

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 17 March 2021 - 6:00 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: 9 March 2021

Chris Naylor
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 16 December 2020 (Pages 3 - 7)**
- 4. Pension Fund Quarterly Monitoring - September to December 2020 (Pages 9 - 36)**
- 5. Actuarial presentation on funding levels by Barnett Waddingham**
- 6. Administration and Governance Report (Pages 37 - 43)**
- 7. Business Plan Update (Pages 45 - 48)**
- 8. Funding Strategy Statement and Investment Strategy Statement (Pages 49 - 119)**

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

Private Business

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

11. Performance Review (Pages 121 - 122)

Confidential Appendix relating to Agenda Item 6 on pages 37-43.

12. Independent Advisors Contract Renewal (Pages 123 - 127)

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

Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

Participation and Engagement

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

Prevention, Independence and Resilience

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

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

Inclusive Growth

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

Well Run Organisation

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

MINUTES OF PENSIONS COMMITTEE

Wednesday, 16 December 2020
(6:00 - 7:24 pm)

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

Observers Present: Steve Davis and Susan Parkin

Advisors Present: John Raisin and Nicholas Jellema

Apologies: Stephen Jasinski

16. Declaration of Members' Interests

There were no declarations of interest.

17. Minutes (16 September 2020)

The minutes of the meeting held on 16 December 2020 were confirmed as correct.

18. Pension Fund Quarterly Monitoring - July-Sep 2020

The report introduced by the Pension Fund Accountant provided information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund had performed during the quarter ("Q3") 1 July to 30 September 2020 including an update on the markets from the Committee's independent Advisor, as well as a verbal update on the unaudited performance of the Fund for the period 1 October to 15 December 2020.

The report summarised the effects of the global market including the effects on the pandemic during the period and detailed the overall performance in Q3 of the Pension Fund both collectively and as individual Fund Managers'. The Fund's externally managed assets were valued at £1,163.27m, an increase of £31.24m from its value of £1,132.03m as at 30 June 2020. The cash value held by the Council at 30 September 2020 was £0.44m, giving a total Fund value of £1,163.71m. This total included a prepayment of £30m from the Council. Therefore, the net asset value as at 30 September 2020 after adjustment for the prepayment and short term loan from the Council was £1,121.60m.

The report also updated the Committee on the Fund's Investment Strategy and Performance.

A question was raised about the Fund's environmental, social and corporate governance arrangements, and in that respect whether the types of investments reflect the Council's philosophy, and if not, then where appropriate the Council should be actively pursuing a policy of disinvestment.

The Investment Fund Manager (IFM) responded that rather than disinvestment the current approach was one of more engagement. The IA added that as day to day investment activities are delegated to Fund Managers, amounting to a system of 'pooled' investments, it is hard to control. Consequently, it was his view, and an approach adopted by most LGPS funds, to seek to engage with companies to change their behaviours.

Whilst recognising the point made by the IA it was felt that there were still things that could be done to influence matters including directing asset managers as to what areas to invest in. The IFM offered to send to Members a list of current companies which the Fund is investing with. He added that whilst the focus was to maximise the Fund's value, equally there needs to be a clear structure to support the direction of the proposed Investment Strategy that Hymans Robertson are developing, which is tied to the outcomes of the recent member survey, where ESG and other ethical investments have featured strongly.

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,
- (iv) the update on the transition to the Multi-asset Credit Strategy, and
- (v) the Independent Advisor's market background report to Q3.

19. Pension Fund Annual Report 2019/20

The Pension Fund Accountant presented the Annual Report for the year ended 31 March 2020 which included the 2019/20 Audited Pension Fund Accounts, which are subject to external audit (BDO).

The Annual Report was available on the Council's website at:

<https://www.lbbdpensionfund.org/barking-and-dagenham-pension-fund/about-us/forms-and-publications/>

20. 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:

- The Independent Advisor's LGPS update covering the following specific issues:
 1. The restriction of public sector exit payments known as the 'Exit Cap'
 2. Latest developments relating to the Good Governance in the LGPS project, and
 3. Details of amendments to the LGPS Regulations resulting from the

Government consultation 'Changes to the Local Valuation Cycle and the Management of Employer Risk'

- That the Fund is cash flow negative;
- The Fund's three-year budget for the period 1 April 2020 to 31 March 2023, and
- The London CIV Update

21. Business Plan Update 2020

The purpose of the report was to update the Committee on the progress of the Pension Fund's 2020/21 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2020 to 30 September 2020. A Strategic Asset Allocation Review was continuing to be carried out by the Fund's Actuary and a full business plan for 2020/21 was being drafted alongside this, setting out the key tasks for the Committee in respect to the Pension Fund issues for 2020/21 onwards (see minute 22 for details)

The Committee noted the report and Business Plan.

22. Business Plan 2021

The Investment Fund Manager introduced the report on the Pension Fund Business Plan 2021 to 2023, which set out the key tasks for the Pension Committee for the said period, reflecting the Committee's commitment to ensure the future Investment Strategy and monitor procedures ensure that the Fund meets its objectives and complies with best practice.

Reference was made to the questionnaire that was sent to all Members to help to identify additional training needs. In the light of the responses, it was agreed that a series of future training sessions would be held monthly on specific dates to be confirmed, to deliver an overall training plan structured around the development needs of Committee Members and observers.

The Committee **resolved** to agree the Business Plan for 2021- 2023 as set out in the report.

23. Private Business

The Committee **agreed** to exclude the public and press for the remainder of the meeting by reason of the nature of the business to be discussed which included information exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

24. Investment Strategy Review - Hymans Robertson (Investment Advisors)

At the last meeting Hymans Robertson presented their findings and conclusions as to the review of the Fund's current Investment Strategy. The review considered the scope to improve the chances of achieving the Fund's primary

objective and the risk return profile of the Fund's investments, optimising diversification benefits where possible, whilst being mindful of contribution rate affordability and income requirements.

Having regard to the Member responses to a previously circulated investment beliefs questionnaire a series of recommendations were presented and agreed on changes to the asset allocation and mandate structure for the Fund's future investment arrangements. It was agreed that a further report and a presentation from Hymans Robertson would come before this meeting outlining how the changes would be implemented.

The Investment Fund Manager (IFM) introduced the item and by way of context provided the Committee with the background to the Fund's performance including summary details of the full restructure that took place in 2012 to address previous years of underperformance. The main driver for change at that time being to provide the Fund with more protection from underperforming managers, through diversification and passive investment, whilst seeking to ensure a return sufficient to close the funding gap.

Overall, the restructure and revised investment strategy performed well although there remained areas of under-performance and which led to the current high-level strategy and structure review by Hymans Robertson.

Looking at the performance of the Fund over the past year up until April 2020 there have been no real issues of concern, however since that time Equities investments have had a strong rally with the relevant Fund Manager significantly outperforming, to the extent that the Equity position within the Fund is now 'overweight', meaning it is exceeding the current strategic allocation of 48% and the boundaries within that allocation, and therefore requires an urgent review.

Given the need to provide the Committee with more training ahead of consideration of further strategic asset allocations within the Fund, the IFM would ideally wish to avoid the need to have to make decisions on selling assets now only to potentially have to buy back later and incur fees. Instead, he would recommend amending the strategy control range to accommodate the large movement in Equities in the Fund until such time as Hymans Robertson complete their review and present a further report to the Committee in June, with recommendations for changes.

The Committee then received a presentation from Nick Jellema, Senior Investment Consultant at Hymans Robertson on an update on the Investment Strategy and Structure Review. He commented that the Fund was in a strong position although there were small strategic refinements that could be made to help and support the underpinning of the returns. The executive summary and recommended courses of action covered two areas, namely Strategy, and Structure and Implementation, the latter proposing both courses of immediate as well as mid-term actions. The presentation also covered the analysis and testing of the proposed v current Investment Strategy using Hymans Robertson strategic framework model to produce predicted rates of return and recommended next steps.

In response to the presentation a question arose about Multi-Asset Credit (MAC) and concerns that this amounted to the type of sub-prime investment that led to the collapse of the banks in 2008. Members were assured that there was very little overlap in the MAC's of the types of property investment which caused the financial crash over a decade ago. There was however support for

the proposal to focus property investment more in the residential than commercial market given the volatility of the latter at this present time.

In the light of the presentation and having regard to the recommendations in the covering report from the IFM,

The Committee **noted**:

- (i) The Investment Strategy and Structure Review proposals put forward by Hymans Robertson, and
- (ii) The performance of the Fund since 2015 and up to 7 December 2020.

Furthermore, the Committee **agreed to**:

- (iii) The proposed revised asset allocation and the strategy control ranges provided in table 5 in section 3.6 of the report,
- (iv) Invest a further £20m in Private Equity with Aberdeen Standard, to be funded from the pre-payment of £20m that will be paid to the Fund on 1 April 2021, with the initial investment of £10m to be made in January 2021 and a further £10m invested in April 2021,
- (v) Remove the current investment management agreement restriction with Aberdeen Standard that requires less than 50% of the Portfolio to be invested in permitted investment funds which offer redemptions within 365 days (including notice period) to accommodate the increase in Private Equity,
- (vi) The proposed approach, outlined in the report, of Members receiving training on both the proposed asset class to be invested in but also the impact of reducing the asset allocation to current investments, prior to any investment decision being made, and in doing so,
- (vii) Attend training on the proposed strategic asset allocation changes on the following dates (to be confirmed):
 - January 2021: ESG and Value equity investments
 - February 2021: Private debt and Diversified Growth Funds
 - March 2021: Multi-asset Credit and Fixed Income (LCIV)
 - April 2021: Property Investments, and
- (viii) Receive further reports to agree any asset allocation decisions after each training session.

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PENSIONS COMMITTEE**17 March 2021**

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|---|---|
| Title: Pension Fund Quarterly Monitoring 2020/21 – September to December 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, Chief Operating Officer | |
| <p>Summary</p> <p>This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2020.</p> <p>The report updates the Committee on the Fund's investment strategy and its investment performance.</p> | |
| <p>Recommendation(s)</p> <p>The Pension Committee is recommended to note:</p> <ul style="list-style-type: none"> (i) the progress on the strategy development within the Pension Fund, (ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1, and (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually. | |
| Reason(s) | |

1. Introduction and Background

- 1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2020 (“Q4”). The report updates the Committee on the Fund’s investment strategy and its investment performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 January to 28 February 2021 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background Q4 2020

- 2.1 The official press release issued after both the November and December 2020 meetings of the monetary policy setting Federal Open Markets Committee (FOMC) of the US Federal Reserve included the statement “...The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world...” At his press conference following the December 2020 FOMC meeting Jay Powell the Chair of the US Federal Reserve stated “Economic activity has continued to recover from its depressed second-quarter level...Even so... the path ahead remains highly uncertain.” Despite this, buoyed by huge monetary stimulus from Central Banks, material fiscal intervention by governments and optimism regarding vaccine development both US and financial markets worldwide enjoyed another positive Quarter. The MSCI World Index was up over the Quarter 14% (in \$ terms) and 16% up for the calendar year 2020 despite COVID-19.
- 2.2 As with the two previous two Quarters the period October to December 2020 was clearly positive for US equities. The S&P 500 Index which had closed at 3,363 on 30 September closed at 31 December at 3,756 an increase of over 11%. All 11 sectors within the S&P 500 experienced a positive Quarter. Information Technology had yet another positive Quarter returning over 11% (and 42% for the calendar year making it the best performing sector in 2020). The Financial and Energy sectors which had suffered particularly as a result of COVID-19 experienced a clearly positive Quarter. Financials returned over 22% which did much to mitigate the earlier losses of 2020. The best performing sector was Energy which returned approaching 26% over the Quarter although such were the losses incurred earlier in 2020 that the sector ended the year at minus 37%. Despite COVID-19 the S&P 500 as a whole gained over 16% in 2020 with the Information Technology (+42%), Consumer Discretionary (+32%) and Communication (+22%) sectors all achieving particularly positive returns.
- 2.3 The Federal Open Markets Committee (FOMC) continued the extraordinary measures it had introduced earlier in 2020 to support both financial markets and the economy. At the December meeting the FOMC provided reinforced guidance on its asset purchase programme announcing it would continue to purchase at least \$80 billion of Treasury securities and at least \$40 billion of mortgage-backed securities per month “until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.” In December both Congress and President Trump approved a further \$900 billion fiscal stimulus including payments of up to \$600 for an individual, \$1,200 for a married couple and \$600 per dependant child.

