London Borough of Barking & Dagenham
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Notice of Meeting

PENSIONS PANEL

Wednesday, 13 December 2017 - 6:00 pm
Committee Room 2, Town Hall, Barking

Members: Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair), Cllr Sade Bright, Cllr Edna Fergus, Cllr James Ogungbose, Cllr Jeff Wade and Cllr John White

Independent Advisor: John Raisin

Observers: John Garnham, Gavin Palmer and Susan Parkin

Date of publication: 4 December 2017

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 18 September 2017 (Pages 3 - 9)**

4. **Pension Fund Quarterly Monitoring: July-September 2017 (Pages 11 - 46)**

5. **Presentation by Newton**

6. **Administration and Governance report (Pages 47 - 52)**

7. **Business Plan Update 2017 (Pages 53 - 56)**

8. **Any other public items which the Chair decides are urgent**

9. To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.

Private Business

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

10. LCIV Equity Managers Review (Pages 57 - 63)

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

Our Vision for Barking and Dagenham

One borough; one community; London's growth opportunity

Our Priorities

Encouraging civic pride

- Build pride, respect and cohesion across our borough
- Promote a welcoming, safe, and resilient community
- Build civic responsibility and help residents shape their quality of life
- Promote and protect our green and public open spaces
- Narrow the gap in attainment and realise high aspirations for every child

Enabling social responsibility

- Support residents to take responsibility for themselves, their homes and their community
- Protect the most vulnerable, keeping adults and children healthy and safe
- Ensure everyone can access good quality healthcare when they need it
- Ensure children and young people are well-educated and realise their potential
- Fully integrate services for vulnerable children, young people and families

Growing the borough

- Build high quality homes and a sustainable community
- Develop a local, skilled workforce and improve employment opportunities
- Support investment in housing, leisure, the creative industries and public spaces to enhance our environment
- Work with London partners to deliver homes and jobs across our growth hubs
- Enhance the borough's image to attract investment and business growth

Well run organisation

- A digital Council, with appropriate services delivered online
- Promote equalities in the workforce and community
- Implement a smarter working programme, making best use of accommodation and IT
- Allow Members and staff to work flexibly to support the community
- Continue to manage finances efficiently, looking for ways to make savings and generate income
- Be innovative in service delivery

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MINUTES OF
PENSIONS PANEL

Monday, 18 September 2017
(6:02 - 7:19 pm)

Members Present: Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair), Cllr Sade Bright, Cllr Edna Fergus and Cllr Jeff Wade

Observers Present: Susan Parkin

Advisors Present: John Raisin and Joe Peach

Apologies: Cllr James Ogungbose, Cllr John White, Gavin Palmer, John Garnham and Colin Cartwright

10. Declaration of Members' Interests

There were no declarations of interest.

11. Minutes - To confirm as correct the minutes of the meeting held on 14 June 2017

The minutes of the meeting held on 14 June 2017 were confirmed as correct.

12. Pension Fund Quarterly Monitoring report 2017/18- April-June 2017

The report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 April 2017 to 30 June 2017 ("Q2"). The report updated the Panel on the Fund's investment strategy and its investment performance. Appendix 2 provided a definition of terms used in this report and Appendix 3 set out roles and responsibilities of the parties referred to throughout this report.

The Fund's externally managed assets closed Q2 2017 valued at £945.8, an increase of £37.1m from its value of £908.7m as at 31 March 2017. The cash value held by the Council at 30 June 2017 was £0.5m giving a total Fund value of £946.3m.

For Q2 the Fund returned 1.8%, net of all fees, outperforming its benchmark by 0.6%. Over one year the Fund has returned 14.6%, outperforming its benchmark by 2.1%. Over three years the Fund has outperformed its benchmark by 0.1%, with a return of 10.7%. The Fund's quarterly and annual returns are provided below:

An oral update on the unaudited performance of the Fund for the period 1 July to 15 September 2017 was provided for the Pensions Panel and it was noted that BlackRock and Aberdeen Asset Management had returned 4.6% and 4.2% in quarter 2, exceeding their benchmarks. In addition, Newton had been underperforming and had not reached its benchmark and it was recommended that officers discuss with them and that Newton present to the Pension Panel in December 2017. In addition they would discuss with Standish about arrangements following the departure of Raman Srivastava.

The Pension Fund was approximately 80% funded.

The Panel noted:

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

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

(iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually;

(iv) The Panel agreed for officers to discuss with Newton Fund Managers why they were underperforming and not reaching their benchmark and that Newton present to the Pensions Panel in December 2017.

13. Administration and Governance report

It is best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. The report covered the following areas:

i. Pension Fund Budget 1 April 2017 to 31 March 2020;
ii. Cash flow to 31 July 2017;
iii. Update on the Havering College of Further & Higher Education merger with Barking and Dagenham College;
iv. The London Collective Investment Vehicle (LCIV)
v. Update on MiFID 2; and
vi. Actuary Contract Tender.

It was highlighted that the Fund was expected to remain cash flow positive for the duration of the three years but for the net dealing with members to reduce to £3.25m by 2020. Fund Managers fees were forecast to drop from £3.5m to £3.0m by 2020. It was anticipated that the Fund would be funded at 82.3% in due course.

It was also highlighted that on 28 July 2017, Barking College advised that the Havering Board had decided not to pursue the proposed merger and as a result Havering College of Further and Higher Education (HCFHE) would not now transfer its support staff into the Fund.

The Fund currently uses Hymans Robertson as its actuary, with the contract agreed through a framework agreement established by the London Borough of Croydon Pension Fund. The Croydon framework ended on 31 March 2017, with the Fund's contract with Hymans Robertson ending towards the end of 2017.

It was proposed that the Fund seek to join the National LGPS Framework for Actuarial and Benefit Consulting which has 37 LGPS funds from across the UK.

Using a framework saves considerable time and money, whilst still delivering a service specified to the Fund's requirements.

Members were asked to agree to delegate authority to officers to commence procurement for an actuary, using the National LGPS Framework. If agreed, the interview dates would likely to be held in late November 2017

The Panel noted:

i. That the Fund is cash flow positive;

ii. The Fund's three-year budget for the period 1 April 2017 to 31 March 2020;

iii. That Havering College for Further Education will now not transfer its support staff into the Fund; and

iv. That interview dates for the actuarial tender will likely be in late November. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions by e-mail.

The Panel agreed:

v. That the Fund should seek to Opt Up to Professional Investor;
vi. To delegate authority to the Sections 151 officer to complete the Opt Up process; and
vii. To delegate authority to officers to commence procurement for an actuary, using the National LGPS Framework.

14. Business Plan Update 2017

The purpose of the report was to update the Pension Panel on progress regarding the Pension Fund's 2017 business plan.

Appendix 1 provided a summary of the Business Plan actions from 1 January 2017 to 31 August 2017 and the actions for the remainder of the year.

The Panel noted progress on the delivery of the 2017 Business Plan at Appendix 1 to the report.

15. Pension Fund Accounts 2016/17

The report presented the Panel with the Annual Report for the year ended 31 March 2017 and included the 2016/17 Audited Pension Fund Accounts.

The Local Government Pension Scheme (Administration) Regulations 2008 (No 239) requires each administering authority to prepare an annual report for the pension fund. The regulations prescribed that the following should be included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;

- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels and
- the current version of the funding strategy statement, the statement of investment principles and communications policy and any other information the authority considers appropriate.

It was noted that the Annual Report was available on the Council's website at: http://www.lbbdpensionfund.org/about-us/forms-and-publications.aspx

The Panel noted the annual report and that the Council's external auditors (KPMG) would sign off the accounts by 30 September 2017.

16. Application for Admitted Body Status - Aspens-Services Limited

At present, the Pension Fund has a number of Admitted Bodies, some of which have been members of the London Borough of Baking and Dagenham Pension Fund ("the Fund") for a number of years.

As Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pension Panel can agree to retrospectively agree an admission agreement.

The Panel were asked to consider the application for Admitted Body status from Aspens-Services Limited (Aspens) to the Local Government Scheme (LGPS).

The Panel agreed the application for Admitted Body Status by ASPENS, as a 'closed' agreement. Officers would seek clarification regarding the guarantee provided by Partnership Learning and would provide Members with an update at the Panel meeting in December 2017.

17. Application for Admitted Body Status - Sports & Leisure Management

At present, the Pension Fund has a number of Admitted Bodies, some of which have been members of the London Borough of Baking and Dagenham Pension Fund ("the Fund") for a number of years.

As Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pension Panel can agree to retrospectively agree an admission agreement.

The Panel were requested to consider the application for Admitted Body status from Sports & Leisure Management (SLM) to the Local Government Scheme (LGPS).

The Panel agreed the application for Admitted Body Status by SLM, as a ‘closed’ agreement.

18. Application for Admitted Body Status - Be First

At present, the Pension Fund has a number of Admitted Bodies, some of which have been members of the London Borough of Baking and Dagenham Pension Fund (“the Fund”) for a number of years.

As Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pension Panel can agree to retrospectively agree an admission agreement.

At the March and June 2017 Pension Panel, Members were advised that the Council was looking to create several different service delivery vehicles including, transferring its Leisure Services and establishing a company, Be First, to manage the implementation of its investment and regeneration strategy. In addition, a number of Traded Services will be set up.

The Panel agreed the application for Admitted Body Status by Be First, as a ‘closed’ agreement.

19. Private business

20. *The Council's Relationship with the Pension Fund Re: Property Investing

At the Pension Panel meeting held on 14 June 2017, Members asked the Fund’s advisors, Aon Hewitt (Aon), to write a paper for the September Panel to clarify the relationship between the Council and the Fund. The report should include how the Fund can invest within the Borough and the process the Fund would need to go through to buy assets from the Council.

The Panel noted:

(i) Aon Hewitt’s report on the Council's Relationship with the Pension Fund Re: Property Investing (appendix 1);

(ii) The Independent Advisors observations of the review (appendix 2); and

(iii) The officer view and recommendations provided (section 4) of this report.

The Panel agreed:

(iv) That the Fund must seek independent specialist legal advice prior to any investment with the Council which uses a sale and leaseback agreement;

(v) That the Fund must also seek independent property advice and that of the Independent Advisor prior to bringing any investments to the Pension Panel for potential agreement;

(vi) The Fund must obtain specific legal advice as to the precise meaning and implications of Regulation 7(4) of the LGPS (Management and Investment of Funds) Regulations 2016;

(vii) That the Funding of any sale and lease back agreement with the Council should be limited to a maximum of 5% of the Fund's value, with a maximum duration of 30 years; and

(viii) That any investment with the Council using a sale and leaseback agreement should be funded from the Fund's passive bond allocation.

