

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 10 June 2020 - 5:00 pm
Meeting to be held virtually

Members: Cllr Kashif Haroon (Chair), Cllr Foyzur Rahman (Deputy Chair), Cllr Rocky Gill, Cllr Amardeep Singh Jamu, Cllr Mick McCarthy, Cllr Dave Miles and Cllr Tony Ramsay

Independent Advisor: John Raisin

Observers: Dean Curtis, Steve Davies and Susan Parkin

Date of publication: 2 June 2020

Claire Symonds
Acting Chief Executive

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AGENDA

1. Apologies for Absence

2. Declaration of Members' Interests

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

3. Minutes - To confirm as correct the minutes of the meeting held on 11 March 2020 (Pages 3 - 7)

4. Pension Fund Quarterly Monitoring - January-March 2020 (Pages 9 - 36)

5. Investment beliefs session - Hymans Robertson (Investment Advisors)

Representatives of Hymans Robertson will provide members with training on asset allocation and investment strategies and support to the Committee in developing its investment beliefs for the LBBP Pension Fund. In that respect they will use the findings from the questionnaire issued recently to members to help steer the direction of the Fund, identifying areas of consensus and specific areas for discussion.

6. **Application for Admitted Body Status - Caterlink (Pages 37 - 38)**
7. **Administration and Governance Report (Pages 39 - 45)**
8. **Business Plan Update 2020 (Pages 47 - 50)**
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 list below shows why items are in the private part of the agenda, with reference to the relevant legislation (the relevant paragraph of Part 1 of Schedule 12A of the Local Government Act 1972 as amended). ***There are no such items at the time of preparing this agenda.***

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

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MINUTES OF PENSIONS COMMITTEE

Wednesday, 11 March 2020
(7:00 - 8:00 pm)

Members Present: Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Kashif Haroon and Cllr Foyzur Rahman

Observers Present: Susan Parkin, UEL

Advisors Present: John Raisin

Apologies: Cllr Sade Bright, Cllr Amardeep Singh Jamu and Cllr Tony Ramsay

17. Declaration of Members' Interests

There were no declarations of interest.

18. Minutes- 18 September 2019

The minutes of the meeting held on 18 September 2019 were confirmed as correct.

19. *Independent Advisor

The Investment Fund Manager introduced a report on the proposed renewal of the contract for the Council's Pension Fund's Independent Advisor (IA), which included a review of the current Independent Advisor's work during the past year.

The Committee resolved to **agree** to extend the appointment of John Raisin Financial Services Limited as the IA for the Council's Pension Fund for a further year based on the Independent Advisor Specification for 2020/21 included as Appendix 1 to the report.

**Item considered following the passing of a resolution to exclude the public and press due to the nature of the business to be discussed which included information exempt from publication by virtue of paragraphs 1& 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).*

20. Pension Fund Quarterly Monitoring 2019/20 - October to December 2019

The report provided information for employers, members of LBBB Pension Fund and other interested parties on how the Fund performed during the Quarter - 1 October to 31 December 2019. The Fund's externally managed assets closed Q4 valued at £1,126.32m, an increase of £15.96m from its value of £1,110.36m at 30 September 2019. The cash value held by the Council at 31 December 2019 was £3.43m giving a total Fund value of £1,129.75m. An oral update on performance of the Fund for the period 1 January to 11 March 2020 was also provided to the Committee.

Taking into account the broader world market factors, overall the Fund had performed well and was currently 75% funded having reached a high of 96%, notwithstanding the fluctuations caused by the recent coronavirus outbreak.

Further to Minute 16/9/19 the Investment Fund Manager updated the Committee regarding the appointment of CQS as a new fund manager and the subsequent delays of transition from BNY Mellon.

The Committee **noted**:

- (i) the progress on the strategy development within the Pension Fund,
- (ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1 to the report,
- (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually, and
- (iv) that the transition to CQS had been put on hold until clarification was obtained from LCIV.

21. Administration and Governance Report

The Pension Fund Accountant updated the Committee on the latest administrative and governance issues relating to the Pension Fund, which covered the following areas:

- a) Pension Fund Budget 1 April 2019 to 31 March 2022,
- b) Cash flow to 31 March 2020,
- c) Investment Advisor and Actuary tender and contract award
- d) A strategy review to be carried out and reported to the June meeting by the Fund's newly appointed Investment Advisors, and for which specific training on asset allocation and investment strategy will be provided to the Committee beforehand,
- e) Pension Fund Prepayment options, and
- f) An update on the Scheme Advisory Board (SAB) Good Governance Project and other significant developments in the LGPS by the Independent Advisor which focused on:
 - Good governance in the LGPS project, particularly the Phase II report
 - The 'McCloud Case', a legal challenge to the transitional protections contained in 2015 Judges and Firefighters Pension Schemes
 - Update of knowledge and Skills requirements (CIPFA frameworks etc), and
 - The Pension Regulator's report on Governance and Administration in the LGPS

The Committee **resolved** to:

- (i) Note the Pension Fund's three-year budget for the period 1 April 2019 to 31 March 2022 and that the Fund is presently cash flow positive,

- (ii) The appointment of Hymans Robertson to provide Investment Consulting Services with effect from 1 April 2020 and Barnett Waddingham to provide Actuarial Services with effect from 1 July 2020, and
- (iii) The use of £40m prepayment to the Pension Fund for potential investment opportunities that arise from either market corrections, an increase in allocation to property and/or capital calls from infrastructure, and for which authority is delegated to the Chief Operating Officer in consultation with advisors and the Fund's Chair.

22. Triennial Valuation Results

Every three years the Pension Fund is required to have a full valuation of its liabilities carried out by its actuary. Following a number of assumptions discussed with officers the actuary have produced the calculation of the valuation of the whole fund, the results of which showed that the deficit had reduced from £228m to £119m and that the funding level had improved to 90% with a discount rate of 4% from 2016 level of 77%, which the independent adviser commented was very positive compared to many other funds.

A meeting was held in January 2020 with the actuary and the Fund's various employers to discuss the draft results, which indicated that the contribution rates for employers varied with some rates dropping and some increasing. The Committee noted that the UEL had effectively closed its LGPS to new entrants which made the deficit recovery plan for the Scheme riskier although to ensure that their contribution rate remained affordable, the UEL were willing to provide a charge against their assets to cover the deficit.

As part of the consultation the actuary and officers produced and distributed a draft Funding Strategy Statement (FSS) to Fund employers.

Accordingly, the Committee noted the results and that the FSS would be updated where necessary for the assumptions made by the actuary and consulted with admitted and scheduled bodies together with their proposed employer contribution rates.

23. Funding Strategy Statement

The Pensions Committee is required to agree the aims and objectives outlined within the Pension Fund's Governance and Investment strategies. Following the triennial valuation (minute 22 refers) two key strategy documents were required to be reviewed, updated and approved by the Pension Committee by 1 April 2020. These documents are the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Both outline the Fund's funding and investment strategy and have been updated to meet statutory requirements and guidance from the DCLG and the Scheme Advisory Board.

The FSS was summarised in the report, with the full Strategy included as an appendix. The ISS will be produced following the Strategic Asset Allocation Review which will be the subject of a report from the outgoing Investment Advisor (AON) to the Committee in June 2020. Accordingly, the Committee:

1. Agreed the final Funding Strategy Statement as appended, and
2. Noted that the final actuarial valuation results, along with the Rates and Adjustments Certificate will be provided by the actuary by 31 March 2020.

24. Business Plan Update

The purpose of this report was to update the Pension Committee on progress regarding the Pension Fund's 2020/21 Business Plan.

Appendix 1 provided a summary of the Business Plan actions from 1 January to 31 June 2020. The full business plan for 2020/21 is presently being drafted and will be presented to the Committee for agreement in June 2020.

The Committee noted the report and Business Plan.

25. Annual Allowance Scheme Pays

The Committee received a report from the Pension Manager outlining the Annual Allowance tax charge policy which the LBBP Pension Fund will adapt. There are two types of Scheme pays, namely Mandatory and Voluntary, which were detailed in the report.

There is a limit on how much tax relief a person can receive on their pension contributions known as an annual allowance and which is presently set at £40,000 per annum. It covers all pension schemes to which a person is a member and includes any Additional Voluntary Contributions.

Where the allowance limit is exceeded in any one tax year then the Pension Scheme is required to pay this charge liability on the individual's behalf to HMRC in return for an appropriate reduction in their pension benefit. If it is not met the Scheme may still pay the tax charge under a Voluntary Scheme Pays (VSP) arrangement as detailed in the report.

In view of the above the Committee **agreed** changes to the LBBP Pension Fund policy to allow for a VSP arrangement when a member is not entitled to Mandatory Scheme Pays, having regard to the circumstances listed in the report which would determine whether an application would be accepted or not for VSP.

26. Vote of Thanks

The Chair advised that subject to the Council re-appointment process this was potentially his last meeting as Chair of the Panel. He therefore took the opportunity to thank his fellow Members, officers and the independent adviser for their hard work over the year.

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PENSIONS COMMITTEE

10 June 2020

Title: Pension Fund Quarterly Monitoring 2019/20 – January to March 2020	
Report of the Chief Operating Officer	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
Summary	
<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 January to 31 March 2020.</p> <p>The report updates the Committee on the Fund's investment strategy and its investment performance.</p>	
Recommendation(s)	
<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, (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually, and (iv) that the transition to CQS has been put on hold until clarification is obtained from LCIV. 	

