Subject: Pension Fund Business Plan Update

Source: Finance

Wards Affected: None

Exempt Information

None

Purpose of Report

Update on the Newham Pension Fund ("the Fund") business plan and developments since the last meeting held on 23rd July 2019.

Recommendations

The Pensions Committee (PC) is asked to note:

- Ministry of Housing, Communities and Local Government (MHCLG) return - Indicative transfer of assets to the LCIV
- Competition and Markets Authority (CMA) Objectives Report
- Fund’s Budget Monitor and Cash Flow update

Consultation

Chair of the PC

NAME OF LEAD OFFICER: Conrad Hall
POSITION: Corporate Director of Resources

Originator of report: Rakesh Rajan
Tel no: 020 3373 6595
E-mail address: rakesh.rajan@newham.gov.uk
Local Government (Access to Information) Act 1985
Background papers used in preparing this report:

List of enclosures / Appendices:

- Appendix 1 – MHCLG Return: Transfer of assets
- Appendix 2 – CMA Objectives Report
- Appendix 3 – Fund’s Budget update
- Appendix 4 – Cash flow update
Business Plan Update

1. **Introduction and background**
   1.1 To report progress on delivering the Fund’s 2019/20 Business Plan.

2. **London CIV Update**
   2.1 As at 30 August 2019, the London CIV (LCIV) had total assets under management (AUM) of £8.7Bn plus total passive assets of £8.8Bn, c. £17.4Bn in total. The LCIV budget strategy aims to have £21.1Bn AUM by end of March 2020 (£11.1Bn in LCIV and £10Bn in passive). Table 1 shows LCIV sub-funds:

<table>
<thead>
<tr>
<th>Fund (Underlying Manager)</th>
<th>Fund Size £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK Equities</strong></td>
<td></td>
</tr>
<tr>
<td>LCIV MJ UK Equity (Majedie)</td>
<td>398</td>
</tr>
<tr>
<td><strong>Global Equities</strong></td>
<td></td>
</tr>
<tr>
<td>LCIV BG Global Alpha Growth (Baillie Gifford)</td>
<td>2,675</td>
</tr>
<tr>
<td>LCIV NW Global Equity (Newton)</td>
<td>646</td>
</tr>
<tr>
<td>LCIV Global Equity Alpha (Longview Partners)</td>
<td>806</td>
</tr>
<tr>
<td>LCIV EP Income Equity (Epoch Investment Partners)</td>
<td>250</td>
</tr>
<tr>
<td>LCIV Sustainable Equity Fund (Royal Bank of Canada)</td>
<td>419</td>
</tr>
<tr>
<td><strong>Emerging Market Equities</strong></td>
<td></td>
</tr>
<tr>
<td>LCIV HN Emerging Market Equity (Henderson)</td>
<td>383</td>
</tr>
<tr>
<td><strong>Multi-Asset</strong></td>
<td></td>
</tr>
<tr>
<td>LCIV PY Total Return (Pyrford)</td>
<td>321</td>
</tr>
<tr>
<td>LCIV Diversified Growth (Baillie Gifford)</td>
<td>663</td>
</tr>
<tr>
<td>LCIV RF Absolute Return (Ruffer)</td>
<td>883</td>
</tr>
<tr>
<td>LCIV NW Real Return (Newton)</td>
<td>172</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
</tr>
<tr>
<td>LCIV MAC Fund</td>
<td>842</td>
</tr>
<tr>
<td>LCIV Global Bond Fund</td>
<td>273</td>
</tr>
<tr>
<td><strong>Total LCIV Assets Under Management (AUM)</strong></td>
<td>8,731</td>
</tr>
</tbody>
</table>

   2.2 On the 20 August 2019, Officers, the Scheme Investment Adviser (SIA) and the Chair held their quarterly meeting with the LCIV to provide a general
update on the Fund’s investment strategy and discuss investment opportunities within the LCIV and Environment and Social Governance (ESG).

2.3 Mark Thompson has resigned from his role as Chief Investment Officer (CIO) of the LCIV citing personal and family reasons for his decision. The LCIV have re-appointed the previous interim CIO on a two day a week basis and hired an ESG expert to progress the LCIV’s responsible investment policies. Meanwhile the LCIV will commence recruitment plans to source a replacement CIO. Officers and the SIA will monitor development closely.

2.4 The LCIV received a request from MHCLG for requesting details on asset pooling at Fund level. LCIV approached each Fund for the information and following external legal advice in consultation with the Chair and external legal advice. Officers provided the information as set out in appendix 1 of this report.

2.5 The LCIV Q3 London Local Authority (LLA) Investment Forum took place on 23 September which was attended by officers. The event included presentations for the LCIV Emerging Market Equity Fund and updates on LCIV Diversified Growth Fund and LCIV Real Return Fund.

2.6 The LCIV ESG and Strategy Forum took place on 16th October 2019 and will focus on ESG/ Responsible Investment and Strategy/ Governance which will include feedback from the MHCLG information request.

3. London CIV Governance
3.1 The LCIV AGM was held on 18th July 2019 which the Chair attended. The meeting included a review of the year and a forward look and update on governance matters, including all new appointments.