**Item considered following the passing of a resolution to exclude the public and press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.*

21. *Equity Portfolio Review

At the Panel meeting held on 14 June 2017, Members ask the Fund's advisors, Aon Hewitt (Aon), to review Fund's equity allocation, with a report to be taken to the September Panel, covering:

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

The Panel noted:

(i) Aon Hewitt's Equity Review (appendix 1);
(ii) The Independent Advisors observations of the review (appendix 2); and
(iii) The officer strategy review and economic forecast in section 4 of this report.

The Panel agreed:

(iv) That the Fund's current 48% strategic allocation to equities is maintained;
(v) That the Fund's allocation to Baillie Gifford and UBS is maintained;
(vi) That officers arrange a meeting for Members to meet the manager on the LCIV and that
the meeting is with the following managers:

1. Epoch – Global Shareholder Yield
2. Longview – Equity Total Return
3. Newton – Global Thematic
4. RBC – Global Sustainable Equities
5. Hendersons

(vii) That if none of these managers are suitable replacements, then a training day should be arranged for Members, covering the various passive investment strategies, including fundamental index.

Item considered following the passing of a resolution to exclude the public and press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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PENSIONS PANEL

13 December 2017

Title: Pension Fund Quarterly Monitoring 2017/18 – July to September 2017	
Report of the Chief Operating Officer	
Public Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: David Dickinson, Group Manager Pensions and Treasury	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Kathy Freeman, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	

Recommendations

The Panel is recommended to note:

(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.

The Panel is recommended to agree:

(i) the re-advancement waiver provided by Hermes, which will allow any distributed profits from the sale of GS Global Infrastructure Partners I, LP and Pan-European Infrastructure Fund LP to be reinvested in future Value Added investments. This will increase the Fund's commitment to Hermes from £75m to £80.3m.

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 July 2017 to 30 September 2017 ("Q3"). The report updates the Panel on the Fund's investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provides a definition of terms used in this report and Appendix 3 sets out roles and responsibilities of the parties referred to throughout this report.

1.2 A verbal update on the unaudited performance of the Fund for the period 1 October to 11 December 2017 will be provided to Members at the Pension Panel.

2. Market Commentary Q3 2017

2.1 Q3 was a broadly positive period for the world's financial markets, with healthy economic data and strong corporate profitability underpinning equity gains. While equity volatility remained remarkably low through much of the quarter, investors were intermittently rattled by tropical hurricanes and the ramping up of tensions between the US and North Korea over the latter's missile tests. As measured by the FTSE World Index, equities achieved a three-month gain of 1.7% to a sterling investor.

2.2 In the UK difficult Brexit negotiations continued along with speculation that the Bank of England would raise the interest rate as early as November; expectations of a near-term rate hike led to a recovery in sterling. The FTSE All-Share Index returned 2.1%.

2.3 Within the US the S&P 500 Index was up 1.1% for the quarter. The most notable central bank action came from the US, where the Federal Reserve announced plans to start 'normalising' its balance sheet from October; the market also placed a higher probability on a 25-basis point rate increase in December, with three similar hikes anticipated to follow in 2018.

2.4 European equities rose 3.6% in Q3. Minimal progress was made on the terms of the UK's exit from the European Union. Politics dominated in Germany where Angela Merkel secured a fourth term as Chancellor however her majority was diminished with unexpected gains by a right-wing party which weighed heavily on sentiment. Other markets in the region generated largely positive returns. The MSCI Asia Pacific Index returned 2.7% in GBP terms.

2.5 Emerging markets equities benefited from the weak dollar in 2017 which, alongside improving economic growth and stronger earnings, helped attract investors. Rising oil and related commodity prices bolstered some market gains. The MSCI Emerging Markets Index returned 4.6% in sterling terms, the best regional performer over the three-month period, outperforming Developed markets

2.6 Overseas Bonds were down -1.7% as measured by the JPM Global x UK Index. UK Bonds returned -0.2% and the short-dated Index Linked Index -0.8%. In currency markets the Euro gained 0.3% on sterling but the USD and the JPY both lost ground against GBP. Property posted another positive return, for the fourth consecutive quarter, bringing the 12 month return to just over 10%.

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q3 2017 valued at £966.4, an increase of £20.6m from its value of £945.8m as at 30 June 2017. The cash value held by the Council at 30 September 2017 was £0.8m giving a total Fund value of £967.2m.

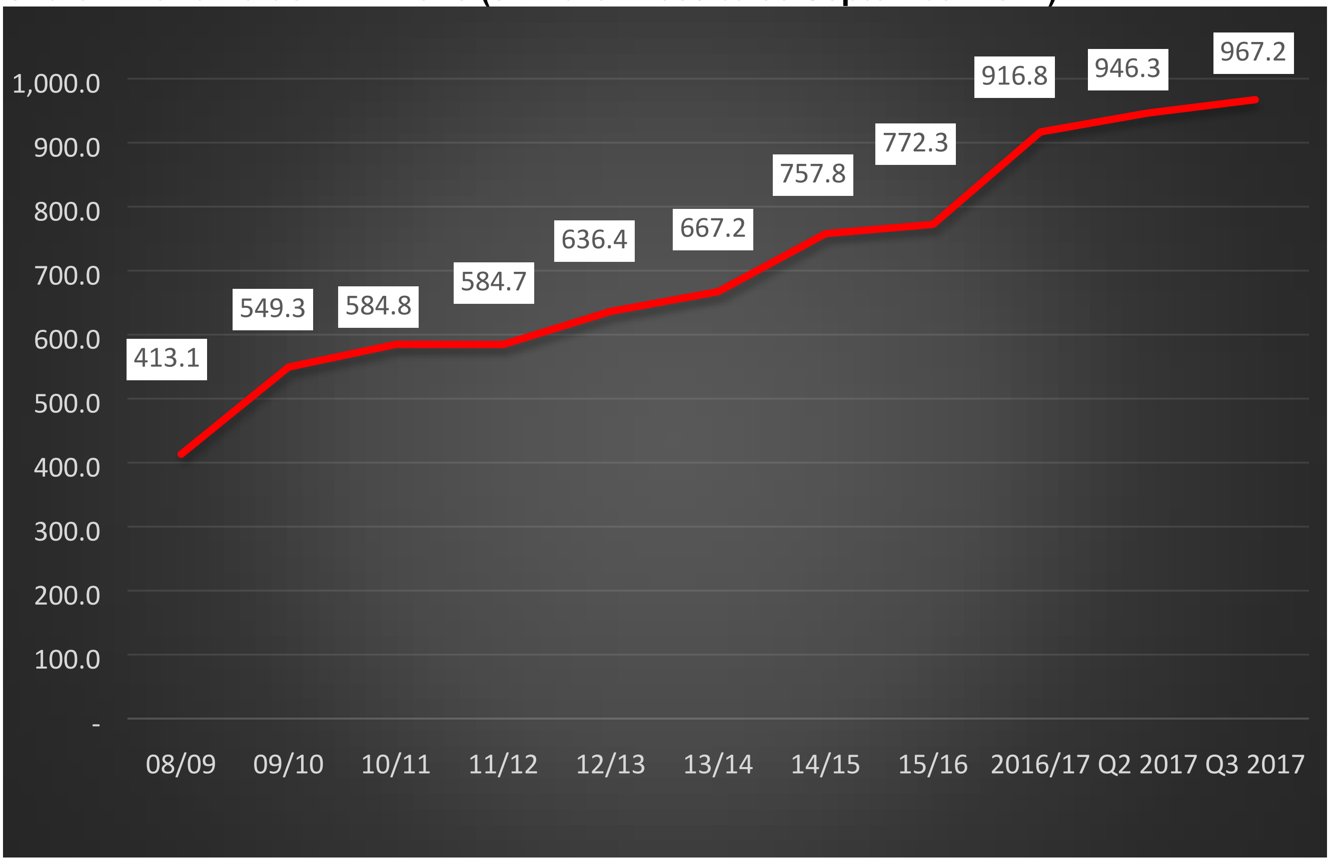
3.2 For Q3 the Fund returned 2.2%, net of all fees, outperforming its benchmark by 0.4% and the PIRC LGPS Universe (PIRC) by 0.6%. Over one year the Fund has returned 11.5%, outperforming its benchmark by 1.6% and PIRC by 2.1%. Over three years the Fund has outperformed its benchmark by 0.2%, with a return of 10.7% and has marginally outperformed PIRC by 0.1%. The Fund's returns are provided below:

Table 1: Fund's Q3 2017, 2016 and 2015 Quarterly and Yearly Returns

Year	2017			2016				2015	One Year	Two Years	Three Years	Five Years
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4				
Actual Return	2.2	1.8	3.8	3.7	5.3	5.2	2.5	4.4	11.5	14.5	10.5	10.2
Benchmark	1.8	1.2	3.3	3.6	4.4	5.7	2.0	4.5	9.9	13.3	10.3	10.2
Difference	0.4	0.6	0.5	0.1	0.9	(0.5)	0.5	(0.1)	1.6	1.2	0.2	-
PIRC Universe	1.6	0.7							9.4		10.4	10.8

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 30 September 2017. Members are asked to note the significant changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2009.

Chart 1: Fund Value in Millions (31 March 2009 to 30 September 2017)



3.4 Stock selection contributed 0.2%, with asset allocation contributing 0.2% for the quarter. The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below.

	RED- Fund underperformed by more than 75% below the benchmark
Δ	AMBER- Fund underperformed by less than 75% below the benchmark.
O	GREEN- Fund is achieving the benchmark return or better

3.5 Table 2 highlights the Q3 return. BlackRock, Schroders, Standish. Pyrford and Newton underperformed their respective benchmarks. Aberdeen, Kempen and Baillie Gifford provided good returns of 6.1%, 3.3% and 4.1% respectively.

Table 2 – Fund Manager Q3 2017 Performance

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
ABERDEEN AM	6.1	1.1	5.0	O
BAILLIE GIFFORD	4.1	2.0	2.1	O
BLACKROCK	1.3	2.4	(1.1)	Δ
HERMES GPE	1.8	1.4	0.4	O
KEMPEN	3.3	1.5	0.0	O
PRUDENTIAL / M&G	1.1	1.1	0.0	O
Newton	(0.8)	1.0	(1.8)	Δ
Pyrford	(0.9)	2.2	(3.1)	
Schroders	2.0	2.4	(0.4)	Δ
Standish	0.7	1.0	(0.3)	Δ
UBS Bonds	(0.5)	(0.5)	0.0	O
UBS Equities	2.8	2.8	0.0	O

3.6 Over one-year, (table 3), Aberdeen, Schroders and the equity managers provided good returns. Pyrford and Newton have struggled, significantly underperforming their benchmarks.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
ABERDEEN AM	11.5	4.4	7.1	O
BAILLIE GIFFORD	20.2	14.9	5.4	O
BLACKROCK	7.3	9.0	(1.7)	Δ
HERMES GPE	6.3	5.7	0.6	O
KEMPEN	17.5	13.8	3.7	O
PRUDENTIAL / M&G	4.4	4.3	0.1	O
Newton	(2.8)	4.1	(6.9)	
Pyrford	1.5	8.6	(7.1)	
Schroders	10.7	9.0	1.7	O
BNY MELLON	4.4	4.3	0.1	O
UBS Bonds	(3.6)	(3.7)	0.1	O
UBS Equities	17.2	16.9	0.3	O

3.7 Over two years, (table 4), all mandates are positive, with returns ranging from 1.7% with Standish to 25.0% with Baillie Gifford. Standish has significantly underperformed its benchmarks, underperforming its benchmark by 3%. The high equity returns are in sharp contrast to the rest of the strategies, where single digit returns are most prevalent.

