LGPS in England and Wales is one Scheme administered by different local authorities (called Administering Authorities) who each operate a Fund within the overall Scheme. The operational structure of each Fund and its relation with the host authority will however be different.

For example, some Funds will have all LGPS Functions within one unit which ultimately reports to a single Chief Officer (usually, but not always, the Section 151 Officer) while some have Investment functions ultimately reporting to one Chief Officer (usually the Section 151 Officer) and Administration functions

reporting to another Chief Officer (usually the Director/Head of Human Resources). In some Funds Pension Officers deal exclusively with Pension issues while in others they also have non Pension roles such as responsibility for Council Treasury Management.

Conflicts of interest can occur as a result of a LGPS Fund sitting within the overall structure of a local authority. This could include where the host authority (Administering Authority) sought to exert pressure on the Section 151 Officer for example in relation to Employer Contribution rates, or where the Administering Authority did not effectively resource the Pensions function, or does not effectively manage recharges between the Pension Fund and wider Council.

In August 2018 the Scheme Advisory Board invited proposals from interested parties to assist it in developing options for change with regard to the relationship of LGPS Pension Funds to their existing host authorities for consideration prior to potentially making recommendations to the Secretary of State. Based on the documentation on the Scheme Advisory Board website it appears that the Board is considering two broad options:

- 1. Separation within existing structures** which would likely include some or all of – greater ring fencing of the Pensions function, completely separate Pension Fund Accounts and an accompanying Pension Fund specific annual governance statement, upfront funding of Pension budgets rather than internal recharging, clearer definition of duties and responsibilities of those charged with delivering the Pensions function, clearer/minimum training requirements for Officers and Members, minimum service standards. This option would involve greater ring-fencing of the Pensions function probably through the use of delegation to move some or all Pension related finance responsibilities from the Section 151 Officer to another officer whilst maintaining oversight, or requiring the host authority to create a dedicated senior officer position to take on all responsibilities for Pension Fund related issues as is already the case in a few (mainly very large) LGPS Funds. This option would likely also require that each host authority group all LGPS related activities within one discrete organisational unit.
- 2. Separation via new structures** – this would likely involve delegation of the Administering Authority function and all decision making to an alternative body that retains democratic accountability in some form. The employment of staff and contractual issues would be dealt with by this alternative body. Under this option consideration would be given, by the Scheme Advisory Board, to proposing legislation/regulation to require the creation of Combined Authorities with a number of Administering Authorities in each Combined Authority. This option while retaining some link between the existing Administering Authorities (such as Barking and Dagenham) and the LGPS would in effect transfer the responsibility for decisions relating to the management and administration of the Scheme to the new body (bodies).

Hymans Robertson have now been awarded the contract to work with the Scheme Advisory Board to develop possible options. It is anticipated that the Scheme Advisory Board will come forward with proposals on future structures for the LGPS during 2019.

Investment Pooling

On 3 January 2019 the Ministry for Housing Communities and Local Government (MHCLG) issued a consultation on new Statutory Guidance in respect of Asset Pooling. An item dedicated to this issue is contained elsewhere on the Agenda of the Pensions Committee and includes both a copy of the draft Statutory Guidance and a paper by the Independent Advisor providing observations and comments on the draft Statutory Guidance.

Investment Cost Transparency

The fee quoted by an Investment Manager for their services has always to be deducted from the gross return achieved by the Investment Manager to calculate the net return received by the Investor (in this case the Barking and Dagenham Pension Fund). However, there are also other costs, necessarily incurred by the Investment Managers (which depending on the asset class might, for example, include transaction taxes, broker commissions, entry/exit charges, custody charges, audit fees) that reduce the return received by the investor. Traditionally there was no standard means by which investors could seek information on these charges to allow investors to scrutinise and challenge costs.

During 2019 it is intended to launch, with the active participation of both institutional investors and the investment management industry, a scheme to facilitate the consistent reporting by investment managers of their management charges and costs to institutional investors in the United Kingdom. This very positive and welcome initiative has been facilitated by the work of the LGPS Scheme Advisory Board for England and Wales (SAB).

To improve the reporting and understanding of investment management charges and costs by LGPS Funds the Scheme Advisory Board for England and Wales (SAB) working with major stakeholders including CIPFA, some LGPS Funds and most crucially the Investment Association (the main trade body representing UK Investment Managers) developed the LGPS Investment Code of Transparency which was initially issued in May 2017. Under this voluntary Code participating Investment Managers will report their fees, costs and any relevant income (for example from stock lending) using standard templates issued by the SAB.

The approved templates cover only listed assets but where an asset class is not covered by the existing templates Investment Managers can still sign up to the Code and submit data agreed with each client that is “substantially *similar...to that covered by existing templates.*” It was intended to expand the Code to cover unlisted assets but this was subsequently passed to the Institutional Disclosure

Working Group (IDWG) established by the Financial Conduct Authority (FCA) which is discussed further later in this paper.

To sign up to the Code an Investment Manager must write to the SAB in a prescribed way and put in place, within a period of 12 months, systems to enable the completion and automatic submission of Templates to each relevant LGPS Fund. In September 2018 the SAB launched a tender for a process to validate the templates received from Investment Managers. As at early 8 February 2019 ninety five Investment Managers including four LGPS Asset Pools (Border to Coast, Brunel, Central, and the Local Pensions Partnership) had signed up to the Code.

The FCA Asset Management Market Study Final Report of June 2017 (Chapter 13) welcomed the use of the LGPS templates and proposed *that “both industry and investor representatives agree a standardised template of costs and charges”* and to *“ask an independent person to convene a group of relevant stakeholders to develop this further, for both mainstream and alternative asset classes”*. This resulted in the establishment of the Institutional Disclosure Working Group (IDWG) to gain agreement on disclosure templates for asset management services to institutional investors.

The IDWG membership was approximately 40% Institutional Investors, 40% investment Managers and 20% Independent experts. The IDWG reported back to the FCA in June 2018 and the FCA publicly welcomed their recommendations in July 2018. The IDWG made recommendations to the FCA which may be summarised as follows:

1. Proposed the use of five templates – User, Main Account-Level (for most product types), Private Equity, Physical Assets, Ancillary Services (Custody).
2. The use of the templates should be voluntary but encouraged through other means such as pressure from institutional investors applied to providers. Typically, this would be by non-compliance resulting in de-selection from Requests for Proposal and the non-renewal of contracts. Investment consultants and other market participants (such as platforms) should adopt a similar selection approach. Industry representative organisations and trade bodies should be prepared to adopt the templates as their disclosure codes and to support the use of the templates by their members.
3. Institutional investor education on the matter of cost disclosure and its benefits should be improved.
4. A new body or group should be created and convened by autumn 2018 to curate and update the framework. It should be representative of a wide range of stakeholders.

5. The IDWG recommended that no FCA rule should be written at this time that either mandated submission of data by providers using the templates or mandated the collection of data from providers by institutional investors. The IDWG recommended that the FCA should consider writing rules if: there is poor adoption of the templates by institutional investors or their providers; or institutional investors report difficulties in obtaining cost data to the level proposed in the templates from their providers; or providers are found to have misrepresented data via the templates to clients.

On 7 November 2018 a new body (as proposed by the IDWG) was launched which is known as the **Cost Transparency Initiative** (CTI). This is an independent group working to improve cost transparency and to progress the work of the IDWG. The CTI is supported by the Investment Association, LGPS Scheme Advisory Board and the Pensions and Lifetime Savings Association which is providing website services for the CTI. The CTI has the support of the FCA - Christopher Woolard, Director of Strategy and Competition at the FCA has commented: *"We welcome the launch of the Cost Transparency Initiative and have passed on the IDWG's report and draft templates in full.... The FCA has been asked to join the Cost Transparency Initiative as an observer and we look forward to our continuing involvement in this area."*

It should be noted that the Investment Management industry has been closely involved in both the development of the LGPS and IDWG templates and is involved in and supportive of the work of the CTI. At the Launch of the CTI Chris Cummings, Chief Executive of the Investment Association, stated that *"We welcome the launch of the Cost Transparency Initiative. Our industry is fully committed to transparency of costs and charges for all investors. We look forward to working closely with the PLSA and Local Government Pension Scheme Advisory Board to build on the progress of the IDWG, to.... enable costs and charges to be reported in a clear and comparable manner for institutional investors."*

Mel Duffield from the Universities Superannuation Scheme which is a major UK institutional investor (with assets of around £60 billion) has been appointed Chair of the CTI. The CTI will run a pilot to test the templates developed by the IDWG and issue supporting technical and communications material during early 2019. Following the pilot, the CTI will roll out templates to the Investment Management and Pension Industries to encourage fully transparent and standardised cost and charge information for UK institutional investors.

Clearly, therefore, Cost Transparency is already becoming embedded within the LGPS and will begin to be embedded across UK institutional investors from this year. This is very positive in terms of openness, facilitating comparisons and scrutinising /constructively challenging Investment Managers charges.