- 2.4 Following the Presidential election on 3 November 2020 it became apparent that President Trump had been defeated by (former) Vice President Joe Biden. This did not appear to perturb markets with the S&P 500 climbing steadily from 3,369 on 3 November to 3,756, an increase of 11%, by 31 December.
- 2.5 US gross domestic product (GDP) increased at an annual rate of 4.0% in the fourth quarter of 2020 (equivalent to 1% growth compared to the previous Quarter) according to data released by the Bureau of Economic Analysis (BEA) on 28 January 2021. The BEA release stated this reflected “both the continued economic recovery from the sharp declines earlier in the year and the ongoing impact of the COVID-19 pandemic, including new restrictions and closures that took effect in some areas of the United States.” GDP was, however, estimated to have declined by 3.5% in 2020.
- 2.6 The unemployment rate which had been 7.8% (revised) in September was down to 6.7% in December. Although much below the April high of 14.7% this is still almost double the pre COVID level of 3.5% as at January 2020. Inflation continued to be clearly below the US Federal Reserve target of 2%. Inflation as measured by the Personal Consumption Expenditures (PCE) index was 1.3% in December while Core PCE (which excludes changes in consumer energy prices and many consumer food prices) was 1.5%. The FOMC does not see a swift path to its inflation target, but it does see a path, with Chair Jay Powell stating at his December 2020 press conference that “the median inflation projection from FOMC participants rises from 1.2 percent this year to 1.8 percent next year and reaches 2 percent in 2023.” The University of Michigan Index of Consumer Sentiment was very slightly higher in December (80.7%) than September (80.4%) and therefore remained very clearly above the levels recorded following the outbreak of COVID-19 (71.8% in April and 72.3% in May).
- 2.7 Eurozone Equities had a successful Quarter with the MSCI EMU Index increasing by approaching 13% (in Euro terms) in contrast to the previous Quarter when it had been almost flat. As in the United States the financial and energy sectors which had fared particularly badly following the outbreak of COVID-19 were clearly positive this Quarter. There were encouraging announcements from November regarding vaccine development, together with further monetary policy stimulus by the European Central Bank (ECB), and an agreement by EU leaders in December which overcame objections from Hungary and Poland which were holding up enactment of the 750 billion Euro Recovery Fund to be allocated amongst European Union states initially agreed in July.
- 2.8 While the Governing Council of the ECB did not extend its monetary policy initiatives at its October meeting it clearly signalled further likely loosening with the press release stating “In the current environment of risks clearly tilted to the downside...a thorough reassessment of the economic outlook” would be undertaken and that “the Governing Council will calibrate its instruments as appropriate...” In December the Governing Council introduced a number of initiatives to stimulate the eurozone economy. These included a further expansion of the Pandemic Emergency Purchase Programme from 1,350 billion to 1,850 billion and extending it from June 2021 to “at least the end of March 2022” as well as the extension of financing to banks to encourage further lending.
- 2.9 In Q4 2020 the Eurozone performed less robustly than other major economic areas. In contrast to both the United States and the UK where economic activity expanded (by 1%) the Eurozone contracted. Eurozone GDP decreased by 0.7% in Q4 2020

according to data released by Eurostat on 2 February 2021. Worryingly too deflation continued in the Eurozone throughout the Quarter with inflation at minus 0.3% in October, November and December 2020. Achievement of the ECB policy goal of inflation below but close to 2% over the medium term appears far away! Eurozone unemployment remained steady during the Quarter and was 8.3%, again supported by broad furlough schemes which have, so far, avoided significant expansion in unemployment in the Eurozone and will hopefully facilitate economic recovery going forward.

- 2.10 The FTSE All Share advanced over 12% during the Quarter with the bounce back by financial and energy sectors clearly contributing. Positive news regarding vaccine progress and market optimism during the Quarter that the UK and EU would avoid a no-deal Brexit (which they ultimately did on 24 December 2020) buoyed the UK equity market particularly the UK focussed FTSE 250 which advanced by over 18% over the Quarter. Notwithstanding a positive final Quarter, UK equities experienced a poor year in both absolute and relative terms with exposure to financials and energy and an under exposure to information technology weighing against positive performance. While world equities (as measured by the MSCI World Index) advanced by 16% in \$ terms (and 12% in £ terms) the FTSE All Share was down 10% (in £ terms). However, going forward, the UK market appears undervalued compared to other major markets and therefore a source of potential opportunity.
- 2.11 The Office for National Statistics announced on 12 February 2021 that UK GDP for the period October to December 2020 “is estimated to have grown by 1.0%, following revised 16.1% growth in Quarter 3.” However, the release goes on to state “Despite two consecutive quarters of growth, the level of GDP in the UK is 7.8% below its Quarter 4 2019 level.”
- 2.12 UK unemployment was 5% for the period September to November 2020 compared to 4% prior to the first COVID-19 lockdown in March 2020. The furlough scheme first introduced from March 2020 was extended in November 2020 to April 2021. In this respect the Minutes of the December meeting of the Bank of England Monetary Policy Committee (MPC) stated that “the extension of the government’s employment support schemes is likely to limit significantly the near-term rise in unemployment, although a substantial further increase is still likely over the next few quarters.” Consumer Price Inflation (CPI), which had been 1.5% in March 2020 continued to remain well below the Bank of England target of 2%. CPI which had been 0.5% in September was 0.7% in October, 0.3% in November and 0.6% in December. The Bank of England continues however to take the view that 2% inflation is possible in 2 years’ time.
- 2.13 The Bank of England MPC extended its support to the economy at its November meeting by increasing its planned purchases of “UK government bonds by an additional £150 billion” thereby increasing the planned level of quantitative easing from £745 billion to £895 billion. This further easing of monetary policy was in the context of clear concerns by the MPC, as expressed in the Minutes of their November 2020 meeting, regarding the UK economy and economic activity.
- 2.14 Japanese Equities (as measured by the Nikkei 225 Index) gained 18% over the Quarter. Over 2020 as a whole the Nikkei 225 gained 16%. Likely positive influences included COVID vaccine news and the election of Joe Biden as US President which is likely to result in both more predictable and traditional US foreign policy than under Donald Trump. In addition, the Japanese government announced a large fiscal

stimulus in December to both combat COVID-19 and provide for long term investment including in clean fuels and digital technology.

- 2.15 At its December 2020 meeting the Bank of Japan further expanded its already huge monetary stimulus and, significantly announced “the Bank will conduct an assessment for further effective and sustainable monetary easing, with a view to supporting the economy and thereby achieving the price stability target of 2 percent.” This review which is likely to be finalised in March 2021 was initiated “given that economic activity and prices are projected to remain under downward pressure for a prolonged period due to the impact of COVID-19.” Japan remained in deflation with Core CPI which had been minus 0.3% in September reaching minus 1.0% by December. The Bank of Japan target is plus 2% inflation.
- 2.16 Asian and Emerging Markets enjoyed a particularly positive Quarter partly facilitated by continuing US dollar weakness. For Emerging Markets, in general, rising commodity prices were also a boost factor. The MSCI AC Asia (excluding Japan) returned over 18% (in US \$ terms) and the MSCI Emerging Markets Index approaching 20%. South Korea, Taiwan and India were all notable positive performers. While the Chinese market rose, it underperformed Asia/Emerging Markets generally. The US government imposed further sanctions on Chinese companies while Alibaba was made subject of a monopoly probe by the Chinese authorities. Overall, 2020 was a positive, if volatile, year for Asian and Emerging Markets with the MSCI AC Asia (excluding Japan) returning 25% (in US \$ terms) and the MSCI Emerging Markets Index 18%.
- 2.17 The extensive and further increasing monetary policy initiatives of the major Central Banks were supportive of the continuing low yields of the leading Government Bonds – despite the contrary pull of potential or agreed fiscal initiatives by governments. The 10 Year Gilt Yield fell from 0.23 to 0.20 and the 10 Year Bund Yield fell from -0.52 to -0.57. The 10 Year US Treasury Yield remained below 1% but did rise from 0.68 to 0.91 with market commentators citing concerns regarding the prospect of increased fiscal stimulus under a Democrat President and Congress as a clearly contributing factor. Both investment grade and high yield corporate credit enjoyed another positive Quarter.
- 2.18 In Conclusion the October to December 2020 Quarter was clearly positive for financial markets. The calendar year 2020 saw, despite the huge human and economic cost of COVID-19, further clear advances in asset prices. Ultimately the credit for this must go to the huge stimulus initiatives of both the Central Banks and governments. The greatest benefit of these measures has however been in providing support and protection to both business and individuals in the face of an unprecedented worldwide challenge. This was in contrast to support provided by governments in the 2007-2009 financial crisis which was focussed on businesses rather than individuals. The question remains whether all this Central Bank (monetary) and government (fiscal) intervention will indeed be genuinely inflationary and help facilitate the achievement of the major Central Banks 2% inflation targets. Or perhaps it might result in inflation levels significantly above Central Bank targets which could ultimately adversely affect asset prices.

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q4 valued at £1,255.59m, an increase of £92.32m from its value of £1,163.27m at 30 September 2020. The cash value held by the Council at 31 December 2020 was 1.23m, giving a total Fund value of £1,256.82m. The gross value of £1,256.82m includes a prepayment of £25.0m from the Council. The net asset value as at 31 December 2020, after adjusting for the prepayment and short term loan from the council was therefore £1,216.9m.

3.2 For Q4 the Fund returned 8.0%, net of fees, outperforming its benchmark by 2.9%. Over one year the Fund outperforming its benchmark by 2.1%, with a return of 11.6% and by 0.8% over three years, with a return of 6.9%. The Fund has also matched its benchmark over five years, with a return of 9.7%.

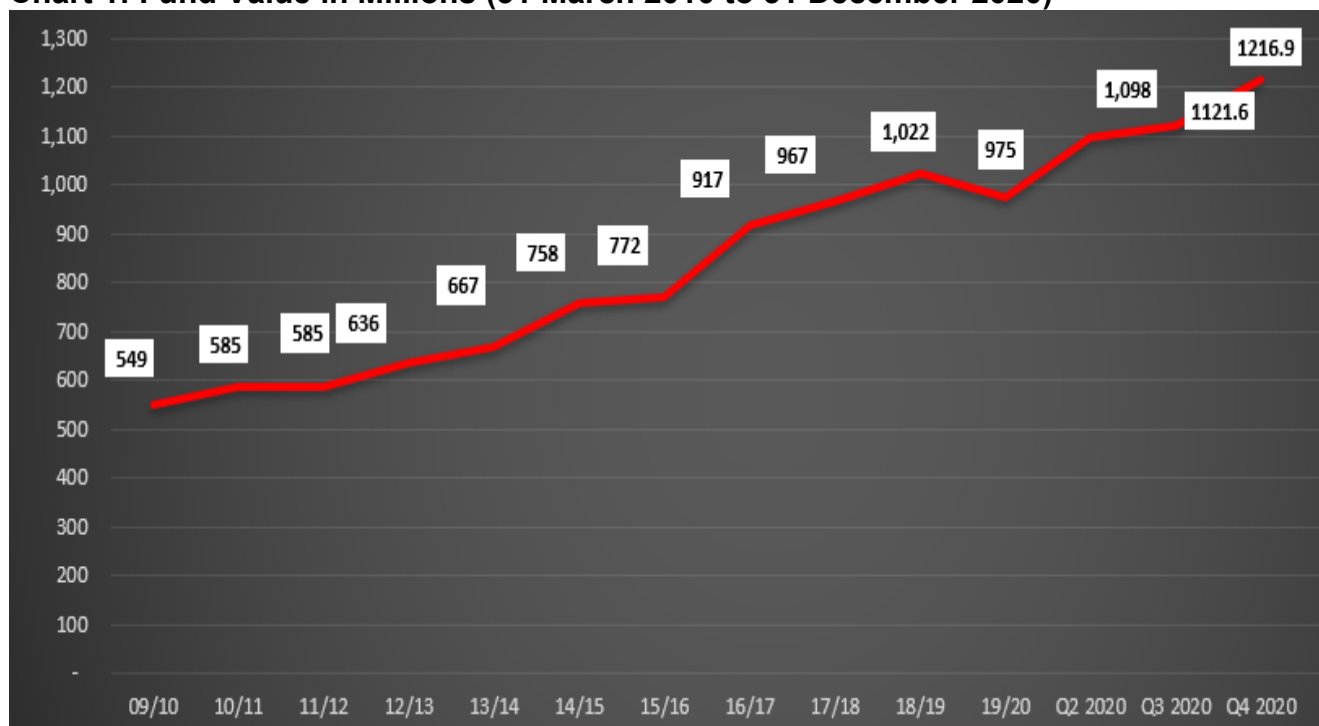
3.3 Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has outperformed by 5.9% over one year and by 1.4% over three years. Over five years the Fund has outperformed by 0.4%. The Fund's returns are below:

Table 1: Fund's 2020 and 2019 Quarterly and Yearly Returns

| Year | 2020 | | | | 2019 | | | | One Year | Two Years | Three Years | Five Years |
|--------------------|------------|------------|-------------|---------------|------------|--------------|--------------|------------|-------------|-------------|--------------|------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | | |
| Fund Return | 8.0 | 2.8 | 12.3 | (11.4) | 2.2 | 1.4 | 3.3 | 5.8 | 11.6 | 12.1 | 6.9 | 9.7 |
| Benchmark | 5.1 | 2.5 | 9.6 | (7.7) | 1.7 | 2.4 | 3.5 | 5.6 | 9.5 | 11.3 | 7.8 | 9.7 |
| Difference | 2.9 | 0.3 | 2.7 | (3.7) | 0.5 | (1.0) | (0.2) | 0.2 | 2.1 | 0.8 | (0.9) | 0.0 |
| PIRC | 5.8 | 1.8 | 11.3 | | | | | | 5.7 | | 5.5 | 9.3 |

3.4 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 31 December 2020. Members are asked to note the changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2010.

Chart 1: Fund Value in Millions (31 March 2010 to 31 December 2020)



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

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

3.6 Table 2 highlights the Q4 2020 returns. Baillie Gifford returned 11.1% which was 2.5% above the benchmark. Kempen performed well this quarter returning 15.3% which was 7.5% above the benchmark of 7.8%. Hermes on the other hand provided a return of -1.5% which was 2.9% below the benchmark. All managers provided a positive return this quarter except for Hermes Infrastructure.