Table 4 – Fund manager performance over two years

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
ABERDEEN AM	6.3	4.4	1.9	O
BAILLIE GIFFORD	25.0	21.6	3.4	O
BLACKROCK	4.4	6.2	(1.8)	Δ
HERMES GPE	8.3	5.6	2.7	O
KEMPEN	23.5	21.0	2.5	O
PRUDENTIAL / M&G	4.4	4.4	0.0	O
Newton	4.3	4.3	0.0	O
Pyrford	6.2	7.8	(1.6)	Δ
Schroders	6.2	6.1	0.1	O
BNY MELLON	1.7	4.7	(3.0)	
UBS Bonds	4.4	4.3	0.1	O
UBS Equities	22.5	22.4	0.1	O

4. Asset Allocations and Benchmark

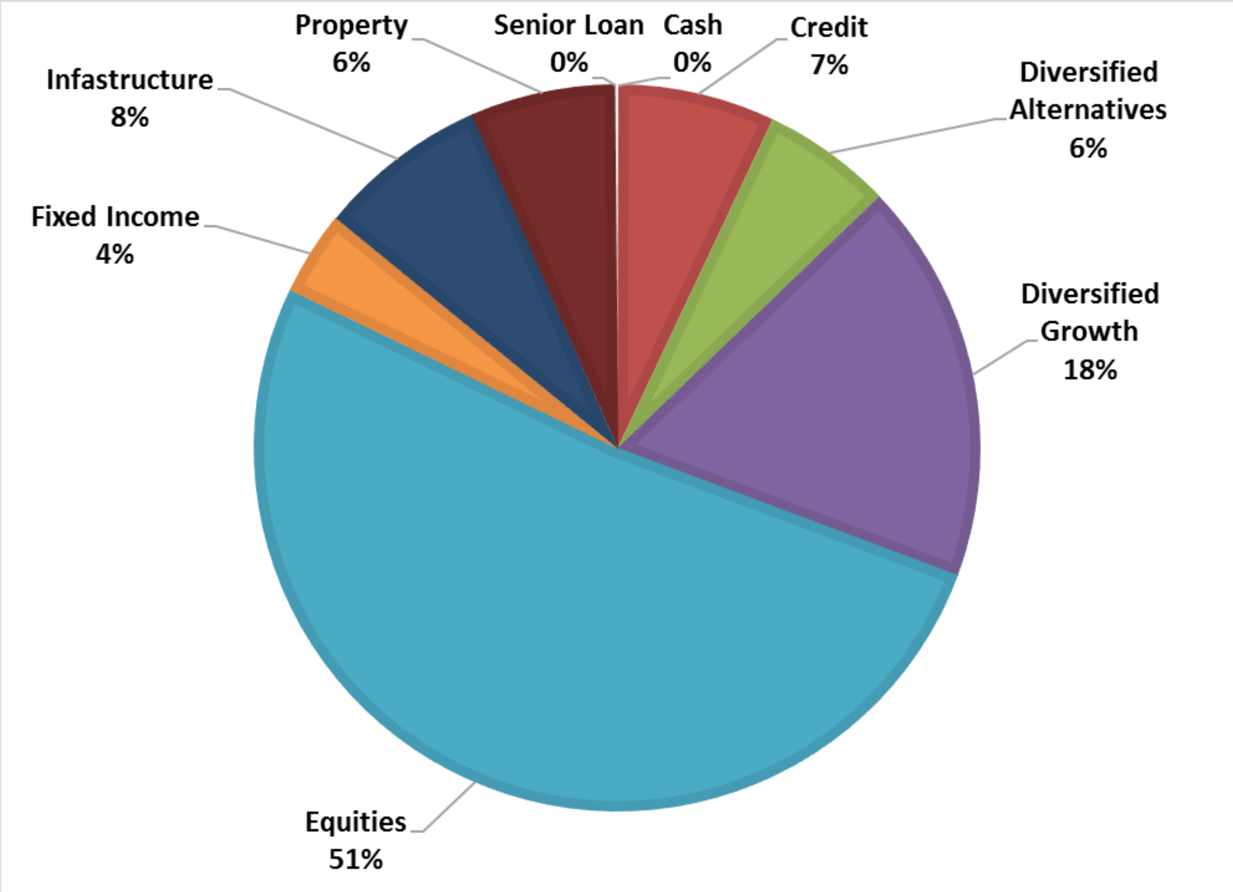
4.1 Table 5 below outlines the Fund's strategic asset allocation, asset value and benchmarks:

Table 5: Fund Asset Allocation and Benchmarks as at 30 September 2017

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
ABERDEEN AM	6.0	57,586	3 Mth LIBOR + 4% per annum
BAILLIE GIFFORD	18.5	179,283	MSCI AC World Index
BLACKROCK	4.0	38,381	AREF/ IPD All Balanced
HERMES GPE	7.5	72,864	Target yield 5.9% per annum
KEMPEN	16.2	156,604	FTSE All World Developed
PRUDENTIAL / M&G	0.1	998	3 Mth LIBOR + 4% per annum
Newton	6.8	66,167	One-month LIBOR +4% per annum
Pyrford	10.5	101,413	UK RPI +5% per annum
Schroders	2.4	23,676	AREF/ IPD All Balanced
BNY Standish	6.9	66,471	3 Mth LIBOR + 4% per annum
UBS Bonds	3.6	35,116	FTSE UK Gilts All Stocks
UBS Equities	17.4	167,850	FTSE All Stock Gilt Index
Cash & Other	0.1	781	One-month LIBOR
Total Fund	**100.0**	**967,189**	

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 30 September 2017



5. Fund Manager Performance

5.1 Kempen

Kempen	2017			2016				2015	One Year	Two Years	Since Start 6/2/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£156,604	%	%	%	%	%	%	%	%	%	%	%
Actual Return	3.3	0.1	3.2	10.9	10.2	5.8	5.9	7.5	17.5	23.5	11.3
Benchmark	1.5	0.1	5.1	7.1	7.9	9.7	2.2	8.4	13.8	21.0	13.8
Difference	1.8	(0.0)	(1.9)	3.8	2.3	(3.9)	3.7	(0.9)	3.7	2.5	(2.5)

<u>Reason for appointment</u>

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 1.8% for the quarter and has outperformed its one-year benchmark by 3.7% over one year and 2.5% over two years. Kempen has underperformed its benchmark since inception by 2.5%, although the return over this period is a good annualised return of 11.3%.

During the quarter Kempen sold seven companies, including Yara, Uniper and Qualicorp due to their dividend yield dropping below the 3% threshold. Pearson was sold due to a large dividend cut, with Camden Property sold due to strong share price performance.

Kempen also bought six companies during the quarter, including WPP, Power Financial Corp, MS&AD Insurance Group, Dixon Carephone Plc, Phasagro and Lite-on Technology.

Outlook

The outlook continues to be promising and has continued to improve over the year. Overall market values are elevated, but there are significant differences in the size of the elevated values, creating more opportunities. Flows into passive strategies have increased valuations in certain sectors while depressing others. Kempen believe this creates the opportunity to invest in areas shunned by the market and it is the expected returns for individual companies that drive the performance of the strategy, and not the flows in and out of sectors.

The strategy now has a forward yield of around 4.8% and Kempen remain optimistic on the dividend growth prospects for 2017.

5.2 Baillie Gifford

	2017			2016				2015			Since
Baillie Gifford	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**One Year**	**Two Years**	**Start 6/2/13**
£179,283	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**4.1**	**4.6**	**7.6**	3.9	12.1	6.9	0.3	10.4	20.2	25.0	16.9
Benchmark	**2.0**	**0.6**	**5.8**	6.5	8.5	8.8	2.9	8.1	14.9	21.6	13.5
Difference	**2.1**	**4.0**	**1.8**	**(2.6)**	**3.6**	**(1.9)**	**(2.6)**	**2.3**	**5.3**	**3.4**	**3.4**

Reason for appointment

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

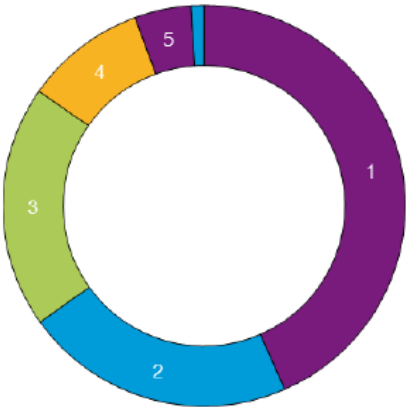
Performance Review and Market Outlook

For Q3, BG provided a return of 4.1%, outperforming its benchmark by 2.1% BG's one-year return is 20.2%, significantly outperforming its benchmark by 5.3%. Since initial funding the strategy has returned 16.9%, outperforming its benchmark by 3.4%.

After a multi-year rally in stock markets, many observers are concerned about irrational exuberance and the withdrawal of unconventional monetary policies which have provided a tailwind for investments. BG acknowledges these concerns but remain optimistic about the companies they have invested in. Where they see share prices ahead of fundamentals, they will trim positions as appropriate.

BG are confident that there remain many exciting growth opportunities to be uncovered. Companies that have many years of growth ahead are very valuable and they are always seeking out opportunities in more unloved segments of the market in the way we have thought about semiconductors in the past few years.

Regional Allocation: The strategies regional weighting is below, highlighting the large allocation to emerging markets and lower than benchmark allocation to the US.



	Regional Weights	(%)
1	North America	43.4
2	Emerging Markets	21.7
3	Europe (ex UK)	19.5
4	Developed Asia Pacific	9.8
5	UK	4.5
6	Cash and Deposits	1.0
	Total	100.0

5.3 UBS Equities

	2017			2016				2015			
UBS Equities	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**One Year**	**Two Years**	**Since Start 31/8/2012**
£167,850	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**2.8**	**2.3**	**5.5**	6.6	8.2	8.7	2.4	8.6	17.2	22.5	16.4
Benchmark	**2.8**	**2.2**	**5.5**	6.4	8.2	8.7	2.4	8.6	16.9	22.4	16.4
Difference	**0.0**	**0.1**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.3**	**0.1**	**0.0**

Reason for appointment

UBS were appointed as the Fund's passive equity manager to reduce the risk from underperforming equity managers and provides a cost-effective way of accessing the full range of developed market equity growth. UBS track the developed world market benchmark and there will only be an issue with performance were the manager to vary significantly from the benchmark, either positively or negatively.