Additionally, four LGPS Asset Pools have so far signed up to the LGPS Code of Cost Transparency. Furthermore (as highlighted in the Independent Advisor's paper elsewhere on this Agenda on the draft Statutory Guidance on Asset Pooling) this clearly and explicitly indicates the importance that the Ministry for Housing Communities and Local Government (MHCLG) attaches to investment cost transparency as Section 8.7 states *"Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so."*

Section 13 Review of the 2016 LGPS Actuarial Valuation

The Government Actuary Department (GAD) was appointed by the MHCLG to report under Section 13 of the Public Service Pensions Act 2013 in respect of the 2016 Actuarial Valuations of the Funds in the Local Government Pension Scheme in England and Wales (LGPS). Section 13 requires GAD to report on whether the following aims were achieved:

- **Compliance:** whether a Fund's Valuation is in accordance with the Scheme Regulations
- **Consistency:** whether the Fund's Valuation has been carried out in a way which is not inconsistent with other Fund Valuations within the LGPS
- **Solvency:** whether the rate of Employer Contributions is set at an appropriate level to ensure the solvency of the Fund
- **Long term cost efficiency:** whether the rate of Employer Contributions is set at an appropriate level to ensure the long-term cost efficiency of the Scheme, as measured on an individual Fund basis

The first two issues are concerned primarily with the methods of the four Actuarial firms (Aon, Barnett Waddingham, Hymans Robertson and Mercer) who undertake Actuarial Valuations for LGPS Funds. The issues of Solvency and Long Term Cost Efficiency are Fund specific.

GAD undertook a "Dry Run" using the 2013 Actuarial Valuations but the report on the 2016 Valuations, which was issued on 27 September 2018, was the first official Section 13 Report. In reviewing the 2016 LGPS Actuarial Valuations GAD looked at a range of metrics to identify issues of Solvency and Long Term Cost Efficiency. Each Fund's score under each measure was colour coded: Green (no material issue), Amber (potential issue), Red (material issue).

Overall the GAD Section 13 report was clearly positive in respect of both the Scheme as a whole and individual LGPS Funds. In the Executive Summary to the report GAD commented that *“In aggregate the LGPS is in a strong financial position and funds have made significant progress since the 2013 valuation.....”* and that *“The Scheme ...has made significant progress since the dry run”* in terms of potential issues in respect of Solvency and Long Term Cost Efficiency with 70 out of 89 Funds with all green flags compared to 52 out of 90 in the dry run. There were 20 amber and 2 red flags compared to 58 amber and 5 red flags in the dry run. These results are, overall, very reassuring for the LGPS as a whole.

It should be noted that the two red flags related to the closed West Midlands Integrated Transport Authority Pension Fund and that no open LGPS Fund received a red flag. It is pleasing to note that the London Borough of Barking and Dagenham Fund received all green flags. Although, as already stated, the GAD report of September 2018 was clearly positive in relation to the Scheme as a whole and individual LGPS Funds it appears clear that GAD likely understated the strength of the Scheme as a whole and potentially the strength of individual LGPS Funds.

In October 2018 the four Actuarial Firms who provide Actuarial Services to the LGPS issued a (unprecedented joint) letter to the LGPS Scheme Advisory Board in England and Wales regarding the GAD Section 13 Report on the 2016 LGPS Actuarial Valuation. The letter included the statement *“We recognise that the initial headline messages in the report are positive about the overall progress being made by the LGPS..... Clearly this is something which we are pleased to see. However, on reading the detail of the report we have some material concerns over its content. We believe that it is important to highlight these,.....”*

The letter from the Actuarial firms includes concerns that GAD has failed to acknowledge improvements in funding that occurred between March 2016 and the 18 months until GAD issued their report. This letter was also clearly critical of the metrics used by GAD to determine the allocation of green, amber and red flags stating that *“the report is largely focussed on highlighting perceived failures by Funds against a series of arguably rather arbitrary actuarial metrics, many of which focus on a single point when in fact there are a number of interrelated issues at play.”* The letter also stated *“The metrics are in our view too simplistic and could lead to incorrect/invalid conclusions....in our view, there hasn't been sufficient detailed engagement with the administering authority and Fund Actuary to understand local circumstances or the risk management measures already in place..... Readers of the report will see the metrics used as a valid test (especially with the Red/Amber/Green classification used). This could influence funding behaviours in an effort to avoid a future red or amber flag and lead to lay readers drawing incorrect conclusions about the performance of a fund and its officers and committee. Ultimately this could result in actions being taken which are not in the best interests of the LGPS and/or individual funds.”*

Indeed, examination of the GAD report clearly demonstrates that GAD appear to have concentrated on very narrow metrics rather than taking a broad based or more holistic view. For example, ten Funds received an amber flag simply because they were in the lowest decile in terms of funding level based on the Scheme Advisory Board (SAB) standard basis funding level which was an attempt by the SAB to produce a measure to compare LGPS Funding levels using one particular set of assumptions. Using this approach ten Funds were in effect bound to receive an amber flag simply because of their position in a league table! The position in a league table in itself provides no objective information about the actual solvency (or long term cost efficiency) of an LGPS Fund. This metric which alone accounted for 10 of the 20 amber flags (in the whole report) is clearly at best a weak metric and arguably a misleading metric when considering the overall issue of solvency taking into account such issues as employer contribution levels, investment strategy and member profile.

As previously indicated the first two issues of **Compliance** and **Consistency** are concerned primarily with the methods of the four Actuarial firms who undertake Actuarial Valuations for LGPS Funds. At Section 2.2 (page 9) of their main report GAD state *"We found no concerns over compliance."* GAD however expressed significant concerns over Consistency. For example at Section 1.12 (page 2) of the Executive Summary GAD expressed concern in respect of variations in approach between the 4 Actuarial firms stating *"in some areas, it appears that the choice of assumptions is more dependent on the house view of the....firm of actuaries....than on the local circumstances of the fund"* In the "Key consistency findings" section (page 11) of their main report GAD state *"The following assumptions showed a marked difference for funds advised by the different firms of actuarial advisors that are not apparently due to local differences"* - discount rate, mortality improvements, salary increases, commutation. *"We recommend the SAB consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions except where differences are justified by material local variations...."* This Recommendation is Recommendation 2 of the GAD report.

In their joint letter of October 2018, the four Actuarial firms expressed serious concerns regarding GAD's approach to Consistency. The letter included the statement *"We fundamentally disagree with how GAD has approached what they call "evidential consistency": the wording in the Public Service Pensions Act is "not inconsistent" implying a focus on identifying outliers which is entirely logical for a review analysing and comparing local LGPS valuations. GAD has instead interpreted their role as requiring a comparison of individual assumptions..... and commenting on whether or not they are identical. Our concern is that readers will be given a completely false impression of what we understood to be the intentions of Section 13."*

The letter from the Actuarial firms went on to state *"In putting forward Recommendation 2, GAD has neither outlined what the benefits for the LGPS and its stakeholders would be, nor has it considered the potential downsides in terms of the reduced input from the administering authority into the funding*

process and the fundamental change in governance arrangements which would be involved. A change of this nature needs to be considered from a policy point of view with consultation with all stakeholders, rather than being introduced by the back door. We therefore do not agree with Recommendation 2 and believe that the Scheme Advisory Board should consider the feedback we provide to GAD before taking this recommendation forward.”

With regard to the issue of Consistency the relevant test is whether the Fund's Valuation has been carried out in a way which is “*not inconsistent*” with other Fund Valuations within the LGPS rather than whether the Fund Valuation is “*consistent*” with other Fund Valuations. Because the test is concerned with “*not inconsistent*” rather than “*consistent*” the test is surely of a lower level and therefore, supports the argument in the letter from the Actuarial firms that GAD has approached the issue of Consistency inappropriately in its review and report.

The four Actuarial firms all carried out their 2016 Valuations in accordance the Standards of the Institute and Faculty of Actuaries. Consequently, they applied professionally acceptable approaches to their Valuations of each individual LGPS Fund. Furthermore, if the four Actuarial firms did everything the same way this would eliminate both judgement and innovation. At present individual LGPS Funds have a choice of four Actuarial firms each with differing approaches but all of which are compatible with the requirements of Institute and Faculty of Actuaries. This provides choice to LGPS Funds in respect of their Actuary. If GAD's Recommendation 2 is enacted this will, in effect, reduce the choice of individual LGPS Funds and be a significant move towards a centralised and rigid approach to actuarial and funding issues in the LGPS.

The Scheme Advisory Board have not yet formally responded to GAD's Recommendation 2. Given that the 2019 Actuarial Valuations of LGPS Funds will formally commence at the end of March 2019 it is, therefore, highly unlikely that this recommendation will impact the approach of the four Actuarial firms to the 2019 LGPS Actuarial Valuation.

The Pensions Regulator and the LGPS

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator (tPR) to include public sector pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015.

With regard to the LGPS the Pensions Regulator (tPR) now has responsibilities in relation to governance and particularly administration. However, the Pensions Regulator's role **has not been extended to funding and investment issues within the LGPS** which remain wholly the responsibility of the Secretary of State for Housing, Communities and Local Government.

