Report for: ACTION
Item Number:

Contains Confidential or Exempt Information	*No*
Title	Pension Fund Performance Monitoring & Update for the quarter ended 31 March 2020 and other matters
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For Consideration By	Pension Fund Panel
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Implementation Date if Not Called In	N/a
Affected Wards	N/a
Area Committees	N/a
Keywords/Index	Pension Fund Performance

Purpose of Report

This report informs the Pension Fund Panel (PFP) of the investment performance of the Fund Managers over the last quarter and rolling 3 years ending 31 March 2020. The report also updates members on other Fund specific and Local Government Pension Scheme (LGPS) related issues that have arisen since the last PFP Meeting (11 March 2020).

1. Recommendations

The Panel is asked to:

1.1 Note the value of the Fund Investments of £1,192.2, down from £1,351.4m as at 31 December 2019, 2019 (11.8% decrease). This includes £124.6m of net asset value of our pooled property holdings. (**para. 4.6**)

1.2 Note the Scheme's 2019 triennial valuation results **(para. 5**)

1.3 Note the current position on class action filings. (**para. 6**)

1.4 Note that the Pension Fund in house cash stood at £54.6 m as at 31 March 2020 (**para 7**).

1.5 Note the latest update on topical issues within the LGPS arena. (**para. 9 – para. 10**)

1.6 Note the Update on the LCIV (**para.10**)

1.7 Receive a presentation and a general update from London CIV (para. 11)

1.8 Receive Training from Hymans on Club Vita Hymans database holding valuable information on human longevity to support pension schemes.

1.9 Receive training from Darwin Alternative Investment Management Ltd. on their bereavement services fund,

1.10 Note the update on Investment Strategy Statement Implementation (**para. 13**)

1.11 Note that in line with the delegation agreed on the 5 July 2018 to the Chief Finance Officer, the CFO will continue to implement the strategy changes required (managing risks and costs) in consultation with Hymans Robertson, The Chair, Vice Chair and opposition spokesperson. This implementation is virtually complete will all mandates have been awarded and funds have been progressively drawdown by the private debt managers and the infrastructure manager has drawn down all the commitment.

2. Reason for Decision and Options Considered

2.1 To enable the Pension Fund Panel to monitor the quarterly and longer-term performance of the Fund and be informed of other issues concerning the Fund in accordance with the requirements of the Council's Statement of Investment Principles.

2.2 The report is structured as follows:

- Section 3 - Overall Fund performance against Benchmark (Table 2)
- Section 4 - Fund Manager Performance/Update
- Section 5 - Funding Update
- Section 6 - Class Action Filing
- Section 7 - Cash Management
- Section 8 - Procurement and National LGPS Framework Update
- Section 9 - LGPS current issues update
- Section 10 - London Collective Investment Vehicle (LCIV) Update
- Section 11 - Training and other external presentations and the next AGM
- Section 12 - Update Post Investment Strategy Review

3. Performance figures against Benchmarks.

3.1 Three specialist Fund managers took full control of the Pension Fund Investments in April 2007 and the strategic asset allocation of the fund was first re-orientated in September 2013 following the decision to invest around 10% of assets in three pooled property funds. A number of changes outlined below have since been made to the portfolio.

Table 1: Strategic Allocation

Mandate	Fund Manager	Strategic Asset Allocation	Allocation as at 31 March 2020
UK Equity	Lazard	20%	17%
LCIV Global Equity**	Baillie Gifford LGIM Henderson	35%	15% 22% 0%
UK Corporate Bonds	Royal London Asset Management (RLAM)	25%	27%
Property Funds	Standard Life / Hermes / Lothbury	10%	10%
Enhanced Yield*	Private Debt and Infrastructure Equity Debt	10%	4%
Cash			5%
Total		**100%**	**100%**

** Equity returns have been stellar over the last quarter hence the fund is slightly over its strategic asset allocation. Given the high level of cash currently being held, officers are comfortable leaving this higher allocation, however the position is in constant review.

3.2 The Council appointed three property managers in September 2013, investing directly into three pooled UK commercial property manager solutions. The bond and property mandates have been topped up intermittently to rebalance the Fund back to its benchmark strategic asset allocation.

<u>Pooled Property Funds</u>

- Standard Life Long Lease Fund
- Lothbury Property Fund
- Hermes Property Unit Trust

3.3 A further decision was taken in 2017 to disinvest from one global equity manager and deploy to three Equity funds within the LCIV managed by Henderson (Emerging Markets), Baillie Gifford (Global Equities) and LGIM (Global Equities passive). Further changes were made to the strategic asset allocation with a decision to reduce the equity exposure by 10% (75% to 65%) and make an allocation to higher yielding assets being private debt and infrastructure equity (5%).