Performance

The fund returned 2.8% for the quarter and 17.2% for the financial year. Since initial funding in August 2012, the strategy has provided an annualised return of 16.4%. Equity markets worldwide advanced strongly over the third quarter, for a sixth consecutive quarter of growth. In local currency terms, the MSCI World index delivered a total return of 4.5% over the quarter, and 19% over the last twelve months.

5.4 UBS Bonds

UBS Bonds	2017			2016				2015	One Year	Two Years	Since Start 5/7/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£35,116	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.5)	(1.3)	1.5	(3.3)	2.3	6.2	5.0	(1.2)	(3.6)	4.4	5.4
Benchmark	(0.5)	(1.3)	1.5	(3.4)	2.3	6.2	5.0	(1.2)	(3.7)	4.3	5.4
Difference	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (5%) of UK fixed income government bonds.

Market Update

Returns for the quarter were -0.5%, with one year returns -3.6%.

Government bond yields fluctuated over the quarter driven by various news stories, but there were few significant events to provide markets with a clear direction. Demand for safe haven assets rose in August amidst rising tensions on the Korean peninsula, but this was reversed in September as Fed guidance increased market expectations for future rate rises, and news of a new plan for US tax reform broke. The UK gilt market was the major exception, as nominal and real yields rose over the three months.

5.5 BlackRock

BlackRock	2017			2016				2015	One Year	Two Years	Since Start 1/1/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£38,381	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.3	2.0	2.5	1.5	(3.5)	1.3	1.2	2.5	7.3	4.4	9.9
Benchmark	2.4	2.3	2.0	2.3	(0.7)	0.1	1.1	3.0	9.0	6.2	12.3
Difference	(1.1)	(0.3)	0.5	(0.8)	(2.8)	1.2	0.1	(0.5)	(1.7)	(1.8)	(2.4)

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.

Market Summary

The UK property market remained resilient in Q3 as demand for real estate assets, particularly from overseas investors remained robust. Aggregate values recovered past their pre-Brexit vote peak in the Q2. However, there is considerable dispersion between the various parts of the market with Central London shops, Industrials and Alternatives all recording significantly higher values whilst the value of shopping Centres and out of town retail remains subdued.

Domestic investors remain in the market for Industrial properties and Alternatives such as hotels, student accommodation and healthcare properties. Demand for long leased, indexed linked assets remains particularly strong.

Q3 Performance

The Fund delivered a net return to investors of 1.3% in the third quarter of 2017 and over the last 12 months, the Fund has returned 7.3%. This compares to a benchmark returns of 2.4% and 9.0% respectively.

Purchases

Primary Healthcare: The Fund purchased Rutland Lodge Medical Centre in Leeds for £5.3 million. The asset comprises a self-contained, purpose-built medical centre constructed in 2005 and occupied by a GP practice, NHS Trust and a pharmacy. The scale and services provided are in line with the current NHS strategy for the provision of healthcare to communities.

Sales

During the third quarter, the Fund completed the sale of eight assets totaling £12.9 million. A portfolio of seven medical centres was sold for a total of £11.3 million in August 2017. These assets were identified for sale due their small lots size, property fundamentals or where there are specific concerns over operational performance. The sale of an industrial unit in Corby was completed in September 2017 to an owner occupier for £1.6 million.

5.6 Schroders Indirect Real Estate

	2017			**2016**				**2015**			**Since**
Schroder	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**One Year**	**Two Years**	**Start 6/8/2010**
£23,676	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**2.0**	**2.8**	**3.2**	2.7	3.7	(5.2)	0.8	2.4	10.7	6.2	6.9
Benchmark	**2.4**	**2.3**	**2.0**	2.3	(0.7)	0.1	1.1	2.8	9.0	6.1	8.2
Difference	**(0.4)**	**0.5**	**1.2**	**0.4**	**4.4**	**(5.3)**	**(0.3)**	**(0.4)**	**1.7**	**0.1**	**(1.3)**

Reason for appointment

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

Performance

Since the market correction in Q3 2016, the strategy has rebounded strongly. In July 2016, the Fund increased its allocation by £5m due to large discounts available. This helped to rebalance the Fund's underweight property position and provided a good return of 10.5%. Schroder one-year return is 10.7%, 1.7% above its benchmark.

5.7 M&G / Prudential UK

M&G / Prudential	2017			2016				2015	One Year	Two Years	Since Start 31/5/2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£998	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.4	4.4	4.7
Benchmark	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.3	4.4	4.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.3

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees) and provides diversification from active bond management by holding the loans until their maturity.

Performance and Loan Security

The strategy provided a return of 4.4% per year, with a small outperformance against benchmark of 0.3% since inception. The strategies holding has reduced in size to £1m, with most of the loans repaid. However, an issue with one of the loans has been identified and this has been passed to M&G's Major Problem Credit Committee for review and monitoring. Liquidity with the company affected remains adequate and covenants have not been breached; there is sufficient liquidity to meet the next contractual amortisation payment in January 2018 on the loan held by the fund. There is no evidence of an impairment at this stage. A verbal update on this will be provided to Members at the Pension Panel.

5.8 Hermes

Hermes	2017			2016				2015	One Year	Two Years	Since Start 9/11/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£72,864	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.8	0.8	1.9	1.8	1.6	2.5	5.9	0.3	6.3	8.3	10.3
Benchmark	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	5.7	5.6	5.9
Difference	0.4	(0.6)	0.5	0.4	0.2	1.1	4.5	(1.1)	0.6	2.7	4.4

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure

Fund I (HIF I) and has a five-year investment period and a base term of 18 years. In March 2015 Members agreed to increase the Fund’s allocation to Hermes to 10%.

Performance

As at 30 September 2017, the strategy reported a one-year return of 6.3%, outperforming its benchmark by 0.6%. Since inception the strategy has provided an annualised return of 10.3%, outperforming its benchmark by 4.4%.

Portfolio review

Associated British Ports has continued to perform in line with budget. However, the management team remain cautious on the outlook for the rest of the year considering continued political uncertainty generally and apparent lack of progress in the ongoing negotiations on the terms of the UK’s exit from the EU. Eurostar increased passenger numbers and corresponding revenues in comparison with 2016. However, there was a decline in ticket sales following the recent terrorist events in Manchester and London and management are closely monitoring customer reaction to these shocks.

Following the acquisition of an equity interest in Cadent Gas in March 2017, an important milestone in the execution of the work program set out at acquisition was achieved with the appointment of Sir Adrian Montague, as independent chairman, to the board. Sir Adrian brings a wealth of experience in largescale and regulated businesses, has extensive involvement in the infrastructure sector generally and maintains excellent contacts in government. In May 2017, EAG acquired Dragon Infrastructure Solutions, one of the UK's largest Independent Connection Providers, and Utility Distribution Networks, an Independent Distribution Network Operator. The acquisitions are expected to contribute to growth in recurring revenues and accelerate the geographical expansion of EAG's service based business for gas and electricity.

Transaction

Hermes Infrastructure’s intention has always been to realise some of the investments that formed part of the strategies original seed investments at an optimum time and value. In Q3 of 2017, Hermes Infrastructure undertook a strategic review of the HIF I Value Added Portfolio’s holdings in PEIF and GSIP, which resulted in an investment committee decision that seeking an exit at this point in the market cycle was in the best interests of HIF I.

On 29 and 30 September 2017, Hermes Infrastructure Fund I LP (‘HIF I’ or the ‘Fund’) successfully completed a secondary sale of its c0.7% interest in PEIF Pan-European Infrastructure Fund (‘PEIF’) to Stafford Capital Partners (‘Stafford’) on behalf of Stafford Infrastructure Secondaries Fund II and IST 3 Investmentstiftung and its c2.3% interest in Goldman Sachs Global Infrastructure Partners I LP (‘GSIP’) to Pantheon Capital Partners (‘Pantheon’) on behalf of a number of funds and clients. The total consideration received for PEIF was c£16.8m which delivers a whole of life IRR to the Fund of c11.7%.

The total consideration received for GSIP was £34.2m, delivering an IRR of c17.1%. Typical for transactions of this nature, both fund interests were sold at a discount to the underlying General Partner’s valuation with a significant discount for PEIF, compared to GSIP. These successful realisations bring HIF I's total portfolio holdings to 12 investments, comprising ten direct investments and two fund investments.

The sales process for both funds was structured as a competitive auction, which attracted extensive market interest in PEIF and less, but significant, interest in GSIP. Phase 1 of the process resulted in the submission of indicative offers, following which a limited number of parties were asked to submit final binding bids on 15 September 2017. Stafford and Pantheon were selected as preferred bidders in respect of PEIF and GSIP respectively, and the transaction was executed under a tight timeframe.

Commitment Update

A consequence of the sale of GS Global Infrastructure Partners I, LP and Pan-European Infrastructure Fund LP ("Project Solstice") was a significant distribution back to investors of capital and profit. Currently the contract the Fund has with Hermes only allows the capital to be reinvested during the investment period. However, Hermes have provided an option to include the profit (equivalent to £5.3m) to be reinvested should investors agree to a waiver.

The waiver is only on Value Added investments and only covers the two sales outlined above. Effectively by agreeing the waiver the Fund's commitment to Hermes would be £80.3m rather than the £75m currently agreed. Hermes have confirmed that there will be no commitment fees on this amount. Due to the strong equity performance, currently the strategy is underweight infrastructure and by increasing the allocation by £5.3m, the allocation will be better aligned with the strategic allocation. It is likely that, should Members agree to the waiver, that the funds could be invested in early 2018.

Aon Hewitt have provided a detailed paper on the additional investment with Hermes, which is included as appendix 4 of this report. Aon Hewitt recommendation is for the waiver to be signed and the additional c. £5.3m be committed to the Hermes Fund.

Members are recommended to agree the re-advancement waiver provided by Hermes, which will allow any distributed profits from the sale of GS Global Infrastructure Partners I, LP and Pan-European Infrastructure Fund LP to be reinvested in future Value-Added investments. This will increase the Fund's commitment to Hermes from £75m to £80.3m.