Table 2 – Fund Manager Q4 2020 Performance

| Fund Manager | Actual | Benchmark | Variance | Ranking |
|--------------------|-------------|-------------|----------|---------|
| | Returns (%) | Returns (%) | (%) | |
| Aberdeen Standard | 8.3 | 1.0 | 7.3 | ○ |
| Baillie Gifford | 11.1 | 8.6 | 2.5 | ○ |
| BlackRock | 2.5 | 2.1 | 0.4 | ○ |
| Hermes GPE | (1.5) | 1.4 | (2.9) | Δ |
| Kempen | 15.3 | 7.8 | 7.5 | ○ |
| Prudential / M&G | 0.0 | 0.0 | 0.0 | ○ |
| Newton | 5.6 | 1.0 | 4.6 | ○ |
| Pyrford | 3.1 | 1.6 | 1.5 | ○ |
| Schroders | 2.7 | 2.1 | 0.6 | ○ |
| Mellon Corporation | 2.2 | 1.0 | 1.2 | ○ |
| UBS Bonds | 0.6 | 0.6 | 0.0 | ○ |
| UBS Equities | 11.2 | 11.2 | 0.0 | ○ |

3.7 Kempen has provided a return of 1.1% over one year which was 14.0% below the benchmark. Schroders and Blackrock, the funds property managers also returned -2.9% and -2.6% respectively. On the other hand, Baillie Gifford performed well returning 33.5% which was 17.5% above the benchmark. UBS Equities also performed well returning 16.2%.

Table 3 – Fund Manager Performance Over One Year

| Fund Manager | Actual | Benchmark | Variance | Ranking |
|----------------------|-------------|-------------|----------|---------|
| | Returns (%) | Returns (%) | (%) | |
| Aberdeen Standard | 13.5 | 4.5 | 9.0 | ○ |
| Baillie Gifford | 33.5 | 16.0 | 17.5 | ○ |
| BlackRock | (2.6) | (1.0) | (1.6) | Δ |
| Hermes GPE | 3.3 | 5.8 | (2.5) | Δ |
| Kempen | 1.1 | 15.1 | (14.0) | ■ |
| Prudential / M&G | 1.7 | 1.2 | 0.5 | ○ |
| Newton | 7.8 | 4.2 | 3.6 | ○ |
| Pyrford | 2.9 | 6.1 | (3.2) | ■ |
| Schroders | (2.9) | (1.0) | (1.9) | Δ |
| Mellon Corporation (| 6.0 | 4.5 | 1.5 | ○ |
| UBS Bonds | 8.2 | 8.2 | 0.0 | ○ |
| UBS Equities | 16.2 | 16.2 | 0.0 | ○ |

3.8 Over two years, (table 4), most mandates are positive. Returns ranged from -1.3% for Schroders to 29.6% for Baillie Gifford. Absolute return and credit continue to struggle, underperforming their benchmarks but providing positive actual returns overall. Kempen also underperformed the benchmark by 11.0% with a return of 7.1%

Table 4 – Fund manager performance over two years

| Fund Manager | Actual | Benchmark | Variance | Ranking |
|--------------------|-------------|-------------|----------|---------|
| | Returns (%) | Returns (%) | (%) | |
| Aberdeen Standard | 9.0 | 4.7 | 4.3 | O |
| Baillie Gifford | 29.6 | 18.4 | 11.2 | O |
| BlackRock | (0.3) | 0.3 | (0.6) | Δ |
| Hermes GPE | 1.9 | 5.8 | (3.9) | |
| Kempen | 7.1 | 18.1 | (11.0) | |
| Prudential / M&G | 2.2 | 2.9 | (0.7) | Δ |
| Newton | 9.8 | 4.4 | 5.4 | O |
| Pyrford | 4.1 | 6.6 | (2.5) | Δ |
| Schroders | (1.3) | 0.3 | (1.6) | Δ |
| Mellon Corporation | 4.4 | 4.7 | (0.3) | Δ |
| UBS Bonds | 7.6 | 7.6 | 0.0 | O |
| UBS Equities | 19.8 | 19.8 | 0.0 | O |

4. Asset Allocations and Benchmark

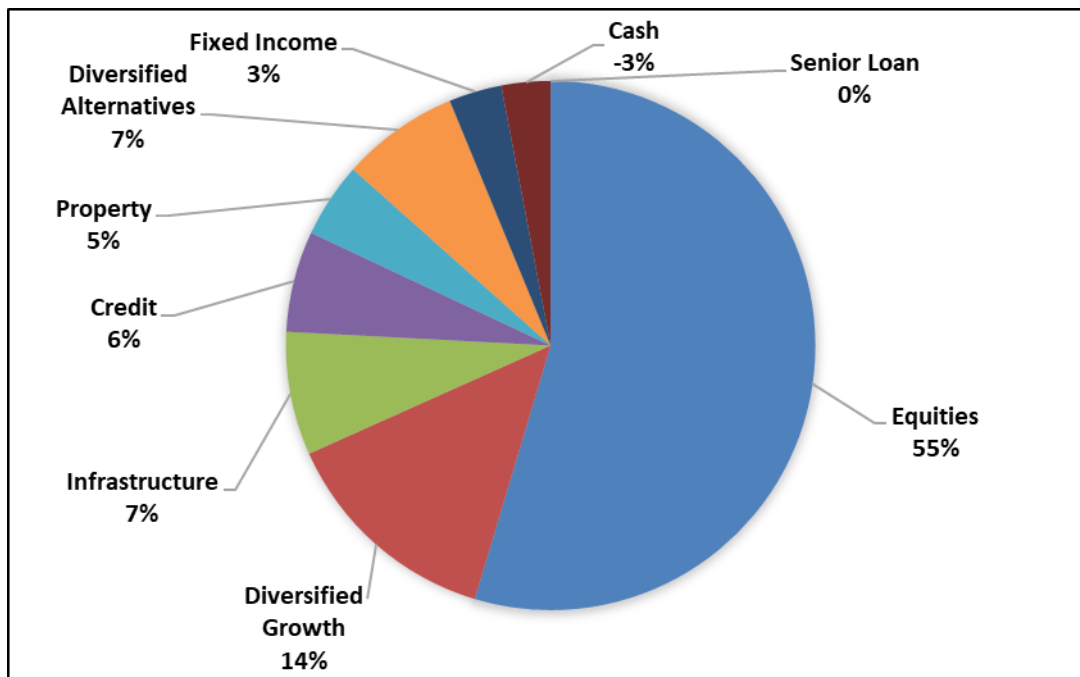
4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks

Table 5: Fund Asset Allocation and Benchmarks as at 31 December 2020

| Fund Manager | Asset (%) | Market Values (£000) | Benchmark |
|--------------------|---------------|----------------------|--------------------------------------|
| Aberdeen Standard | 7.6 | 93,020,921 | 3 Mth LIBOR + 4% per annum |
| Baillie Gifford | 25.1 | 305,736,236 | MSCI AC World Index |
| BlackRock | 3.0 | 37,028,313 | AREF/ IPD All Balanced |
| Hermes GPE | 8.0 | 97,544,298 | Target yield 5.9% per annum |
| Kempen | 13.9 | 169,118,364 | MSCI World NDR Index |
| Prudential / M&G | 0.0 | - | 3 Mth LIBOR + 4% per annum |
| Newton | 6.6 | 79,867,427 | One-month LIBOR +4% per annum |
| Pyrford | 8.9 | 108,659,108 | UK RPI +5% per annum |
| Schroders | 1.8 | 22,426,529 | AREF/ IPD All Balanced |
| Mellon Corporation | 5.6 | 68,105,985 | 3 Mth LIBOR + 4% per annum |
| UBS Bonds | 3.4 | 41,788,685 | FTSE UK Gilts All Stocks |
| UBS Equities | 19.1 | 232,144,927 | FTSE AW Devel. Tracker (part hedged) |
| LCIV | 0.0 | 150,000 | None |
| Cash | -3.2 | (38,667,630) | One-month LIBOR |
| Total Fund | 100.00 | 1,216,923,163 | |

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

Chart 2: Fund Allocation by Asset Class as at 31 December 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 | 58.1% | 52% | 6.1% | 50-60 |
| Diversified Growth | 14.5% | 16% | -1.5% | 14-18 |
| Infrastructure | 8.0% | 8% | 0.0% | 7-11 |
| Credit | 6.6% | 8% | -1.4% | 6-10 |
| Property | 4.9% | 5% | -0.1% | 4-7 |
| Diversified Alternatives | 7.6% | 9% | -1.4% | 7-10 |
| Fixed Income | 3.4% | 4% | -0.6% | 3-5 |
| Cash | -3.2% | 0% | -3.2% | 0-1 |

5. Fund Manager Performance

5.1 Kempen

| Kempen | 2020 | | | | 2019 | | | | One Year | Two Years | Since 6/2/13 |
|------------|------|-------|-------|--------|------|-------|-------|-------|----------|-----------|--------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £169.12m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 15.3 | (3.2) | 16.9 | (27.9) | 1.2 | 1.3 | 5.2 | 5.5 | 1.1 | 7.1 | 7.4 |
| Benchmark | 7.8 | 3.2 | 19.8 | (15.7) | 1.0 | 3.8 | 6.5 | 9.9 | 15.1 | 18.1 | 12.8 |
| Difference | 7.5 | (6.4) | (2.9) | (12.2) | 0.2 | (2.5) | (1.3) | (4.4) | (14.0) | (11.0) | (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 outperformed its benchmark by 7.5% for the quarter but has underperformed its one-year benchmark by 14.0%. Kempen provided an annual return of 7.1% over two years which was 11.0% below the benchmark. It has also underperformed its benchmark since inception by 5.4%, although the return over this period is an annualised return of 7.4%.

Portfolio Rebalancing

Kempen sold four names during Q4: SKF, Valeo, Archer Daniels Midland and Exxon Mobil.

The first three names were sold after the valuation of the shares became less attractive after the recent strong share price performances. In addition, the expected dividend yield of these shares was below the threshold. US oil major Exxon was sold as it continued to lag its oil major peers with regard to setting clear carbon reduction targets.

No new stocks were added to the portfolio

5.2 Baillie Gifford

| Baillie Gifford | 2020 | | | | 2019 | | | | One Year | Two Years | Since 6/2/13 |
|-----------------|------|-----|------|--------|------|-------|-----|------|----------|-----------|--------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| 305.74m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 11.1 | 7.6 | 27.9 | (13.2) | 4.9 | 0.7 | 7.7 | 12.4 | 33.5 | 29.6 | 17.3 |
| Benchmark | 8.6 | 3.5 | 19.8 | (15.9) | 1.5 | 3.4 | 6.2 | 9.8 | 16.0 | 18.4 | 12.7 |
| Difference | 2.5 | 4.1 | 8.1 | 2.7 | 3.4 | (2.7) | 1.5 | 2.6 | 17.5 | 11.2 | 4.6 |

Reason for appointment

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

Performance Review

For Q4 BG returned 11.1%, outperforming its benchmark by 2.5%. BG's one-year return was 33.5%, outperforming its benchmark by 16.0%. Since initial funding, the strategy has returned 17.3% p.a., outperforming its benchmark by 4.6%.

From a sector perspective, consumer discretionary added the most contribution to return to the portfolio, followed by industrials, communication services and healthcare. In consumer discretionary, Tesla added 99bps of relative performance to the portfolio with luxury retail businesses Farfetch adding 75bps. In industrials, Ryanair was the top contributor as the market expects air travel to return to some form of normality from the news of COVID-19 vaccines being approved. Energy and financials were the worst contributors to performance. Energy stocks performed well in the period however the Sub-fund is underweight and poor stock selection in financials was the culprit for underperformance.

Looking through the portfolio in terms of region, the United States was where the portfolio added the most contribution to returns. Strong stock selection in the country was a benefit for the portfolio. UK was also a strong contributor as Farfetch was one of the best performing stocks. China and Germany contracted and was most largely driven by weak stock selection. Namely, Alibaba had performed poorly as the ecommerce's sister company Ant-Group failed to IPO due to regulatory fails in China.

Whilst it is not a benchmark for the sub-fund, the manager has also been monitoring the performance vs the MSCI growth index as a comparator index and observed that they have been closely tracking since inception. However, in Q4 2020, the sub-fund was able to outperform this growth index by 4.65%. Since inception, the sub fund has beaten this comparator index by 1.6% per annum.

5.3 UBS Equities

| UBS Equities | 2020 | | | | 2019 | | | | One Year | Two Years | Since 31/08/12 |
|--------------|------|-----|------|--------|------|-----|-------|------|----------|-----------|----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £232.14m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 11.2 | 5.6 | 18.8 | (19.3) | 5.7 | 2.1 | 4.0 | 11.5 | 16.2 | 19.8 | 14.0 |
| Benchmark | 11.2 | 5.6 | 18.8 | (19.3) | 5.7 | 2.1 | 4.1 | 11.5 | 16.2 | 19.8 | 14.1 |
| Difference | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | (0.1) |

Reason for appointment

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

Performance

The fund returned 11.2% for Q4 and 16.2% over one year. Since funding in August 2012, the strategy has provided an annualised return of 14.0%.

Equities

Global equities gained in the fourth quarter, as vaccine breakthrough provided greater reassurance on a return to economic normality. On the back of this, the FTSE Developed index returned 8.2% in GBP terms, closing an unprecedented year on a positive note.

In November, the breakthrough in the hunt for an effective COVID-19 vaccine rekindled interest in more procyclical investments. This triggered a sudden and extreme style rotation from Growth and Momentum to Value; the scale of the rotation even eclipsed the 2008 financial crisis or the dotcom bubble. Cyclical stocks benefited the most from this reversal and small caps outperformed large caps.

US equities rose in the fourth quarter and performance from economically sensitive sectors such as Energy, Financials, and Industrials, outstripped returns of more defensive sectors. There was a broadening of the market away from the very narrow range of mega-cap names that had dominated returns all year.

European equities posted strong gains in the fourth quarter, benefiting from the style rotation witnessed on the market in the last months. Sectors that lost the most from the COVID-19 pandemic, such as Energy and Financials, saw the strongest bounce-back. Towards the end of December, the news of further lockdown in European markets due to the new COVID strain tempered market enthusiasm. The UK equity market which had been the weakest international equity market also recovered robustly, helped by the agreement at the end of the month of the EU-UK trade deal.

