

MINUTES OF PENSIONS COMMITTEE

Wednesday, 20 March 2024
(7:15 - 8:45 pm)

Members Present: Cllr Moin Quadri (Chair), Cllr Manzoor Hussain (Deputy Chair) and Cllr Rocky Gill

Observers Present: David Walker, Hymans Robertson

Advisors Present: John Raisin

Apologies: Cllr Giasuddin Miah, Cllr Tony Ramsay and Nicholas Jellema

17. Training Session For Members on Private Equity from Patria Investments Ltd

Prior to conducting the formal business of the Pensions Committee, Members received a training session and presentation on Private Equity led by Alistair Watson, Deputy Head of Private Equity and supported by colleagues at Ayr and Lucas Monterio, Patria Investments.

18. Declaration of Members' Interests

There were no declarations of interest.

19. Minutes (13 December 2023)

The minutes of the meeting held on 13 December 2023 were confirmed as correct.

20. Quarterly Monitoring 2023/24 - 1 October to 31 December 2023

The Investment Fund Manager presented a report on the Fund's performance during the period 1 October to 31 December 2023 (Quarter 4). The Committee also received a verbal update on the unaudited performance of the Fund up to March 2024, an update on the Fund's Investment Strategy and performance, as well as commentary on the market background for the past quarter from the Committee's Independent Advisor, together with input from David Walker, Hymans Robertson (HR) who provided an overview and analysis of the latest market position.

In response to the presentation and specifically in the light of today's inflation figures sitting at 3.4%, and with the likelihood of further sharp falls, particularly in the light of the reduction in energy prices, HR were asked to speculate about the headline inflation rate over the coming Summer. Reference was also made to the cooling of the property market and specifically in the light of the pandemic, the slump that occurred in the demand for office space with increasing numbers of people working from home, and more recently the talk of permitted development rights for offices to be converted to residential to provide more supply. Consequently, what was the view as to the office environment in the next few years.

Mr Walker responded that the expectation was that inflation would over the period probably reduce a little further towards the Bank of England 2% target, but that due to the labour market and wage rises along with continuing core inflationary pressures particularly in the service sector, there would not be any dramatic movement. In terms of the property market, some of the structural issues seen were beginning to occur prior to Covid, albeit the pandemic accelerated the problem with moves towards online retail and a subsequent reduction in the need for some industrial warehousing. Turning specifically to office space there was still a demand, with a lot of companies reviewing their policies with moves towards staff coming into the office a set number of days a week. The issue was also location dependent with prime areas such as the south and London still seeing a high demand with rental values remaining strong compared to more outlying areas. The other factor is the energy performance of the buildings where those of a high quality can still demand higher rents.

The Investment Fund Manager continued his report on the overall performance of the Fund over the quarter and that of individual Fund Managers over both one year and three years, in addition to which he provided a verbal update as of 19 March 2024, summarised in a paper circulated at the meeting. It was noted that the reference in the paper to the performance of Aberdeen Standard was incorrect and should be disregarded for the purposes of performance.

A number of questions arose from the report which the Investment Fund Manager responded to as follows:

What were the reasons for making a short-term loan of £14.5m to the Council

This was due to the Council's better Treasurer set up for the purposes of maximising investments in the money markets. The current return on that cash investment was around 5.2-5.3%

Were there any significant concerns seeing the underperformance of a number of Fund Managers in the last quarter against the benchmark?

Investment strategies were designed to be diverse and would by their nature always generate under and over performance, hence for investment purposes it was necessary to take the long-term view. That said it was planned to review some of the benchmarks, not to make it easier for Managers to achieve, but to make benchmarks more realistic, given that some have proved particularly challenging during periods of high inflation.

Was it intended to re-evaluate the Investment Strategy seeing it was slightly overweight in favour of equalities?

Overall equalities tend to outperform all other asset classes and reach the point at which there is either a correction, or they move outside the acceptable range, when then a report comes back to Members to take corrective action.

Given the overall increased value of the Fund and seeing the next planned 3-year Fund Valuation was due in March 2025, what was the view as to the expected Employer Contribution rates for the next three years?

If the Council was under pressure it could be that it would look to reduce the employer rate, however notwithstanding that scenario, the view of officers and Hymans Robertson was it would unlikely reduce (if at all) by too much seeing the significant pension increases over the past two years due to the high levels of inflation which puts more pressure on assets to perform to maintain the Fund's levels which had dipped but more recently bounced back quite strongly.

Were there any concerns as to officers growing indirect relationship with Fund Managers due to the increasing involvement of the London CIV in the selection and monitoring of Investment Managers?

There could be a bigger disconnect with Fund Managers', but it will be a long process seeing we only have a few Funds invested with the London CIV, and therefore officers maintain good working relationships with most Managers.

The Committee **noted**:

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

21. Administration 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), an update on the London Collective Investment Vehicle (LCIV) as the Fund moved towards more pooled investments, and a review conducted by Barnett Waddingham, Fund Actuaries on the strain factors on the Fund arising from its members taking unreduced early retirement which was set out as an appendix to the report.