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 January to 31 March 2020 ("Q1"). 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.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 April to 9 June 2020 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background Q1 2020

- 2.1 The resolution of some of the trade tensions between the United States and China in late 2019 and the further loosening of monetary policy by the US Federal Reserve and European Central Bank in the second half of 2019 had led to a general view that global stocks would likely continue their long upward trend through 2020. Indeed, on 19 February 2020 the US S&P 500 Index reached a new record closing high of 3,386 almost 5% above the 31 December 2019 closing figure of 3,231. On 24 February 2020, however, equities across the globe began to rapidly fall following the decision of Italy to quarantine 10 towns in response to Coronavirus. By 31 March 2020 despite unprecedented monetary and fiscal stimulus by central banks and governments world equity markets were down by over 20% for the Quarter and the potential impact of Coronavirus on both financial markets and the world economy looked extremely serious.
- 2.2 It is easy to overlook but in January and until late February 2020 it continued to seem as if 2020 would be a positive year for stocks and for at least some large economies. Major developed market equity indices – for example the S&P 500, MSCI EMU, FTSE All Share, Nikkei 225 traded until mid-February above or around their high closing levels as at the end of 2019. At his press conference on 29 January 2020 the Chairman of the US Federal Reserve Jay Powell stated “I would say, now there are grounds for what I would call “cautious optimism” about the outlook now for the global economy. Many analysts are predicting a pickup in growth this year, although still to relatively modest growth rates.” The Bank of Japan Summary of Opinions from the Monetary Policy meeting of 20/21 January 2020 included the statement “The probability that the global economy will follow its recovery trend through the middle of this year seems to be increasing.” The January 2020 meetings of the interest rate setting committees of the US Federal Reserve, the Bank of Japan and the Bank of England all maintained interest rates/monetary policy unchanged.
- 2.3 Although in January 2020 China had imposed a quarantine in Wuhan and a number of other cities Coronavirus then appeared a Chinese centred issue. World markets, the world economy and world governments only, and then dramatically, reacted to Coronavirus from 24 February 2020 the following the decision, over the weekend of 22/23 February of Italy to quarantine 10 towns in response to Coronavirus. Concerns regarding Coronavirus started to hugely affect US equity markets and other major markets including Europe, the UK and Japan on Monday 24 February. By the end of Friday 28 February, the S&P 500 had fallen approximately 13% from its 19 February all-time high.
- 2.4 The governments of a number of leading world economies - the UK, Canada, France and Italy announced major fiscal initiatives to support their economies and citizens and also, by extension, financial markets on or before 20 March 2020. Measures included income subsidies for laid off workers, tax deferrals and state loans or guarantees for companies The German Parliament and US Congress also agreed unprecedented fiscal support packages in the last week of March. While these measures were crucial to mitigating the adverse impact of Coronavirus on economies and financial markets going forward it was the unprecedented and truly extraordinary interventions of the US Federal Reserve which, surely, prevented a financial market meltdown in March 2020.
- 2.5 On 28 February Federal Reserve Chair Jay Powell stated that “... the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy.” The actions subsequently taken by and led by the US Federal Reserve during March 2020 were unprecedented even in comparison to those following the 2008 financial crisis. These actions, the actions of other central banks and huge fiscal stimulus by governments including the UK, France and (finally) the US succeeded by the end of March in averting a complete collapse in financial markets which during that tumultuous month seemed a genuine possibility.

- 2.6 At an emergency meeting on 3 March 2020, the US Federal Reserve, reduced the target range for federal funds rate (its main interest rate) by $\frac{1}{2}\%$, to the range 1 to $1\frac{1}{4}\%$. The Federal Reserve was however clear that action by central banks could not nearly, in itself, counter the potential economic impact of Coronavirus. Chair Jay Powell stated at the press conference following the rate cut on 3 March that while the US Federal Reserve had eased monetary policy to “provide a meaningful boost to the economy” also stated that “The virus outbreak is something that will require a multi-faceted response. And that response will come in the first instance from healthcare professionals and health policy experts. It will also come from fiscal authorities, should they determine that a response is appropriate. It will come from many other public and private sector actors, businesses, schools, state and local governments.”
- 2.7 Coronavirus equity related market chaos continued and was compounded by adverse reaction to an oil price plunge on 9 March arising from Russian and Saudi Arabian action which resulted in a trading break in New York, the first time this measure had been used. As the Coronavirus crisis unfolded, as expected, the demand for and price of US Treasury and other haven bonds increased. Then, also, in the week commencing 9 March the demand for such bonds fell despite further equity market falls meaning that both equity and haven bonds were collapsing together and therefore, in effect, breaching a fundamental expectation of financial market behaviour. An unwelcome effect was a rush by investors to hold cash particularly in US dollars resulting in a significant strengthening of the dollar v other currencies.
- 2.8 Then in a highly unusual (and unscheduled) Sunday meeting on 15 March the US Federal Reserve intervened on an unprecedented scale. Interest rates were reduced by a full 1% to the range 0% to $\frac{1}{4}\%$ and an asset purchase programme announced of “at least” \$500bn of Treasury bonds and “at least” \$200bn of mortgaged backed securities to “support the smooth functioning of markets...” To further support the flow of credit to businesses and households the US Federal Reserve also announced measures to ease requirements upon and to support banks and other savings institutions. To directly support not only the US markets and economy but other major developed markets and economies the Federal Reserve also announced, in a press release, on 15 March 2020 “co-ordinated action” with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank to lower the cost of borrowing dollars internationally “to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad.”
- 2.9 The European Central Bank (ECB) acted decisively at an emergency meeting on 18 March announcing a 750 billion Euro Pandemic Emergency Purchase Programme (PEPP) covering government and corporate debt (in the words of the official press release) to “...counter the serious risks to the... outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19.” The Bank of England also acted decisively reducing Bank Rate by from 0.75% to 0.25% on 10 March and then on 19 March to an all-time low of 0.10% together with the introduction of a £200 billion purchase programme of government and corporate bonds. On 10 March, it also introduced measures to facilitate further lending to businesses by UK banks.
- 2.10 Turmoil however continued in markets when they reopened on Monday March 16. The S&P 500 fell by 12% only to rise by 6% on 17 March and then to fall by 5% on 18 March. In the context of the clearly rapid spread of Coronavirus in Europe, closures and severe disruption to businesses not only in Europe but the US, including for example the closure of the properties of the high end hotel and casino operator Wynn resorts and a warning by United Airlines, in a letter to employees of 15 March that “...We expect both the number of customers and revenue to decline sharply in the days and weeks ahead...”, coupled with an admission by President Trump that the Coronavirus crisis could last till “August, could be July, could be longer...” US markets fell 12%. 18 March was a day of panic in world markets with the FTSE All World equity index falling almost 7%, government bond prices falling, oil prices again

plummeting, sterling falling to its lowest level against the dollar since the 1980s. The S&P index closed on Friday 20 March at 2,305 which was 15% lower than at the close on Friday 13 March.

- 2.11 Then on the morning of 23 March, the US Federal Reserve intervened in an unprecedented manner. First it extended its purchases of Treasury Bonds and mortgage backed securities from \$700billion to (in the words of the official press release) “the amounts needed to support smooth market functioning and effective transmission of monetary policy...” This meant that to help facilitate the supply of credit to households and businesses the US Federal Reserve was prepared to buy unlimited amounts of government securities. Secondly, in an extraordinary break with previous precedent the Federal Reserve announced initiatives to purchase both new issue and secondary market corporate debt. This meant that in effect the Federal Reserve was prepared to directly support employers and act as a backstop in the corporate bond market.
- 2.12 In the days following this extraordinary intervention by the Federal Reserve of 23 March 2020, financial markets began to recover with the S&P 500 closing at 2,585 on 31 March a full 12% higher than on 20 March. Admittedly, after much argument Congress finally passed a huge \$2.2 trillion fiscal stimulus on 27 March to assist US business and families. However, there can be no doubt that during March 2020 the US Federal Reserve acted decisively and in an unprecedented manner to avoid a financial market meltdown while the US Congress argued over what measures to take.
- 2.13 In summary, over the Quarter global equity prices fell heavily with the MSCI World Index down 21% (in \$ terms). All sectors of equity markets saw significant declines with, for example, travel, financials and energy particularly badly hit while areas likely to be more in demand in a lockdown such as information technology saw smaller declines. As the Quarter progressed it also became clear that many companies would either suspend or reduce Dividend payments going forward. European and UK equities were especially badly affected with the MSCI EMU Index down 25% (in Euro terms) and the FTSE All Share down 25% (in £ terms). The S&P 500 lost 20% as did the Nikkei 225.
- 2.14 Despite volatility the leading government bond prices rose (and yields fell) over the Quarter, as investors favoured their perceived safety as equity markets fell and a severe global recession became increasingly likely/inevitable. The US 10 Year Treasury Bond increased in value as its yield fell to 0.7% at the end of March compared to 1.92% at the end of December. The 10 Year UK Gilt and 10 Year German Bund also clearly increased in value as their yields fell from 0.82 to 0.35 and -0.19 to -0.46 respectively. Corporate credit, and in particular, high yield weakened.
- 2.15 Even though the effects of Coronavirus were only really felt by the world economy and financial markets from late February onwards GDP data for the first Quarter 2020 demonstrates the immediate and devastating economic effects. The “Advance” estimate from the US Bureau of Economic Analysis, issued on 29 April 2020, indicated that US “gross domestic product (GDP) decreased at an annual rate of 4.8% in the first quarter of 2020...In the fourth quarter of 2019, real GDP increased 2.1 percent....The decline in first quarter GDP was, in part, due to the response to the spread of COVID-19...This led to rapid changes in demand, as businesses...switched to remote work or cancelled operations, and consumers cancelled, restricted, or redirected their spending...” In the previous three Quarters an annualised rate of approximately plus 2% was achieved. Eurozone GDP was down 3.8% in the first Quarter of 2020, compared to the previous Quarter, according to preliminary figures issued by Eurostat on 30 April 2020. Eurostat stated “These were the sharpest declines observed since time series started in 1995...” In each of the previous three Quarters Eurozone GDP increased by plus 0.1%-0.2%. The UK Office for National Statistics (release 13 May 2020) included in relation to Coronavirus the statement “There has been a widespread disruption to economic activity, as services output fell by a record 1.9% in Quarter 1; there were also significant contractions in production and construction.”