Emerging market equities returned their strongest quarterly return in over a decade with the weak US dollar partially contributing to the gains. Furthermore, a rally in commodity prices also helped Emerging Market exporters.

5.4 UBS Bonds

| UBS Bonds | 2020 | | | | 2019 | | | | One Year | Two Years | Since 5/7/2013 |
|------------|------|-------|-----|-----|-------|-----|-----|-----|----------|-----------|----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £41.79m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 0.6 | (1.2) | 2.5 | 6.3 | (3.9) | 6.2 | 1.4 | 3.4 | 8.2 | 7.6 | 5.4 |
| Benchmark | 0.6 | (1.2) | 2.5 | 6.3 | (3.9) | 6.2 | 1.3 | 3.4 | 8.2 | 7.6 | 5.4 |
| Difference | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |

Reason for appointment

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

Performance

Returned 0.6% for Q4, with a one-year return of 8.2% and a two-year return of 7.6%.

Within fixed income, spreads in non-government products outperformed government bonds as investor risk sentiment remained generally positive over the course of the quarter. US government bond yields rose driven by prospects of increased fiscal spending under a Biden administration and renewed hopes of a global economic rebound following the development of vaccines against COVID-19.

Yields on German bunds declined slightly over Q4 as investors weighted the negative impact of COVID related lockdowns on economic activity in the Euro area against improving economic data among some of the region's largest economies.

In spread product, high yield bonds outperformed investment grade although both ends of the credit quality spectrum generated positive returns. Local currency emerging market bonds were among the best performers for the quarter buoyed by EM FX strengthening against USD. Against this backdrop, higher yielding portions of the fixed income market saw continued demand in particular the Asia.

5.5 M&G / Prudential UK

| M&G / Prudential | 2020 | | | | 2019 | | | | One Year | Two Years | Since 31/5/2010 |
|------------------|------|-----|-----|-----|-------|-----|-------|-------|----------|-----------|-----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £0.00m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 0.0 | 0.0 | 0.0 | 1.7 | 0.0 | 1.7 | 0.0 | 1.0 | 1.7 | 2.2 | 4.5 |
| Benchmark | 0.0 | 0.0 | 0.0 | 1.2 | 1.2 | 1.2 | 1.0 | 1.2 | 1.2 | 2.9 | 2.9 |
| Difference | 0.0 | 0.0 | 0.0 | 0.5 | (1.2) | 0.5 | (1.0) | (0.2) | 0.5 | (0.7) | 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). The strategy provided a return of 4.5% per year, The strategies holding has reduced in size to nil, with all of the loans repaid. This investment completed the sale of its last senior loan and is now closed.

5.6 Schroders Indirect Real Estate (SIRE)

| Schroders | 2020 | | | | 2019 | | | | One Year | Two Years | Since 6/8/2010 |
|------------|------|-----|-------|-------|------|-------|-------|-------|----------|-----------|----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £22.43m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 2.7 | 0.3 | (2.0) | (3.9) | 1.0 | 0.3 | 0.1 | (1.1) | (2.9) | (1.3) | 5.3 |
| Benchmark | 2.1 | 0.2 | (2.0) | (1.3) | 0.3 | 0.4 | 0.6 | 0.3 | (1.0) | 0.3 | 6.6 |
| Difference | 0.6 | 0.1 | 0.0 | (2.6) | 0.7 | (0.1) | (0.5) | (1.4) | (1.9) | (1.6) | (1.3) |

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

Q4 2020 Performance and Investment Update

The fund generated a return in Q4 of 2.7% with a one-year return of negative 2.9% and a two-year return of negative 1.3%.

SIRE's portfolio structure maintains an overweight position to industria, alternative sectors and cash and is underweight office and retail sectors. One purchase was made in Q4 2020. The final commitment of £2.8 million was drawn by Income Plus Real Estate Debt Fund LP. Sales totalling £26.5 million were made across several funds to meet investor redemptions.

The performance of commercial real estate improved in Q4 2020 with SIRE recording its first positive quarterly return of the year. Listed real estate securities saw a strong bounce back over the quarter.

5.7 BlackRock

| BlackRock | 2020 | | | | 2019 | | | | One Year | Two Years | Since 1/1/2013 |
|------------|------|-----|-------|-------|------|-----|-------|-------|----------|-----------|----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £37.03m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 2.5 | 0.5 | (2.9) | (2.8) | 0.6 | 0.7 | 0.5 | 0.1 | (2.6) | (0.3) | 0.5 |
| Benchmark | 2.1 | 0.2 | (2.0) | (1.3) | 0.3 | 0.4 | 0.6 | 0.3 | (1.0) | 0.3 | 3.7 |
| Difference | 0.4 | 0.3 | (0.9) | (1.5) | 0.3 | 0.3 | (0.1) | (0.2) | (1.6) | (0.6) | (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.

Q4 2020 Performance and Investment Update

BR returned 2.5% for the quarter against the benchmark of 2.1%. It returned -2.6% over one year against its benchmark's return of -1.0%. During the final quarter of the year the Fund completed three disposals totaling £53.7 million. No acquisitions took place in Q4 2020.

Pressure on UK retailers continued, however October retail sales volumes rose by 1.2% and extended the continuous period of growth to six months. Offices in Central London saw vacancy rates increase at pace in Q3-Q4 2020.

5.8 Hermes

| Hermes | 2020 | | | | 2019 | | | | One Year | Two Years | Since 9/11/2012 |
|------------|-------|-------|-------|-----|-------|-------|-------|-------|----------|-----------|-----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £97.54m | % | % | % | % | % | % | % | % | % | % | % |
| Return | (1.5) | 0.0 | 0.9 | 3.9 | (0.2) | 1.2 | 1.0 | (1.5) | 3.3 | 1.9 | 7.9 |
| Benchmark | 1.4 | 1.4 | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | 1.4 | 5.8 | 5.8 | 5.9 |
| Difference | (2.9) | (1.4) | (0.5) | 2.4 | (1.6) | (0.3) | (0.5) | (2.9) | (2.5) | (3.9) | 2.0 |

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 -1.5% in Q4 underperforming the benchmark by 2.9%. As at 31 December 2020, the strategy reported a one-year positive return of 3.3%, underperforming its benchmark by 2.5%. Since inception the strategy has provided a good, annualised return of 7.9%, outperforming its benchmark by 2.0%.

Portfolio review

In the Value-Added portfolio, Eurostar continues to be the most affected asset. Current international travel restrictions have led to a precipitous reduction in passenger numbers since December, with Eurostar currently operating a single service per day from London to each of Brussels/Amsterdam and Paris. Whilst welcoming positive news regarding vaccination rollouts across Eurostar's network countries, Eurostar management remain extremely cautious on the recovery and currently anticipates passenger numbers increasing from September 2021, at the earliest. Cash flow management and cost reductions remain a key area of focus, however as a result of continued delays to a recovery, Eurostar is expecting to require between £250m and £300m of additional funding to cover a cash shortfall during 2021 and 2022. A range of options are being explored, and it is possible that further shareholder equity support will be required.

Following local travel restrictions introduced from October 2020, Scandlines experienced a sharp decrease in car volumes, which were c.75% below budget by December 2020, and have continued at the same level throughout January. Cargo volumes have remained resilient and boosted by Christmas trade, performance reached budgeted levels by the end of December 2020 and throughout January.

In the Core portfolio, Iridium Hermes Roads' Q4 traffic performance was negatively impacted by increased restrictions in Spain. December and January traffic were c.23% below budget on average, compared to a c.75% reduction in traffic during the first lockdown. A claims process with concession grantors to obtain compensation due to the impact of Covid-19 on traffic is ongoing.

5.9 Aberdeen Standard Asset Management

| Aberdeen Standard | 2020 | | | | 2019 | | | | One Year | Two Years | Since 15/9/2014 |
|-------------------|------|-----|-------|-------|-------|-----|-----|-------|----------|-----------|-----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £93.02m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 8.3 | 5.1 | (0.6) | 0.7 | (0.2) | 1.9 | 2.3 | 0.6 | 13.5 | 9.0 | 5.3 |
| Benchmark | 1.0 | 1.0 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 4.5 | 4.7 | 4.6 |
| Difference | 7.3 | 4.1 | (1.9) | (0.5) | (1.4) | 0.7 | 1.1 | (0.6) | 9.0 | 4.3 | 0.7 |

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. In December 2020 Members agreed to invest a further £20m with ASAM, with a £10m investment in January 2021 and a further investment due in April 2021.

Performance

Overall, the strategy provided a return of 8.3% in Q4 2020, outperforming its benchmark by 7.3%. The largest contributors included the Cinven Cullinan and Glass Technology co-investments where the underlying businesses were either listed or sold. Advent International GPE VIII, OEP VI & PAI Europe VI also made material write ups across their portfolios.

Over one year the mandate has outperformed its benchmark, with a return of 13.5% against a benchmark of 4.5%. Since inception in September 2014, the strategy has returned 5.3%, outperforming its benchmark by 0.7%.

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

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

5.10 Pyrford

| Pyrford | 2020 | | | | 2019 | | | | One Year | Two Years | Since 28/9/2012 |
|------------|------|-------|-----|-------|-------|-------|-------|-----|----------|-----------|-----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £108.66m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 3.1 | (1.6) | 6.2 | (4.8) | 0.7 | 0.9 | 1.1 | 2.7 | 2.9 | 4.1 | 3.4 |
| Benchmark | 1.6 | 1.8 | 1.3 | 1.5 | 1.5 | 1.7 | 2.8 | 1.1 | 6.1 | 6.6 | 6.9 |
| Difference | 1.5 | (3.4) | 4.9 | (6.3) | (0.8) | (0.8) | (1.7) | 1.6 | (3.2) | (2.5) | (3.5) |

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 return of 3.1% in Q4 outperforming its benchmark by 1.5%. Over one year the strategy has returned 2.9%, underperforming its benchmark by 3.2%. Pyrford underperformed its benchmark by 3.5% since inception.

Within the portfolio, both equities and currency hedging programme positively contributed to the quarterly performance, while bonds detracted during the last quarter of the year. The current asset allocation of the portfolio remains the same as last quarter, with 42.09% in equities, 56.38% in bonds and 1.53% allocated to cash. The portfolio witnessed a removal of the Australian Dollar hedge, with the remaining hedged position on United States dollars, Canadian dollar and Swiss Franc.

Outlook and Strategy

The markets continue to fight their way through the turbulence. Euphoria in November as multiple vaccines were released and approved in record time quickly gave way to concerns about new virus strains and relentless third wave of infections. The availability of a choice of vaccines so quickly is nothing short of a triumph for the scientific community. However, the manufacture, transportation, distribution and dispensing of hundreds of millions of doses appears to be a logistical challenge unrivalled in peacetime. The path of the Covid-19 pandemic in 2021 remains the biggest uncertainty.

Ultra-low yields have been artificially generated by central banks cutting base rates and actively buying government bonds to push yields down further. This has allowed Governments to borrow cheaply to finance the massive amounts of fiscal stimulus they have provided this year. Coordinated Government and central bank action has provided income support to many in the developed world whilst reducing the burden of the high levels of debt. As a result, increased household savings providing the potential for pent-up demand to be released.

5.11 Newton

| Newton | 2020 | | | | 2019 | | | | One Year | Two Years | Since 31/8/2012 |
|------------|------|-----|-----|--------|------|-----|-----|-----|----------|-----------|-----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £79.87m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 5.6 | 3.5 | 8.0 | (9.2) | 1.6 | 1.7 | 4.3 | 4.2 | 7.8 | 9.8 | 4.4 |
| Benchmark | 1.0 | 1.0 | 1.1 | 1.2 | 1.2 | 1.2 | 1.0 | 1.2 | 4.2 | 4.4 | 4.5 |
| Difference | 4.6 | 2.5 | 6.9 | (10.4) | 0.4 | 0.5 | 3.3 | 3.0 | 3.6 | 5.4 | (0.1) |

Reason for appointment

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

Performance

Newton generated a return of 5.6% in Q4 and outperformed its benchmark by 4.6%. Over one year the strategy has returned 7.8%, outperforming its benchmark by 3.6%. Newton's performance since inception is 4.4% and underperforms its benchmark by 0.1%.

The portfolio performance was mainly driven by positions in return seeking assets, where equities, corporate bonds, Emerging Market debt and alternatives all positively contributed to the performance during the period. The exposure to equities delivered the largest chunk of return gains as the markets advanced over the quarter following positive news around the effectiveness of the vaccine, the US election result and additional stimulus measures in the US. The detractors over the quarter were centred on the protection assets within the portfolio. Derivative instruments and exposure to gold were the main detractors to the portfolio performance this quarter, but still hold an important part of the investment manager's overall strategy.