Schedule 4 of the Public Service Pensions Act 2013 requires the Pensions Regulator (tPR) to issue a Code of Practice or Codes of Practice in respect of certain specified matters. In response to this requirement the Pensions Regulator issued Code of Practice No 14 "Governance and administration of public service pension schemes" which came into effect from 1 April 2015. This Code of Practice is applicable both to the Barking and Dagenham Pension Fund and the individual Employers within the Fund. The Code provides practical guidance and sets expected standards of practice in relation to legal requirements in relation to a number of important issues including: knowledge and understanding required by pension board members, internal controls, Scheme record-keeping, maintaining contributions, providing information to members, Internal dispute resolution, reporting breaches of the law.

In June 2015 the tPR issued its "Compliance and enforcement policy for public service pension schemes." This set out the Regulator's proposed approach to compliance and enforcement in relation to public service pension schemes. In this document the Regulator stated that its primary focus would be on educating and enabling Schemes to improve standards and comply with legal requirements. This was in effect an educate, enable, enforce approach.

The Pensions Regulator (tPR) has shown an increasing interest, attention, and focus in relation to the LGPS. It has a clear focus on record keeping and data quality, also on cyber security, internal control, and Governance in practice. In 2017 the tPR levied a fine on the London Borough of Barnet LGPS Fund and has now moved from its educate, enable, enforce approach, to a quicker, clearer and tougher approach.

In September 2018 the Pensions Regulator tPR unveiled a "*new approach*" in its publication "***Making workplace pensions work***" This operating model covers both the public and private sector and is a new regulatory approach "*to drive up standards and tackle risk.....taking a much more proactive approach....and tackling problems and being tougher when we need to be.*" tPR will focus on 4 key themes – Setting clear expectations; identifying risk early; driving compliance through supervision and enforcement; working with others. This approach (yet) again emphasises that both LGPS Pension Funds and individual Employers need to pay close attention to Pensions Administration issues.

The approach of the Pensions Regulator to the LGPS in particular has however caused the Chair of the LGPS Scheme Advisory Board in England and Wales (SAB) to write (on 28 November 2018) to the Chief Executive of the Pensions Regulator. The SAB website states that the letter expressed “concerns raised at the last board meeting in October about the burdens being imposed by the Regulator on individual administering authorities”. This letter included the following “...the Board is clear that the overwhelming majority of administering authorities have been taking steps to improve the quality of their data and record keeping and are making significant progress towards achieving the prescribed standards..... I would therefore hope that you would agree to work jointly with us in communicating any lessons learnt from your engagement with a selected number of LGPS administering authorities to the scheme as a whole. We see this as an alternative to enforcement action against any of the selected funds that you consider to be non-compliant with your codes of practice. The Board is clear that the threat of enforcement action would not be helpful in creating an environment where administering authorities can be fully open and willing to resolve any shortcomings identified by your casework teams.

Outside of the current one-to-one programme, it has been reported that progress within the LGPS is lagging behind other cohorts. But such conclusions do not in the Board’s view reflect the unique position of the LGPS as a locally administered, multiemployer, funded pension scheme. To borrow the fruit analogy, we take the view that apples are not being compared with apples in this case.

Against the good progress that we believe is being made, the Board is disappointed to learn of cases where formal action is being considered against individual LGPS scheme managers with the imposition of fines being a real possibility. The Board fully accepts that the Pensions Regulator has a clear responsibility to apply the enforcement powers conferred by the various Pensions Acts in appropriate cases and we are certainly not questioning the right for these powers to be exercised where warranted. However, having identified the LGPS as the most at risk public service pension scheme, the timing of individual enforcement action would appear to sit uncomfortably with the wider one-to-one engagement you are presently undertaking with a number of LGPS scheme managers where positive engagement is being encouraged.”

The fact that the Scheme Advisory Board (SAB) felt that it needed to issue such a robust letter to the Pensions Regulator indicates the genuine concern of the SAB as to the practical approach and attitude to the LGPS of the tPR. The Chief Executive of the tPR has now confirmed that a senior member of her team will be available to attend the April 2018 meeting of the Scheme Advisory Board. It is to be hoped that through the SAB more positive relations between the tPR and the LGPS can be established to the benefit all stakeholders.

Conclusion

This paper has sought to inform and update the Pensions Committee on a number of important issues affecting the LGPS and with which it is desirable that the Members of the Committee are appropriately conversant.

John Raisin

8 February 2019

John Raisin Financial Services Limited
Company Number 7049666 registered in England and Wales.
Registered Office 130 Goldington Road, Bedford, MK40 3EA
VAT Registration Number 990 8211 06

“Strategic and Operational Support for Pension Funds and their Stakeholders”

www.jrfspensions.com

JOHN RAISIN FINANCIAL SERVICES LIMITED

London Borough of Barking & Dagenham Pension Fund

**Observations on the draft LGPS Statutory Guidance on
Asset Pooling issued 3 January 2019**

**A paper by the Independent Advisor
February 2019**

Background to the draft Statutory Guidance

In November 2015 the Government issued the “*Local Government Pension Scheme: Investment Reform Criteria and Guidance*.” This document provided guidance to the LGPS on the creation of Asset Pools. Based on this guidance the LGPS Administering Authorities across England and Wales came together to form eight Asset Pools. The Barking and Dagenham Fund chose to join the London CIV pool. The Statutory Guidance of July 2017 on “*Preparing and Maintaining an Investment Strategy Statement*” includes approximately a page on asset pooling but this is general/broad in nature and does not address issues that have arisen as Asset Pools have developed since 2015.

The experience of pooling since 2015 particularly in the context of the wide spectrum of approaches adopted by both the eight Asset Pools and by the (now) 87 LGPS Funds in England and Wales has necessarily resulted in the issuing of detailed new draft **Statutory Guidance on Asset Pooling** by the Ministry of Housing, Communities and Local Government (MHCLG) on 3 January 2019.

The consultation period is twelve weeks and will close on 28 March 2019. After consideration of responses to the Consultation the MHCLG will then proceed to issue actual **Statutory Guidance on Asset Pooling**.

Independent Advisor’s Opening Comments

The covering e mail which accompanied the draft Statutory Guidance included the statement “*As you may know, MHCLG has been preparing new statutory guidance on LGPS asset pooling. This will set out the requirements on administering authorities, replacing previous guidance, and builds on previous Ministerial communications and guidance on investment strategies.*”

New guidance on Asset Pooling is clearly required. The November 2015 Guidance was issued in the context of forming Asset Pools. Since then eight Asset Pools, which overall are clearly diverse in both their structure/governance and approach, have been formed and are now all operational. Consequently, new Guidance is needed in the light of experience, in response to issues that have arisen so far, and to help ensure Asset Pooling is genuinely effective and successful in the long term.

Furthermore, the Guidance issued in November 2015 does not have the status of Statutory Guidance. In contrast the 2019 Guidance when issued in final form will have the status of Statutory Guidance issued by the Secretary of State under Regulation 7(1) of the LGPS (Management and Investment of Funds) Regulations 2016. In simple terms Administering Authorities such as the London Borough of Barking and Dagenham must follow Statutory Guidance except where it judges on admissible grounds that there is good reason not to do so, but without the freedom to take a substantially different course. Consequently the 2019 Guidance when finalised will normally need to be followed by all LGPS Funds and will put in place a clearly defined framework for Asset Pooling.

This paper makes observations and comments on the draft Statutory Guidance issued on 3 January 2019 to assist the Pensions Committee to understand its potential implications. It also makes some suggestions as to how the draft might be amended and improved. Each area of the draft Statutory Guidance is examined in turn below:

Foreword

In this section *“the hard work and commitment of people across”* the LGPS in progressing all eight Asset Pools to operational status is acknowledged. It is also stated that *“In the light of experience to date with pooling and the challenges ahead.... The time is now right for new guidance to support further progress.”*

Introduction

The Introduction makes it clear that the guidance when finalised will be Statutory Guidance and includes the statement that *“This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets..... Administering authorities are required to act in accordance with it.”*

Definitions

The guidance introduces a set of definitions *“for use in this and future guidance”* in relation to Asset Pooling – *Pool, Pool member, Pool governance body, Pool company, Pool fund, Pool vehicle, Pooled asset, Retained asset, Local asset.* These definitions are extremely helpful in clarifying the requirements and expectations of the MHCLG in relation to Asset Pooling.

Structure and Scale

Section 3.2 makes it clear that *“the selection, appointment, dismissal and variation of investment managers”* *“must”* going forward be a matter for the Asset Pool not individual Administering Authorities (LGPS Funds).

Section 3.4 states that a Pool Company (which is the body that undertakes the selection, appointment, dismissal and variation of terms of investment managers) *“must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities.”* This would appear to resolve the question as to whether or not each Asset Pool needs to set up/utilise an overarching FCA regulated company as part of its Governance arrangements.