2.16 In conclusion the calendar year 2020 began positively for both financial markets and the global economy. The realisation, however of the health/economic implications of Coronavirus during late February and March 2020 resulted in both a huge worldwide equity market sell off and a closedown of large parts of the world economy. Only because of both huge fiscal and monetary policy intervention, and in particular the intervention of the US Federal Reserve, was a meltdown in financial markets avoided. Going forward this downturn will be far more difficult to resolve than that of 2008. This is because this crisis, which arises from a deadly disease, is affecting all economic sectors while the previous one was a financially originated and focussed crisis.

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q1 valued at £1,005.00m, a decrease of £121.32m from its value of £1,126.33m at 31 December 2019. The cash value held by the Council at 31 March 2020 was negative 10.51m, giving a total Fund value of £994.49m. The gross value of £994.49m includes a prepayment of £20.0m from the Council. The net asset value as at 31 March 2020, after adjusting for the prepayment was therefore £974.49m.

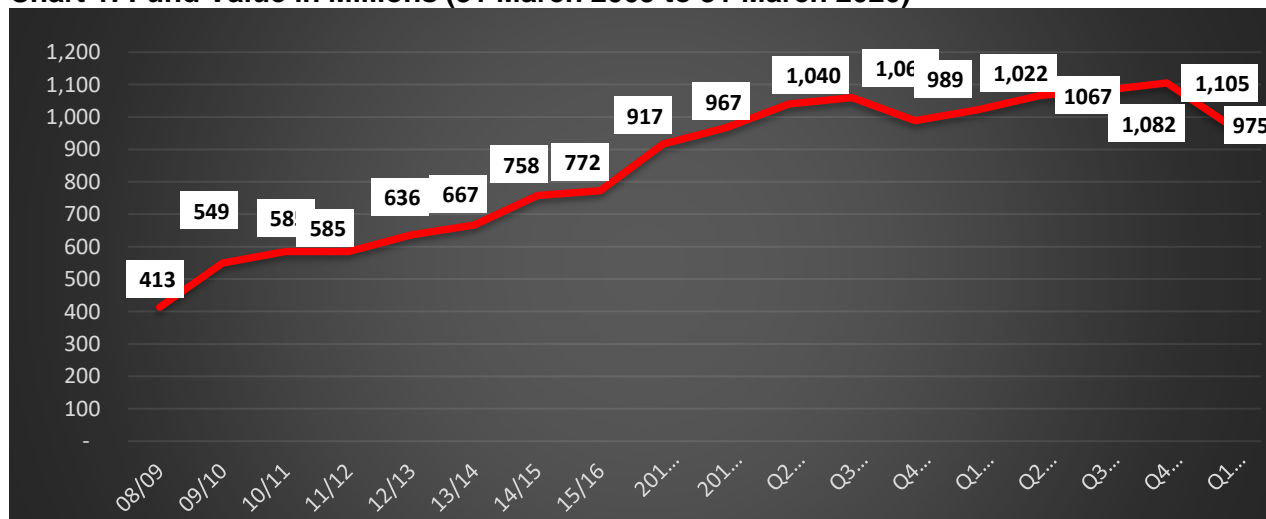
3.2 For Q1 the Fund returned negative 11.4%, net of fees, underperforming its benchmark by 3.7%. Over one year the Fund returned negative 4.5%, underperforming its benchmark by 4.4%. Over three years the Fund underperformed its benchmark by 2.3%, with a return of 1.8%. The Fund's returns are below:

Table 1: Fund's 2019, 2018, 2017 Quarterly and Yearly Returns

Year	2020	2019				2018			One Year	Two Years	Three Years	Five Years
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2				
Actual Return	(11.4)	2.2	1.4	3.3	5.8	(6.3)	2.3	3.8	(4.5)	6.2	1.8	4.7
Benchmark	(7.7)	1.7	2.4	3.5	5.6	(4.6)	3.3	3.7	(0.1)	7.8	4.1	6.4
Difference	(3.7)	0.5	(1.0)	(0.2)	0.2	(1.7)	(1.0)	0.1	(4.4)	(1.5)	(2.3)	(1.7)

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 March 2020. 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 March 2020)



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

- 3.5 Table 2 highlights the Q1 2020 returns. The return for Kempen was -27.9% which was 12.2% below the benchmark of 15.7%. Baillie Gifford provided a negative return of 13.2% but performed 2.7% above the benchmark. UBS Bonds, the funds passive strategy provided a positive return of 6.3% against a benchmark of 6.3%. UBS Equities passive fund provided a return of -19.3% against a -19.3% benchmark. Most managers provided a negative return this quarter.

Table 2 – Fund Manager Q1 2020 Performance

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	0.7	1.2	(0.5)	Δ
Baillie Gifford	(13.2)	(15.9)	2.7	○
BlackRock	(2.8)	(1.3)	(1.5)	Δ
Hermes GPE	3.9	1.5	2.4	○
Kempen	(27.9)	(15.7)	(12.2)	■
Prudential / M&G	1.7	1.2	0.5	○
Newton	(9.2)	1.2	(10.4)	■
Pyrford	(4.8)	1.5	(6.3)	■
Schroders	(3.9)	(1.3)	(2.6)	Δ
Mellon Corporation (Standish)	(2.3)	1.2	(3.5)	■
UBS Bonds	6.3	6.3	0.0	○
UBS Equities	(19.3)	(19.3)	0.0	○

- 3.6 Kempen has provided a disappointing return of -20.2% over one year which was 15.8% below the benchmark. UBS Bonds performed well over the year with returns of 10%. Baillie Gifford returned 0.1% but was above the benchmark by 4.9%.

■	RED- Fund underperformed by more than 3% against the benchmark
Δ	AMBER- Fund underperformed by less than 3% against the benchmark.
○	GREEN- Fund is achieving the benchmark return or better

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	4.6	4.9	(0.3)	Δ
Baillie Gifford	0.1	(4.8)	4.9	○
BlackRock	(0.9)	0.0	(0.9)	Δ
Hermes GPE	5.9	5.8	0.1	○
Kempen	(20.2)	(4.4)	(15.8)	
Prudential / M&G	3.5	4.6	(1.1)	Δ
Newton	(1.6)	4.5	(6.1)	
Pyrford	(2.2)	7.5	(9.7)	
Schroders	(2.6)	0.0	(2.6)	Δ
Mellon Corporation (Standish)	(1.5)	4.9	(6.4)	
UBS Bonds	10.0	9.9	0.1	○
UBS Equities	(7.5)	(7.3)	(0.2)	Δ

- 3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -6.0% for Kempen to 6.9% for UBS Bonds. Absolute return and credit continue to struggle, significantly underperforming their benchmarks but providing positive actual returns overall.

Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	4.7	4.7	(0.0)	○
Baillie Gifford	5.1	3.5	1.6	○
BlackRock	2.1	2.4	(0.3)	Δ
Hermes GPE	1.9	5.7	(3.8)	
Kempen	(6.0)	4.3	(10.3)	
Prudential / M&G	4.0	4.6	(0.6)	Δ
Newton	2.7	4.6	(1.9)	Δ
Pyrford	0.7	7.4	(6.7)	
Schroders	0.1	2.4	(2.3)	Δ
Mellon Corporation (Standish)	(3.0)	4.8	(7.8)	
UBS Bonds	6.9	6.9	0.0	○
UBS Equities	0.5	0.7	(0.2)	○

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 31 March 2020

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	8.6%	83,391	3 Mth LIBOR + 4% per annum
Baillie Gifford	20.5%	199,910	MSCI AC World Index
BlackRock	3.9%	38,286	AREF/ IPD All Balanced
Hermes GPE	9.4%	91,725	Target yield 5.9% per annum
Kempen	13.3%	129,412	MSCI World NDR Index
Prudential / M&G	0.1%	505	3 Mth LIBOR + 4% per annum
Newton	7.0%	67,755	One-month LIBOR +4% per annum
Pyrford	10.3%	100,852	UK RPI +5% per annum
Schroders	2.3%	22,838	AREF/ IPD All Balanced
Mellon Corporation	6.4%	62,544	3 Mth LIBOR + 4% per annum
UBS Bonds	4.2%	41,043	FTSE UK Gilts All Stocks
UBS Equities	17.1%	166,591	FTSE AW Developed Tracker (partly hedged)
LCIV	0.0%	150	None
Cash	-3.1%	(30,509)	One-month LIBOR
Total Fund	100.00%	974,493	