The portfolios exposure is summarised below:

| Portfolio Exposures | | |
|-------------------------|-------------------|------------------|
| | 30 September 2020 | 31 December 2020 |
| Equities | 41.30 | 51.13 |
| North America | 16.60 | 19.74 |
| Europe | 12.30 | 13.31 |
| UK | 6.50 | 10.19 |
| Emerging Markets | 3.10 | 3.69 |
| Pacific Basin Ex Japan | 2.20 | 3.40 |
| Japan | 0.60 | 0.80 |
| Fixed Income | 21.70 | 14.85 |
| Corporate Bonds | 10.50 | 8.46 |
| Emerging Debt | 6.50 | 6.04 |
| Government Bonds | 1.30 | 0.35 |
| Index Linked Government | 3.40 | 0.00 |
| Alternatives | 37.00 | 34.02 |
| Infrastructure Funds | 12.90 | 12.66 |
| Precious Metals | 17.80 | 11.55 |
| Cash and FX Forwards | 4.70 | 7.18 |
| Derivative Instruments | 1.60 | 2.63 |
| Total | 100.00 | 100.00 |

5.12 Mellon Corporation (Standish)

| Mellon Corporation | 2020 | | | | 2019 | | | | One Year | Two Years | Since 20/8/2013 |
|--------------------|------|-----|-----|-------|-------|-------|-------|-----|----------|-----------|-----------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | | | |
| £68.11m | % | % | % | % | % | % | % | % | % | % | % |
| Return | 2.2 | 1.5 | 4.7 | (2.3) | (0.0) | 0.1 | 0.8 | 1.9 | 6.0 | 4.4 | 1.1 |
| Benchmark | 1.0 | 1.0 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 4.5 | 4.7 | 5.1 |
| Difference | 1.2 | 0.5 | 3.4 | (3.5) | (1.2) | (1.1) | (0.4) | 0.7 | 1.5 | (0.3) | (4.0) |

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 2.2% against a benchmark return of 1.0%. Over one year the strategy has outperformed its benchmark of 4.5% by 1.5%, providing a return of 6.0%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 1.1%. The Fund's asset allocation to corporate credit was the primary contributor to its return.

Portfolio Composition:

Allocation to investment grade corporate credit was reduced from 37% to 24% although high yield corporate exposure was maintained at 6%. The allocation to credit was increased from historically low levels held earlier in Q1 2020 to capitalise on the significant dislocation in credit spreads resulting from the COVID 19 pandemic sell off in risk in March. Asset allocation to corporate sectors and emerging markets being the principal contributors Risk assets rallied through the final quarter on the back of reduced policy uncertainty following Biden's victory in the US presidential election and the approval and distribution of vaccines easing concerns about further COVID 19 related economic disruptions.

5.13 Currency Hedging

No new currency hedging positions were placed in Q4 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 Q4 2020 Report; and
- Fund Manager Q4 2020 Reports.

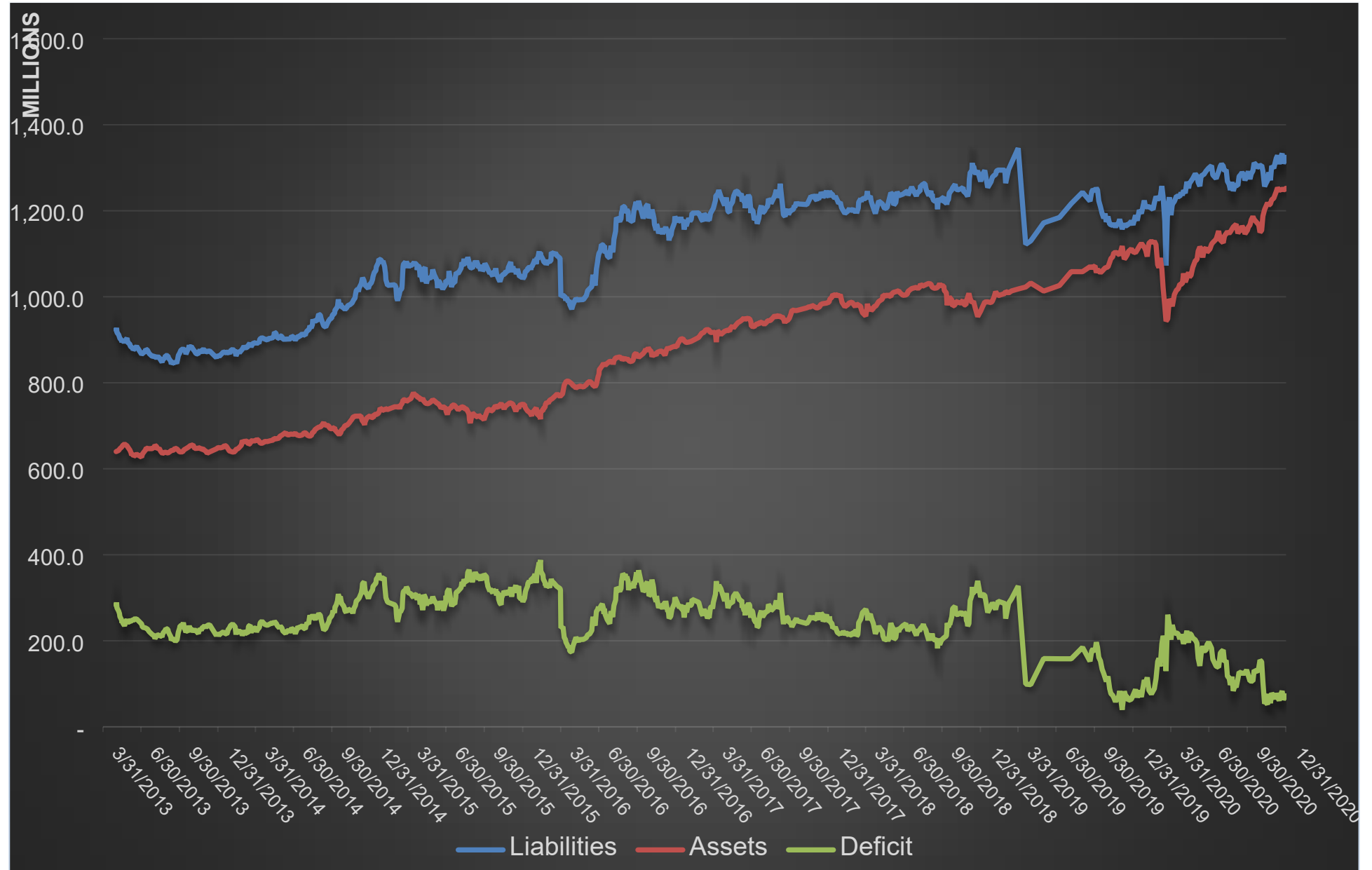
List of appendices:

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

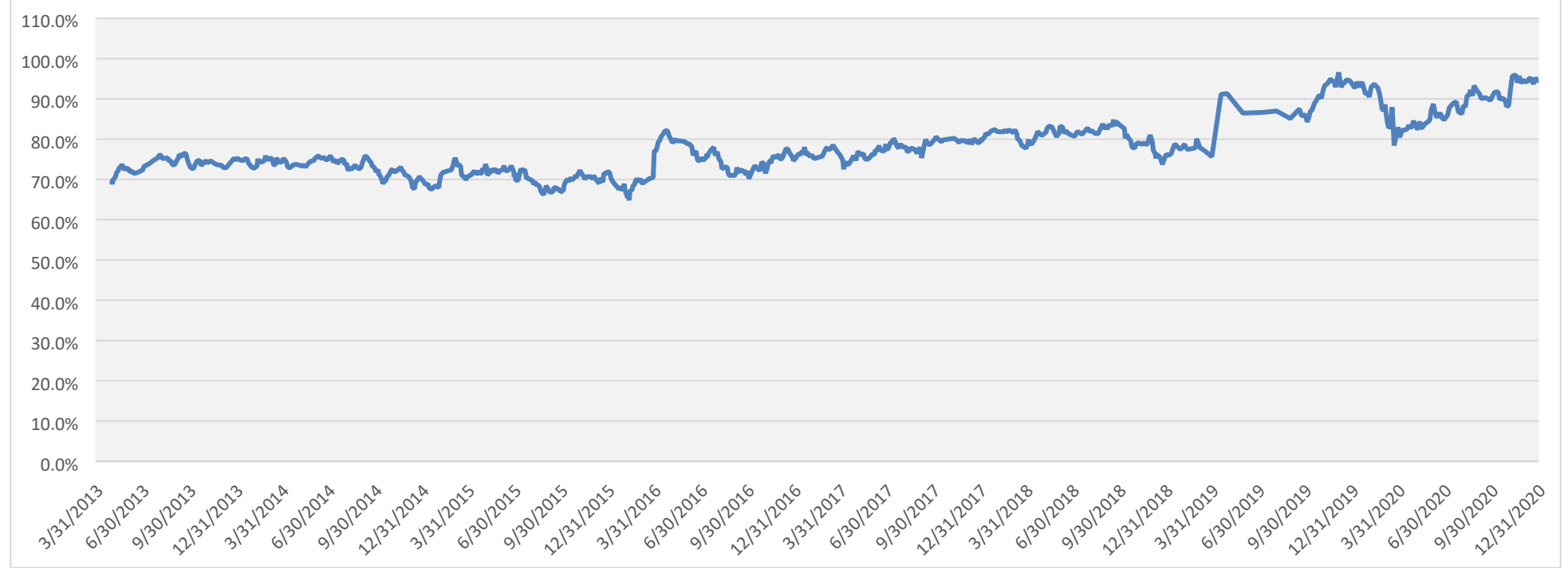
Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities

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



Funding Level between 31 March 2013 to 31 December 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 Pathways 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

17 March 2021

| | |
|--|---|
| Title: Administration and Governance Report | |
| Report of the Chief Operating Officer | |
| Public Report | For Information |
| Wards Affected: None | Key Decision: No |
| Report Author: Jesmine Anwar, Pension Fund Accountant | Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk |
| Accountable Director: Philip Gregory, Finance Director | |
| Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer | |
| <p>Summary: In presenting the regular administrative data and governance update, the Committee is asked to consider the Pension Fund Prepayment Options set out in Section 2 of the report, and to note:</p> <ul style="list-style-type: none"> i. Note the performance review of the Fund's appointed investment consultants, Hymans Robertson, against the agreed Strategic Objectives during the period to 9 December 2020. The review is attached as a confidential Appendix to this report, ii. That a Compliance Statement was submitted to the Competition and Markets Authority on 5 January 2021, iii. That the Fund is cash flow negative, iv. The Fund's three-year budget for the period 1 April 2020 to 31 March 2023, and v. The London CIV Update. <p>Recommendations: The Committee is recommended to agree:</p> <ul style="list-style-type: none"> i. That a prepayment is made of £20m on 1 April 2021, and ii. Approve the Strategic Objectives for the Fund's Investment Consultant for the period 10 December 2020 to 9 December 2021 which are detailed in the "Strategic objectives" column of the confidential Appendix to this report. | |

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 Prepayment Options
- ii. Investment Consultants Strategic Objectives Review

- iii. Pension Fund Budget 1 April 2020 to 31 March 2023;
- iv. Cash flow to 31 December 2020; and
- v. London CIV update.

2. Pension Fund Prepayment Options

- 2.1 As part of the Council's savings options, it prepaid two years of pension contribution totalling £40m to the Pension Fund for 2019/20 and again for 2020/21. A prepayment of contributions is where a lump sum payment is made to the Pension Fund by the Council and it is based on the likely employer contribution. During the year, the first-year prepayment is repaid in twelve equal amounts (i.e. £20m is repaid in twelve equal amounts), with the actual employer contributions paid each month to ensure that the correct contribution rates are paid.
- 2.2 For the prepayment, an amount is paid by the Pension Fund to the Council that equates to the discount rate. For 2020/21 to 2022/23 this equated to an effective interest rate of 4.0%. As at the 31 December 2020, this prepayment has increased in value by 11.6% and by 12.1% over two years. The prepayment allowed the Fund to meet capital calls for Infrastructure and to fund Diversified Alternatives, without the need for the Fund to sell any assets to Fund these investments.
- 2.3 The table below shows the current asset allocation against the target and range. The Fund is currently fully invested and has a short-term borrowing position of approximately £14.9m with the Council. An investment of £10m has been agreed to be invested with Aberdeen Standard in Diversified Alternatives on 1 April 2021.

Table 1: Current Asset Allocation

| Asset Class | Current Position | Strategic Allocation Target | Variance | Range |
|--------------------------|------------------|-----------------------------|----------|-------|
| Equities | 58.1% | 52% | 6.1% | 50-60 |
| Diversified Growth | 14.5% | 16% | -1.5% | 14-18 |
| Infrastructure | 8.0% | 8% | 0.0% | 7-11 |
| Credit | 6.6% | 8% | -1.4% | 6-10 |
| Property | 4.9% | 5% | -0.1% | 4-7 |
| Diversified Alternatives | 7.6% | 9% | -1.4% | 7-10 |
| Fixed Income | 3.4% | 4% | -0.6% | 3-5 |
| Cash | -3.2% | 0% | -3.2% | 0-1 |

- 2.4 If agreed, the £20m prepayment for 2022/23 will be used for the following:
- i) to fund £10m agreed investment with Aberdeen in Diversified Alternatives, and
 - ii) to reduce the overdrawn cash position of £14.9m.
- 2.5 It is recommended that a prepayment is made of £20m on 1 April 2021. This will take the total prepayment amount to £40m.

3. Investment Consultants Strategic Objectives Review

Introduction and Background

- 3.1 The Barking and Dagenham Pension Fund is required under Part 9 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 to provide a Compliance Statement by 7 January 2021 confirming compliance with Part 7 of the Order which requires the Fund to set Strategic Objectives for its investment consultancy provider. The Compliance Statement was required to confirm the extent to which the relevant applicable Articles of the relevant Part or Parts of the Order that were in force during the reporting period have been complied with during that period.
- 3.2 The Council must ensure it takes “proper advice” in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 on investment matters in order to carry out its role as the Administering Authority for the Fund, it does this by having an appointed Investment Consultant, which is currently Hymans Robertson.