Equity Portfolio –emerging market redirection following the proposed changes to the LCIV sub fund.

3.4 The Pension Fund panel (PFP) approved the deployment of Emerging Market equities out of Janus Henderson (LCIV) into the two passively managed equity funds managed by LGIM. At the December 2019 meeting, the PFP were informed that the Fund had successfully redeployed the mandate under delegated authority granted on 10 September 2019.

Table 1: Strategic Allocation

Mandate	**Fund Manager**	**Strategic Asset Allocation**
UK Equity	Lazard	20%
LCIV Global Equity	Baillie Gifford LGIM	35%
UK Corporate Bonds	Royal London Asset Management (RLAM)	25%
Property Funds	Standard Life / Hermes / Lothbury	10%
Enhanced Yield*	Private Debt and Infrastructure Equity Debt	10%
Cash		0%
Total		**100%**

Strategic Asset Allocation /Rebalancing

3.5 Going forward, officers will continue to implement the strategy changes approved (managing risks and costs) in consultation with Hymans Robertson the Chair, Vice Chair and opposition spokesperson.

3.6 Given the ongoing implementation of the strategic asset allocation changes, officers will continue to rebalance the fund to manage and where possible minimise the amount of cash being held to fund the new higher yielding alternatives of private debt and infrastructure equity.

3.7 Global markets experienced a significant downturn brought on by the pandemic in the fiat quarter of 2020. For the quarter ending 31 March 2020, the overall Fund returned -12.35% against a benchmark of -12.03% and this is summarised in table 2 below:

Table 2. Performance by Fund Manager

Asset Class	Fund %	Benchmark %	Relative to Benchmark* %
UK Equities			
Lazard	-26.56	-25.13	-1.43▼
Global Equities			
Baillie Gifford (LCIV)	-13.17	-15.87	2.70▲
LGIM	-16.58	-15.56	-1.02▼
UK Bonds (RLAM)	-4.38	-3.24	-1.14▼
Property			
Lothbury	-3.02	-1.31	-1.71▼
Standard Life	1.62	-1.31	2.93▲
Hermes	-0.22	-1.31	1.09▲
Private Debt			
Churchill	7.51	0.92	6.59▲
Brightwood	7.21	0.92	6.29▲
Permira	4.93	0.92	4.01▲
Infrastructure			
JP Morgan	1.60	1.33	0.28▲
Cash	0.54	0.14	0.41▲
Total for quarter	**-12.35**	**-12.03**	**-0.32**▼
12 months figures	**-5.68**	**-5.76**	**0.08**▲
3 years Figures	**1.30**	**1.13**	**0.17**▲
5 years figures	**4.15**	**4.21**	**-0.05**▼
Since inception	**5.46**	**5.47**	**-0.01**▼

*Relative performance is a geometric and not an arithmetic calculation

▲ Performance is above benchmark

▼ Performance is below benchmark

► Performance is same as benchmark

3.8 This quarter, the whole fund showed an underperformance of -0.32% relative to a benchmark of -12.03%. The fund's composite portfolio benchmark is comprised of the most relevant indexes for each asset class, weighted in accordance with the target asset allocation. The total fund over (+) under (-) performance for 12 months, 3 years, 5 years and since inception were 0.08%, 0.17%, -0.05%, and -0.01% respectively.

4. Fund Manager Performance drivers for the quarter ending 31 March 2020

Set out below is a synopsis of performance drivers or market conditions prevailing.

Market Review from the Fund Managers

4.1 Lazard

UK equities fell significantly during the quarter as the coronavirus (COVID-19) outbreak weighed on markets, with the FTSE 100 Index falling by the most since the European debt crisis in August 2011. All sectors of the market performed negatively over the quarter, with consumer services, oil & gas, industrials and financials falling the most, whilst more defensive areas such as health care and utilities fared better.

Oil prices suffered their worst quarter in history as the coronavirus pandemic weighed heavily on demand and Saudi Arabia decided to raise oil production after a breakdown in Russia-OPEC talks. Against this backdrop, the portfolio underperformed the benchmark FTSE All-Share index by 1.4%over the quarter.

Lazard's positive stock picking in the consumer services and basic materials sectors was more than outweighed from stock selection in the industrials and consumer goods sectors, which were significant detractors from relative returns. Additionally, an underweight position in utilities hurt as the sector's defensive qualities were favoured by investors, however, this was offset by sector positioning in healthcare and financials sectors which added value during the period.