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

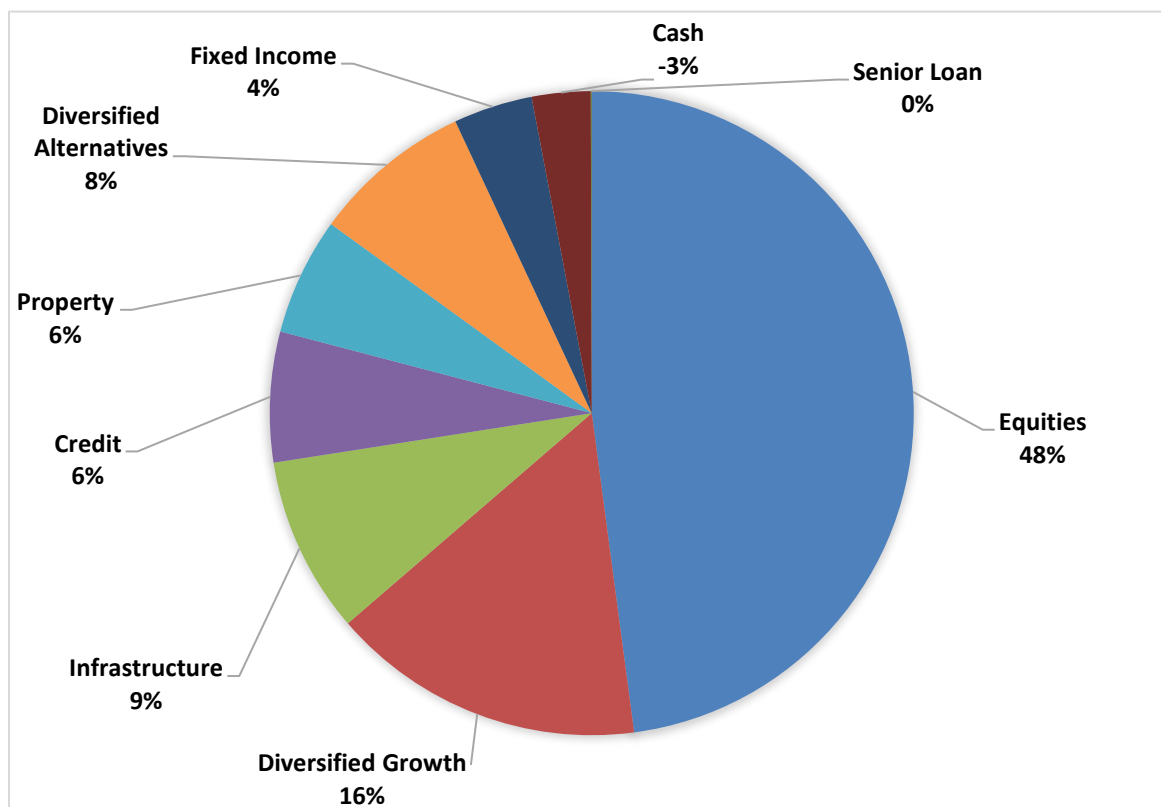


Chart 2: Fund Allocation by Asset Class as at 31 March 2020

- 4.3 Overall the strategy is overweight equities, with equities at the top end of the range. Cash is underweight due to the pre-payment from the council. 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	50.9%	48%	2.9%	45-53
Diversified Growth	16.8%	16%	0.8%	16-20
Infrastructure	9.4%	9%	0.4%	4-11
Credit	7.0%	8%	-1.0%	6-10
Property	6.3%	7%	-0.7%	6-9
Diversified Alternatives	8.6%	8%	0.6%	6-10
Fixed Income	4.2%	4%	0.2%	3-5
Cash	-3.1%	0%	-3.1%	0-2
Senior Loan	0.1%	0%	0.1%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2020	2019				2018			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£129.41m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(27.9)	1.2	1.3	5.2	5.5	(7.3)	2.9	7.2	(20.2)	(6.0)	4.3
Benchmark	(15.7)	1.0	3.8	6.5	9.9	(11.3)	6.3	8.0	(4.4)	4.3	9.7
Difference	(12.2)	0.2	(2.5)	(1.3)	(4.4)	4.0	(3.4)	(0.8)	(15.8)	(10.3)	(5.4)

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 underperformed its benchmark by 12.2% for the quarter and has underperformed its one-year benchmark by 15.8%. Kempen has underperformed its two-year benchmark by 10.3%, providing an annual return of -6.0%. It has also underperformed its benchmark since inception by 5.4%, although the return over this period is an annualised return of 4.3%.

Portfolio Rebalancing

Kempen sold seven names during Q1: Publicis, BT Group, Dixons, Lloyds Banking, Western Forest, Nissan and Resona.

Nissan was sold due to significant dividend cuts. BT Group, Resona and Invesco were sold as more attractive alternatives were available. Publicis, Dixons Carphone, Western Forest, Lloyds Banking and EasyJet were sold due to the deterioration of the underlying business.

Nine new stocks were added: watch, Danone, Merck, Cisco, AvalonBay, Public Service, Sumitomo Mitsui Financials and Pepsico.

The current volatile environment offers good opportunities to add quality companies at more interesting levels than before this period.

5.2 Baillie Gifford

Baillie Gifford	2020	2019				2018			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£199.91m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(13.2)	4.9	0.7	7.7	12.4	(12.5)	3.0	7.3	0.1	5.1	12.4
Benchmark	(15.9)	1.5	3.4	6.2	9.8	(10.6)	5.7	6.9	(4.8)	3.5	9.5
Difference	2.7	3.4	(2.7)	1.5	2.6	(1.9)	(2.7)	0.4	4.9	1.6	2.9

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 Q1 BG returned -13.2%, outperforming its benchmark by 2.7%. BG's one-year return was 0.1%, outperforming its benchmark by 4.9%. Since initial funding, the strategy has returned 12.4% p.a., outperforming its benchmark by 2.9%.

Despite the negative absolute returns, given the equity market declines and with the global economic consumption at a halt, the fund has managed to protect on the downside. This was in part due to security selection and in part due to a large part of portfolio invested in what can be referred to as 'new economy' companies. Healthcare has been one of the better performing sectors led by stocks as Teladoc, that has benefited from increased online consultation. Other areas where the portfolio has benefited from lockdown is 'tech' stocks. Microsoft is one such example with increased usage of Microsoft Teams and other cloud-based services.

Apart from the indiscriminate sell off in the market, the gains were partly offset by Financials, Energy related exposure and stocks with relatively larger debt servicing. This included M&G and Prudential, Banco Bradesco, Bank of Ireland and ICICI. ICICI has been the only stock reduced recently, whereas, for other Financials, the manager sees good long-term prospects beyond expected short term headwind.

The manager has long invested in companies where markets understanding of the market penetration and resulting growth is undermarked by conceived higher multiples. Certain stocks have been the beneficiaries from the recent restrictions on movement which put forward many of the long term shifts some growth and tech advocates have been anticipating.

The manager sees these trends continuing, with demand for online delivery on the rise, increased demand for software helping increased working from home patterns and home entertainment. There is already evidence to suggest that these structural changes will last beyond the current pandemic in the portfolio seems well positioned to benefit from that change.

5.3 UBS Equities

UBS Equities	2020	2019				2018			One Year	Two Years	Since Start 31/08/12
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£166.59m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(19.3)	5.7	2.1	4.0	11.5	(12.8)	5.3	4.4	(7.5)	0.5	10.5
Benchmark	(19.3)	5.7	2.1	4.1	11.5	(12.9)	5.7	4.4	(7.3)	0.7	10.6
Difference	0.0	0.0	0.0	(0.1)	0.0	0.1	(0.4)	0.0	(0.2)	(0.2)	(0.1)

Reason for appointment

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

Performance

The fund returned -19.3% for Q1 and -7.5% over one year. Since funding in August 2012, the strategy has provided an annualised return of 10.5%.

Equities

Equity markets, as measured by the MSCI All Country World Index in local currency, had their worst month in March since the depth of the financial crisis in October 2008, despite a strong rally as the month ended. Shares lost over 12% of their value, leaving them down by almost a fifth for the first quarter; again, this was the worst performance over a calendar quarter since 2008.

Earlier in the quarter, a number of technology heavyweights such as Apple, Amazon and Microsoft reported strong results which powered US stocks higher in particular, although profits in other sectors, such as financials, were more mixed.

Increasing evidence that COVID-19 was spreading rapidly outside China drove a sudden change in sentiment in late February. News of a spate of cases in South Korea, Iran and Italy saw equity markets lurch sharply downward as market volatility, as measured by the Vix index, reached levels not seen since the financial crisis over ten years ago.

The news that the OPEC plus group of oil producers had failed to agree production cuts, in the face of reduced demand, caused oil prices to immediately decline by around 30% in March. Expectations of supply increases against a backdrop of a sharp fall in demand caused price to hit lows not seen since early this century.

5.4 UBS Bonds

UBS Bonds	2020	2019				2018			One Year	Two Years	Since Start 5/7/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£41.04m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	6.3	(3.9)	6.2	1.4	3.4	1.9	(1.7)	0.2	10.0	6.9	5.8
Benchmark	6.3	(3.9)	6.2	1.3	3.4	1.9	(1.7)	0.2	9.9	6.9	5.7
Difference	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds.

Performance

The return for Q1 was 6.3%, with a one-year return of 10% and a two-year return of 6.9%.

Within fixed income markets, assets seen as safe havens unsurprisingly fared best over the quarter, with yields on benchmark bonds such as Treasuries and German bonds reaching their lowest ever levels earlier in March. Even these were not immune from the general market turbulence, though, and yields generally climbed later in the month as investors demand for cash increased.

Other forms of debt fared less well, with sharp falls in value for high yield debt in particular as concerns increased over the creditworthiness of borrowers in sectors such as energy, transport and leisure. Automaker Ford was an initial example, with its debt falling to junk status following downgrades from Moody's and S&P in March.

However, as markets stabilised there was a rush from investment grade companies globally to tap debt markets even at higher yields, with a glut of new issuance in the final week of March.

The positive flows seen into emerging market debt in both hard and local currencies went sharply into reverse over the quarter. Such bonds saw sharp sell offs in March in particular, with Lebanon defaulting on its external debt. It was notable that much of the turbulence bypassed Chinese government bonds however, prompting discussion as to whether the world's third largest market is increasingly seen as a new safe haven in times of crisis.

5.5 M&G / Prudential UK

M&G / Prudential	2020	2019				2018			One Year	Two Years	Since Start 31/5/2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£0.51m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.7	0.0	1.7	0.0	1.0	1.2	1.2	1.1	3.5	4.0	4.5
Benchmark	1.2	1.2	1.2	1.0	1.2	1.2	1.1	1.1	4.6	4.6	2.9
Difference	0.5	(1.2)	0.5	(1.0)	(0.2)	0.0	0.1	0.0	(1.1)	(0.6)	1.6

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).

Performance and Loan Security

The strategy provided a return of 4.5% per year, with an outperformance against the benchmark of 2.9% since inception. The strategies holding has reduced in size to £505k, with most of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.3 years.