5.9 Aberdeen Asset Management

	2017			2016				2015			
Aberdeen	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**One Year**	**Two Years**	**Since Start 15/9/2014**
£57,586	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**6.1**	**4.2**	**0.7**	0.5	0.3	(1.4)	2.2	(0.1)	11.5	6.3	3.7
Benchmark	**1.1**	**1.1**	**1.1**	1.1	1.1	1.1	1.1	1.1	4.4	4.4	4.5
Difference	**5.0**	**3.1**	**(0.4)**	**(0.6)**	**(0.8)**	**(2.5)**	**1.1**	**(1.2)**	**7.1**	**1.9**	**(0.8)**

Reason for appointment

As part of the Fund's diversification away from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Asset Management (AAM) 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 AAM have built a portfolio of HFs, PEs and co-investments, 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.

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

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

Market Update and Performance Summary

Private Equity and Hedge Funds were both profitable over the quarter (on a currency-hedged basis). PAI Europe VI ("PAI") and Ethypharm Co-Invest ("Ethypharm") led the way in terms of the positive contributors to performance, followed by Pharo Gaia ("Pharo"). Kohinoor Series Three Fund ("Kohinoor") and OEP VI Feeder ("OEP") were the largest detractors although their contributions were small.

Performance

Overall the strategy provided a return of 6.1%, outperforming its benchmark by 5.0%. This good quarterly return helped the strategy to outperform its benchmark over one year, with a return of 11.5% against a benchmark of 4.4%. Since inception in September 2014, the strategy has return 3.7%, underperforming its benchmark by 0.8%.

At the September Pension Panel, Aberdeen presented to Members and there was detailed discussion over the underperformance associated with the initial investment period. It is expected that as the investments in Private Equity mature, that the strategy will begin to outperform its benchmark over the long term.

To be updated when Q3 report provided

As at the end of 30 September 2017 the portfolio held the following allocation to Hedge Fund's and Private Equity:

Fund	**Strategy / Style**
Hedge Funds	
Field Street Fund	Fixed Income, Global Macro
Horizon Portfolio Ltd	Market Neutral
Kohinoor Series Three	Tail-risk protection

Obsidian Fund	Fixed Income Relative Value
Pharo Gaia Fund	Discretionary global macro (Emerging markets)
Complus Asia Macro	Discretionary macro fund focused on Asia
Renaissance IDA	Statistical Arbitrage
BlackRock Fixed Income	Relative Value
Private Equity	
PAI Europe VI	Buyout Midcap
MML Capital Partners VI	Lower Mid-Market
Advent Int GPE VIII-B LP	Sector-focused strategy and operational approach
Cinven Allegro LP	European Fund focused on Financials & Healthcare
Ethypharm Co-Invest FPCI	European generics & specialty pharmaceutical
OEP VI Feeder LP	Merge like-sized businesses with a strategic fit

5.10 Pyrford

	2017			**2016**				**2015**	**One Year**	**Two Years**	**Since Start 28/9/2012**
Pyrford	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**			
£101,413	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(0.9)**	**0.1**	**1.7**	0.6	3.1	3.2	2.4	2.2	1.5	6.2	4.2
Benchmark	**2.2**	**2.3**	**2.1**	2.0	1.9	2	1.4	1.6	8.6	7.8	6.7
Difference	**(3.1)**	**(2.2)**	**(0.4)**	**(1.4)**	**1.2**	**1.2**	**1.0**	**0.6**	**(7.1)**	**(1.6)**	**(2.5)**

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

After seven quarters of positive absolute returns Pyrford generated a negative return of -0.9%% in Q3, underperforming its benchmark by 3.1%. Over one year the strategy has returned 1.5%, underperforming its benchmark by 7.1%. Pyrford's performance over two years and since inception is closer to its benchmark but still underperforms by 1.6% and 2.5% respectively.

Strategy and Market Update

The biggest detractor over the quarter for the portfolio came from the portfolio's equities as the market reacted to rising rates by rotating out many defensive type companies that offer strong dividend support and moved into more cyclical names.

The Pyrford equity portfolio is positioned in high dividend paying defensive sectors that can be perceived as sensitive to rising bond yields. Pyrford buy companies that have robust businesses are able to grow and pay out attractive dividends. Pyrford retain conviction in this approach despite the recent underperformance. Overseas, the largest detraction came from ComfortDelGro (Singapore).

The portfolio's bonds lost some ground as yields rose sharply towards the end of the quarter. The portfolio's UK bonds outperformed the wider market (longer duration bonds) but still lost some ground as the shorter end of the curve was also hit by the prospect of a rate rise in the UK later in the year.

Cash and currency management added to returns over the quarter as Sterling strengthened against the Swiss Franc by over 4% and the Australian dollar by 1%. The only other currency hedged, the Canadian dollar, rose against the pound by 0.5%.

5.11 Newton

	2017			2016				2015	One Year	Two Years	Since Start 31/8/2012
Newton	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**			
£66,167	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(0.8)**	**1.0**	**2.0**	(5.0)	1.5	4.3	4.0	1.5	(2.8)	4.3	3.4
Benchmark	**1.0**	**1.0**	**1.1**	1.0	1.1	1.1	1.1	1.1	4.1	4.3	4.5
Difference	**(1.8)**	**0.0**	**0.9**	**(6.0)**	**0.4**	**3.2**	**2.9**	**0.4**	**(6.9)**	**0.0**	**(1.1)**

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

Disappointingly, the Fund delivered a negative return over the quarter of -0.8%. Derivative protection generated a negative contribution as the primary equity indices used for this protection increased in value over the period. Marginally rising yields and sterling's appreciation negatively affected the contribution from US Treasuries. The equity portfolio was positive, but underperformed broader equity markets which were driven by cyclical sectors. For the year the return is -2.8% but over two years the strategies return is 4.3%, which matches Newton' benchmark.

Activity

In addition to protection implemented through short futures on geographically diverse equity indices, Newton have implemented an option strategy at attractive prices, given low implied volatility. Newton continue to closely manage interest-rate sensitivity through a combination of the sale of physical positions and the implementation of derivative protection. Newton added further to existing positions in Australian and Canadian quasi-government bonds. The gold position was tactically trimmed owing to the precious metal's sensitivity to interest rates.

Outlook and Strategy

The consensus is again warming to the idea of a sustained economic acceleration that will shake the global economy out its post-crisis torpor. Newton remain of the view that economic momentum is likely to have peaked this year, owing to lower nominal GDP growth against a backdrop of intense disruption by new technologies, overcapacity, adverse demography and enormous debt levels. Newton remain focused on maintaining risk at contained levels, and continue to focus on companies with stable growth, characterised by healthy levels of cash generation and high returns on capital.

Management Change

In August, Newton announced the introduction of a new management structure. As part of the changes, Curt Custard was appointed as Chief Investment Officer. Newton also announced that Julian Lyne had taken on the position of Chief Commercial Officer.

5.12 BNY Standish

	2017			2016				2015			
Standish	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**One Year**	**Two Years**	**Since Start 20/8/2013**
£66,471	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**0.7**	**1.0**	**2.0**	0.7	1.4	0.9	(1.9)	(1.4)	4.4	1.7	1.6
Benchmark	**1.0**	**1.0**	**1.2**	1.1	1.1	1.1	1.5	1.5	4.3	4.7	5.4
Difference	**(0.3)**	**0.0**	**0.8**	**(0.4)**	**0.3**	**(0.2)**	**(3.4)**	**(2.9)**	**0.1**	**(3.1)**	**(3.8)**

Reason for appointment

Standish 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.

Performance

Overall the strategy provided a 0.7% return for the quarter, underperforming its benchmark by 0.3%. Over one year the strategy returned 4.4%, which is 0.1% above its benchmark. The two-year return is 1.7%, outperforming its target return of 4.7%. Since funding, the strategy has provided a disappointing annual return of 1.6%, significantly behind its benchmark of 5.4%

Outlook

Standish see global economic expansion continuing, with central banks revisiting unusual policy accommodation. As a result, Standish think that developed market sovereign yields are likely to rise and credit risk spreads are likely to narrow. This presents opportunities to keep duration in developed market yields short and selectively increase credit exposure. However, there is considerable asymmetry in this outlook, as inflation has been slow to materialise in advanced economies, such that the central bank shift is incremental, not monumental.

Valuations are rich with – Standish believe – only limited prospect for them to get significantly richer. By contrast, the scope for a freefall in yields and a widening in spreads remains considerable if growth is derailed. In this environment, Standish prefer to be cautious with our risk budget, targeting selective carry opportunities, being short duration and buying interest rate protection. As more attractive valuations present themselves, Standish believe it makes sense to take advantage of these openings and utilise more of the risk budget.

5.13 Currency Hedging

No new currency hedging positions were placed in Q3 2017.

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: Kathy Freeman, Director of Finance

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

8. Legal Implications

Implications completed by: Paul Feild, Senior Governance Solicitor

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

8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

9. Other Implications

9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Background Papers Used in the Preparation of the Report:

- WM Quarterly Q3 2017 Report; and
- Fund Manager Q3 2017 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 October 2017
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities
Appendix 4 – Aon Hewitt Hermes Infrastructure Note