Although seven of the eight Asset Pools, including the London CIV, have so far set up/utilised an overarching FCA regulated company the Northern Pool which consists of the Greater Manchester, West Yorkshire and Merseyside Funds (respectively the first, third and fourth largest of the 87 LGPS Funds in England and Wales) has not yet done so. The three Funds have made a very clear and cogent case, that due to their scale and their low costs, it is not cost effective for the Northern Pool to establish such an overarching FCA regulated company. They have, however, also previously stated that this will be regularly reviewed. In addition, they have established their own Private Equity vehicle and in partnership with the Local Pension Partnership Pool are the most advanced of the LGPS pools in respect of infrastructure through the FCA regulated GLIL vehicle. Given these facts the MHCLG appear to be unnecessarily imposing a *“one size fits all approach”* to Pool structures.

Section 3.6 requires individual LGPS Funds together with their Asset Pool to *“regularly review the balance between active and passive management....”* This is surely an unnecessary level of intervention in the activities of Administering Authorities and their Asset Pools.

Governance

Section 4 on Governance makes it absolutely clear that Asset Pools are and must be accountable to their constituent LGPS Funds stating that *“Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account.”* This section also specifically states that it is the pool governance body that is ultimately, though in consultation with the Pool, responsible for deciding which aspects of asset allocation are strategic and should remain with the Administering Authority, and which are tactical and to be undertaken by the Pool. This confirms that Asset Pools, which exist only to serve their constituent LGPS Funds, should not seek to set the framework within which they interact with them.

Section 4 also includes the statement *Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.”*

If the governance body is to be fully effective it clearly should be diverse in terms of experience and perspective leading to diversity of thought and the avoidance of “groupthink.” Therefore, it is surprising that the draft guidance does not state that Employee representatives “*should*” be included in the membership of pool governance bodies. This omission is even more surprising given both that the LGPS exists to provide pension benefits to those employed in local government (and organisations with a community of interest with local government) and the requirements of the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (As amended) that Employee representatives must be included in the governance arrangements of LGPS Funds through their representation on Local Pension Boards. The insertion of a statement that pool governance bodies “*should*” include a proportion of Employee representatives (perhaps a third or a quarter) would clearly enhance the governance of Asset Pools by enhancing the diversity of experience and perspective of the membership of these bodies.

The LGPS Scheme Advisory Board for England and Wales (SAB) has previously indicated its support for the inclusion of Employee representatives on pool governance bodies. In May 2018 the SAB issued an updated Statement on Pool Governance which clearly encouraged “*the consideration of direct representation on oversight structures*” of Employee representatives and concluded with the statement that “***In line with the UK Corporate Governance Code principle of ‘comply or explain’, any pool making a decision to exclude member representatives from their formal oversight structures should publish this decision and formally report the reasons to the local pension boards which the pool serves.***” At present the London CIV Shareholder Committee (the London CIV pool governance body) membership consists of eight Councillors and four Treasurers. There are, however, no specific Employee nominated members of the Committee.

Section 4.1 of the draft Statutory Guidance includes the statement “*Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account.*” That this body should be properly resourced is also clear from the draft Statutory Guidance as Section 4.1 also states that Pool Governance bodies should be “*sufficiently resourced*” to enable “*effective decision making and oversight.*” Given however that Pool Governance bodies such as the London CIV Shareholder Committee, unlike the Asset Pools, are not full time bodies there is a real possibility that they will lack the time, resourcing, advice and support to effectively “*set the direction of the pool and to hold the pool company to account.*”

It is therefore critical that as well as providing sufficient resources to the London CIV to enable it to carry out its allotted role the Shareholder Committee ensures that it has itself a sufficient level of resourcing and support to proactively set and then monitor the overall framework within which the London CIV operates. If there is a potential weakness in the Governance framework of Asset Pooling it is not the role of the Pool Governance bodies as set out in the draft Statutory Guidance. Rather, it is the possibility that Pool Governance bodies, such as the London CIV Shareholder Committee will meet too infrequently and without

sufficient resourcing/support and time to carry out their role properly and effectively. This must not happen if Asset Pools, such as the London CIV, are to genuinely facilitate the improved implementation of the Investment Strategy's of their constituent LGPS Funds.

Therefore, in relation to Pool Governance bodies, it is logical that the word "*must*" ought to be substituted for the word "*should*" in line two of Section 4.1. Additionally, the draft Guidance would be further improved if in the present third line of Section 4.1 after the word "*resourced*" wording such as "*in terms of professional advice, support and time,*" was added.

The fact that individual LGPS Funds remain responsible for strategic asset allocation is clearly stated at both sections 4.2 and 4.7. Section 4.2 includes the statement that "*Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.*" Section 4.7 includes the statement that "*Pool members are responsible for deciding their investment strategy and asset allocation and remain the beneficial owners of their assets.*"

It is extremely helpful to both individual LGPS Funds and their Asset Pools that the guidance is absolutely clear that investment strategy and strategic asset allocation remain the responsibility of the individual LGPS Funds. Given this clarity one potentially major issue that the draft Statutory Guidance is silent on is the provision of "*proper advice*" that individual LGPS Funds must take in formulating their Investment Strategy Statement under Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.

If an Asset Pool were to provide "*proper advice*" to its constituent LGPS Funds then the Pool will have a potentially decisive influence over the strategic asset allocations of the organisations it has been created to serve. This would be "the tail wagging the dog." Therefore, it is logical that a statement be included in the Statutory Guidance that Asset Pools "*must not*" provide "*proper advice*" to any Administering Authority in relation to decisions made under Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.

There is clearly a question as to which aspects of investment strategy are "*strategic*" and are therefore the responsibility of each individual LGPS Fund and which are, in the words of the draft Statutory Guidance "*tactical and best undertaken by the pool company.*" The draft guidance (Section 4.8) clearly indicates that the decision as to what is "*strategic*" and what is "*tactical*" is not a decision for the Asset Pool (for example the London CIV) but for "*Pool members collectively through their pool governance bodies*" which should however "*be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.*" Section 4.8 while requiring consultation with the Asset Pools is both a very clear statement and reminder that the Asset Pools exist to deliver services to their constituent LGPS Funds and that they must not seek to impose any interpretation of "*strategic*" and "*tactical*" investment on their constituent Funds.

Section 4.4 of the draft Statutory Guidance states that Members of Pension Committees should “*take a long term view of pooling implementation and costs.*” While this statement appears perfectly logical the statement which follows it does not. This reads “*They should take account of the benefits across the pool and across the scheme as a whole.....*” This reference to the pool and scheme as a whole is surely at odds with the primary responsibility of Pension Committee Members which is to their own LGPS Fund, its constituent Employers and their local taxpayers. This element of the draft Statutory Guidance appears inappropriate and should ideally be removed from the final version.

Transition of assets to the pool

This section is clear that individual LGPS Funds must implement asset pooling and leaves no discretion for individual LGPS Funds to unnecessarily or unduly delay the pooling of the vast majority of their assets. Such an approach is clearly necessary if the benefits of asset pooling to the LGPS as a whole are to be achieved.

The draft Statutory Guidance is however also clear that “*In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.*” (see section 5.4) and that individual LGPS Funds “*may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include.... some infrastructure investments.....*” (see section 5.5).

The sharing of transition costs using inter authority payments is expressly permitted by Section 5.3. This may, in some cases, help encourage and smooth the transition of assets from individual LGPS Funds to their Asset Pools.

Making new investments outside the pool

The contents of this section (see sections 6.1 and 6.4) seek to clarify and in effect minimise the ability of individual LGPS Funds to themselves procure asset manager services and includes the statement (see section 6.1) “*Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale..... From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.*” These provisions are logical if the potential benefits of asset pooling to the LGPS as a whole are to be achieved.

The practicality of Section 6.1 will, however, be dependent upon the ability of Asset Pools to offer investment options to their constituent LGPS Funds to enable them to implement their own individual Investment Strategy. Given the

very limited progress made so far by Asset Pools, as a whole, in procuring investment products for their constituent LGPS Funds the timescale of 2020 for when *“only in very limited circumstances”* should LGPS Funds directly procure asset management services seems over ambitious. To ensure that Asset Pools do not seek to unduly rush procurements, and therefore potentially fail to meet the needs of the LGPS Funds they exist only to serve, it would be logical to replace “2020” with a later date, but not earlier than “2022.”

Section 6.3 states *“Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.”* Although this section explicitly approves the principle that an LGPS Fund is not restricted to investing only through its own Asset Pool it is not clear as to how such cross Pool investment can be initiated. Section 6.3 should ideally therefore be expanded to explicitly indicate the process whereby a LGPS Fund can invest into a cross pool or specialised offering provided by another Asset Pool. It is suggested that wording such as the following might be added to Section 6.3 *“Where after having consulted with its own pool company an Administering Authority reasonably believes that a cross pool initiative or another pool can provide improved net returns in respect of a particular investment it may then seek to invest in it, after having formally informed its own pool governance body of its intention.”*

Infrastructure investment

This section clarifies that while asset pooling was intended to facilitate infrastructure investing and the government expects pools to provide increased *“capability and capacity”* for infrastructure investment *“there is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area.....”*

Sections 7.4 and 7.5 provide a definition of infrastructure assets which (helpfully) is both clear and broad and confirms that *“all residential property is included in this definition of infrastructure.”*

Section 7.3 includes the statement *“Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.”*

Reporting

To evidence whether, in quantitative terms, asset pooling has been successful, and, if so, to what extent then clear, extensive and robust reporting is necessary. Section 8.1 of the draft Statutory Guidance therefore requires that each LGPS Fund report a wide range of data (see sections 8.2 and 8.3) *“..... publicly and transparently in their annual reports”* following CIPFA guidance.