The requirements of the Competition and Markets Authority (CMA) and the Pension Fund’s response

- 3.3 The CMA completed an investigation into fiduciary management and investment consultancy services which resulted in ‘The Investment Consultancy and Fiduciary Management Market Investigation Order 2019’ (The Order).
- 3.4 The Order came into force on 10 December 2019 and to comply with Part 7 of the Order which applies to the LGPS, Strategic Objectives were agreed for Hymans Robertson who are presently investment consultants to the Barking and Dagenham Pension Fund.
- 3.5 Hymans Robertson undertook a self-evaluation of their performance against the Objectives. This has been reviewed by both Fund Officers and the Independent Advisor. The final evaluation is contained in the confidential Appendix to this report.
- 3.6 In order to give additional assurance, the Independent Advisor to the Fund was requested, and agreed, to participate in the review of the performance of Hymans Robertson against the agreed Objectives. The Independent Advisor has considered those reports and papers provided to him during the period under review. The Independent Advisor has confirmed that he is content with the contents of the confidential Appendix in respect of those parts of it with which he has been involved in his role as Independent Advisor to the Fund.
- 3.7 To comply with The Order the Barking and Dagenham Pension Fund was required to report back to the Competition and Markets Authority by 7 January 2021. This requirement was fulfilled by the submission of a Compliance Statement on 5 January 2021.
- 3.8 The Strategic Objectives for Hymans Robertson, for the period 10 December 2020 to 9 December 2021, have been given consideration and it is considered that the existing Strategic Objectives remain appropriate. It is therefore recommended that the Pensions Committee confirm this proposal.

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

4.1 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 |

4.2 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.

4.3 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.

4.4 Overall the Fund is expected to be cashflow negative, although relatively marginally, 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.

5. Cash flow to 31 December 2020

5.1 Table 2 below provides Members with the Fund's Cash flow to 31 December 2020.

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

| | 2020/21 Budget £000's | 2020/21 Actual £000's | Over / Under £000's |
|---|--------------------------------------|--------------------------------------|------------------------------------|
| <u>Contributions</u> | | | |
| Employee Contributions | | | |
| Council | 6,800 | 7,600 | 800 |
| Admitted bodies | 1,000 | 700 | -300 |
| Scheduled bodies | 1,950 | 1,950 | 0 |
| Employer Contributions | | | |
| Council | 21,000 | 24,000 | 3,000 |
| Admitted bodies | 4,000 | 2,550 | -1,450 |
| Scheduled bodies | 7,250 | 7,700 | 450 |
| Pension Strain | 1,000 | 1,200 | 200 |
| Transfers In | 2,500 | 4,300 | 1,800 |
| <u>Total Member Income</u> | 45,500 | 50,000 | 4,500 |
| <u>Expenditure</u> | | | |
| Pensions | -36,500 | -35,600 | 900 |
| Lump Sums and Death Grants | -7,000 | -6,900 | 100 |
| Payments to and on account of leavers | -2,500 | -7,200 | -4,700 |
| Administrative expenses | -700 | -700 | 0 |
| Total Expenditure on members | -46,700 | -50,400 | -3,700 |
| <u>Net additions for dealings with members</u> | -1,200 | -400 | 800 |
| <u>Returns on Investments</u> | | | |
| Investment Income | 7,500 | 7,500 | - |
| Profit (losses) | 35,000 | 35,000 | - |
| Investment management expenses | -3,500 | -3,500 | - |
| Net returns on investments | 39,000 | 39,000 | - |
| Net increase (decrease) in the net assets | 37,800 | 38,600 | 800 |
| Asset Values | 1,012,293 | 1,216,900 | |
| Liabilities | -1,189,704 | -1,213,065 | |
| Funding Level | 85.1% | 100.32% | |

6. London Collective Investment Vehicle (LCIV) Update

6.1 The LCIV is the first fully authorised investment management company set up by Local Government. It aims to be the LGPS pool for London to enable Local Authorities to achieve their pooling requirements.

6.2 Having been set up in 2015, LCIV launched a number of funds which were seeded by London Funds. At 31 December 2020, London CIV assets under management was £10.75 billion which is a rise of 12% compared to the previous quarter. Some of this increase is due to investments into the Global Equity Core Fund.

6.3 The table below provides members with a breakdown of the LBBD Pension Funds holdings in LCIV as at 31 December 2020.

| Fund | Manager | Value of Holdings (£000) | % of Pension Fund |
|--------------------------|-----------------|---------------------------------|--------------------------|
| Global Alpha Growth Fund | Baillie Gifford | £305,736 | 25.1 |
| Real Return Fund | Newton | 79,867 | 6.6 |
| Global Total Real Fund | Pyrford | 108,659 | 8.9 |
| Total | | 494,262 | 40.6 |

6.4 The funds passive investment can also be accessed via the London CIVs passive equity fund, however there is a cost to transfer so the fund remains invested with UBS. The fund is also considering further investments into the CIV's equity funds in the current strategic asset allocation review.

7. Consultation

7.1 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.

7.2 With regard to the Investment Consultants Strategic Objectives Review, the Independent Advisor has been closely and specifically consulted. The closed Appendix to this report has been prepared based on a self-assessment prepared by the Funds Investment Consultant Hymans Robertson which was reviewed and scrutinised by the Independent Advisor as well as Fund Officers.

8. Financial Implications

Implications completed by Philip Gregory, Finance Director

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

9. Legal Implications

Implications completed by Dr. Paul Feild Senior Governance Solicitor

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

10. Other Implications

10.1 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.

List of appendices – Appendix 1 – Performance Review
(Private & Confidential – Agenda item 10)

Background Papers Used in the Preparation of the Report: None

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PENSIONS COMMITTEE

17 March 2021

| | |
|---|---|
| Title: Business Plan Update 2020/21 | |
| Report of the Chief Operating Officer | |
| | Public Report |
| Wards Affected: None | 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, Chief Operating Officer | |
| Recommendations The Committee is asked to note progress on the delivery of the 2020/21 Business Plan actions in Appendix 1 to the report. | |

1. Introduction and Background

- 1.1 The purpose of this report is to update the Pensions Committee on the progress of 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 Review is being carried out by the Fund's Actuary and a full Business Plan for 2021 to 2023 has been drafted alongside this. This sets out the key tasks for the Pensions Committee in respect to the Pension Fund issues for 2021/22 as was agreed by Members at the meeting in December 2020.

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.

List of appendices:

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 | |
| | 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 | |
| | 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 | Presented in June Committee |

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

PENSIONS COMMITTEE

17 March 2021

| | |
|--|---|
| Title: Funding Strategy Statement and Investment Strategy Statement | |
| Report of the Chief Operating Officer | |
| Public Report | For Information |
| Wards Affected: None | Key Decision: No |
| Report Author: Jesmine Anwar, Pension Fund Accountant | Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk |
| Accountable Director: Philip Gregory, Finance Director | |
| Accountable Strategic Director: Claire Symonds, Chief Operating Officer | |
| <p>Summary:</p> <p>The Pensions Committee members are required to agree the aims and objectives outlined within the Pension Fund's Governance and Investment strategies. Following the triennial valuation, two key strategy documents need to be reviewed and updated. These documents are the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). These documents 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.</p> <p>The Funding Strategy Statement is summarised in this report, with the final Statement included as appendix to this report. The report is to be reviewed and agreed by the Pensions Committee as part of its review of decision making within the Fund. The Investment Strategy Statement was produced following a Strategic Asset Allocation Review by the Fund's Investment Advisor in April 2020. The report was presented to the Pension Board for information.</p> | |
| <p>The Committee is recommended to agree:</p> <ol style="list-style-type: none"> i. the updated Funding Strategy Statement for a 30-day consultation with the fund's employers and the final version to be approved by the Finance Director in consultation with the committee chair; ii. the provisional Investment Strategy Statement. | |

1. Introduction and Background

- 1.1 London Borough of Barking and Dagenham (the Council) is the statutory administering authority for the Local Government Pension Scheme (LGPS) through the London Borough of Barking and Dagenham Pension Fund (the Fund).
- 1.2 As Administering Authority, the Council has delegated responsibility for the administration of the Fund to the Section 151 officer, advised by the Pensions Committee and after taking expert advice from the Fund's Investment Advisor (Hymans Robertson) and the Fund's Independent Advisor, John Raisin.

2. Funding Strategy Statement (FSS)

- 2.1 After the triennial valuation is completed the FSS must be updated. The purpose of the FSS, as stated by the Department for Communities and Local Government (DCLG) is:
- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward,*
 - *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
 - *to take a **prudent longer-term view** of funding those liabilities.”*
- 2.2 These objectives are desirable individually but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.
- 2.3 This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 2.4 The objectives of the Fund's funding policy are as follows:
- i) to ensure the long-term solvency of the Fund and the long-term solvency of shares of the Fund attributable to individual employers,
 - ii) to ensure sufficient funds are available to meet all benefits as they fall due,
 - iii) not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk,
 - iv) to help employers recognise and manage pension liabilities as they accrue,
 - v) to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so,
 - vi) to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and

vii) to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

2.5 The actuary and officers have produced an updated FSS, which is included as appendix 1 of this report. This will be distributed to all Fund employers and will be taken to the Pension Board for comments.

2.6 A summary of key changes includes:

- An update of policies on employer flexibilities
- Retail Price Index reform

2.7 All proposed amendments have been made to the FSS and therefore, subject to any amendments put forward by Committee Members, the report in Appendix 1 is included for agreement by Pensions Committee Members for a 30-day consultation with the fund's employers and the final version to be approved by the Finance Director in consultation with the chair of the Pensions Committee.

3. Investment Strategy Statement (ISS)

3.1 The Council, as Administering Authority, is responsible for setting the overall investment strategy of the Fund and monitoring the performance of its investments. This task is carried out by the Pension Committee on behalf of the Fund.

3.2 The investment strategy is usually set for the long-term but reviewed periodically by the Committee to ensure that it remains appropriate to the Fund's liability profile.

3.3 For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, required the Fund to publish an Investment Strategy Statement (ISS), which replaced the Statement of Investment Principles.

3.4 The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The Fund's requirement to invest fund money in a wide range of instruments.
- The Fund's assessment of the suitability of investments and types of investment.
- The Fund's approach to risk and the ways in which risks are measured and managed.
- The Fund's approach to pooling investments and use of collective investment vehicles.
- The Fund's policy on how social, environmental, or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

3.5 The latest Investment Strategy Statement has been produced following a full Strategic Asset Allocation Review by the fund's Investment Advisor in April 2020. The report in Appendix 2 is included for agreement by Pensions Committee Members.

4. Consultation

- 4.1 Council's Pension Fund strategy development involves continuous dialogue and consultation between finance staff and external advisers. For the provisional FSS there will be a 30-day consultation with all Fund employers. The consultation process for this FSS will be:
- i. A draft version of the FSS issued to all participating employers for comment,
 - ii. Comments will be requested within 30 days,
- The Chief Operating Officer and the Pension Committee's Chair have been informed of the commentary in this report.

5. Financial Implications

Implications completed by: Philip Gregory, Director of Finance

- 5.1 The Fund is a statutory requirement to provide a defined benefit pension to scheme members. The Pension Committee's role is agreeing and monitoring the Fund's Governance and Administration strategies. This paper forms part of the reviewing process.

6. Legal Implications

Implications completed by Dr Paul Feild Senior Governance Solicitor

- 6.1 The Funding Strategy Statement (FSS) and the Investment Strategy Statement are connected, with the administering authority setting the strategy, after taking advice. The FSS is a summary of the Fund's approach to funding liabilities.
- 6.2 The FSS shall be prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and taking account of changes brought about by the Local Government Pension Scheme (Amendment) Regulations 2018. The FSS shall also ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013, are met. Furthermore the administering authority must have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA), the most recent being the guide "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme" (2016) and to the Funds Statement of Investment Principles and the Investment Strategy Statement.

7. Other Implications

- 7.1 There are no other immediate implications arising from this report.

Background Papers Used in the Preparation of the Report:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- Local Government Pension Scheme Regulations 2013 (as amended)
- Public Service Pensions Act 2013
- Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme (CIPFA)

List of appendices:

- Appendix 1 – Final Funding Strategy Statement
- Appendix 2 – Final Investment Strategy Statement

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Appendix 1

London Borough of Barking and Dagenham Pension Fund



Funding Strategy Statement March 2021

DRAFT Funding Strategy Statement

PAGE

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), which is administered by the London Borough of Barking and Dagenham, (“the Administering Authority”). It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and advisers. It is effective from 1 April 2020.

1.2 What is the London Borough of Barking and Dagenham Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund to make sure it:

- receives the proper amount of contributions and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers’ contributions; and
- prudence in the funding basis.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money; and
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view to ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed;
- B. who is responsible for what;
- C. what issues the Fund needs to monitor, and how it manages its risks;
- D. some more details about the actuarial calculations required;
- E. the assumptions which the Fund actuary currently makes about the future; and
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact David Dickinson, Investment Fund Manager in the first instance at e-mail address david.dickinson@lbbd.gov.uk or on telephone number 0208 227 2722.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate the required contribution rate?

This is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report and can also be found in [Appendix G](#). Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However, over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before.

Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst most members will be local authority employees (and ex-

employees), most participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public-sector scheme (i.e. Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regs.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils can participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund can set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a shorter time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers, it may be agreed to pool contributions, see [3.4](#).

Any costs of non-ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer-term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and

- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, MHCLG has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an explicit allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the likelihoods of success that are used to determine contribution rates.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things)

proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk to the Fund.