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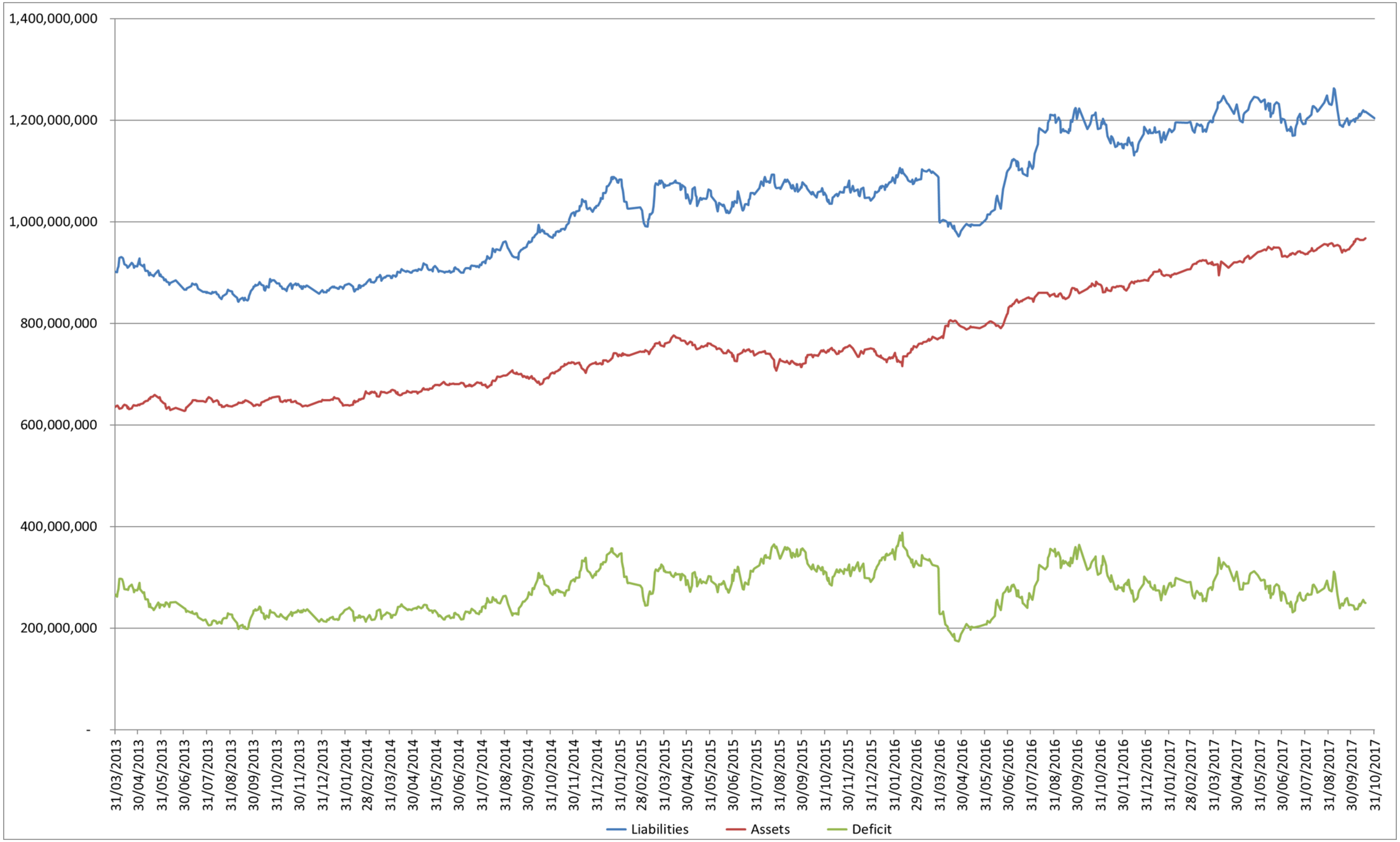
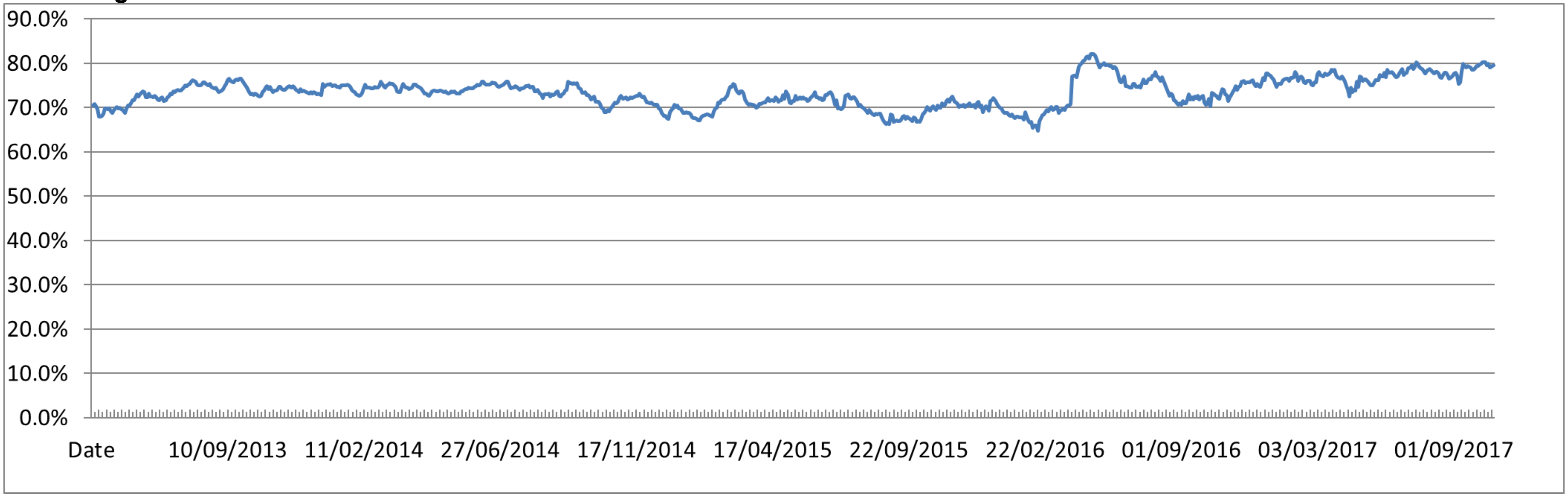
APPENDIX 1 - Fund Asset Values 31 March 2013 to 31 October 2017



Funding Level between 31 March 2013 to 31 October 2017



APPENDIX 2

A Definitions

A.1 Scheduled bodies

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

A.2 Admitted bodies

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

A.3 Schedule of Admitted and Scheduled bodies

A list of scheduled and Admitted Bodies is provided below

Scheduled bodies	University of East London
	Magistrates Court
	Barking College
	Thames View Infant Academy Thames View Junior School Sydney Russell Academy Riverside Academy Riverside Bridge Riverside Primary Dorothy Barley Academy Warren Academy Goresbrook Free School Elutec The James Cambell Greatfields School
Admitted Bodies	Age UK
	Abbeyfield Barking Society
	Barking and Dagenham Citizen's Advice Bureau
	Council for Voluntary Service
	Disablement Association of Barking and Dagenham
	East London E-Learning
	Elevate
	Kier
	London Riverside
	Laing O'Rourke RM Education CRI Cleantech The Broadway Theatre Schools Offices Services Ltd SLM Be First

B Roles & Responsibilities

B.1 Investment or Pensions Committee

This is the decision-making body within the LGPS scheme. It will probably meet quarterly and could have sub-committees for examining more detailed aspects i.e. investment performance, audit etc.

Membership of the committee will reflect the constitutional nature of the committee within the local authority and the multi–employer nature and size of the local scheme. A county scheme might have the leader of the council, four other councillor members from the host local authority, two district councillors and a staff representative.

As another example, the London Pension Fund Authority, which has separate legal responsibility for certain pensions' administration and investment within London, has a membership of seven to eleven members appointed by the Mayor of London. The Mayor is required to consult local government representatives in London on at least half of the appointments excluding the chairman.

Although appointments from host local authorities will be made on a political basis, a key feature of pensions or investments committees is the non-political nature of much of the decision-making. While sitting on the pensions or investments committee, members will be exercising a duty of care and have a fiduciary responsibility to the fund, employers and potential beneficiaries of the fund.

Responsibilities

The responsibility of an investments or pensions committee may include:

- ensuring all investment activity complies with the requirements of current regulations and best practise;
- approving the statement of investment principles, funding strategy statement, communications strategy and governance policy;
- reviewing and taking action on actuarial valuations;
- appointing investment managers, a fund actuary, custodian(s) and professional advisers;
- agreeing asset allocation strategies following asset liability modelling and a policy for investment in different assets with the investment managers;
- agreeing a rebalancing strategy between different portfolios when asset allocations change due to different market movements of different sectors;
- regularly reviewing investment managers' performance and expertise against agreed benchmarks and determining any action required;
- ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments;
- monitoring budgets for the fund ensuring there is adequate budgetary control;
- promoting the fund within the authority; and
- ensuring the administration of the fund is appropriately resourced, is effective and meets performance standards.

The committee will also have responsibility for selecting and appointing external additional voluntary contribution (AVC) providers for use by members in purchasing additional benefits. At retirement the accumulated value of the members AVC fund is used to purchase an annuity on the appropriate market, or the value may be taken as a cash sum under specific circumstances.

CLG has reminded administering authorities that elected councillors 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.

Under Section 101 of the Local Government Act 1972, a local authority can choose to delegate their pension investment functions to the council, a committee, a sub-committee or to officers. CLG guidance states that under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001, statutory decisions, taken under schemes made under Sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the executive arrangements introduced by the Local Government Act 2000.

This means that the executive arm of the council cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the pension fund and related matters.

B.2 Quasi Trustees

As the LGPS has a different background, in comparison to corporate pension schemes, members of investments or pensions committees do not have the legal responsibilities of a trustee in a corporate scheme. Nevertheless they still have considerable responsibilities and a general duty of care. Investments or pension’s committee members are often referred to as quasi trustees. Due to the complexity of investment practises, pension benefits, actuarial and funding issues, a high level of knowledge and skills is required and continual training is essential.

LGPS quasi-trustees are responsible for the:

- oversight of the management and resourcing of all fund activities;
- achieving the requirements set out by The Pensions Regulator’s codes of practice;
- ensuring the best possible outcome for the fund, employers and members; and
- taking decisions in accordance with the standing orders of the investments or pensions committee.

B.3 Fund Administrator

The Strategic Director, Finance & Investment is responsible as fund administrator for:

- ensuring compliance with the statutory rules governing the investment of LGPS assets, including the various policy documents and statements required under the regulations;
- acting as a professional advisor to the fund;

- as section 151 officer alerting the investments or pensions committee or the council to any problems with the funding level or the administration of the fund in accordance with section 151 responsibilities;
- ensuring effective audit and governance arrangements; and
- ensuring the effective administration and preparation of the accounts including the annual statement of accounts.

B.4 Administering Authority

There will be a separate pension's function within a host local authority with responsibility for investment and scheme administration. With a few exceptions, it will not be a separate legally constituted body.

Consequently, subject to LGPS regulations, the legal and administrative processes of the local authority will apply to the fund i.e. employees of the fund will be employees of the local authority and be subject to the local authorities pay and conditions of employment.

Although not a separate body in law, good practice would suggest that the fund should have a title relating to the overall fund, rather than the host authority.

The responsibilities of the administering authority include:

- collecting and accounting for employer and employee contributions;
- investing monies not required for payment benefits, transfers and administration costs;
- paying pension benefits and ensuring cash is available to meet the funds future liabilities;
- managing the fund valuation process;
- preparing and maintaining the statutory statements;
- monitoring and managing all aspects of the fund's performance; and
- Managing communications with employers, members and pensioners.

B.5 Employers

These will range from the host local authority, which in a county scheme will be the county council, to many other employers, both large and small. Following out-sourcing by local authorities, an increasing feature of LGPS schemes is the extent to which commercial companies are becoming employers (as admitted bodies) within the scheme.

Employers fall into three categories:

- <u>Scheduled</u>

  These are the organisations listed in the Local Government Pension Scheme Regulations 2013 (Schedule 2, Part 1) and include county councils and district councils.

- <u>Designated (resolution) bodies</u>

  These are employers that have the power to decide if an employee or a group of employees can belong to the LGPS and they pass a resolution accordingly. They are listed in the Local Government Pension Scheme Regulations 2013 (Schedule 2, Part 2).

- Admitted bodies

  These are bodies whose staff can become members of an LGPS fund, if the administering body agrees, under provisions of governing regulations by virtue of an admission agreement between the administering authority and the relevant body.

