MINUTES OF
PENSIONS COMMITTEE

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

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

Advisors Present: John Raisin and Nicholas Jellema

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

1. Declaration of Members' Interests

There were no declarations of interest.

2. Minutes (15 March 2023)

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

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

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

The Committee **noted**:

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

(ii) The daily value movements of the Fund's assets and liabilities outlined in Appendix 1 to the report, and

(iii) The quarterly performance of pension funds collectively and of Fund Managers individually.

4. Administrative and Governance Report

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

The Committee **NOTED** the report.

5. Independent Advisor Report - LGPS Update

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

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

The Committee **NOTED** the update.

6. Business Plan Update

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

7. 2022-23 Draft Pension Fund Accounts

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

The Committee **NOTED** the report.

8. Investment Strategy Review

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

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

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

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

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

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

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

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

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

The Committee **AGREED** to:

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

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

- Equities from 52% to 50%

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

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

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

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

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

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