4.2 LCIV - Baillie Gifford

LCIV Global Alpha Growth fund outperformed the benchmark by 2.7% over the quarter, albeit with an absolute negative return of 13.1%. This was a surprisingly good performance given the growth bias and the fund's strong upside participation. The one year relative outperformance over the benchmark is 4.9%.

Despite the negative absolute returns, given the equity market declines and with global economic consumption at a halt, the fund has managed to protect on the downside. This was in part due to security selection and in part due to large part of portfolio invested in what can be referred to as 'new economy' companies. Health Care has been one of the better performing sectors, led by stocks as Teladoc, that has benefitted from increased online consultation. Other areas where the portfolio has benefitted from lockdowns is 'tech' stocks. Microsoft is one such example with increased usage of Microsoft teams and other cloud based services.

Apart from the indiscriminate sell off in the market, the gains were partly offset by Financials, Energy related exposure and stocks with relatively larger debt servicing. This included M&G and Prudential, Banco Bradesco, Bank of Ireland and ICICI. This is one area where we expect the manager to keep a close eye on due to their funding needs.

ICICI has been the only stock reduced recently, whereas, for other Financials, the manager sees good long term prospects beyond expected short term headwind. These stocks will be closely monitored, along with some cyclical stocks with higher debt levels and lower liquidity, such as Howard Hughes and Reliance Industries. One particular stock where the manager cut their losses was Apache after the company sold one of their major new wells, Alpine High.

4.3 **LGIM**

Equity markets recorded their worst quarterly returns since the 2008 global financial crisis during the first three months of 2020, as COVID-19 spread from Asia throughout Europe and the US. The world's largest economies entered various degrees of lockdown, heightening fears of an imminent worldwide recession. A measure of calm returned to markets by the end of March, as governments and central banks prepared stimulus packages to mitigate the worst economic effects of the virus. The oil price also slumped to its lowest level in 18 years, hit by a sharp drop in demand as lockdowns cut consumption while the start of a price war between Saudi Arabia and Russia triggered a surge in supply.

After recording an all-time high in February, US equities slumped into a bear market before recovering some lost ground as the quarter ended. In late March, Congress passed a $2 trillion stimulus bill to support the US economy, including payments of up to $1,200 for individuals, extra unemployment insurance, and $370 billion for small businesses. Sectors less sensitive to the economic cycle, notably consumer staples, healthcare and utilities, lost ground but weathered the selloff relatively well. Technology stocks also outperformed the broader market, boosted by encouraging earnings announcements prior to the correction. Energy stocks and financials were the weakest sectors, with banks sharply lower on concerns over rising consumer indebtedness.

Mainland European markets posted their worst quarter since 2002, with the two countries most affected by the coronavirus outbreak – Italy and Spain – recording the steepest falls. The European Central Bank announced a €750 billion asset purchase programme to help offset the impact of the virus, while the French and German governments both announced fiscal stimulus packages. Banks were amongst the weakest sectors last quarter, while consumer staples, notably food retailers, posted more limited losses.

UK equities recorded their worst quarter since 1987, with banks and housebuilders among a range of companies to suspend dividend payments as businesses preserve cash in readiness for an economic downturn. More domestically focused mid-caps and smaller companies recorded an even sharper decline, notably pub chains, transport groups and shopping centre owners hit hard by the lockdown. Japanese equities fell as investors moved to price in a global economic recession, as did the smaller Asia Pacific markets. Emerging markets recorded their worst-ever first quarter amid this widespread anxiety.

4.4 **RLAM**

RLAM's sterling credit strategies underperformed their respective benchmarks over the quarter, primarily reflecting sector selection. The most important drivers of the underperformance were the substantial underweight exposures to supranational bonds, the overweight positioning within subordinated financial debt (banks and insurance) and the biases towards sub-investment grade bonds, where permitted. Our focus on diversification and strong income generation were beneficial in minimising the underperformance of the portfolios, while stock selection within the structured and secured sectors proved a significant offsetting factor.

The manager believes that an underweight position in supranational bonds, while detrimental in the short term, remains an appropriate investment stance. Our preference for secured and collateralised bonds, over supranational issues, is based upon our view that investors are over-compensated for risks and that the excess return over supranational bonds will underpin medium-term outperformance. The greatest impact on capital values was seen in long-dated bonds. High quality issuers like Oxford University and Wellcome Trust (both AAA rated) saw price falls in excess of 25%. By credit rating, as expected, lower-rated investment grade bonds were impacted more than more highly-rated bonds. The biggest falls were seen in sub-investment grade bonds where credit spreads reached levels last seen in 2007-2009.

A combination of risk aversion and the fear of rising bad debts / higher default risk lay behind the underperformance of subordinated financial debt and sub-investment grade bonds. As with our supranational positioning, we are exposed to these areas because we believe that we are overcompensated for the risks we run. The yields currently available on financial debt are highly attractive and we will look for opportunities to add in these areas.