  Responsibilities of employers include:
  - deducting pension contributions and together with employer contributions, remitting to the administering authority in accordance with the required timescale;
  - exercising benefit discretions in accordance with the agreed policy and keeping the administering authority informed;
  - notifying the administering authority of all relevant membership changes (e.g. retirement etc) and other required issues; and
  - Complying with the valuation timetable.

Employers have a particular responsibility for notifying the administering authority as soon as it becomes evident that an outsourcing or external partnership arrangement might be a possibility. There are many complex issues to be considered by the administering authority which could involve seeking actuarial and financial advice. Employers need to ensure that tender documents clarify pension funding obligations which should be covered subsequently in a commercial contract.

Contact should be made at an early stage with the administering authority if consideration is being given to an employee retiring early or being made redundant. When considering early retirement, employers need to ensure that they identify the need to make a payment to the pension fund for the early release of pension benefits. This is called the pension fund strain; it can be a significant cost and normally needs to be funded immediately by the employer.

B.6 Investment Managers

With some exceptions, in larger LGPS funds most investment managers are external appointments.

Investment manager responsibilities include:

- investment of pension fund assets in compliance with current LGPS legislation, any constraints set by the investments or pensions committee in the Investment Strategy Statement and investment management agreement;
- asset allocation if a balanced manager, otherwise as directed by the investments or pensions committee;
- selection of securities within asset classes;
- attending meetings and presenting reports to the investments or pensions committee as required, including regular reports on performance, voting and transactions;
- active management of any cash balances (unless this responsibility is delegated to the custodian); and
- engaging with companies and taking shareholder action in accordance with the fund’s policy.

Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 is concerned with the appointment of Investment Managers.

B.7 Custodian(s)

The custodian(s) is responsible for the safekeeping of the fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian(s).

The duties may include:

- settlement of purchases and sales;
- advising managers of cash available for investment;
- safe custody of securities and cash;
- acting as banker to the fund;
- cash reconciliations;
- collection of dividends, income and overseas tax reclaims;
- ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
- ensuring the necessary approvals are in place to invest in certain overseas markets; and
- Providing (monthly) valuations of scheme assets, details of all transactions and accounting reports.

The custodian may also offer access to commission recapture, security lending programmes, comparative performance measurement and voting of shares in accordance with an agreed policy.

The appointment of a custodian might require specialist advice to be obtained. The risks to be addressed include:

- financial risk around the financial viability and stability of the custodian including ability to support long term investment in the business and withstand operational losses;
- asset risk including risk that in the event of default, client securities are treated as part of the assets of the bank which has gone into default and belong to creditors rather than clients, and cash risk that in the event of default clients are exposed to losses of cash placed with the bank; and
- Asset servicing risk such that a client is exposed to a loss due to a weakness in the custodian's operations.

Funds need to consider the importance of ensuring that all these areas are considered. This might involve using specialist advisers. Particular consideration should be given to risks if a sub-custodian is involved.

B.8 Actuary

The scheme actuary is an independent and appropriately qualified adviser who carries out statutorily required fund valuations and other valuations as required and who will also provide general actuarial advice.

The actuary will:

- prepare fund valuations, including setting employers contribution rates, after agreeing valuation assumptions with the administering authority;
- agree a timetable for the valuation with the administering authority; and
- Prepare timely advice and calculations in connection with bulk transfers and benefit matters.

The results of the valuation determine the rate of the employer's contribution for the subsequent three years. The actuary is required to certify employer's contribution rates that will achieve full solvency over the longer term, while keeping contribution rules as stable as possible.

The contribution rate will consist of a common rate for the fund and an individual employer rate. To achieve this, the actuary needs to ensure compliance with legislative requirements, assess current solvency levels, monitor actual experience compared with previous assumptions, and assess reserves needed for accrued liabilities. In carrying out this work, the actuary must have regard to the funding strategy statement, which might need to be revised to incorporate any new approach to be followed in the valuation.

The administering authority may also instruct the actuary to carry out an interim valuation if stock market conditions change, or if the characteristics of the membership changes e.g. as a result of a large transfer of staff.

The actuary will advise on other scheme matters, e.g. funding levels and the funding strategy statement and asset liability reviews. The most recent valuation of LGPS funds in England and Wales was at 31 March 2016 with revised employer contribution rates payable from April 2017.

The Myner's report (Institutional Investment in the United Kingdom: A Review) highlighted the need for funds to consider whether the roles of actuary and investment adviser should be held by separate companies. Notwithstanding this, many continue to have these roles provided by the same company, although there will be separate contracts.

B.9 Professional Advisers

Professional advisers should be appointed to advise the pensions or investments committee and the fund administrator on scheme matters. As in the case of investment managers, these appointments tend to be held by a relatively few appointees. Professional advisors should not be committee members.

Funds usually have a sole investment adviser. Consideration might be given to using a framework list of consultants, in order to use specific advisers to reflect each firm's strength and fees. In comparison with the usual approach of advertising in the EU journal, subject to the size of the fee, framework lists afford much more flexibility in procuring these services.

Advisers may be needed for advice on:

- asset allocation strategies;
- the selection of new managers and custodians;
- the preparation of the various strategy documents required under LGPS regulations; and
- To assist in reviewing and monitoring managers' performance.

Legal advice will need to be available to the fund, which might involve the appointment of specialist legal advisers for particular aspects of fund management i.e. appointing a private equity manager.

London Borough of Barking & Dagenham Pension Fund ("the Pension Fund")

Date:	30 November 2017
Prepared for:	Pensions Panel
Prepared by:	Colin Cartwright Joseph Peach

Hermes Infrastructure Re-advancement waiver

Introduction

This note has been prepared for the Pension Fund by Aon Hewitt and relates the Pension Fund's investment into Hermes Infrastructure Fund I LP ("the Hermes Fund").

Hermes were appointed as the Pension Fund's infrastructure manager in 2012, with an investment into the infrastructure asset class being seen as an alternative way to invest in inflation linked assets rather than through investing in Index-Linked Gilts.

As at 30 June 2017 the Pension Fund had £71.7m invested in the Hermes Fund which equated to 7.6% of the Pension Fund's total assets.

The Hermes Fund has recently realised some of its investments and has distributed the relevant share of the realisation proceeds back to investors, including the Pension Fund.

Rather than distributing some of the additional realisation proceeds back to the Pension Fund, Hermes are requesting consent to re-invest the amount into the Hermes Fund.

The current terms of the Limited Partnership Agreement ("LPA") between Hermes and the Pension Fund (and other limited partners in the Hermes Fund) states:

'*limited partners may be required to re-advance an amount equal to distributions received within the Investment Period of the Fund, provided that the amount required to be re-advanced shall not exceed the amount drawn down in respect of the Acquisition Cost of such investments.'*

Hermes are proposing that the restriction on the amount that can be re-advanced is revised as follows:

We are providing investors with the opportunity to waive the restriction in clause 5.1(b)(ii) of the LPA such that, if you agree, the amount that may be re-advanced in relation to the realised Seed Investments … and redeployed shall be equal to the total realisation proceeds received by you in respect of such investments rather than being limited as set out above to the amount drawn down in respect of the Acquisition Cost.

Considerations of Hermes Request

There are two options for the Pension Panel to consider in relation to the Hermes request:

1) Accept the request to waive the restriction, which will mean an additional c.£5.3m will be committed to the Hermes Fund on

behalf of the Pension Fund; or

2) Reject the request to waive the restriction, which will mean c.£5.3m being distributed back to the Pension Fund as Cash

There are advantages and disadvantages to each of the options outlined above, some of which we highlight below:

Option 1) – Accept the waiver

If the waiver is signed, it will result in the Pension Fund making an additional £5.3m commitment to infrastructure via the Hermes Fund.

Infrastructure as an asset class has many characteristics that are attractive to the Pension Fund, including its income distribution and inflation-linkage. These, coupled with the fact that the Pension Fund's revised investment strategy has a 9% allocation to infrastructure mean that an increase in the allocation to the asset class is something that we would be supportive of.

However, the Pension Panel would need to accept that the increase in allocation to the asset class is arrived at through an increase in allocation to the Hermes Fund without considering any other infrastructure funds which may be available to invest in at the current time.

We understand that Hermes would be able to 'get the money in the ground' relatively quickly and therefore additional exposure to the desirable characteristics of infrastructure would be achieved in a timely manner.

Option 2) – Reject the waiver

If the Pension Panel were to reject the signing of the waiver, c. £5,3m would be returned to the Pension Fund as Cash.

The Pension Panel would then need to agree how to invest this Cash.

For example, the Cash could still be used to invest in infrastructure, but through the addition of another manager (though the £5.3m in isolation would likely be an insufficient amount to commit to a fund and also consideration would need to be given to procurement requirements and also whether such an allocation could be made through the London CIV).

Alternatively the amount could be used to rebalance the Pension Fund back towards its strategic allocation, though we note that the allocation to infrastructure is already underweight relative to the benchmark so it may be that some (or all) of this amount would be re-directed to infrastructure anyway.

Recommendation & Next Steps

We believe that the Pension Fund should increase its allocation to infrastructure to bring its holding closer in line with the 9% strategic allocation. The request from Hermes presents a simple way of achieving some of this desired increase.

We understand that Hermes would be able to 'get the money in the ground' relatively quickly and also that no commitment fee would be payable on this additional amount meaning it will therefore be a more cost efficient way of increasing the allocation.

Taking all of the above into account, the recommendation from Aon Hewitt is for the waiver to be signed and the additional c. £5.3m be committed to the Hermes Fund.

We look forward to discussing this with the Pensions Panel at the meeting on 13 December 2017.

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PENSIONS PANEL

13 December 2017

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: David Dickinson, Group Manager Pensions and Treasury	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Kathy Freeman, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	

Recommendations

The Panel is recommended to note:

i. that the Fund is cash flow positive;
ii. the Fund's three-year budget for the period 1 April 2017 to 31 March 2020;
iii. that interview dates for the actuarial tender will now be in February 2018. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions; and
iv. that the Fund has now opted up to Professional Investor status will all advisors, Money Market Funds, the Custodian and all of the Fund's investment managers.

1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. This paper covers three main areas including:

i. Pension Fund Budget 1 April 2017 to 31 March 2020;
ii. Cash flow to 31 September 2017;
iii. The London Collective Investment Vehicle (LCIV)
iv. Update on MiFID 2;
v. Actuary Contract Tender; and
vi. Annual Pension Fund Stakeholder Forum.

2. Pension Fund Budget 1 April 2017 to 31 March 2020

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2020. This will next be revised for the March 2018 Pension Panel.