5.6 Schrodgers Indirect Real Estate (SIRE)

Schrodgers	2020	2019				2018			One Year	Two Years	Since Start 6/8/2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£22.84m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(3.9)	1.0	0.3	0.1	(1.1)	0.3	1.4	2.3	(2.6)	0.1	5.6
Benchmark	(1.3)	0.3	0.4	0.6	0.3	0.9	1.6	1.9	0.0	2.4	7.1
Difference	(2.6)	0.7	(0.1)	(0.5)	(1.4)	(0.6)	(0.2)	0.4	(2.6)	(2.3)	(1.5)

Reason for appointment

Schrodgers 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.

Q1 2020 Performance and Investment Update

The fund generated a negative return in Q1 of 3.9% with a one-year return of negative 2.6% and a two-year return of 0.1%.

Despite the flexibility of many landlords and the Government's support, Schrodgers expect that a number of mid-market retailers and restaurant chains who were already under financial pressure will fail over the next few months. Consequently, the manager believes that it is probable that the Coronavirus will accelerate the increase in structural vacancy and decline in retail open market rents. It is expected that supermarkets, convenience stores and bulky goods retail parks will be more defensive than shopping centres and department stores. While the Coronavirus could increase the demand for warehouses to fulfil online orders, the impact is likely to be modest.

5.7 BlackRock

BlackRock	2020	2019				2018			One Year	Two Years	Since Start 1/1/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£38.29m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.8)	0.6	0.7	0.5	0.1	1.0	1.9	2.0	(0.9)	2.1	0.6
Benchmark	(1.3)	0.3	0.4	0.6	0.3	0.9	1.6	1.9	0.0	2.4	3.8
Difference	(1.5)	0.3	0.3	(0.1)	(0.2)	0.1	0.3	0.1	(0.9)	(0.3)	(3.2)

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.

Q1 2020 Performance and Investment Update

BR returned negative 2.8% for the quarter against the benchmark of negative 1.3%. It returned negative 0.9% over one year against its benchmark's return of 0.0%. During the first quarter, the Fund completed two disposals totaling £30.1 million and did not acquire any new properties. Retail was the most significant drag on performance over the quarter, falling by -11% in value and reducing returns by 220 basis points. The Alternatives sector assets were the most resilient being effectively flat from a valuation perspective and generating 140 basis points of return. The impact on Offices and Industrial was more muted but even they experienced a -1.6% and -1.3% fall in capital values respectively.

5.8 Hermes

Hermes	2020	2019				2018			One Year	Two Years	Since Start 9/11/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£91.73m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	3.9	(0.2)	1.2	1.0	(1.5)	1.1	(2.2)	0.6	5.9	1.9	8.9
Benchmark	1.5	1.4	1.5	1.5	1.4	1.4	1.4	1.4	5.8	5.7	5.9
Difference	2.4	(1.6)	(0.3)	(0.5)	(2.9)	(0.3)	(3.6)	(0.8)	0.1	(3.8)	3.0

Reason for appointment

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

Performance

Hermes returned 3.9% in Q1 outperforming the benchmark by 2.4%. As at 31 March 2020, the strategy reported a one-year positive return of 5.9%, outperforming its benchmark by 0.1%. Since inception the strategy has provided a good annualised return of 8.9%, outperforming its benchmark by 3.0%.

Portfolio review

The impact of COVID-19 on the Q1 performance results of the assets has varied depending on the nature of the asset.

Eurostar has experienced a significant short-term impact on the business, notably from unprecedented travel restrictions and social distancing measures introduced in all countries served by Eurostar. Scandlines has experienced a significant short-term impact on leisure passengers and the retail business resulting from travel restrictions, restrictive border controls and other domestic lock-down measures in both Denmark and Germany. The cargo business however remains resilient, operating at slightly below planned levels.

As regulated businesses, Cadent Gas, Anglian Water and Southern Water have generally performed in line with budget over the quarter and post quarter end. The impact on operations and service delivery as a result of COVID-19 has been limited, however there has been increasing pressure on working capital as a result of the increased risk of payment delinquency. For the water assets, regulatory mechanisms are now in place to reduce the long-term economic impact of increased bad debt

Investments and Divestments

In March 2020, Hermes Infrastructure entered into binding transaction documentation to acquire a c10% interest in Viridor, a leading UK energy recovery and recycling business operating 11 facilities. The transaction is subject to certain approvals and is expected to complete in June 2020.

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2020	2019				2018			One Year	Two Years	Since Start 15/9/2014
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£83.39m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.7	(0.2)	1.9	2.3	0.6	(0.8)	2.6	2.4	4.6	4.7	4.1
Benchmark	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.2	4.9	4.7	4.7
Difference	(0.5)	(1.4)	0.7	1.1	(0.6)	(1.9)	1.5	1.2	(0.3)	(0.0)	(0.5)

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 0.7% in Q1 2020, underperforming its benchmark by 0.5%. The investment in Kohinoor Series Three Fund, the Portfolio's insurance policy, led the way in terms of the positive contributors to performance, followed by the PE commitments to MML and PAI. The largest detractors were Pharo Gaia and Horizon.

Over one year the mandate has underperformed its benchmark, with a return of 4.6% against a benchmark of 4.9%. Since inception in September 2014, the strategy has returned 4.1%, underperforming its benchmark by 0.5%.

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,
- 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, and
- iv. Reinsurance

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	2020	2019				2018			One Year	Two Years	Since Start 28/9/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£100.85m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(4.8)	0.7	0.9	1.1	2.7	(2.0)	0.8	2.0	(2.2)	0.7	2.7
Benchmark	1.5	1.5	1.7	2.8	1.1	1.5	2.3	2.4	7.5	7.4	7.0
Difference	(6.3)	(0.8)	(0.8)	(1.7)	1.6	(3.5)	(1.5)	(0.4)	(9.7)	(6.7)	(4.3)

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 4.8% in Q1 underperforming its benchmark by 6.3%. Over one year the strategy has returned negative 2.2%, underperforming its benchmark by 9.7%. Pyrford underperformed its benchmark by 4.3% since inception. The equity position was by far the largest tractor over the quarter although the relatively defensive positioning within equities also helped the fund. The UK equity position which has long been a laggard for the fund outperformed the FTSE All Share by almost 8% during the period. In the fixed income portion of the portfolio, performance was stable, but the very low duration meant that it lagged behind the government bond universe and failed he gives the fund the sufficient which tends to nullify the equity market losses.

Outlook and Strategy

Economic hit to GDP from COVID-19 related disruptions to businesses will come mainly in the second quarter of 2020. Whilst governments are attempting to keep people in work through large influx of fiscal stimulus and loose monetary policy, the consequence is that there will be a large increase in government debt owned by central banks. Because of this increased level of debt across the world, it is difficult to place a fair value on equity markets. The manager believes that prices on stocks have dropped to more appropriate levels compared to where they were, but takes a prudent stance, as it is quite likely the downward trend in equities would continue in the near future.

The longer the disruption continues, the more likely it is that this will turn from a demand side shock to a full-blown financial crisis. Therefore, the manager continues to hold short duration government bonds rather than taking advantage of the fall in long duration yields. The duration risk is an area the manager wants to avoid as prices are still too expensive for them to own. The duration level in the portfolio has been low for a number of years now and this has hurt the performance on an asset adjusted basis. The risk averse philosophy of the manager prevents them from increasing duration which hurt the fund during the first quarter.

5.11 Newton

Newton	2020	2019				2018			One Year	Two Years	Since Start 31/8/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£67.75m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(9.2)	1.6	1.7	4.3	4.2	(1.7)	2.1	2.4	(1.6)	2.7	2.6
Benchmark	1.2	1.2	1.2	1.0	1.2	1.2	1.1	1.1	4.5	4.6	4.5
Difference	(10.4)	0.4	0.5	3.3	3.0	(2.9)	1.0	1.3	(6.1)	(1.9)	(1.9)

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 9.2% in Q1 and underperformed its benchmark by 10.4%. Over one year the strategy has returned negative 1.6%, underperforming its benchmark by 6.1%. Newton's performance since inception is 2.6% and underperforms its benchmark by 1.9%.

Whilst performance was significantly negative in Q1 2020, the fund was able to protect against the wider falls in equity markets. The return seeking core and stabilising layer are functioning as expected, however the rate at which the portfolio changes continued to be a concern.

The portfolios exposure is summarised below:

Portfolio Exposures		
	31 December 2019	31 March 2020
Equities	30.76	30.43
UK	7.42	5.15
North America	9.07	9.23
Europe	9.29	10.83
Japan	0.59	0.31
Pacific Basin Ex Japan	3.20	3.01
Emerging Markets	1.19	1.91
Fixed Income	34.48	22.20
Government Bonds	9.59	6.03
Corporate Bonds	9.88	8.31
Index Linked Government	2.44	3.38
Emerging Debt	12.57	4.48
Alternatives	34.76	47.37
Infrastructure Funds	12.48	7.75
Renewable Energy	0.00	0.40
Precious Metals	6.89	11.90
Derivative Instruments	0.79	15.08
Cash and FX Forwards	14.60	12.25
Total	100.00	100.00

5.12 Mellon Corporation (Standish)

Mellon Corporation	2020	2019				2018			One Year	Two Years	Since Start 20/8/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£62.54m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.3)	(0.0)	0.1	0.8	1.9	(2.7)	0.1	(3.9)	(1.5)	(3.0)	0.0
Benchmark	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.2	4.9	4.8	5.2
Difference	(3.5)	(1.2)	(1.1)	(0.4)	0.7	(3.9)	(1.0)	(5.1)	(6.4)	(7.8)	(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 returned negative 2.3% against a benchmark return of 1.2%. Over one year the strategy has underperformed its benchmark of 4.9% by 6.4%, providing a return of -1.5%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0%.

Negative Contributors:

Asset allocation was the principal detractor to performance during the quarter with Fund exposure to high yield corporates and emerging markets representing over three-quarters of the drawdown amount. Asset class holdings were modest.