Section 8.3 states that *“Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance Preparing the Annual Report.”* This definition is however not exactly the same as that of a *“Pooled asset”* as set out in the Definitions section 2.1 of the draft Statutory Guidance. Clearly the MHCLG should, before issuing the final Statutory Guidance, ensure there is no conflict between Sections 2.1 and 8.3.

Section 8.7 clearly and explicitly indicates the importance that the MHCLG attaches to investment cost transparency stating *“Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.”*

Independent Advisors Conclusion

The draft Statutory Guidance is, as a whole, positive and helpfully provides definition and clarity in respect of a number of important issues relating to Asset Pooling. There are, however areas where the draft Guidance appears either unnecessarily prescriptive or incomplete.

Given the profile that Asset Pools have already achieved it is both timely and welcome that the draft Statutory Guidance unequivocally confirms that Asset Pools exist to effectively implement the investment strategy of each of their constituent LGPS Funds and that the Asset Pools should not seek to set the framework within which they interact with them.

For LGPS Funds to effectively govern their Asset Pool, and to avoid in effect been governed by it, it is essential that they establish and operate an effective pool governance body to set the direction of the Pool and to hold the Pool company to account. This may be a challenge but it is absolutely essential if asset pooling is genuinely to deliver benefits to individual LGPS Funds.

John Raisin

28 February 2019

John Raisin Financial Services Limited
Company Number 7049666 registered in England and Wales.
Registered Office 130 Goldington Road, Bedford, MK40 3EA
VAT Registration Number 990 8211 06

“Strategic and Operational Support for Pension Funds and their Stakeholders”

www.jrfspensions.com

Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

- 1 Introduction**
- 2 Definitions**
- 3 Structure and scale**
- 4 Governance**
- 5 Transition of assets to the pool**
- 6 Making new investments outside the pool**
- 7 Infrastructure investment**
- 8 Reporting**

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance*, issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool

'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance

'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)

'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members

'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)

'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company

'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle

'Retained asset' an existing investment retained by a pool member during the transition period

'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy*.

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
 - asset transition during the reporting year
 - transition plans for local assets
 - pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
 - ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report*.

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

This page is intentionally left blank

PENSIONS COMMITTEE**13 March 2019**

Title: London Borough of Barking and Dagenham Pension Fund Business Plan 2019/20	
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@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary: The Pension Fund Business Plan sets out the key tasks for the Pension Committee in respect to Pension Fund issues for 2019/20 and reflects the Pension Committee's commitment to put into action the investment strategy and monitor procedures for the future to ensure that the Fund meets its objectives and complies with best practice.	
The Committee is asked to agree the Business Plan for 2019/20, subject to amendments following matters raised on this agenda.	

London Borough of Barking and Dagenham Pension Fund

2019/20 Business Plan



1 Introduction and Background

- 1.1. The Local Government Pension Scheme (“the LGPS”) is an occupational pension scheme that has been established by Act of Parliament and is governed by regulations made under the Superannuation Act 1972 and Public Service Pensions Act 2013. The London Borough of Barking and Dagenham Pension Fund (“the Fund”) is maintained under the Act.
- 1.2. The Fund is responsible for providing retirement and other benefits to employees of The London Borough of Barking and Dagenham (“the Council”). Fund membership is approaching 19,000 with 31 employers, including admitted and scheduled bodies. Administration of the Fund is the responsibility of the Council, which also has overall responsibility for the investment of the Fund’s assets and pension administration services to members of the Fund and their employers.
- 1.3. The publication of the Myners Report and the subsequent CIPFA “Principles for Investment Decision Making in the LGPS in the United Kingdom” (CIPFA’s Investment Code of Practice) and “Investment Decision Making and Disclosure”, recommends that the Section 151 officer prepare and submit to the Pension Committee (“the Committee”) an annual business plan (“the BP”) for the Fund.
- 1.4. The BP identifies and outlines the key tasks for 2019/20, with progress reported on at each quarterly Committee. The key tasks identified reflect the Committee’s commitment to developing a suitable investment strategy and monitoring procedures for the coming year which meet the Fund’s objectives and complies with best practice.
- 1.5. The BP outlines the operation of the Fund and includes provision for training and development. The proposed training and development will equip Committee Members with the necessary skills to make informed decisions on the Fund’s investments. A list of key tasks and milestones are outlined in Appendix 1 to this BP.
- 1.6. CIPFA recommends that all Committee Members should have the necessary skills and knowledge to adequately fulfil their governance and fiduciary duties to the Fund Members. This is also a requirement of the Pensions Regulator, who from time to time, monitors compliance with this requirement. In addition, as a result of opting the Fund up to Professional Investor status, there is an expectation that Members will receive relevant, detailed and timely training, with updates of the training and attendance provided to the various fund managers, advisors and custodians that the Fund uses. It is likely that some of the new Members will not have had previous experience of being on a pension Committee and / or will not have sufficient knowledge of the LBBDD scheme.
- 1.7. 2019/20 will see the completion of the Fund’s triennial valuation, which will have significant impact on the employers within the Fund. When the triennial results are known, a review of the Fund’s investment strategy will be completed, and this may result in changes to the current allocations. Full training will be provided to Members during 2019/20.

2. Pension Committee

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

Chair: Cllr Dave Miles
Deputy: Cllr Giasuddin Miah
Cllr Sade Bright
Cllr Laila Butt
Cllr Kashif Haroon
Cllr Adegboyega Oluwole
Cllr Foyzur Rahman

Committee Observers

Union: GMB - Gavin Palmer
Member: Unison - Susan Parkin
Employer: UEL – John Garnham

Advisors: Aon Hewitt
Independent Advisors: John Raisin Financial Services Limited
Actuary: Hymans Robertson
Custodian: Northern Trust (State Street to 31 May 2019)

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

2.3 The Section 151 officer has overall responsibility for the financial management of the Fund and the administration of the pension scheme. The section 151 officer is Claire Symonds (Chief Operating Officer).

2.4 The Committee's objectives are to:

- i. approve all policy statements prepared under the LGPS Regulations.
- ii. be responsible for the investment policy, strategy and operation of the Fund and its overall performance, including considering the Fund's liability profile.
- iii. appoint and retendering of the Fund Actuary, Custodian, advisors to and external managers of, the Fund and agree the basis of their remuneration.
- iv. monitor and review the performance of the Fund's investments including receiving a quarterly report from the Chief Finance Officer.
- v. receive actuarial valuations of the Fund.

- vi. monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board as they apply to pension benefits and the payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.
- vii. select, appoint and terminate of external Additional Voluntary Contribution (AVC) providers and review performance.
- viii. consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

3. Pension Administration

- 3.1 Pension administration is provided by the Council through the Pension Administration team who are responsible for paying the benefits due to the scheme members and for keeping the records of all other scheme members until their benefits become due.
- 3.2 Over the past 20 years the LGPS has had many minor adjustments and a few large-scale changes to its benefit structure. With these changes, transitional relief between schemes has occurred, which in practice means that the administration team must be conversant with the regulations throughout this period.
- 3.3 The Fund uses Altair, a system supported by Heywood Limited to manage its administration. This system is used by the clear majority of LGPS funds.
- 3.4 In 2013 the Fund implemented a document imaging process to transfer the current paper records to an electronic format. In 2016 the remaining paper files were back scanned to reduce the need to hold paper pension records and as part of the Council's accommodation consolidation strategy.
- 3.5 The quality of the data held is vital to the running of the Pension Fund and there are several additional checks undertaken to ensure information is held correctly, including annual benefit statements, national fraud initiatives, regular data reconciliations between payroll and the pension administration system, the use of a tracing agent and quality checking via Club Vita.
- 3.6 Where pensioners live abroad a "certificate of existence" is sent out as a further measure to prevent fraud within the Fund.
- 3.7 Pension Administration costs and activities are included in the appropriate CIPFA benchmarking group and the Government SF3 return. The most recent report is the SF3 2017/18, which compares the Fund with similar Councils within London.
- 3.8 A Pension Administration Strategy has been agreed and has been implemented.