Two questions arose from the report concerning the cash flow status of the Fund and the Augmentation factors connected with early retirements. As both related to the Fund Actuaries report and the Council relied on their professional judgement, a written response would be sought and copied to Members.

The Committee **NOTED** the report.

22. Independent Advisor - LGPS Update

The Committee's Independent Advisor presented his quarterly update on the Local Government Pension Scheme (LGPS) which on this occasion focussed on The Pension Regulator (TPR) proposed General Codes of Practice, in accordance with the provisions of Schedule 4 of the Public Services Pensions Act 2013, and specifically Code of Practice No 14: **Governance and Administration of Public Service Pension Schemes.**

Following a number of consultations, the Code was due to come into force on 27 March 2024.

TPR sought to introduce as far as practical comparable standards across all types of Pension Schemes to make it easier to maintain and update, although not every part of the General Code will apply to all Schemes including the LGPS. The LGPS Advisory Board for England and Wales (SAB) has committed to supporting funds in understanding any new requirements in the Code and where required, will produce new or update existing guidance to assist funds with their responsibilities.

Given that the Code will shortly come into force the advice of the IA was rather than wait for SAB guidance Members should seek to assess this Fund's compliance with those relevant requirements of the TPR General Code, and take those actions detailed in Section 5 of the report as follows:

- To go through the Code in detail to assess, as far as it is able, which elements of the Code clearly apply to the LGPS.
- Assess the Fund's current compliance/arrangements against the General Code.
- Produce a plan to make changes or enhancements to ensure necessary compliance.
- Seek to determine which elements of the General Code though not applicable to the LGPS may represent good practice for the Fund and plan to make any consequent changes or enhancements.
- In doing the above the Fund should attend relevant seminars/webinars on the implications of the General Code for LGPS Funds (which may be held prior to 27 March 2024). These may be offered by organisations including SAB and the Actuarial/Investment Consultants who support the LGPS.
- Use, if/as the Fund considers appropriate any tools and/or LGPS specific training relating to the General Code available from the Actuarial/Investment Consultants who support the LGPS.
- Take particular cognisance of any relevant guidance when issued by SAB, and
- Report to both this Committee and the Pension Board on a regular basis on progress towards compliance, and the maintenance of ongoing compliance, with those parts of the Code that are determined to be applicable to the Barking and Dagenham Fund and those which are considered to be good practice.

The Investment Fund Manager informed Members that it was his plan to report to the next meeting on the Council's progress with implementing the Code. A significant amount of work had been done already by officers, and whilst there was still a considerable amount to do, he was confident that we would be in a position to make the necessary changes and enhancements to ensure compliance. To that end he would prepare an action plan setting out progress in implementing the

various parts of the Code.

The Committee **noted** the report.

23. Business Plan 2024-2026

The Committee received a report on the progress with the delivery of the 2024-2026 Business Plans actions as set out in Appendix 1.

Training of Members formed a key element of the Plan. The Investment Fund Manager outlined the structured approach to the Member training programme over the three-year life of the Plan. Whilst the training would continue to be provided as part of the meeting cycle, he was conscious that Members would probably need to commit to one or two half day training sessions over the coming year.

The Committee **noted** the report.

24. Private Business

The Committee **resolved** 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).

25. Appointment of Independent Advisor

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

The Committee **resolved** to extend the appointment of John Raisin Financial Services Limited as the IA for the Council's Pension Fund for a further one-year period based on the job description set out as Appendix 1 to the report, which would include producing a briefing note for Members based on the agenda for each meeting, and to meet with Members remotely to discuss its content on a day and time to be agreed. It was also agreed that the fee be increased as reported to reflect inflationary pressures over the past 12 months.

It was also noted that the Investment Fund Manager would carry out an in-depth review of the market prior to the Committee reconsidering the appointment of the IA next year.

26. Abrdn Update

Further to Minute 11/12/23 and following the earlier training session which took place before this meeting on private equity conducted by Patria Investments Ltd, the Pension Fund Accountant provided an update on the latest structural changes undergone by Abrdn, Fund Manager which included selling its Private Equity business to Patria.

As a result of this the Fund was required to make changes to its Diversified Alternatives, including a review of its hedge fund investments with Abrdn. Having considered the report,

The Committee **RESOLVED** to agree:

- i) The acquisition of Abrdn's Private Equity business by Patria Investments and the subsequent transfer of all the Fund's Private equity investments, currently managed by Abrdn, to Patria in April 2024,
- ii) Transfer of £10m cash transfer from Abrdn to Patria in April 2024,
- iii) To amend the target strategic asset allocation from 11% for Diversified Alternatives to 9% for Private Equity and 2% for Hedge Funds, and
- iv) The removal of currency hedge from the remaining hedge fund portfolio and the Private Equity portfolio.