4.5 **Property Managers**

Hermes

During the quarter, before the outbreak of the COVID-19, the Manager recorded good progress in getting asset management activities advanced and lettings completed. In terms of transaction, in February 2020 the Trust exchanged contracts for the sale of two office investments in London that reached business plan completion and considered to carry some degree of risk with limited future growth potential. Since the outbreak, the UK property valuations due to the unprecedented market circumstances included a statement of Material Valuation Uncertainty. The Manager has been monitoring the situation and engaging sensibly with tenants.

At sub-sector level, the Trust’s Rest of UK offices sector (office stock excluding City and West End of London) delivered the highest contribution to portfolio return by increasing the overall return for Q4 by 0.5%. This was followed by the West End offices sector which increased the overall return by 0.1%. Both sectors recorded good contributions due to good investor interest, which was reflected in the Rest of UK office sector due to the exchange for the sale of two investments located in Camden (completed in April 2020) and Cockfosters. During the same period the Retail Warehouses and Shopping Centres sectors reduced the overall return by 0.5% combined and continue to reflect investor concern and structural changes affecting the sectors.

At property level, the investments that delivered the strongest contribution to portfolio return were two office investments: one in Cockfosters and one in Camden, London. Both assets received good investor interest over the period reflected in the exchange for their disposal. Similar to the previous quarter, the assets that had the greatest reduction on the Trust’s portfolio return during Q4 were the retail warehouse investment in Stratford upon Avon (Maybird), and the shopping centre in St Albans reflecting poor investor sentiment within the property market for retail assets.

Lothbury

For the quarter to March 2020, Lothbury Property Trust recorded a total return of -3.0% which compares to the benchmark return of -1.3% (MSCI/AREF UK All Balanced Property Fund Index). Whilst the Fund's values were relatively static over January and February, they declined at the end of March in the wake of the COVID-19 crisis. This resulted in a negative capital return of -3.04% during the quarter.

The income return, however, remained stable over the quarter at 0.78%, as this was unaffected by the pandemic due to the rent having been collected from tenants quarterly in advance, at the end of December 2019. The assets which produced the strongest returns over Q4 were principally the food store properties, the logistics properties secured on food store operators and the long income assets. Unsurprisingly, the properties in the retail, restaurant and hospitality sectors performed poorly due to negative yield adjustments and because the March valuations assumed that rental concessions / delayed rental repayments were likely to be granted to tenants in these sectors.

In addition, the three direct let student accommodation properties in Aberdeen, St Andrews and Ealing were negatively impacted due to the assumption that only 50% of the income would be received from tenants in the forthcoming summer term by virtue of universities being closed and the students not being in occupation.

Standard Life

During the first quarter of 2020, the Long Lease Property Fund returned 1.6% (gross of fees). This compares with a return of 6.8% for the benchmark of 2% above the FT British Government All Stocks Index.

The impact of lockdown has had a big impact on market activity over the quarter, with transaction levels being significantly below the long-term average. Transaction evidence is used by our external valuers as the basis on which to value the Fund's assets. Mid-way through the quarter, they considered that less weight could be attached to previous market evidence for comparison purposes to form opinions of value. The impact of Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base a judgement. This led to our valuers applying a material uncertainty clause to the valuations of all assets in the Fund. This is in line with the Royal Institution of Chartered Surveyors' (RICS) valuation standards, stating that less certainty and more caution should be attached to their valuations than would normally be the case. This is an approach adopted across the market by all property valuation firms.

Following this news, Standard Life took the decision to defer redemptions and subscriptions in the Long Lease Property Fund from 1:00pm on 18 March 2020. This decision was made to protect the interests of all investors in the Fund as the material uncertainty clause means that we are unable to produce a price for the Fund that we can say with any confidence reflects the true value of the assets. This is the first time that the Long Lease Property Fund has been in deferral since launch in 2003. Where income options have been selected, this facility has also been suspended for the duration of the deferral period and investors will also not be able to switch from accumulation to income units. Standard Life are unable to say how long the deferral will last and will continue to monitor the markets and engage with external valuers on a weekly basis while this period of market uncertainty persists. One of the keys to lifting the deferral will be the removal of the material valuation uncertainty clause across most assets held in the Fund. The Fund will continue to be priced daily during the deferral.

4.6 **JPM – Infrastructure**

The Fund completed the first quarter with asset performance of 1.6% in local currency terms against a benchmark of 1.33%. The Fund received over USD 1.0 billion in new commitments and reinvested distributions during the quarter. As of March 31, 2020, IIF held over USD 5.2 billion in uncalled commitments. As at 31 March 2020, the portfolio consisted of 18 portfolio companies representing 534 assets in 25 countries and 12 subsectors.