4. The Funding Level and Employers' Contribution Rate

- 4.1 As at the 31 December 2018, the value of the Fund was £989m.
- 4.2 The 2016 triennial valuation calculated a funding level of 77.2% (70.6% in 2013) and a deficit recovery period of 17 years to maintain a stable employer contribution rate.
- 4.3 The Council's contribution is 23.5% for 2019/20.
- 4.4 To achieve a 100% funding level and allow a stable contribution rate the Committee are committed to:
- commissioning a full actuarial valuation of the Fund every three years, as required by law, to determine employers' contribution levels;
 - reviewing funding level reports from the Fund's actuary, Hymans Robertson;
 - agree with the actuary to recover deficits through appropriate mechanisms;
 - monitor and review the actuarial and consultancy services; and
 - implement a de-risking strategy as the Fund's funding level improves.

5. Management of Fund Investments

- 5.1 The Committee seeks a return on the investments of the Fund that enable 100% funding to be achieved from a stable employers' contribution rate by:
- reviewing managers' performance against those targets over quarterly, annual and three-year rolling periods, at quarterly Committee meetings;
 - having officers monitor the level of transaction costs (brokerage and stamp duty) incurred;
 - having officers meet quarterly with most fund managers or at least annually with all the fund managers; and
 - ensuring officers monitor the external managers' use of soft commission arrangements, if any.

6. Arrangements for Additional Voluntary Contributions (AVCs)

- 6.1 The Committee aims to ensure that there is a varied selection of high-performing investment options available for contributors who wish to make additional voluntary contributions (AVCs).
- 6.2 The Committee will review the Fund's AVC arrangements regularly, with the next review scheduled for early 2020.
- 6.3 Currently the Fund's AVC is managed by Prudential Plc. The performance and options offered will be monitored by officers who, in the event of issues arising, will report this to the Committee.

7. Legislation

- 7.1 The Committee aims to respond promptly to legislative changes with implications for the management and administration of the Fund. It seeks to achieve this by:
- considering reports on the implications for the Fund of relevant draft legislation;
 - closely monitoring new legislation affecting the LGPS; and
 - agreeing any actions necessary to ensure full compliance when the final legislation is enacted including any deadlines.

8. Myners Principles on Investment Decision-making

- 8.1 A revised statement of the Myners principles for investment management by institutional investors were published by the Government in 2008. CIPFA has subsequently issued guidance to local authority pension funds on the application of the principles in a local authority context.
- 8.2 Principle 1 of the revised principles states that administering authorities should ensure that:
- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary for them to take them effectively and monitor their implementation; and
 - those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

9. Pension Boards

- 9.1 As part of a Review of Public Service Pensions, published March 2011, Lord Hutton recommended several changes to “make public service pension schemes simpler and more transparent”. The Government carried this forward into the Public Service Pensions Act 2013, which requires the Department for Communities and Local Government (DCLG) to make regulations to establish a national Scheme Advisory Board and enabling each LGPS administering authority to establish local pension boards. The names and the roles of the Pension Board Members are summarised below:
- Paul Field (LBBD Employer) (Chair)
 - Hugo Wuyts (Unison Employees) (Deputy Chair)
 - Dean Curtis (UEL Employers)
 - Gavin Palmer (GMB Employees)
 - Wijay Pitumpe (Barking College Employers)
 - Steve Ridley (Unite Employees)
- 9.2 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

- 9.3 A Pension Board (“PB”) was established by 1 April 2015. The PB has the following Terms of Reference, which will be subject to an annual review:
- i. There will be a separate Committee and PB, with the PB functions as per those prescribed within the regulations.
 - ii. The PB will contain three employer representatives and three scheme member representatives (Union and Employee/Pensioner representative).
 - iii. PB Members will not be remunerated apart from reimbursement of basic transport and training costs.
 - iv. Biannual PB meetings to be held as a minimum, prior to the June and December Pension Committees. The PB will follow the Aon Hewitt method for governance review including:
 1. Direction – what is the fund trying to achieve (legislation, strategy and policy);
 2. Delivery – how the Fund meets its aims (business planning, performance monitoring and risk management); and
 3. Decisions – does the Fund have effective decision making (governance structure, behaviour and Pension Skills and Knowledge).
 - v. The February PB Meeting will cover the “Direction”, with the August PB covering “Delivery” and “Decisions”.
 - vi. Recommendations will be taken to the Committee immediately following each meeting. Should the PB be unhappy with the implementation of its recommendation(s) a report will be submitted to the next possible Council Assembly for consideration.
 - vii. The PB will be chaired on an annual rotational basis.
 - viii. Training will be provided prior to each Board Meeting, with two additional half day training sessions held during the year. Bespoke training will be provided to new PB Members as required.

10. Training and Development for Fund Committee Members

- 10.1 The Review on Institutional Investment in the UK called the Myners Review, recommended that trustees should receive more formal training "to be able to take decisions with the skill and care of someone familiar with the issues concerned". The Committee aims to keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice when necessary from external fund managers, external consultants and council officers.
- 10.2 The Committee expects the Section 151 Officer and relevant members of their service area (who are the Committee's main advisers) to keep up-to-date with developments in pensions and investment matters and to undertake training as required.

10.3 In addition the best practice guidance on the governance of pension funds issued by the CLG and the CIPFA guidance on the application of the Myners principles emphasise the importance of appropriate training and development for Committee Members to allow them to carry out their responsibilities effectively.

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

Date	Training
Mar-19	Diversified Growth and Fixed Income Training
Jun-19	Introduction to the 2019 Actuarial Valuation
Sep-19	Introduction to Pensions Administration
Nov-19	Pension Fund Stakeholder Meeting
Dec-19	Procurement and Investment Performance
Mar-20	Investment Strategy and Asset Allocation
Mar-20	Investment Products – coverage of the main asset classes

10.5 CIPFA's Knowledge and Skills Framework

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

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

There are seven areas of knowledge and skills relating to the LGPS, which CIPFA has identified as being the core technical requirements for those involved in decision-making. They are:

- legislative and governance context;
- accounting and auditing standards;
- procurement of financial services and relationship management;
- investment performance and risk management;
- financial markets and knowledge of investment products;
- pensions administration; and
- actuarial methods, standards and practices.

11. Assessment of training needs

- 11.1 CIPFA recognises that there may be a wide range of skills and experience among councillors who are nominated to serve on Committee. They may include Committee Members with specialist expertise in investment matters on the one hand and those with no prior pension knowledge on the other. In these circumstances a ‘one-size-fits-all’ approach to training for Committee Members may not be appropriate.
- 11.2 A questionnaire was sent to all Members to help identify additional training needs. The 2019/20 training plan has been structured around the development needs of Members and observers.

12. Decision Making

- 12.1 The Committee will take advice as necessary to ensure that all decisions are made in the best interests of the Fund and its members. Advice is provided as necessary by the:
- Section 151 officer and their staff;
 - Fund’s Actuary and Investment Advisor;
 - Independent Advisor to the Committee; and
 - External fund managers.

13. Communication

- 13.1 The Committee will plan to keep the Fund's participating employers and members informed on matters that affect them by publishing a variety of documents, details of which can be found in the Fund’s Communications Policy.
- 13.2 A pension specific website has been set up which includes details on pension administration and pension investments.
- 13.3 A Fund Annual Report is produced annually and placed on the Council’s website, with a summary version distributed to all Fund members.

14. Review and Evaluation of BP

- 14.1 Committee will review and revise the BP annually at its March meeting. The Committee will be provided with a BP update at quarterly meetings to review.

15. Performance Management

- 15.1 The monitoring of the returns on the Fund Investments is undertaken by officers on a daily basis with a quarterly return provided the PIRC.
- 15.2 At each Pension Committee a summary of the Fund’s performance over the prior quarter is provided, with comparison of the actual returns after fees achieved against each manager’s agreed investment benchmarks and targets.

- 15.3 Where a fund manager has underperformed over three consecutive quarters they will be asked to attend the next Pension Committee, where Members will be able to ask the fund manager questions and to gain an understanding of the reasons for the underperformance.
- 15.4 Where a fund manager has underperformed its benchmark over a rolling two-year period officers will provide a review paper on the manager to be taken to the next available Committee. The review paper will outline the reasons for the underperformance and will include an overall recommendation as to whether the manager and their strategy are still appropriate for the Fund.
- 15.5 Where a significant change in strategy, personnel, general operations, or any other relevant issue is identified with a fund manager a paper will be taken to the next available Committee outlining the issue and recommending a course of action if required. If the issue is significant then an emergency meeting can be called following agreement by the Chair or deputy Chair.
- 15.6 Performance reports will include, where applicable, returns for the previous four quarters, year to date, one year, two years continuing to up to five years.
- 15.7 The fund manager’s performance will be scored using a quantitative analysis compared to the benchmark returns, defined as follows:

■	RED- Fund underperformed by more than 75% below the benchmark
△	AMBER- Fund underperformed by less than 75% below the benchmark
○	GREEN- Fund is achieving the benchmark return or better

- 15.8 Underperformance will include any amber or red returns.
- 15.9 For all reports since 2014 returns are provided net of fees. PIRC have advised that reporting net of fees will likely reduce the Fund’s returns by 0.3% to 0.4% compared to gross returns. If compared to some local authorities, this can be significantly higher if fund manager fees are high.