Portfolio Composition:

The dislocation seen within Investment Grade corporate credit does present an opportunity to increase risk on the portfolio. US Investment Grade corporate bond spreads moved from 93bps at year end 2019 to a peak of 373bps on 23rd March 2020 since then, there has been an increase in allocation to this asset class primarily through the new issue market where borrowers have offered attractive premiums.

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.

Following manager interviews, the committee agreed to replace BNY Mellon as the fund's active credit manager and to appoint CQS through the LCIV. Officers were instructed to manage the due diligence on CQS and to manage the transition from BNY Mellon to CQS.

In July, the LCIV informed officers that they have put CQS 'on watch' so the transition process to CQS was put on hold until the issues were resolved. On 18 September 2019, LCIV presented to the committee members and after a thorough discussion, members agreed to progress with the transition to CQS. The funding amount was £60million. LCIV confirmed that the trading could only take place at month end so there were further issues around the transition date:

- An initial transition date of 31 October was set. However, due to uncertainties around Brexit, the fund was advised that CQS would not be trading.
- The transition date was then delayed to the of November, however, the fund was advised against this due to the Thanksgiving Day.

On 21 November 2019, LCIV raised the possibility that CQS would be removed from the platform or alternatively, another manager would be appointed in addition to CQS as they still have concerns. As a result, the transition to CQS was put on hold until this position could be clarified. On 4 March 2020, LCIV announced that CQS is no longer on watch but will be increasing the level of monitoring of the manager. The transition is still on hold until a full Strategic Asset Allocation Review is carried out in June 2020.

5.13 Currency Hedging

No new currency hedging positions were placed in Q1 2020.

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: Philip Gregory, Finance Director

- 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:

- Northern Trust Quarterly Q1 2020 Report; and
- Fund Manager Q1 2020 Reports.

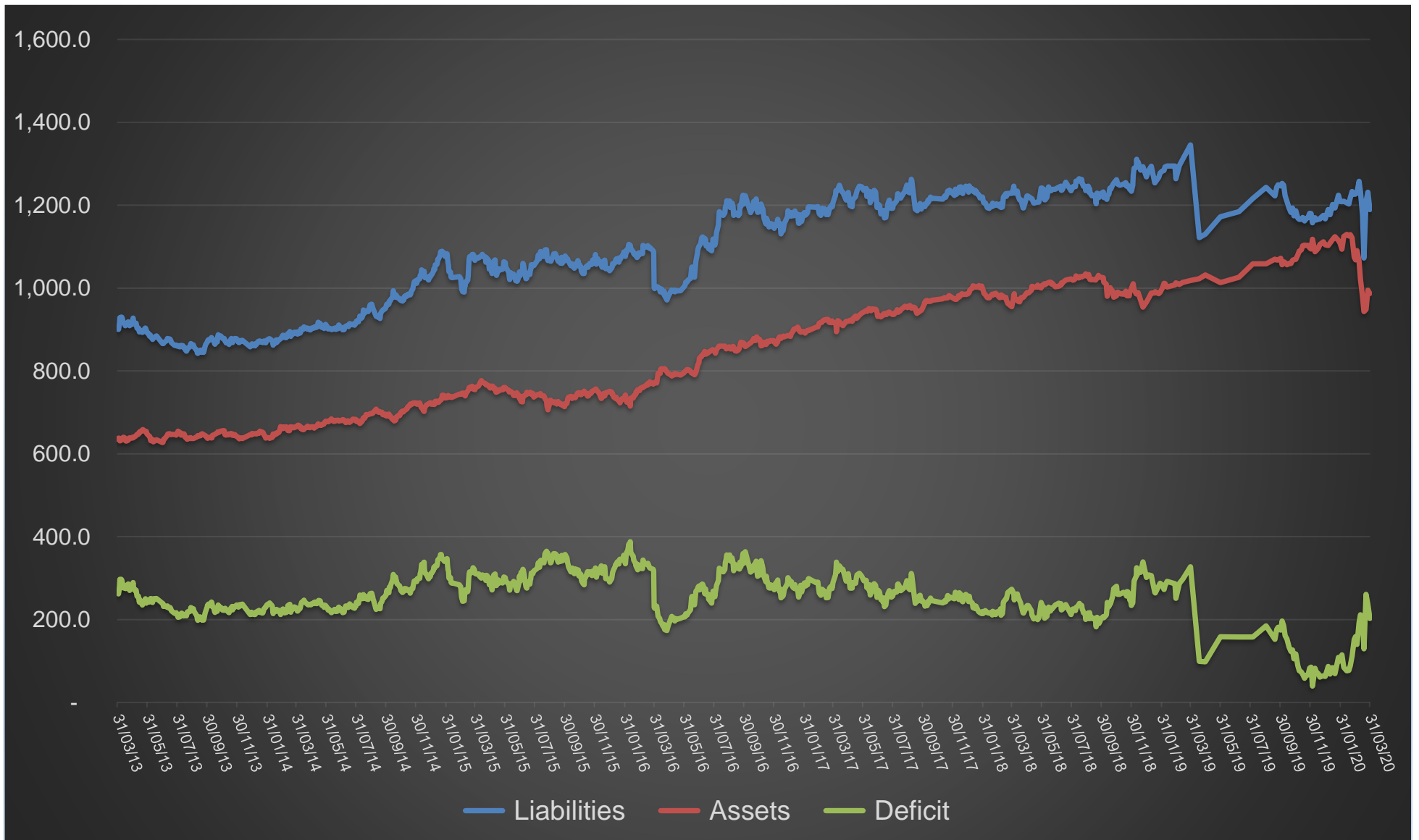
List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 March 2020

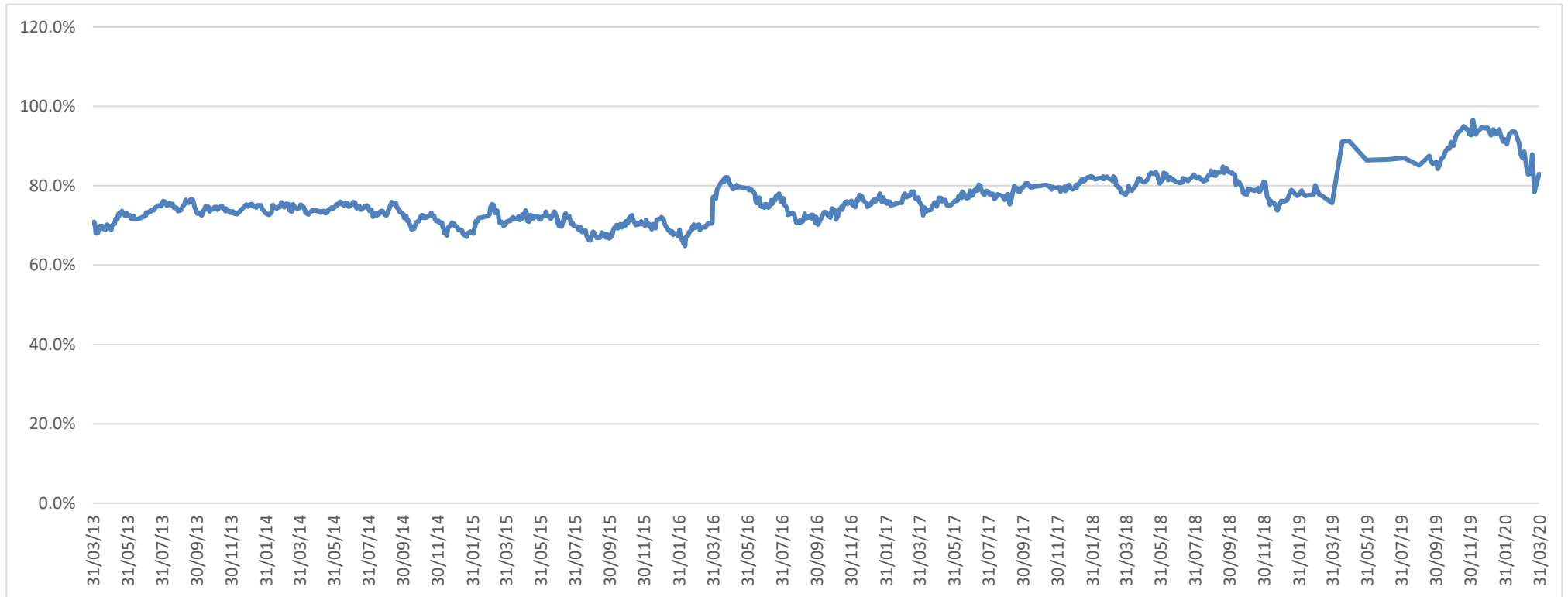
Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities

APPENDIX 1 - Fund Asset Values 31 March 2013 to 31 March 2020



Funding Level between 31 March 2013 to 31 March 2020



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	LBBB
	Barking College Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Riverside Bridge Riverside Free School Riverside School St Joseph's Barking St Joseph's Dagenham St Margarets St Theresa's Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy
Admitted Bodies	
	Aspens Aspens 2 B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Caterlink Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners

B Roles & Responsibilities

B.1 Administering Authority

The London Borough of Barking and Dagenham is, by virtue of Regulation 53 and Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013 the “Administering Authority” for the Local Government Pension Scheme within the geographic area of the London Borough of Barking and Dagenham. In its role as 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.*"

PENSIONS COMMITTEE

10 June 2020

Title: Application for Admitted Body Status – Caterlink Contract Gains	
Report of the Strategic Director, Finance & Investment	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Director: Claire Symonds, Acting Chief Executive	
Summary: To consider the application for Admitted Body status from further contracts gained by Caterlink to the Local Government Scheme (LGPS).	
Recommendation The committee is asked to agree the application for Admitted Body Status by Caterlink, 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 the Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pension Committee can agree to retrospectively agree an admission agreement.