IIF liquidity position remains strong including an undrawn Fund of 2 billion credit line and an approximate USD 5.3 billion commitment queue as at 31 March 2020. During the quarter, the USD appreciated against most major currencies which will have a negative impact on the unhedged US returns.

Portfolio company liquidity has been a key focus area for Boards and management teams. Highly diversified infrastructure equity strategies that invest in core plus yield-focused assets in high income OECD geographies are generally expected to outperform other equity strategies during this period, despite working the inevitable issues that arise during crises.

It is too early to definitively quantify the 2020 impacts of the COVID-19 pandemic on the IIF portfolio. JPM's valuation process, which includes third party review of each portfolio every quarter by Deloitte, E&Y, and KPMG, with oversight by PWC as Fund auditors, remains unchanged both in terms of process and methodology.

4.7 **Private debt**

Brightwood

Since the COVID-19 pandemic began materially impacting the United States, the primary focus in the private credit markets has been on portfolio management. The highest impacted industries are generally in the entertainment and leisure, franchising, education, airline & travel industries. Any business peripherally related to these industries has also been impacted. We have also seen that the abrupt economic and social impacts of the global shut down have spread to all industries to some degree.

Brightwood's Risk Team is focused on managing Brightwood's existing investments: identifying the highest risk areas and ensuring that our borrowers have enough liquidity for the foreseeable future. We have been closely monitoring developments regarding COVID-19 and remain in close contact with the management teams of all portfolio companies. In early March, the Risk Team developed a COVID risk ratings scale which rates a company's exposure to the virus. Potential business impacts range from declining customer volumes to supplier delays. Thirteen borrowers in Fund IV-U are being severely impacted by the virus3. The most challenged borrowers generally include those businesses in or related to the franchising, airline, education,

Churchill

As of March 31, 2020, the Fund's investment portfolio consisted of 67 investments totalling $493.2 million ($453.9 million outstanding), and was highly diversified by industry and end market, with an average investment size of $7.4 million (1.5% of total loan commitments). Average senior and total leverage were 4.0x and 4.7x, respectively, and all Fund investments had traditional financial covenants (no "covenant-lite"). The all-in asset level yield on the portfolio was 6.49%.

Due to impacts resulting from the COVID-19 outbreak, Churchill downgraded 10 (or 14.9%) of the Fund's 67 portfolio investments on Churchill's internal risk rating scale as of March 31, 2020. With that said, the Fund's portfolio continues to perform well, with nearly 96% risk rated a 5 or better and an overall weighted average risk rating of 4.16 (as compared to the 4.0 initial rating assigned to all investments at their respective origination). The Fund did not experience any payment defaults as of March 31, 2020 due to COVID-19.

By the end of the quarter, new issuances came to a standstill amid COVID-19 concerns and the collapse in oil prices. Deal flow trickled in at a very modest pace as committed deals in process worked their way through the system. That said, the majority of deals were paused given the inability to quantify the impact of COVID-19. Because the effects of virus were not felt until late in the quarter, middle market leverage remained relatively stable while all-in yields tightened slightly due to the repricing activity in February combined with lower LIBOR rates. Three-month LIBOR was at 1.45% at the end of 1Q 2020, compared to 1.91% in 4Q 2019 and 2.60% in Q1 2019, declining all the way to 0.74% during the quarter.

Permira

On 31 March 2020, PCS4 held its final close, with total LP commitments to the PCS4 Master and Senior funds of €3,430m. €857m of commitments were made to the PCS4 Master fund, and €2,572m of commitments were made to the PCS4 Senior fund. Including the GP commitment of €51m, final PCS4 fund commitments are €3,481m.

In light of the COVID-19 pandemic, all portfolio investments are now subject to the enhanced level of supervision typical of watch list assets. The PDM team is fully focused on continuous and rigorous monitoring of portfolio assets and remains in frequent contact with the respective sponsors (where applicable) and management teams of each company.

PDM's response to the COVID-19 pandemic has centred on a continuous and rigorous risk assessment of both the current and potential impact on the performance of each portfolio company. The PDM team has remained in regular contact with management teams and sponsors (where applicable) since the crisis began in order to ensure that this assessment is based on the latest information available. The Portfolio Monitoring Group ("PMG") has led coordinated actions across the PCS funds, and reports to the Investment Committee and the Fund Management Group on a regular basis. Permira continues to monitor closely the development of the pandemic and the responses of governments globally, including scenario planning for the various changes to normal activity that are likely to persist until a vaccine is in place.