16. Corporate Governance

- 16.1 The Regulations require that the Fund’s “Investment Strategy Statement” (ISS) reflect the agreed investment policies and procedures which govern the operation of the Fund.
- 16.2 The appointment of any new fund managers and any other changes that the Committee makes to current investment procedures will need to be incorporated in the ISS. In any event, the Committee will review the Statement annually, to ensure compliance with best practice.

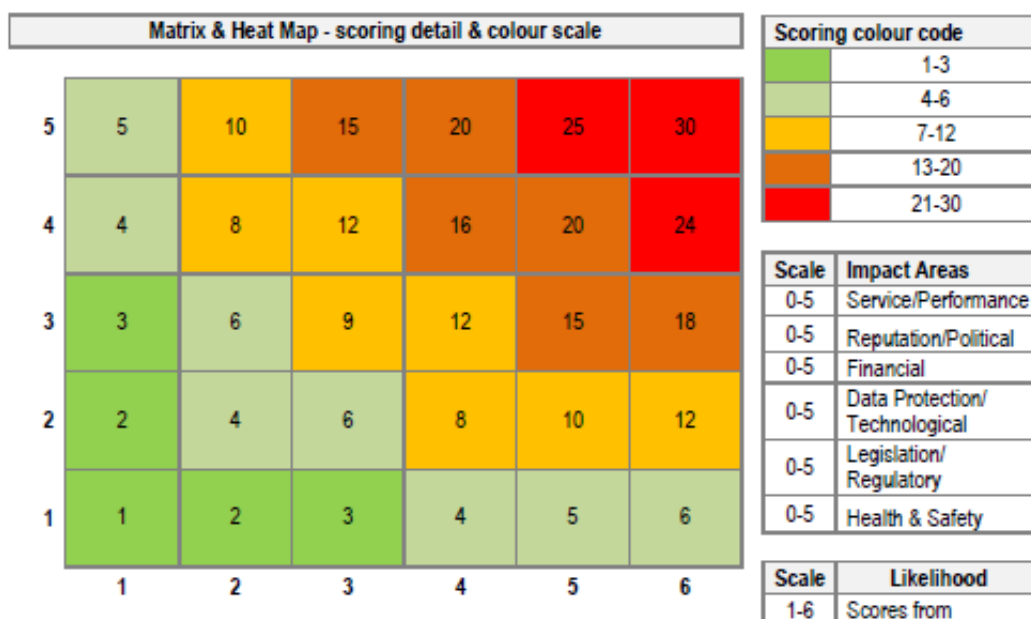
17. Risk Monitoring

- 17.1 Risk has always been a part of the Fund but the past five years have shown that the failure to adequately identify, analyse and manage risk can have dramatic and wide-ranging consequences.
- 17.2 Managing the risk of an overall reduction in the value of the fund and maximising the opportunities for gains across the whole fund portfolio is a top priority. However, while the management of investment risk is rightly a fundamental concern, there is a great deal more to the effective management of risk in the LGPS.
- 17.3 The risk register provides a summary of the key risks the Fund is exposed to and how these risks are managed and / or avoided.
- 17.4 The risk register will be updated at least annually and will be taken to Members as part of the BP each year for noting.
- 17.5 Appendix 1 contains the 2019/20 Risk Register for Members to note.

Appendix 1: Pension Fund Risk Register Updated August 2018

Key to the risk / impact

Scores between 0 and 5 are attributed to the impact of the risk. Scores between 0 and 5 are attributed to the likelihood of the risk from extremely unlikely (1) to extremely likely (6). The scores for each risk are combined and assigned red, amber or green in the heat map in accordance with the table below.



1 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information leading to qualification of accounts and inaccurate valuations with financial and reputational impact	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Underlying financial information incorrect: Monitoring Reconciliations of key financial transactions.	Quarterly & annual reconciliations of all accounting data. Monthly reconciliation of cash book, bank accounts.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - controls ongoing

2 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Poor stakeholder engagement	Poor communication with stakeholders giving rise to disaffection and actions against Council	Finance		Reviewed August 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Poor stakeholder engagement and giving rise to disaffection and actions against Council	Annual Newsletter on Pension Fund, updates to any changes to scheme Website, presentations. Employer meetings, communications strategy AGM. Pension Specific Website. Increase in FTE.	David Dickinson, Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018

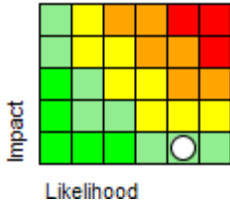
3 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Reliance on External Systems	Reliance on external systems in all aspects of Pensions which includes Lloyds, State Street, Fund Managers, Heywood, Logotech. Failure of systems could result in significant issues.	Finance		Updated April 2018 - risk merged with several separate risks which dealt with risks to individual systems. Systems failure impacts all areas of Pensions.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
BCP and manual processes	BCP includes use of manual process in emergency, backing up of records, working from home etc. The administration is provided through a hosted environment with a number of disaster recovery options.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018

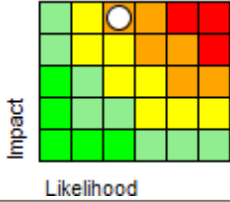
4 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Recruitment and retention of experienced Treasury and Pensions staff	The Authority is unable to recruit or retain experienced or suitably qualified staff because the salaries offered are not competitive, the working environment is unattractive or the authority has a bad reputation as an employer.	Finance		Reviewed August 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Continuity of team and ability to cover different roles plus appropriate pay levels	Ensure continuity by having other members of the team able to cover essential functions. Benchmarking of salaries for the section both against other local authorities and private sector.	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018-ongoing with controls in place

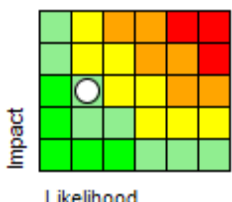
Detailed policies and procedures in place to enable others to take on key tasks	Ensure policies and procedure notes which enable others to take on key roles. Involvement different team members to ensure specialist knowledge not confined to a few individuals	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing with controls in place
---	---	-----------------------------------	----------------	--------------	---

5 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Overpayments	Pension Overpayments arising because of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	Finance		Reviewed August 2018 - ongoing

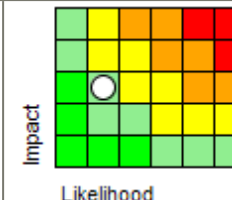
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Pension Fraud: NFI & Tell Us Once	Management of NFI matches and follow up. Checks through other companies that carry out data checks. A tracing agent appointed to run quarterly reports on members to ensure the pension fund database is up to date and prevent overpayments of pensions.	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

6 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Management of Third Party Contracts – lack of control could result in financial and reputational risks	Pensions manage in excess of 20 external contracts, which carry significant financial and reputational risks if not managed appropriately -for example leading to higher costs or legal challenges,	Finance		Fund managers' performance actively reviewed quarterly. Benchmarking undertaken and research undertaken. Reviewed August 2018 - ongoing

7 Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Contract Monitoring and Service Level Agreements	Regular monitoring of key contracts, including performance monitoring, service level agreements, reviewing internal controls reports	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Market Testing of contracts and benchmarking	Market testing of contracts through procurement exercises and/or benchmarking of costs regularly	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Market Intelligence gathering	Regular reviews of developments in the market place to ensure the section maintains up to date knowledge and can act on market intelligence such as changes to financial standing	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

8 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Increased Longevity	Pensioners living longer, drawing pensions for longer than accounted for within the funding position leading to increasing liabilities giving rise to higher costs and major financial implications. Longevity Risk.	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of Pension Fund position	Controls in place to monitor developments with Fund Actuary and Triennial valuations, targeting increased funding level to manage increased longevity. A flight path structure will be developed and implemented during the year to allow opportunities in funding level to be acted on.	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Raising retirement ages to match increasing longevity	Scheme retirement age of State Pension Age changes Retirement and a linking of future increases in longevity with increasing retirement age, then it would be possible to downgrade this risk rating.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Fund profiling to monitor specific experience	Club Vita membership to annually monitor the LBBB specific fund longevity profile	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

9 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Asset/Liability mismatch	Assets and liabilities impacted by investment performance. Assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore increased cost to the Pension Fund	Finance		Reviewed April 2018 - Risk likelihood has increased slightly as this has actually happened, and otherwise the risk is ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Asset allocation reviews	Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Use of external advisers	Actuarial and investment advisor advise the Fund on how to manage the asset/liability mismatch	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing. T tender towards the end of 2018
Strategic goal Setting	Set strategic goals to achieve full funding, set targets to make changes to the assets when appropriate.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing but next main review after the 2019

					triennial valuation
--	--	--	--	--	---------------------

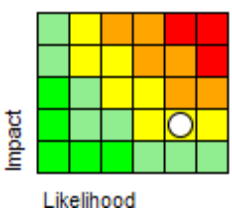
10 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Investment Performance	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Finance		August 2018 - Risk reviewed and ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Set aside reserves	Rebuilding Pensions reserve to buffer against future valuations variations.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Performance Monitoring	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Appropriate levels of knowledge and skills to make decisions	Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Derisking of Fund when appropriate	At various staged the Pension Fund will be in a better funding position and a strategy is in place to allow the Fund to take advantage of these opportunities when they arise.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