2 Admission Agreement

- 2.1 In the June 2019 Pensions Committee, members agreed the application for Admitted Body status by Caterlink as a 'Closed Agreement'. Goresbrook School had appointed Caterlink as their catering contractor and Caterlink was the Transferee Admission Body (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. Caterlink have gained a number of new contracts with various schools and have applied for an Admitted Body status for these contracts as staff will be transferring across.

- 2.2 Caterlink will be responsible for the risks, including investment risk, bond yield risk, inflation risk, pay award risk, longevity and regulatory risk. Caterlink will require a bond.
- 2.3 The Admissions process will be carried out subject to officer's due diligence. The funds Actuary will be calculating the contribution rates to be used by the new Admitted Bodies following the completion of the contract gains.
- 2.4 This Admission Agreements will be a 'closed' agreement.

3. Consultation

- 3.1 None.

4. Financial Implications

Implications completed by: Philip Gregory, Finance Director

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

5. Legal Implications

Dr. Paul Feild, Senior Governance Solicitor

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

PENSIONS COMMITTEE

10 June 2020

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
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 2020 to 31 March 2023, iii. update on the appointment of Hymans Robertson for its Investment Consulting Services and Barnett Waddingham for its Actuarial Services, and iv. Independent Advisors LGPS Update on Scheme Advisory Board Project Good Governance in the LGPS and other significant developments in the LGPS- May 2020 	

1. Introduction

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

- i. Pension Fund Budget 1 April 2020 to 31 March 2023,
- ii. Cash flow to 31 March 2020,
- iii. Update on Actuarial and Investment Consulting Tender, and
- iv. Independent Advisors LGPS Update on Scheme Advisory Board Project Good Governance in the LGPS and other significant developments in the LGPS- May 2020

2. Pension Fund Budget 1 April 2020 to 31 March 2023

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2023.

Table 1: Pension Fund Budget 1 April 2020 to 31 March 2023

<u>Contributions</u>	2020/21 Budget	2021/22 Budget	2022/23 Budget
Opening Market Value	974,493	1,012,293	1,050,243
Employee Contributions			
Council	6,800	6,600	6,400
Admitted bodies	1,000	900	800
Scheduled bodies	1,950	2,000	2,050
Employer Contributions			
Council	21,000	22,000	23,000
Admitted bodies	4,000	3,750	3,500
Scheduled bodies	7,250	7,400	7,500
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	45,500	46,150	46,750
<u>Expenditure</u>			
Pensions	-36,500	-37,500	-38,500
Lump Sums and Death Grants	-7,000	-6,500	-6,500
Transfers Out	-2,500	-2,500	-2,500
Administrative expenses	-700	-700	-700
<u>Total Expenditure on members</u>	-46,700	-47,200	-48,200
<u>Net dealings with members</u>	-1,200	-1,050	-1,450
<u>Returns on Investments</u>			
Investment Income	7,500	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	-3,500	-3,500	-3,500
Net returns on investments	39,000	39,000	39,000
Net increase (decrease) in assets	37,800	37,950	37,550
Closing Market Value	1,012,293	1,050,243	1,087,793

- 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. The forecast is for the Council contribution to increase as the rate increases from 21.0% in 2020/21, 22.0% in 2021/22 and 23.0% in 2022/23. 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 2021/22 and 2022/23.
- 2.3 An increase in death grant payments is projected in 2020/21. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 1.7% for 2020/21.
- 2.4 Overall the Fund is expected to be cashflow negative for net dealings with members but cashflow positive if investment income and management expenses are included. Officers will be working with the fund managers over the coming year to establish a process to utilise the income from property and infrastructure to fund any cash flow shortfalls.

3. Cash flow to 31 March 2020

- 3.1 Table 2 below provides Members with the Fund's Cash flow to 31 March 2020.

Table 2: Actual Pension Fund Cash Flow to 31 March 2020

	2019/20 Budget £000's	2019/20 Actual £000's	Over / Under £000's
<u>Contributions</u>			
Employee Contributions			
Council	6,200	6,829	629
Admitted bodies	1,000	924	-76
Scheduled bodies	1,900	1,909	9
Employer Contributions			
Council	22,000	24,440	2,440
Admitted bodies	6,900	3,540	-3,360
Scheduled bodies	7,100	7,062	-38
Pension Strain	1,000	738	-262
Transfers In	2,500	4,588	2,088
<u>Total Member Income</u>	48,600	50,030	1,430
<u>Expenditure</u>			
Pensions	-35,000	-34,771	229
Lump Sums and Death Grants	-6,000	-6,512	-512
Payments to and on account of leavers	-2,500	-6,007	-3,507
Administrative expenses	-750	-721	29
<u>Total Expenditure on members</u>	-44,250	-48,011	-3,761
<u>Net additions for dealings with members</u>			
	4,350	2,019	-2,331
<u>Returns on Investments</u>			
Investment Income	7,000	7,000	0
Profit (losses)	35,000	- 60,000	-95,000
Investment management expenses	-3,100	-4,188	-1,088
<u>Net returns on investments</u>	38,900	-57,188	-96,088
<u>Net increase (decrease) in the net assets</u>			
	43,250	-55,169	-98,419
<u>Asset Values</u>			
	1,065,250	974,493	
<u>Liabilities</u>			
	1,347,500	-1,189,704	
<u>Funding Level</u>	79.05%	81.9%	

4. Investment Advisor and Actuary Tender

- 4.1 On 28 January 2020, the Pension Fund tendered for an Actuary and Investment Consultant using the National LGPS Framework for Actuarial and Investment Consultancy Services. A Further Competition was issued as per the framework to assess and evaluate with Actuary and Advisor best meets the Fund's requirement.
- 4.2 A deadline for receipt of proposals was set at 17:00 on 11 February 2020. Officers evaluated and scored each service provider based on specific and targeted technical proposals submitted in providers' application. In addition, specific additional requirements were included as a part of the evaluation criteria.

Evaluation Criteria	Percentage	Basis
Quality Offered	35%	Specific Questions
Service Fit	30%	Presentation + Specific Questions
Value for Money	35%	Model Fund Pricing Portfolio

From this evaluation, two providers from each service were shortlisted for a presentation and interview. Officers and the funds independent advisor interviewed Hymans Robertson and Mercer to provide Investment Consulting Services on Monday 24th February 2020 and Hymans Robertson and Barnett Waddingham to provide Actuarial Services on Wednesday 26th February 2020.

A decision was made to appoint Hymans Robertson for Investment Consulting Services and Barnett Waddingham for its Actuarial Services.

The contract commenced for the Investment Consultant on 1st April 2020 and the start date for the Actuary will be 1st July 2020. Officers are providing information to the Investment Consultants to ensure a smooth transition.

4.3 **Strategy Review**

Upon appointment, Hymans Robertson have been asked to provide a Strategy Review report for Member consideration at the September Pension Committee, using the actuarial assumptions and cashflows provided by the current actuary. The Strategy Review will likely contain several strategy recommendations. Consequently, training on asset allocation and the investment strategy is being provided to Members at today's meeting.

5. **Independent Advisors LGPS Update on Scheme Advisory Board Project Good Governance in the LGPS and other significant developments in the LGPS- May 2020**

5.1 **Introduction**

The purpose of this paper is to update the Pensions Committee on developments relating to two important issues. Firstly, developments relating to the Good Governance in the LGPS project which have occurred since the last update to the Pensions Committee. Secondly, to report on the outcome of a legal case relating to the LGPS in respect of which the Supreme Court delivered its judgement on 29 April 2020

5.2 **Good Governance in the LGPS project**

As reported in detail in previous papers (Pensions Committee 13 March 2019, Item 7, Appendix 1; 12 June 2019 Item 7, Appendix 1; 18 September 2019, Item 6; 11 March 2020, Item 5) the Scheme Advisory Board for England and Wales (SAB) has been developing proposals to significantly enhance governance within the LGPS.

This project – The Good Governance in the LGPS project - is the most important development presently underway in the LGPS as it seeks to fundamentally enhance and strengthen the governance of the individual LGPS Funds across England and Wales (now 85 in total). Completion of the project and its effective implementation across the LGPS in England and Wales is surely the most effective means of maintaining the existing and longstanding local management of the LGPS and avoiding the possibility of compulsory amalgamations of individual Funds going forward.

As previously reported a Phase I report was produced by Hymans Robertson in July 2019 and a Phase II report by Hymans Robertson and two stakeholder Working Groups was considered by the SAB and issued in November 2019. [The Independent Advisor to the Barking and Dagenham Fund was a member of both the Working Groups]. This Phase II report included a broad range of proposals to enhance the governance of the LGPS across

England and Wales. At the meeting of the Scheme Advisory Board held on 3 February 2020 it was agreed that the two working groups who prepared the Phase II report be combined to form an Implementation Group (of which the Independent Advisor to the Barking and Dagenham Fund is a member). It was further agreed that this group prepare a detailed paper for consideration by the Board at its meeting in May 2020 to include proposals for necessary changes to the LGPS Regulations and new Statutory Guidance, the establishment of Key Performance Indicators, and the process for the independent assessment of the governance of the individual LGPS Funds in England and Wales.

The Implementation Group began its work in February 2020. In March an initial draft of the new Statutory Guidance on Governance in the LGPS and draft paper on the role of the LGPS Senior Officer were issued and circulated for comments. The social distancing restrictions introduced by the government in March prevented the group meeting in person. Telephone conferencing discussions were held but attendance was limited due to the fact that local government Officers on the group were engaged in responding to Coronavirus.

Therefore, on 6 April 2020 at a virtual meeting involving the SAB Chair, Vice Chair and Chairs of the Investment and Cost Management Committees it was agreed to stand down the Implementation Group until further notice but that the project team at Hymans Robertson be asked to continue to work on papers for consideration by the Implementation Group once meetings again become viable. This action was approved at the Board meeting of SAB held on 5 May 2020. Consequently, the timetable for the completion of the Good Governance in the LGPS project is on hold pending the resolution of the Coronavirus epidemic.