The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the FSS. Therefore, the Administering Authority, reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At their absolute discretion, the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring contributions may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf [\(3.3\)](#) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies* |
|--|---|--|--------------------------|---|--|--|
| Sub-type | Council | Colleges | Academies | Open to new entrants | Closed to new entrants | (all) |
| Funding Basis used | Ongoing participation basis, assumes long-term Fund participation (see Appendix E) | | | Ongoing participation basis, but may move to “gilts exit basis” - see Note (a) | | Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E) |
| Primary approach rate | (see Appendix D – D.2) | | | | | |
| Stabilised contribution rate? | Yes - see Note (b) | No | No | No | No | No |
| Maximum time horizon – Note (c) | 17 years | 17 years | 17 years | Future working lifetime | Future working lifetime | Outstanding contract term |
| Secondary rate – Note (d) | % of payroll | % of payroll | % of payroll | % of payroll | % of payroll | % of payroll |
| Treatment of surplus | Covered by stabilisation arrangement | Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority | | | Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term | |
| Likelihood of achieving target – Note (e) | 70% | 75% | 75% | 70% if guaranteed, 80% otherwise | 70% if guaranteed, 80% otherwise | 70% if guaranteed, 80% otherwise |
| Phasing of contribution changes | Covered by stabilisation arrangement | At the discretion of the Administering Authority | | None | None | None |
| Review of rates – Note (f) | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract |
| New employer | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) |
| Cessation of participation: exit debt/credit payable | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) . | | | Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Notes (j) and (k) . | | Participation is assumed to expire at the end of the contract. Cessation debt/credit (if any) calculated on contractor exit basis, unless the admission agreement is terminated early in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Notes (j) and (k) for further details. |

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short-term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long-term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to London Borough of Barking and Dagenham Council as a tax raising body.

Based on extensive modelling carried out for the 2019 valuation exercise, total contributions have been set to ensure that stabilised employers have at least a 70% chance of being fully funded in 17 years under the 2019 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, based on membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and active Fund membership on the day prior to conversion;
- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section [3.3](#) above;
- v. As an alternative to (iv), the academy may have the option to elect to pay a stabilised rate of contributions as described in note (b). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated assets and liabilities.
- vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of the FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all the following:

- the strain cost of redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- allowance for the risk of a greater than expected rise in liabilities; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is generally calculated on the ongoing participation basis, as detailed in Appendix E.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually

be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- i) Pooling
Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.
- ii) Letting employer retains pre-contract risks
Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.
- iii) Fixed contribution rate agreed
Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options if the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer acting for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. Further details of the Funds exit credit policy are set out in [Note \(k\)](#). If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1% uplift to the ceasing employer's active and deferred member liability values for cessations on a "gilts exit basis", as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer in accordance with the Fund's administration strategy document. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a “gilts exit basis”, which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being a security in place for the employer (i.e. a bond indemnity or guarantee).

If the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter an agreement with the ceasing Admission Body. Under this agreement, the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the “gilts exit basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

Note (k) (Exit credit policy)

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of “pass-through” arrangements. This is on the basis that these

employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.

- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the employer specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However, there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in

the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. Employers permitted to enter (or remain in) a pool at the 2019 valuation will not be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may consider factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non-ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. The payment is payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see [3.3](#), [Note \(j\)](#) and [Note \(k\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

3.11 Employer flexibilities

In light of guidance issued by MHCLG and the Scheme Advisory Board in relation to preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt arrangements, the Fund has set out its policies relating to the following regulations:

- Regulation 64A: Revisions to scheme employer contributions between valuations
- Regulation 64B: Spreading of exit payments
- Regulation 64: Deferred debt arrangements.

These policies can be found on the pension funds website: www.lbbdpensionfund.org.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

The Administering Authority sets the investment strategy, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and

income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The Actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contributions rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark. Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 13th January 2020 for comments;
- b) Comments were requested within 30 days;
- c) The draft FSS will be taken to the Pension Board on 11th March 2020 at which questions regarding the FSS can be raised and answered;
- d) Following the end of the consultation period the FSS will be updated where required and will be taken to the Pension Panel on the 11th March 2020 for agreement.
- e) The FSS will then be published by 31 March 2020.
- f) The FSS is made available through the following routes:
 - Published on the website: www.lbbdpensionfund.org;
 - A copy sent by e-mail to each participating employer in the Fund;
 - A full copy included in the annual report and accounts of the Fund;
 - Copies sent to investment managers and advisers.

A3 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three-year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A4 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are several separate statements published by the Fund including the Investment Strategy Statement, Governance and Communications Strategy and an Annual Report and Accounts with up to date information on the Fund. These documents can be found on the web at www.lbbdpensionfund.org.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. respond appropriately to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties: -

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

| Risk | Summary of Control Mechanisms |
|---|--|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term. | Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested based on specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level. |
| Inappropriate long-term investment strategy. | Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance. |
| | |
| Active investment manager under-performance relative to benchmark. | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. |
| Pay and price inflation significantly more than anticipated. | The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. |

| Risk | Summary of Control Mechanisms |
|--|--|
| Orphaned employers give rise to added costs for the Fund | The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9). |
| Effect of possible asset underperformance as a result of climate change. | The Fund is considering climate change risk alongside the other risks it is exposed to as part of its investment strategy. |

C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|--|--|
| Pensioners living longer, thus increasing cost to Fund. | Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option. |
| Reductions in payroll causing insufficient deficit recovery payments | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. |

C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|--|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation – conversion of GMPs to scheme benefits – was built into the 2019 valuation.</p> |
| Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p> |

C5 Governance risks

| Risk | Summary of Control Mechanisms |
|---|--|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | <p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p> |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p> |

| Risk | Summary of Control Mechanisms |
|---|--|
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). |
| An employer ceasing to exist resulting in an exit credit being payable. | The Administering Authority regularly monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required. The Fund exit credit policy is set out in Note (k) |

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The contributions are calculated based on the method and assumption set out in Appendix E.

The approach includes expenses of administration to the extent that the Fund bears them, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non-ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future and then discounting these to obtain present day values.

E2 Future investment returns/discount rate

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer’s funding target.

The asset outperformance assumption (AOA) applicable for each of these three bases is a deterministic assumption, set to provide similar results as those generated under the stochastic approach adopted for the 2019 valuation.

| Funding basis | Ongoing participation basis | Contractor exit basis | Low risk exit basis |
|--|---|--|--|
| Employer type | All employers except closed Transferee Admission Bodies and closed Community Admission Bodies | Transferee Admission Bodies | Community Admission Bodies that are closed to new entrants |
| Investment return assumption underlying the employer’s funding target | Long term government bond yields plus an asset outperformance assumption (AOA) of 2.5% p.a. | Long term government bond yields plus an AOA of 2.5% p.a. if guaranteed or 1.9% p.a. otherwise | Long term government bond yields with no allowance for outperformance on the Fund’s assets |

E3 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. retail prices index (RPI) thereafter.

This gives a single “blended” assumption of CPI plus 0.7%. This is a change from the previous valuation, which assumed a flat assumption of CPI plus 0.45% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases, deferred revaluation and CARE revaluation

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

Following the Government’s response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030, the CPI assumption stated above has been updated. It has been agreed with the administering authority that CPI inflation will be 0.65% p.a. below market implied inflation. This has been determined through a deduction of 0.25% p.a. inflation risk premium from market implied RPI to obtain our base assumption for future assumed RPI inflation, and a further 0.4% p.a. deduction from this, representing the difference between RPI and CPI, to obtain our CPI assumption. This change is effective from 1 January 2021. This assumption will be reviewed at future valuations as the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030 (the expected date of implementation of the RPI reform).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

| | |
|--------------------------------|---|
| Administering Authority | The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”. |
| Admission Bodies | Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3). |
| Covenant | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| Designating Employer | Employers such as town and parish councils that can participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| Employer | An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation . |
| Funding basis | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s time horizon . The main assumptions will relate to the level of future investment returns , salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target. |
| Gilt | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, are also used in funding as an objective measure of a risk-free rate of return. |
| Guarantee guarantor | / A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s. |
| Letting employer | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will |

pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

| | |
|--|---|
| LGPS | The Local Government Pension Scheme, a public-sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| Maturity | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| Members | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| Primary contribution rate | The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details. |
| Profile | The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also. |
| Rates and Adjustments Certificate | A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed. |
| Scheduled Bodies | Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |

| | |
|------------------------------------|--|
| Secondary contribution rate | The difference between the employer's actual and Primary contribution rates .. See Appendix D for further details. |
| Stabilisation | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. |
| Valuation | A risk management exercise to review the Primary and Secondary contribution rates , and other statutory information for a Fund, and usually individual employers too. |



Appendix 2

London Borough of Barking and Dagenham Pension Fund



INVESTMENT STRATEGY STATEMENT

1. Introduction

This is the Investment Strategy Statement (ISS) produced by London Borough of Barking and Dagenham as administering authority of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), to comply with the regulatory requirements specified in The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Statutory Guidance on Preparing and Maintaining an Investment Strategy Statement issued by the Department for Communities and Local Government (DCLG) in September 2016.

The Regulations (regulation 7) set out that the ISS must include:

- a) *a requirement to invest fund money in a wide variety of investments,*
- b) *the authority’s assessment of the suitability of particular investments and types of investments,*
- c) *the authority’s approach to risk, including the ways in which risks are to be assessed and managed,*
- d) *the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services,*
- e) *the authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments, and*
- f) *the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.*

This ISS seeks to address the Requirements of Regulation 7 and the Statutory Guidance of September 2016.

The ISS replaces the Statement of Investment Principles and, although it is a similar document, there are several additional disclosures that need to be covered including:

- The removal of the investment restrictions contained in schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009,
- Fund’s approach to pooling investments and shared services,
- How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The Fund’s assessment of the suitability of all major asset classes.

The Statement is subject to review from time to time and will certainly be reviewed within six months of any material change in investment policy or other matters as required by law. As a minimum the ISS must be reviewed every three years. The ISS has been produced following a complete review of the Fund’s investment strategy and incorporates the requirements of the Funding Strategy Statement. In preparing this Statement the administering authority has taken and considered advice from the Fund’s Investment Advisor, Aon Hewitt, and from the Fund’s Independent Investment Advisor, John Raisin Financial Services Limited.

A copy of the ISS can be found at: www.lbbdpensionfund.org
For further information please contact David Dickinson: david.dickinson@lbbd.gov.uk.

2. Overall Responsibilities

A full explanation of the Fund's governance arrangements can be found in the Council's Constitution Part C – Responsibility for Functions – Our Scheme of Delegation - Section M – The Pension Committee published on the Council's website: <http://www.lbbd.gov.uk/CouncilandDemocracy/Documents/Constitution/const-c-section-m.pdf>

3. Investment Responsibilities

The Administering Authority the Council has delegated responsibility for the administration of the Fund to the Section 151 officer, advised by the Pension Committee and after taking expert advice from the Fund's Investment Advisor (Hymans Robertson) and the Fund's Independent Advisor, John Raisin Financial Services Limited.

As at 31 December 2020 Pension Committee comprised:

Pension Committee Voting Members

| | |
|----------------|--------------------------|
| Chair: | Cllr Kashif Haroon |
| Deputy: | Cllr Foyzur Rahman |
| | Cllr Rocky Gill |
| | Cllr Amardeep Singh Jamu |
| | Cllr Mick McCarthy |
| | Cllr Dave Miles |
| | Cllr Tony Ramsay |

Non-Voting Members

| | |
|---------------------------------|-----------------------|
| Union Representative: | GMB - Steve Davies |
| Member Representative: | Unison - Susan Parkin |
| Employer Representative: | UEL – John Garnham |

In preparing the ISS the Committee has consulted with the administering authority and other principal employers within the Fund and has taken and considered proper written advice from Hymans Robertson and John Raisin Financial Services Limited.

In Appendix A, the Committee has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2012 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Although under the LGPS Investment Regulations 2016 an Administering Authority is no longer required to report the extent of their compliance against the Myners Principles, the London Borough of Barking and Dagenham has decided to continue to report this, as an appendix to the ISS, as it considers this to be both good governance practice and an element of good investment practice.

4. Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of employer contributions is set to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation of the Fund, or more frequently as required. The most recent triennial valuation took place in 2019, with the contribution rates effective from 1 April 2020.

5. Investment Beliefs

Following the session at the 10 June 2020 Committee, a draft set of investment beliefs was prepared and discussed at the September 2020 Committee meeting. These beliefs underpin the ISS and cover:

- The long-term objective of achieving contribution stability for the Fund should be key in determining the level of investment risk.
- The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives.
- Being a long-term investor provides opportunities for enhancing returns through riskier asset classes such as equities.
- Alternative asset classes (including income-oriented assets) can, to a point, add diversification to the Fund's investment strategy and should ensure equities alone do not dominate the overall level of risk and return.
- Investment in illiquid assets is acceptable to achieve long-term returns for the Fund, however, the overall level of illiquid assets should be carefully monitored and managed.
- Diversification within an asset class is as important as diversification across assets.
- Companies that demonstrate better SEE characteristics are expected to outperform other companies, over the long term.

6. Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Appendix B). Within the strategic benchmark the investment structure adopted by the Committee comprises a mix of segregated and pooled manager mandates, including actively managed and passive mandates. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. All day-to-

day investment decisions have been delegated to the Fund's authorised investment managers.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. The investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

7. Pooling Investments (Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services).

The Fund has formally agreed to join the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The LCIV is fully authorised by the FCA as an Alternative Investment Fund Manager ("AIFM") with permission to operate a UK based Authorised Contractual Scheme fund (the "ACS Fund"). The ACS Fund, which is tax transparent in the context of international tax treaties, will be structured as an umbrella fund with a range of sub-funds providing access, over time, to the full range of asset classes that the boroughs require to implement their investment strategies.

For all future investments, where there is a suitable asset class provided, the Fund will seek to utilise the LCIV. Unless prohibited by Regulation or Statutory Guidance where the asset class is not available via the LCIV and it is not appropriate to access it via a passive allocation, the Fund will seek clarification from DCLG as to whether the Fund can tender for a suitable manager.