Summary

4.8 Set out below is a summary of the Council's Pension Fund investment position as at 31 March 2020 based on valuations provided by the fund's custodians. Note that the fund managers and custodian's valuations can differ as valuations may have been obtained from different sources. During the quarter the Fund value has decreased to £1,192.2m (£1,351.4m as at 31 December 2019), a decrease of 11.8%.

Table 3. Fund Value

FUND MANAGER	Market Values as at 31 December 2019	Market Values as at 31 March 2020
	£m	**£m**
Lazard	280.6	204.7
RLAM	334.6	320.0
Baillie Gifford	201.7	175.1
LGIM	313.5	261.5
Lothbury	46.4	45.0
Standard Life	36.5	37.1
Hermes	42.6	42.6
Brightwood	3.1	4.3
Churchill	7.7	11.2
Permira	6.0	6.1
JP Morgan	-	30.0
Total externally managed	**1,272.7**	**1,137.6**
Cash Held Internally (with custodian BNY and Lloyds)	78.7	54.6
Total Pension Fund	**1,351.4**	**1,192.2**

4.9 The chart below shows how the percentage split of the Pension Fund has changed each year.

Chart 1. Percentage of Holding Movement – year to date

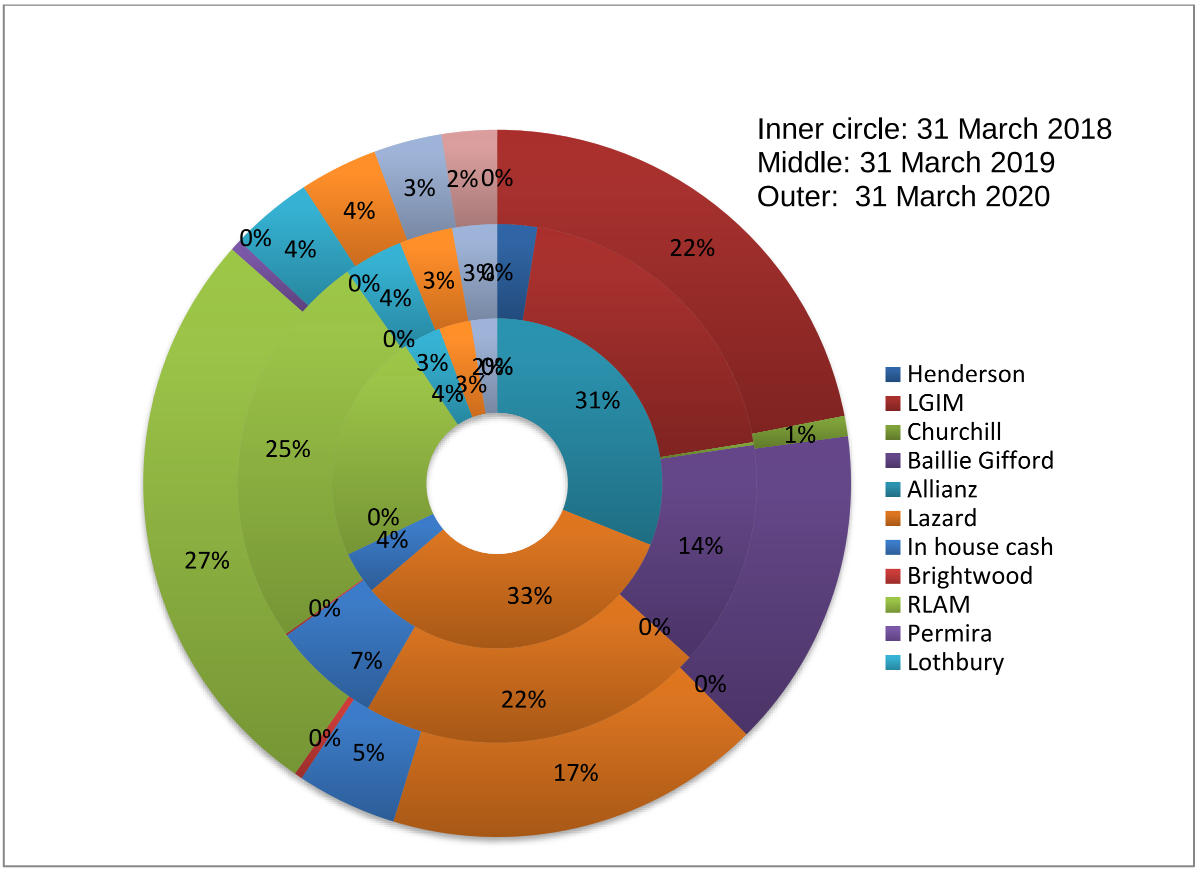

Table 4. Rolling 3 Year Performance

Fund Manager	Rolling 3 years %	Rolling 3 year benchmark %	Rolling 3-year performance relative to benchmark* %	Target out-performance of benchmark %	Out performance target required over rolling 3 years %	Relative Performance to rolling 3-year target %
Lazard	-6.1	-4.2	-1.8▼	2.0	-2.3	-3.8▼
RLAM	3.0	2.2	0.7▲	1.0	3.3	0.3▲