The MHCLG were represented on both the Phase II Working Groups and are represented on the (Phase III) Implementation Group. Therefore, the proposals of the Good Governance in the LGPS project are likely to be adopted, eventually, by the MHCLG and compliance with them required of all LGPS Funds in England and Wales through the issuing, in due course, of new Statutory Guidance on Governance in the LGPS.

5.3 Supreme Court Case regarding 2016 LGPS Statutory Guidance

In 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations were updated. To accompany the new Regulations the Government issued Statutory Guidance to assist Administering Authorities in the LGPS to formulate, publish and maintain their Investment Strategy Statement as required under the new Regulation 7. This was entitled “Guidance on Preparing and Maintaining an Investment Strategy Statement.”

This Statutory Guidance was 10 pages long and provided much clear and helpful guidance to Administering Authorities. The Statutory Guidance did however include two short paragraphs that became the subject of a case taken by the Palestine Solidarity Campaign and an individual member of the LGPS who claimed that the inclusion of two specific paragraphs in that guidance was unlawful and that they should be removed.

This case concerned the breadth of the ethical investments that Administering Authorities of the LGPS (such as Barking and Dagenham) are permitted to make. In the final judgement on the case delivered by the Supreme Court on 29 April 2020 Lord Wilson defined (in paragraph 1) an ethical investment as follows “*By an ethical investment, I mean an investment made not, or not entirely, for commercial reasons but in the belief that social, environmental, political or moral considerations make it, or also make it, appropriate.*”

The two paragraphs that the claimants believed were unlawful are in italics below.

- “*However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.*”

- An Administering Authority *“Should not pursue policies that are contrary to UK foreign policy or UK defence policy”*

The case was originally heard in the High Court in 2017 which declared the two passages in the Guidance under challenge to be unlawful. This decision was reversed by the Court of Appeal in 2018. Leave was granted for the case to be finally determined by the Supreme Court which heard the case in November 2019 and delivered its Judgement on 29 April 2020.

In their judgement the Supreme Court determined by a majority of 3 to 2 that the two passages in the Guidance under challenge were indeed unlawful as in issuing them the Secretary of State had exceeded his powers. As part of the Judgement (in paragraph 31) Lord Wilson stated *“Power to direct HOW administrators should approach the making of investment decisions by reference to non-financial considerations does not include power to direct (in this case for entirely extraneous reasons) WHAT investments they should not make.”*

On 11 May 2020 the LGPS Scheme Advisory Board for England and Wales posted the following initial statement on its website: *‘The SAB welcomes the clarity brought by the judgement of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board’s view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters’*

The judgement issued by the Supreme Court is 35 pages long and the statements made by the Judges in this may have implications beyond the issue of the two passages in the Statutory Guidance which were the subject of the case. Therefore, the Scheme Advisory Board has agreed that its Secretariat, in conjunction with the Board’s legal adviser, draft a statement summarising the Judgement for publication on the Board’s website. This will include the direct effect of the decision and possible indirect impacts of the decision. This statement should provide Administering Authorities, including Barking and Dagenham, with greater clarity as to any wider implications and consequences of the judgement.

It can however be said with certainty that the judgement does not undermine the overriding duty of the Administering Authority, in the words of the 2016 Statutory Guidance on Preparing and Maintaining an Investment Strategy Statement, that *“...schemes should make the pursuit of a financial return their predominant concern...”* This element of the Statutory Guidance was not disputed in this case.

6. Consultation

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

7. Financial Implications

Implications completed by: Philip Gregory, Finance Director

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

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 This report refers to the recent Supreme Court decision in R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). Its implications are considered.
- 8.3 It related to a judicial review of Guidance issued by the Secretary of State on preparing and maintaining an Investment Strategy Statement. The Guidance was issued pursuant to regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) ("the 2016 Regulations"), and to take effect when the regulations did so, on 1 November 2016. The Guidance was entitled: "Local Government Pension Scheme: Guidance on Preparing and Maintaining an Investment Strategy Statement".
- 8.4 The guidance contained new stipulations designed to prohibit LGPS funds from pursuing boycotts, divestment and sanctions against foreign nations and UK defence industries. This guidance was challenged on the basis that the Secretary of State had exceeded his authority in that the power to issue guidance was limited to the purpose of the legislation creating the power. The challenge was successful in the High Court and so the Secretary of State appealed to the Court of Appeal where he won as the Court reversed the High Court's decision. A further appeal was then entered to the Supreme Court (the replacement to the House of Lords and the highest court in the land). Here the objectors to the Guidance were successful by a majority 3 to 2 judges who held that the guidance extended to matters outside the Secretary of States authority to give guidance. It was determined that the position was that the Secretary of State sought to promote the government's own wider political approach, by insisting that, in two particular contexts related to foreign affairs and to defence, administering authorities could not refrain from making particular investments on non-financial grounds, regardless of the views held by the scheme members. The flaw according to the majority was that the position was that judgements about non-financial considerations in investment decisions were for administering authorities not the Secretary of State to take. Administering authorities may take non-financial considerations into account provided that in doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.
- 8.5 In terms of direct implications, the guidance will need to be changed or at least amended. However, for practical purposes it has no specific impact for Barking and Dagenham as the administering authority has no stated intentions with regards to foreign policy or UK defence and within its investment strategy.

9. Other Implications

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

Background Papers Used in the Preparation of the Report: None

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PENSIONS COMMITTEE**10 June 2020**

Title: Business Plan Update 2020/21	
Report of the Chief Operating Officer	
Open Report	For information
Wards Affected: None	
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
Recommendations The Committee is asked to note progress on the delivery of the 2020/21 Business Plan in Appendix 1 to the report	

1. Introduction and Background

- 1.1 The purpose of this report is to update the Pension Committee on progress regarding the Pension Fund's 2020/21 business plan.
- 1.2 Appendix 1 provides a summary of the Business Plan actions from 1 January 2020 to 31 December 2020.
- 1.3 A Strategic Asset Allocation is being carried out by the funds Actuary and a full business plan for 2020/21 is being drafted alongside this and will be taken to the September 2020 Committee to be agreed by members. This will set out the key tasks for the Pension Committee in respect to the Pension Fund issues for 2020/21.

2. Comments of the Finance Director

- 2.1 The Business Plan will include the major milestones and issues to be considered by the Committee and includes financial estimates for the investment and administration of the fund and appropriate provision for training.
- 2.2 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

3. Comments of the Legal Officer

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

Appendix 1 - Business Plan Update

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Business Plan Update

Month	Action Scheduled	By	Actual Activity
Jan 20	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Schroders 	Officers	Meeting held with Schroders on 7 th January 2020
	Meet the Manager: Baillie Gifford (BG)	Officers	Session with LCIV and BG attended on 16 th January 2020
	Tender for Actuary and Investment Advisor	Officers	Invitation to tender issued
Feb 20	IAS 19 Data Collection (LBBB)	Officers	Submitted to Hymans Robertson
	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Equities: Kempen 	Officers	Meeting held with Kempen on 5 th February 2020
	<ul style="list-style-type: none"> Equities: UBS 	Officers	Meeting held with UBS on 27 th February 2020
	Tender for Actuary and Investment Advisor	Officers	Interviews held on 24 th and 26 th February 2020
Mar 20	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Equities: Aberdeen Standard 	Officers	Meeting held with Aberdeen Standard on 3 rd March 2020
	Quarterly Pension Committee Meeting	All	Held on 11 th March 2020
	Appointment of new Investment Advisor and Actuary	Officers	Contract to commence on 1 st April 2020 and 1 st July 2020 respectively
Apr 20	IAS 19 Results	Officers	To be included in Council's accounts
	Closure of Accounts	Officers	On-going
	Fund Manager Meeting:		
	<ul style="list-style-type: none"> Baillie Gifford 	Officers	Meeting held on 22 nd April 2020
	<ul style="list-style-type: none"> Global Credit: BNY Standish 	Officers	Meeting held on 17 th April 2020
May 20	Closure of Accounts	Officers	On-going
	Fund Manager Meetings:	Officers	
	LCIV Business Update	Officers	Meeting held on 21 st May 2020
Jun 20	Quarterly Pension Committee Meeting	All	Held on 10 th June 2020
	Cash Flow Report to June Committee	Officers	This meeting

	Investment Beliefs Session	Members	This meeting
Jul 20	Strategic Asset Allocation Review	Investment Advisor	On-going
	Review and update of 2020/21 Business Plan	Officers	On-going
	Review of Risk Register	Officers	On-going
	External Audit of Draft Accounts	Officers	To begin in July
	FRS102 Data Collection – UEL and Barking College	Officers	To be submitted in July
Aug 20	Fund Manager Meetings:		
	• Equities: BlackRock	Officers	Meeting to be held
	• Infrastructure: Hermes	Officers	Meeting to be held
	FRS102 Data Collection – Academies	Officers	To be submitted in August
Sep 20	Quarterly Pension Committee	All	To be held on 16 th September 2020
	Draft Statement of Accounts to Sep Committee	Officers	Draft to be included in Sep Committee Papers
	Business Plan to be agreed in Sep Committee	Members	
	Strategic Asset Allocation to be agreed in Committee	Members	Investment Advisors to attend Committee to present this
Oct 20	Pension Fund Stakeholder Meeting	Officers / Members	Meeting to be held
	Fund Manager Meetings:		
	• Equities: Kempen	Officers	Meeting to be held
	• Property: Schroders	Officers	Meeting to be held
Nov 20	Fund Manager Meetings:		
	• Equities: Aberdeen Standard	Officers	Meeting to be held
	• London CIV	Officers	Meeting to be held
Dec 20	Quarterly Pension Committee	All	
	Fund Manager Meetings:		
	• Equities: UBS	Officers	Meeting to be held