Current LCIV allocations

As at 31 December 2020 the Fund had 41% of its assets invested through the LCIV, including:

- Two Diversified Growth Managers: Newton, Pyrford
- One active equity manager: Baillie Gifford.

Passive Investments via Life Funds

Approximately a fifth of the Fund's investments are via passively managed Life Funds. LIFE Funds are exempt from being included within the pooling arrangements. This allocation will be reviewed annually.

Current Partnerships

The Fund is invested in two separate partnerships including two with the Fund's infrastructure manager Hermes GPE. The infrastructure investment is accessed via two partnerships, with a limit of 10%. The allocation was agreed by the pension Committee on 19 June 2012 and subsequently increased to 10.0% at the 23 March 2015 Committee, with an investment period limited to 17 years. From 1 April 2017, the split allocation will be combined into one LLP and the current strategic allocation target is 8%.

The Fund has a 8% allocation to LLPs and these investments will remain outside of the LCIV.

Diversified Alternatives

The Fund has a 9% investment in Diversified Alternatives, including Hedge Funds and Private Equity via Aberdeen Asset Management. These illiquid assets will not be moved to the LCIV until there is an adequate alternative provided by LCIV. This allocation was increased by £20m at the December 2020 Pension Committee, with the additional investment in Private Equity.

Credit, Property and Equity Income Strategy

The Fund has approximately 30% of its assets invested in credit, property, and an equity income strategy. There is the potential for these allocations to be moved to the LCIV and these holdings will be reviewed as and when suitable alternatives are provided by the LCIV. The review will consider the strategy, the assets held, the risks and the suitability of the strategy within the overall Fund prior to any investment agreement being made and proper advice will be sought from the Fund's advisors. Where an alternative is suitable then transition arrangement will be arranged.

If the alternative strategy is not suitable then the current manager will remain. If there is a requirement for the Fund to move from the manager to the LCIV then an alternative solution will be to seek to access a suitable passive strategy through a LIFE Fund.

8. Funding Strategy Statement

There are close links between the ISS and the Funding Strategy Statement, which sets out the Fund's approach to funding its pension liabilities and the resulting impact on employer contribution rates. The Funding Strategy Statement is available on the Fund's website: www.lbbdpensionfund.org

9. Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed and index linked bonds, cash, property and commodities, infrastructure and diversified alternatives, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

10. Statutory Investment Limits

Statutory maximum limits, as previously outlined in schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 are no longer applicable. Instead this Fund will make asset allocation decisions based on a prudential approach to securing a diversified investment strategy.

The maximum percentage of the Fund's total value that the Fund will invest in each asset class is provided below and is subject to an annual review:

| | | | |
|--------------------|-----|--------------------------|-----|
| Equities | 60% | Bonds / Credit | 15% |
| Diversified Growth | 18% | Property | 7% |
| Infrastructure | 8% | Diversified Alternatives | 10% |

11. Balance between various kinds of investments

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking proper advice, agreed specific benchmarks for each manager so that, in aggregate, they are consistent with the Fund's asset allocation. The Fund's investment managers hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

In March 2017 an Asset Liability Review (ALR) was completed by Aon, with a training session held on 13 March 2017.

12. Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks:

- Financial mismatch
 1. The risk Fund assets fail to grow in line with cost of meeting Fund liabilities.
 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise.

Asset risks

- Concentration - risk a significant allocation to a single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committee's expected parameters. By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

The Fund also maintains an extensive risk register, where risks the Fund is exposed to are considered, with appropriate action taken to mitigate the risk where possible.

13. DAY-TO-DAY CUSTODY OF THE ASSETS

The Fund has appointed a custodian (Northern Trust) with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

14. Realisation of investments

The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required. A proportion of the Fund's investments, including Property, Infrastructure and Diversified Alternatives, with 5%, 8% and 9% respective benchmark allocations, would take longer to be realised.

The overall liquidity of the Fund's assets is considered in the light of potential demands for cash.

15. Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund. For the 2019 triennial valuation the actuary has calculated the return expectation as 4.0%.

16. Social, Environmental and Ethical Considerations (SEE) (Regulation 7(2)(e) - How SEE considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

The Committee recognises SEE are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention, or sale. In addition, the Committee undertakes regular training including training and information sessions on SEE.

The Fund requires its investment managers to integrate all material financial factors, including SEE, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments regarding their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material SEE factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential

problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Committee received training in February 2021 on Responsible Investment and the Fund is currently reviewing its equity allocations to improve the overall SEE exposure of the Fund and will be presented to Pension Committee in June 2021.

The Fund will invest on the basis of financial risk and return having considered a range of factors contributing to the financial risk including social, environment & governance factors to the extent these directly or indirectly impact on financial risk and return. The Fund, in preparing and reviewing its ISS will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Current Restrictions:

At the March 2014 Committee Members agreed to restrict direct investment in tobacco but allow indirect investments in tobacco through pooled funds for both passive and active managers. This restriction is reviewed as part of each ISS Review.

17. Exercise of Voting Rights (Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments)

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and wider society.

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager(s) has produced written guidelines of its process and practice in this regard. The manager(s) is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Investments through LCIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council and Pension Fund website:

- a) The Fund has issued a Statement of Compliance with the Stewardship Code which can be found on the Council / Pension Fund website and has also agreed to become a signatory to the Code.
- b) The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund, through its participation in the London CIV, will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. In addition, the Fund:

- a) is a member of the LAPFF and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners
- b) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest
- c) joins wider lobbying activities where appropriate opportunities arise.

18. Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which include both pooled and segregated mandates.

The Committee has considered its approach to stock lending, taking advice from its investment advisers. After consideration of that advice, the Committee has given authority to its custodian to lend stocks (principally equities) within its mandates subject to agreed collateral being provided and an overall restriction that the proportion of Fund assets that are available to be lent at any time is limited to 25% of Fund assets.

Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce the risk of financial loss to the Fund in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, indemnity agreement with the lending agent and regular reviews of creditworthiness of potential borrowers. The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

19. Safekeeping of Assets

A global custodian is employed to ensure the safekeeping of investments.

20. Performance measurement

An independent provider is employed to calculate performance for the Funds. Each quarter, the Committee considers the performance of the combined assets and each

manager's portfolio against their respective benchmark. The Committee review performance on an annual basis.

21. Stewardship Code

The UK Stewardship Code (SC) aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis. In accordance with the Statutory Guidance of September 2016 the Fund has determined that it should become a Signatory to the Code (see Appendix D).

22. Additional Voluntary Contributions (AVCs)

The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion. Currently AVC is managed by Prudential Plc.

Signed for and on Behalf of the Fund

Claire Symonds

Chief Operating Officer

Appendix A: Myners Principles

The Pension Committee considers that its practices are compliant with the CIPFA principles for Investment Decision Making in LGPS. The 6 principles are:

- 1) Effective decision making;
- 2) Clear objectives;
- 3) Risk and liabilities;
- 4) Performance assessment;
- 5) Responsible ownership; and
- 6) Transparency and reporting.

The Committee's self-assessment of adherence to the principles is shown below

| Principles | Response on Adherence |
|---|---|
| <p>Principle 1 Effective Decision Making: Administering authorities should ensure:</p> <ul style="list-style-type: none"> • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. | <p>Compliant Decisions are taken by the Pension Committee, which is responsible for the management of the Fund.</p> <p>The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.</p> |
| <p>Principle 2 Clear objectives:</p> <ul style="list-style-type: none"> • An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. | <p>Compliant The Committee has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p> |

| | |
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| <p>Principle 3 Risk and liabilities:</p> <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. | <p>Compliant</p> <p>The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p> |
| <p>Principle 4 Performance assessment:</p> <ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members. | <p>Compliant</p> <p>The performance of the Fund and its individual managers are monitored on a regular basis.</p> <p>The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender.</p> <p><i>The Fund's contracts with its advisers are regularly market tested.</i></p> <p><i>The Pension Committee will carry out a formal process to measure its own effectiveness and will report this to the Pensions Committee on a regular basis.</i></p> <p><i>Training and attendance of members of the Pensions Committee are monitored and reported on annually.</i></p> |
| <p>Principle 5 Responsible Ownership:</p> <p>Administering authorities should</p> <ul style="list-style-type: none"> • recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code • include a statement of their policy on responsible ownership in the | <p>Compliant</p> <p>The Pensions Committee encourages its investment managers to adopt the Financial Reporting Council (FRC's) UK Stewardship Code but not all managers may necessarily comply fully with the Code's principles</p> <p>This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership.</p> |

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| <p>Investment Strategy Statement.</p> <ul style="list-style-type: none"> • Report periodically to scheme members on the discharge of such responsibilities. | <p>The Fund has determined to become a Signatory to the FRC Code in accordance with the Statutory Guidance issued by the DCLG in September 2016 .</p> |
| <p>Principle 6 Transparency and Reporting:</p> <p>Administering authorities should</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate. | <p>Compliant</p> <p>The Pension Committee maintains minutes of meetings which are available on the Council website.</p> <p>The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Committee meetings.</p> <p>The Investment Strategy Statement is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.</p> |

Appendix B: Strategic Asset Allocation

The strategic asset allocation of the Fund, together with control ranges and the benchmark index for each asset class is as follows (updated at the December 2020 Pension Committee):

| Asset Class | Current Position at 31/12/2020 | Strategic Allocation Target | Variance | Range |
|--------------------------|---------------------------------------|------------------------------------|-----------------|--------------|
| Equities | 58.1% | 52% | 6.1% | 50-60 |
| Diversified Growth | 14.5% | 16% | -1.5% | 14-18 |
| Infrastructure | 8.0% | 8% | 0.0% | 7-11 |
| Credit | 6.6% | 8% | -1.4% | 6-10 |
| Property | 4.9% | 5% | -0.1% | 4-7 |
| Diversified Alternatives | 7.6% | 9% | -1.4% | 7-10 |
| Fixed Income | 3.4% | 4% | -0.6% | 3-5 |
| Cash | -3.2% | 0% | -3.2% | 0-1 |

Appendix D: Statement of Compliance with UK Stewardship Code

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| <p>Principle 1 Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</p> | <p>Stewardship is seen as part of the responsibilities of share ownership, and is therefore an integral part of the Fund's investment strategy.</p> <p>The Pension Committee actively monitor the fund managers through quarterly performance analysis, annual and periodic meetings with the individual fund managers and through direct monitoring by the officers, which includes monitoring and reporting on:</p> <ul style="list-style-type: none"> • Fund manager performance; • Investment Process compliance and changes; • Changes in personnel (joiners and leavers); • Significant portfolio developments; • Breaches of the IMA / Restrictions; • Business wins and losses; and • Corporate and other issues. <p>Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).</p> <p>Baillie Gifford, UBS and Kempen take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code.</p> <p>Details are available on their websites at</p> <p>www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx</p> <p>http://www.ubs.com/global/en/about_ubs/corporate_governance.htm</p> <p>http://www.kempen.nl/over_kempen.aspx?id=27770</p> |
| <p>Principle 2 Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</p> | <p>We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.</p> <p>In respect of conflicts of interest within the Fund, Pension Committee members are required to make declarations of interest prior to Committee meetings.</p> <p>The Funds' overriding obligation is to act in the best financial interests of the members.</p> |

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| <p>Principle 3 <i>Institutional investors should monitor their investee companies.</i></p> | <p><i>Day-to-day responsibility for managing the Fund's investments is delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.</i></p> <p><i>Reports from fund managers on voting and engagement activity will be reported to the Committee on a quarterly basis from June 2013.</i></p> <p><i>Concerns are raised directly with the fund managers and issues raised are reported back to the Committee at the subsequent Committee meeting.</i></p> <p><i>Fund manager Internal Control reports are monitored, with breaches reported back to the Committee.</i></p> <p><i>Where the Fund is directly invested, such as infrastructure, members of the Committee and officers are able to attend their AGM.</i></p> |
| <p>Principle 4 <i>Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.</i></p> | <p><i>As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.</i></p> <p><i>We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect Kempen, Baillie Gifford and UBS to disclose their guidelines for such activities in their own statements of adherence to the Code. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</i></p> <p><i>Consistent with our fiduciary duty to beneficiaries, we also participate in shareholder litigation. We pursue compensation for any losses sustained because of inappropriate actions by company directors in order to encourage improved conduct in the future.</i></p> |
| <p>Principle 5 <i>Institutional investors should be willing to act collectively with other investors where appropriate</i></p> | <p><i>The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.</i></p> <p><i>The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which seeks to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.</i></p> <p><i>Where possible, the Fund seeks to exercise its voting rights attaching to its non- UK equity holdings by delegation through Power of Attorneys.</i></p> |

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| <p>Principle 6 <i>Institutional investors should have a clear policy on voting and disclosure of voting activity.</i></p> | <p><i>The emphasis of our voting policy is to promote best practice. We seek to vote on all shares held.</i></p> <p><i>Our preference is for managers to vote on the Funds behalf and for responsible stewardship to be integral to the investment decision making process.</i></p> <p><i>We are comfortable with delegation of voting to Baillie Gifford and Kempen for the funds they manage. UBS vote on our behalf because the investment is in a passive pooled fund. The managers' voting policies can be found at the websites mentioned above.</i></p> |
| <p>Principle 7 <i>Institutional investors should report periodically on their stewardship and voting activities.</i></p> | <p><i>We will seek to report annually on stewardship activity through a specific section in the Funds' annual report and accounts and on our website.</i></p> <p><i>We also report annually on stewardship issues to the Pension Committee.</i></p> |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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