*Relative performance is a geometric rather than arithmetic calculation

4.10 Managers have been set an out-performance target to achieve over a rolling three-year period. Lazard has to outperform their benchmark by 2% and RLAM by 1%. This quarter RLAM has outperformed both its three-year benchmark as well as met their outperformance target. The 3-year performance against benchmark for Lazard and RLAM relative returns at -1.8%, and +0.7% respectively.

4.11 It should be noted that plans to redirect additional funds from UK equites to global equities have been delayed until September 2020 when there is clearer visibility on the impact of the pandemic on global assets.

Market Review from the Fund Managers

4.12 **Appendix A** contains more detailed market reviews by each of the three Fund managers.

Voting lists

4.13 **Appendices B1 and B2** are the Voting Lists for Lazard and LCIV on behalf of the Fund.

The Fund's 16 largest holdings as at 31 March 2020

4.14 **Appendix C** shows the Fund's 16 largest holdings as at 31 March 2020 which represents 60.3% of the total market value of the fund. The top holdings include the LCIV pooled fund as well as the pension fund internal cash.

5. Funding Update – Triennial Valuation Results

5.1 The Funding position of the Pension Fund is formally assessed every three years by the Fund's Actuary, Mercer. Members were informed at the previous meeting on the assumptions the Actuary had adopted for the valuation of the Fund. The final valuation has now been signed off by the actuaries following their presentation at the March meeting: this shows the Fund to be 91% funded (compared to 80% as at 31st March 2016). The graph below shows the movement in the Fund's assets and liabilities together with a breakdown provided in the table below.

Chart 2. Fund Assets and Liabilities

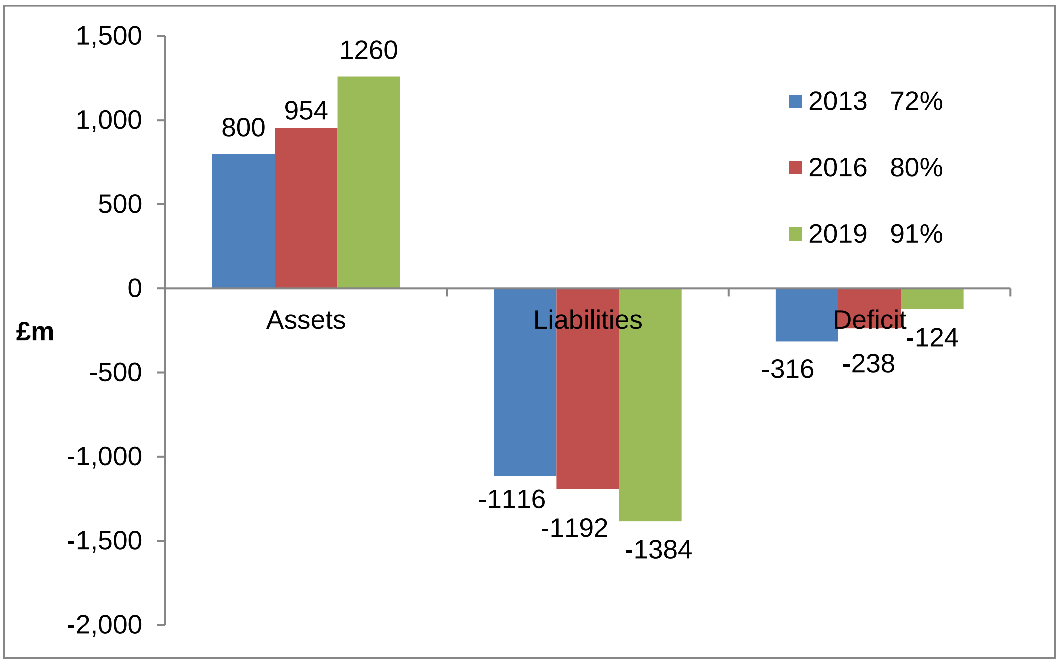

Table 5. Movement in Fund Assets and Liabilities

Deficit at 31 March 2016	**-238**
Interest on deficit	-33
Investment returns vs assumptions	167
Contributions paid vs benefits accruing	39
Salary gain	-12
Pension and deferred increases	2
Change in financial and demographic assumptions	49
Assumed short term pay growth	8
Change in real discount rate	-135
Member movements and other factors	29
Deficit at 31 March 2019	**-124**