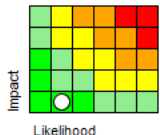
11 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Poor Membership Data	Poor administration by the Pension Fund, employers and payroll providers participating in the Fund giving rise to inaccurate data – causing financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment etc	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of membership data	Controls – annual monitoring of membership records, valuation checks, external data validations	David Dickinson Justine	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

		Spring			
Contributions monitoring	Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

12 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Discretionary Policies	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Risk is where policies are too generous or not robust enough leaving the Pension Fund and employers exposed to higher costs and reputational risks	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Discretionary Policies in place	Controls – Agreed policies and procedures to control such risks.	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Awareness of employers	Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

13 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Regulatory Risks	Regulatory Risks encompass both compliance with existing legislation and regulatory changes – this particularly affects LGPS 2014 changes, pension auto-enrolment and Jackson reforms for insurance	Finance		Reviewed August 2018 - The Investment Regulations 2016 removed some of the existing prescriptive means of securing a diversified investment strategy and placed the onus on authorities to determine the balance of their investments and take account of risk. The Secretary of State has the power to intervene to ensure the more flexible legislation is used and the guidance on pooling is adhered to.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Regulatory Changes – monitoring developments and responding to changes	Monitor proposed changes and respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Compliance with regulation policies	Ensure processes and policies in place to meet regulatory compliance	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Compliance with regulation	Ensure adequate training and specialist knowledge and skills for both staff and	David Dickinson	Claire Symonds	30 June	Reviewed August 2018 - ongoing

knowledge and skills	Members charged with governance	Justine Spring		2019	
----------------------	---------------------------------	----------------	--	------	--

14 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Admission/Scheduled Body failures or deficits on termination	Risk employer goes into default, deficit on termination, change of status, financial risk	Finance		Updated August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Admission/Scheduled Body failures or deficits on termination	Controls – valuation and Intervaluation monitoring, monitoring of contributions, employer covenant check, putting bonds/guarantees in place for admission bodies. Ensure funding levels remain high for individual employers.	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

15 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Administration Risk	Risks arising from administration of pensions by employers, the administering authority and the pension administrator. Poor administration could lead to incorrect pension payments, financial and reputational damage	Finance		Updated August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Clear policy and procedures for the administration of pensions	Ensuring there are detailed policies and procedures for all parties involved in administering the pension scheme – Pension Administration Strategy	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Monitoring of Performance	Benchmarking of performance against other authorities	David Dickinson Justine Spring	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

16 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pensions- Lack of adequate professional advice on strategies, projects and decisions	Decisions made in respect of Pensions can have a major financial impact on the Council and Pension Fund. Lack of adequate or inappropriate professional advice on strategies, projects and decisions could give rise to financial and reputational risks.	Finance		Updated August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of advice	Controls – monitoring of advice received, risk assessment for procurements, Committee review of recommendations. Also ensure there is a good level of 'in-house expertise'.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Market intelligence gathering	Monitoring wider developments and ensuring that officers and Members are kept informed. Wider networking and collaboration with other authorities where appropriate to ensure best practice.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

17 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Failure to manage costs	Failure to manage the costs of running the various services within Treasury and Pensions would give rise to significant additional financial costs for the Council along with reputational risks of poor value for money.	Finance		Reviewed Jan 18 - upgrade due to potential additional costs arising from regulatory changes LGPS 2016, Auto-Enrolment

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Budget Monitoring	Controls budget monitoring, performance fees, monthly budget monitoring, financial intelligence, etc	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Benchmarking	Benchmarking costs with other authorities to ensure costs for LBBD are not disproportionate	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Market Testing	Regular market testing of external costs which includes regular procurement exercises, assessing the market place for both pensions and insurance costs	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Frameworks/ Collaborative Working	Consider the use of Framework Agreements and other joint working where appropriate to control costs and to work with other authorities to deliver value for money and efficiency savings	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

18 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Funding Risk	The fund is unable to meet its liabilities, due to a mismatch of assets/liabilities. The Funding position as at March 2017 showed 78% funding position. Further deterioration of the funding position from poor asset returns or increasing liabilities could result in the Council and other employers being required to make significant additional employer contributions.	Finance		Reviewed Jan 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
---------------	---------------------	---------------------	---------	----------	-----------------------

Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations. Rebuilding Pensions reserve to buffer against future valuations variations. The current financial strategy ensures that the base budget anticipates changes to contribution levels.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Pens - Valuation Monitoring	Triennial Valuation assesses the funding position, Intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Identifying the external risk factors that affect the funding position	Identifying the various risk factors, asset/liability, investment, longevity, interest rates, inflation, liquidity, etc and how the interaction of these impacts on the funding position and adapting the strategy and business plans to manage these risk where feasible.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Knowledge and Skills	Ensuring those charged with governance of the Fund and for managing the day to day operations have the requisite knowledge and skills to make informed decisions when managing the funding position	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Cash flow Monitoring	Quarterly monitoring of Pension Fund cashflows to ensure that there is sufficient cash inflows from contributions and income to meet the cash outflows from benefit and cost payments. This will also provide early warning of potential cashflow mismatch and possible changes to investment strategy. Longer term cash flow monitoring in conjunction with the Fund Actuary to establish trigger points for the Fund becoming cashflow negative.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

19 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Auto Enrolment Risk	Workplace Pensions or Auto-Enrolment. LBBB staging date was 01/04/2016 (with transitional arrangements pushing back full implementation to October 2017). Risks include increased costs for employers, failure to implement, lack of preparation, failure to communicate, inability to manage auto-enrol process and have adequate monitoring in place. Significant financial (including Regulator Fines) and reputational risks	Finance		Risk Reviewed May 2018.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Auto Enrolment Risk	Use of different forms of communications to reach wider	Justine Spring,	Claire Symonds	30 June	Reviewed August

Communications	possible audience to understand what A-E means for individuals and employers within the Pension Fund. Use of individual letters, presentations, internet, etc. Communications strategy to feed into project plan	David Dickinson		2019	2018 - ongoing
Auto Enrolment Risk System Enhancements	Review of existing systems both payroll and pension to ensure that they are able to cope with the implementation of A-E and to ensure that they are adequate to cope with the ongoing monitoring requirements.	Justine Spring, David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Auto Enrolment Risk Monitoring	Monthly monitoring of A-E to ensure all new employees are auto-enrolled and to ensure that any existing employees who were previously not eligible or who had previously opted out are auto-enrolled should their circumstances change. Use of payroll/ pension to ensure compliance with legislation.	Justine Spring, David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

20 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Governance Risk	Governance is important in Pension Fund as it carries significant financial and reputational risks. It is therefore crucial that those charged with governance understand the full implications of the decisions which are being taken in these areas. Membership turnover on Committees poses risks due to lack of understanding of the responsibilities.	Finance		Risk added January 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Governance Risk A – Knowledge and Skills Training Programme	Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put before them to make high level strategic decisions.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Governance Risk B – Assessment	Committees to undertake assessment to ensure that their level of understanding is adequate for the decisions being made.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Governance Risk C – S161 Responsibilities	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The COO will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

Governance Risk D – Succession Planning for Committee	Succession planning to ensure some continuity of Membership and the introduction of substitute members with access to suitable training will help to ensure that the knowledge base is maintained within Committees.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
---	--	-----------------	----------------	--------------	--------------------------------

21 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Procurement Risk	Treasury and Pensions is heavily reliant on the use of external contractors in all areas. All the contracts have to be tendered on a regular basis which brings procurement risks in terms of both timetables for procurement (often several procurements having to take place at the same time) and potential challenges to procurements.	Finance		Risk created Jan 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Ensuring adequate resources	The Council will look to use external advisers to supplement internal resources when undertaking procurement exercises.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Timing of Procurements	Where feasible, procurement exercises will be spread across different time periods, although this is not always feasible.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Collaborate with other authorities	Where the timing and scope of procurement exercises are likely to coincide with other authorities and where practical to do, joint exercises including Frameworks will be undertaken.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

22 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Internal Fraud within Team	Treasury and Pensions is involved in the management of large scale financial resources on behalf of the Council and there is a potential risk that the area could be subject to internal fraud leading to significant financial and reputational risks	Finance		Risk Reviewed April 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Internal Fraud A – Policies and Procedures	Detailed policies and procedures and internal controls to ensure segregation of duties for key roles	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Internal Fraud B – Internal Audit	Treasury and Pensions is subject to internal audit scrutiny on an annual basis with different areas being tested to ensure compliance.	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing
Internal Fraud C – External Audit	All aspects of the work of Treasury and Pensions are subject to annual external audit covered by the audit of the Financial Statements with the Pension	David Dickinson	Claire Symonds	30 June 2019	Reviewed August 2018 - ongoing

	Fund also being subject to a separate audit opinion				
--	---	--	--	--	--