Table 1: Pension Fund Budget 1 April 2017 to 31 March 2020

Contributions	2017/18 Budget	2018/19 Budget	2019/20 Budget
Employee Contributions			
Council	6,000	5,500	5,000
Admitted bodies	800	1,200	1,500
Scheduled bodies	2,400	2,500	2,800
Employer Contributions			
Council	22,500	20,000	18,200
Admitted bodies	2,000	3,000	3,750
Scheduled bodies	8,900	9,300	10,500
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
Total Member Income	46,100	45,000	45,250
Expenditure			
Pensions	(30,000)	(31,500)	(32,800)
Lump Sums and Death Grants	(6,000)	(6,000)	(6,000)
Payments to and on account of leavers	(3,500)	(3,500)	(3,500)
Administrative expenses	(550)	(550)	(500)
Total Expenditure on members	(40,050)	(41,550)	(42,800)
Net additions for dealings with members	6,050	3,950	3,250
Returns on Investments			
Investment Income	6,000	7,000	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	(3,300)	(3,100)	(3,000)
Net returns on investments	**37,700**	**33,900**	**31,500**
Net increase (decrease) in the net assets	**43,750**	**37,850**	**34,750**
Asset Values	**938,750**	**976,600**	**1,011,350**

2.2 The three-year budget shows a movement from members being directly employed by the Council to some members being funded by admitted bodies and academies. An increase in lump sum payments is projected but will be mitigated by an increase in pension strain. Pension strain costs reflect the payment of early retirements over 5-years rather than as a one-off payment. The increase in pension payments has increased to reflect an estimated pension increase of 3.0% for 2018/19.

2.3 Overall the Fund is expected to remain cash flow positive for the duration of the three years but for the net dealing with members to reduce to £3.25m by 2020. Fund manager fees are forecast to drop from £3.5m to £3.0m by 2020.

3. Cash flow to 30 September 2017

3.1 Table 2 below provides Members with the Fund's Cash flow to 30 September 2017.

Table 2: 2017/18 Forecast Pension Fund Cash Flow

	2017/18 Budget £000's	2017/18 Forecast £000's	Over / Under £000's
Contributions			
Employee Contributions			
Council	6,000	6,794	794
Admitted bodies	800	309	-491
Scheduled bodies	2,400	2,180	-220
Employer Contributions			
Council	22,500	23,292	792
Admitted bodies	2,000	1,013	-987
Scheduled bodies	8,900	8,310	-590
Pension Strain	1,000	2,083	1,083
Transfers In	2,500	1,840	-660
Total Member Income	**46,100**	**45,822**	**-278**
Expenditure			
Pensions	-30,000	-31,261	-1,261
Lump Sums and Death Grants	-6,000	-7,776	-1,776
Payments to and on account of leavers	-3,500	-4,019	-519
Administrative expenses	-550	-650	-100
Total Expenditure on members	**-40,050**	**-43,706**	**-3,656**
Net additions for dealings with members	**6,050**	**2,115**	**-3,935**
Returns on Investments			
Investment Income	6,000	6,000	-
Profit (losses)	35,000	40,000	5,000
Investment management expenses	-3,300	-3,300	-
Net returns on investments	37,700	42,700	5,000
Net increase (decrease) in the net assets	**43,750**	**44,815**	**1,065**
Asset Values	**960,557**	**961,622**	
Liabilities	**-1,100,000**	**-1,200,000**	
Funding Level	**87.30%**	**80.10%**	

3.2 Administration costs are forecast to be £100k higher than budget as an external company will complete the Fund's Guaranteed Minimum Pension reconciliation.

3.3 Pension costs are significantly higher than budget due to the full effect year effect of the 2016/17 retirements and an increase in early retirements from the UEL.

3.4 Overall the Fund is forecast to end the financial year at around 80.1% funded based on a prudent gilt plus model. This compares favourably with the triennial valuation results where the fund is 77.6% funded and is due to higher than expected returns and a decrease in inflation expectations.

4. London Collective Investment Vehicle (LCIV) Update

4.1 The Chief Executive Hugh Grover has stepped down and Mark Hyde-Harrison has been appointed interim CEO. Mark was the chair of the National Association of Pension Funds from 2011 to 2013 and Head of Defined Contribution Strategy at consultancy Willis Towers Watson from 2013 to 2015. Kevin Cullen has been appointed as the Clients Relationship Director.

4.2 **LCIV Quarterly Update**

Fixed Income and Cashflow Strategies

Larissa Benbow (LCIV's Head of Fixed Income) is discussing investment fund design based on London LA priorities for Fixed Income (FI). It is hoped that there will be presentation from short listed Liquid managers in the first week of December with the Board to sign off the final selection the following week.

The first (more liquid) FI products are scheduled to open early in the New Year with more to follow soon after. These funds will include; Global Bonds, Liquid Loans and Multi Asset Credit (Liquid). The more illiquid Fixed Income products will like be towards the end of 2018.

Infrastructure

LCIV now have appointed Ryan Smart to work on infrastructure products to be offered on the pool. Ryan will set out the medium-term strategy in the coming months and has been gathering intelligence by meeting with a range of fund managers, placement agents, advisors and other institutional investors within the asset class.

LCIV hosted the first Infrastructure working group at the end of September at which several boroughs looking to get immediate exposure to the asset class were in attendance. From the meeting it was agreed that the LCIV would look to launch a global, unlisted, income focused fund that concentrated on core/core-plus assets. As a result, the LCIV are now scoping out the universe and will report back with their findings to the group. The Group Manager for Treasury and Pensions is a member of the infrastructure working group.

Governance Review of the CIV

Willis Towers Watson have been appointed to run a governance review of the LCIV. A survey has been sent to over 100 'stakeholders' and workshops and follow up discussion will be taking place over the next few weeks with a view to having findings and recommendations ready for review, discussion and finalisation before Christmas.

5. MiFID II update

5.1 At the September Pension Panel, Members agreed that the Fund should seek to Opt Up to Professional Investor and delegated authority to the Sections 151 officer to complete the Opt Up process.

5.2 This process has now been completed and the Fund has opted up to all Fund managers currently being used, advisors and the Fund's custodian.

6. Actuarial Contract Tender

6.1 At the September Pension Panel Members delegated authority to officers to commence procurement for an actuary, using the National LGPS Framework. Members agreed, the interview dates will likely be in late November.

6.2 Due to the work required to complete the MiFID II opting up process it is necessary to move the dates for the interview to February 2018. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions.

7. Annual Pension Fund Stakeholder Forum

7.1 The Annual Pension Fund Stakeholder Forum took place on the 16 November 2017 at Barking Town Hall.

7.2 The Forum provided an update to Fund members on the performance, governance and the administration of the Fund.

8. Consultation

8.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The Strategic Director, Finance & Investment and the Fund's Chair have been informed of the commentary in this report.

9. Financial Implications

Implications completed by: Kathy Freeman, Director of Finance

9.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits and governance of the Fund rests with the Pension Panel.

10. Legal Implications

Implications completed by: Paul Feild Senior Governance Solicitor

10.1 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.

11. Other Implications

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

Background Papers Used in the Preparation of the Report: None

List of appendices: None

PENSIONS PANEL

13 December 2017

Title: Business Plan Update 2017	
Report of the Chief Operating Officer	
Public Report	Public Report
Wards Affected: None	**Wards Affected:** None
Report Author: David Dickinson, Group Manager Pensions and Treasury	**Report Author:** David Dickinson, Group Manager Pensions and Treasury
Accountable Director: Kathy Freeman, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Recommendations The Panel is asked to note progress on the delivery of the 2017 Business Plan at Appendix 1 to the report	

1. Introduction and Background

1.1 The purpose of this report is to update the Pension Panel on progress regarding the Pension Fund's 2017 business plan.

1.2 Appendix 1 provides a summary of the Business Plan actions from 1 January 2017 to 30 November 2017 and the actions for the remainder of the year.

2. Comments of the Finance Officer

2.1 The Business Plan includes the major milestones and issues to be considered by the Panel 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 Panel 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. Panel 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

Appendix 1: 2017 Business Plan

Month	Action Scheduled	By	Actual Activity
Jan 17	Review: Actuarial Contract	Officers	Contract reviewed. Will tender as part of the national framework.
	Fund Manager Meetings: • Equities: Kempen • Equities: BlackRock • Infrastructure	Officers	 2 February 2017 26 January 2017 6 January 2017
	Training: Strategy Development (Aon / In-house)	Officers / Advisors	Moved to 13 March 2017
Feb 17	Pension Board Meeting	Officers / Pension Board	Done – 27 February 2017
Mar 17	IAS 19 Calculations	Officers	Completed
	Review: Independent Advisor	Officers / Members	Contract Recommendation to extend for one year
	Quarterly Pension Panel Meeting	Officers / Advisors / Members	Completed
	Cash Flow Update (Report to March Pension Panel)	Officers	Completed
	Fund Manager Meetings: • Absolute Return: Pyrford and Newton • Global Credit: BNY Standish • Diversified Alternatives: Aberdeen • Equities: Baillie Gifford	Officers	 20 June 2017 20 June 2017 23 May 2017 26 July 2017
	Closure of Accounts	Officers	Completed
Apr 17	Framework Tender for Custodian (Report to June Panel)	Officers / Members	Moved to March 2018
	Provide Triennial Valuation data to the Actuary	Officers	Completed
	Fund Manager Meetings: • Infrastructure: Hermes	Officers / Advisors	 Held on 24 May 2017
May 17	Draft Annual report and annual accounts to June Panel	Officers	Completed
	• Quarterly Pension Panel Meeting	Officers / Advisors / Members	Completed
	Cash Flow Update- Report to June Pension Panel	Officers	Completed
Jun 17	Pension Board Meeting	Officers / Pension Board	Held September 2017
	FRS17 Data Collection – UEL and Barking College	Officers	Completed
Jul 17	Fund Manager Meetings: • Property Manager: Schroders • Equities: Kempen	Officers	 Moved to September 2017 Held on 5 October 2017

	Equities & Bonds: UBS		
	Annual Benefit Statement (deadline of 31 August 2017)	Officers	Completed
Aug 17	• FRS17 Data Collection – Academies	Officers	Completed
Sep 17	Quarterly Pension Panel Meeting	Officers / Members	Completed
	Auto-enrolment	Officers / Members	Completed
Oct 17	Meeting with Employers to discuss Triennial Results	Officers / Employers	
	Fund Manager Meetings: • Property Manager: Newton	Officers	17 October 2017
	Cash Flow Update- Report to December Pension Panel	Officers	This Panel
	Tender for Actuarial Provider	Officers / Members	Moved to January 2018
Nov 17	Quarterly Pension Panel Meeting	Officers / Members	This Panel
	Pension Fund Stakeholder Meeting	Officers / Members	Held 16 November 2018
	Strategic Asset Allocation Review	All	Completed in June 2017
Dec 17	Fund Manager Meetings: • Absolute Return: Pyrford and Newton • Global Credit: BNY Standish • Diversified Alternatives: Aberdeen		To be arranged To be arranged To be arranged

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

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