4. CMA Report
4.1 A recent order published by the CMA has established new requirements affecting LGPS Funds. From 10 December 2019, Funds will need to set objectives for their investment consultants that are linked to their longer-term investment objectives but may have wider reaching implications depending on interpretation of what advice is now regulated and what is deemed a fiduciary relationship.

4.2 The CMA report sets out remedies for improving the SIA services received by customers. The aim is that pension scheme trustee’s better monitor the performance of their SIA provider by setting and measuring them against an appropriate set of strategic objectives. The SIA performance is set out against the suggested objectives in appendix 2.

5. The Good Governance Statement
5.1 Hymans Robertson was appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS
governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance. The report can be found in the members’ area of the attached link.

http://teamsite.lbn.newham.gov.uk/newhampensionfund/

5.2 The report was presented to the SAB on 8 July 2019. The report sets out the results of the survey, recognising strengths and weaknesses in all governance models and proposes that an outcomes-based approach would be the most effective method of improving governance, rather than mandating a single governance structure for all. This allows funds to continue doing what currently works well while still ensuring the highest governance standards across the scheme.

5.3 The report recommends introducing key benchmarks which will be used to assess each fund, these include: evidencing robust conflict management, providing sufficient administration capabilities and resource, having a clear and inclusive policy on employer and scheme member engagement and holding regular, independent governance reviews, many of which the Fund have in place.

5.4 Another proposal includes the SAB and the MHCLG to consider training requirements to be on a par with the Local Pension Boards. The SAB has agreed to take forward Hymans findings and conclusions forward but no timescales have been mentioned. The SAB has taken on board the recommendations in the report and the team working on this project will be going back to SAB to the November meeting with an implementation plan.


6.1 The budget monitor provides a breakdown of the Pension Fund’s revenue forecast and cash flow – see appendices 3 & 4.

7. **Programme of recent and near future events**

7.1 Table 2 shows seminars and training events recently attended along with forthcoming events are set out below:

### Table 2: Recent and timetable of forthcoming events.

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>LCIV Quarterly Review Meeting</td>
<td>20 August 2019</td>
</tr>
<tr>
<td>Member Training on LCIV and ESG/ Climate Change</td>
<td>10 September 2019</td>
</tr>
<tr>
<td>Fiera Capital Conference</td>
<td>12 September 2019</td>
</tr>
</tbody>
</table>
Every three years the Council is required to have an actuarial valuation of its Pension Fund. The initial summary results of the valuation as at 31 March 2019 have been received from the Council’s actuary, Barnett Waddingham. The valuation sets the employer rate and will come into effect in 2020/21. Officers and the s.151 officer met with the Fund’s actuary and discussions have been held on the assumptions made and further work is underway.

8.2 The next steps will be a member training workshop with the Fund’s actuary on the triennial valuation. The actuary is currently working on the detailed implications of the initial results for the contribution rates for the borough and all the admitted and scheduled bodies. Over the next few months officers will be discussing the proposed contribution rates with these bodies and consulting them on any necessary changes to the Funding Strategy Statement.

8.3 Once this has been completed the final report can be prepared and the contribution rates certified. Any agreed changes to the Funding Strategy Statement can also be made. Both documents will then be reported back to the Pensions Committee.

9. Comments of the Finance Officer

9.1 Management of the Council’s Pension Fund is a statutory requirement, in order 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 has to be met by an employer’s contribution.
10. Comments of the Legal Officer

10.1 Investment and Business Planning
The Committee has been constituted by the Council to perform the role of administering authority to manage the Newham LGPS Fund and as such has legal authority to make the decisions sought by the recommendations.

Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions. Investments or pensions’ committee members are often referred to as quasi-trustees. LGPS quasi-trustees are responsible for the:

- oversight of the management and resourcing of all fund activities
- ensuring the best possible outcome for the fund, employers and members
- ensuring the fund is managed in accordance with legal and regulatory requirements
- taking decisions in accordance with the standing orders of the investments or pensions committee
- acting prudently and impartially on behalf of all the beneficiaries ensuring all decisions are for the benefit of the fund contributors and beneficiaries.

10.2 The Local Government Pension Scheme (Management and Investment of Funds) regulations 2016 provides various powers and duties to the Administering Authority to manage the pension fund, choice of Investment managers and the investment and use of fund money including investment policy and principles.

10.3 The Local Government Pension Scheme Regulations 2013 set out various duties and powers of the Administering Authority to make strategies statements and reports. Administering authorities are required to publish a governance statement under Regulation 55 of the Regulations. In particular Regulation 59 sets out the framework to produce a Pensions Administration Strategy which would include business planning. The Department for Communities and Local Government (DCLG) issued guidance, entitled Governance Compliance Statements Statutory Guidance, in December 2008. Administering authorities demonstrate compliance with DCLG guidance through following the Myners Principles, the CIPFA/SOLACE framework and CIPFA best practice guidance.

10.4 Contracts of this value are subject to the provisions of the Public Contract Regulations 2015 and any award should be subjected to completion unless they are awarded via a framework that has been set up in accordance with the above regulations.