5.2 Details of the outcomes of the 2019 triennial valuation are contained in appendix D of this report.

6. Class Action Filings

6.1 Class Action is a procedural means used in litigation to determine the rights and remedies, if any, for large numbers of people whose case includes common themes of law and /or fact. This procedure can be useful for shareholders where a company has been found guilty of giving false or misleading information to investors, who then act on it and suffer financial loss. As a result, substantial sums may be recovered through class actions. Most of the class action reclaims flow from the global equity portfolio and at present the mandate has transferred to the LCIV. There are currently no class actions.

7. Cash Management

7.1 Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBE to meet working capital requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

7.2 When held internally, the Pension Fund's in-house cash is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2019, which is delegated to the Chief Finance Officer to manage on a day to day basis within set parameters. The Treasury Management Strategy is reviewed monthly at the Treasury Risk and Investment Board (TRIB) meeting, chaired by the Section 151 Officer.

7.3 As at 31 March 2020, the Pension Fund internal cash balance was £54.6m (£44.5m and £10.1m residing with the Custodian and Lloyds Bank respectively). The cash held at the fund's custodian bank account is swept every night into a money market fund operated by Goldman Sachs. The cash held at Lloyds and Federated is for the day to day running of the Fund's activities.

7.4 The bulk of the cash balance is expected to be deployed to the alternative managers who have all been appointed.

Table 5. Cash Balances

Counterparty	Fitch Long Term Rating	Limit £m	31 March 2020 £m
Lloyds Bank Plc	A+	30.0	10.1
LB Ealing	Unrated	N/A	
RBS Banking Group Plc	BBB+	30.0	
Federated MMF	AAA	30.0	-
BNY Mellon Goldman Sachs MMF	AAA		44.5
Total Cash Balance			**54.6**

7.5 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Funds cash remains the overriding priority, ahead of yield.

7.6 Interest generated for the quarter from cash held up to 31 March 2020 was £102.4k. The internal cash is retained in the custodian cash account to aid transparency, segregation of accounting and performance measurement management. Also, since the Pension Fund separate entity was set up, cash is needed for the day to day running of the Fund, and this cash is held within the Pension Fund bank account at Lloyds.

8. Procurement and National LGPS Framework Update

8.1 In procuring services for the Pension Fund, the Panel must have regard to the Council's Contract Procedure Rules and the Public Procurement Regulations 2015 as respectively applicable and must tender and award contracts in accordance with these procedures. Where the Council is investing via the LCIV no formal procurement procedures are required.

8.2 There are currently no procurements being carried out using the LGPS framework. The National LGPS framework team collect management information from suppliers to monitor both the volumes of work and to ensure the quality of services provided. The review will also establish any rebate due to the Council where the collective level of service provided across the LGPS is over a specified threshold.

Pension Board Expansion

8.3 As approved by the board to extend the board membership from 4 to 6 in order to improve board resilience, scheme members have been invited to express their interest. The response has been very positive, and there are seven potential candidates.

8.4 All applicants have now been advised that the selection process will be determined during this meeting.

9. LGPS and Ealing Scheme Topical Issues Update

Extension of Accounting Deadlines

9.1 Following the emergence of the covid crisis in the UK, with effect from 30 April 2020, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 has extended the publication date for local authority audited accounts from 31 July 2020 to 30 November 2020. This relaxation in deadlines serves to ease pressure on funds and employers when finalising their accounts.

9.2 As a result, draft Pension Fund Accounts for 2019/20 which would have been brought to this meeting will now be brought to the September meeting.

Cost Cap and Mcloud

9.3 Officers have been updating members about the McCloud judgement. By way of a Judgment published in December 2018 the Court of Appeal upheld earlier rulings that changes made by the government to the pensions of judges and firefighters were unlawful. Specifically, the government's decision to allow members of the "old" pension scheme - who were closest to retirement - to remain members of that scheme, while the younger members were transferred to a "new," less generous, scheme was found to be discriminatory on the grounds of age. Last year the government announced that it accepted that the Court of Appeal's Judgment in McCloud applies to all the main public service pension schemes, including the LGPS.

9.4 The full effect of the additional cost of the McCloud Judgment will not be known until well after the current valuation cycle. Schemes therefore can make provision now or be faced with significantly increased costs at the next valuation. Ealing Pension Fund has decided to take cautionary steps and make provision for McCloud and scheme employers have been given the option to determine whether to make a provision now or defer.

9.5 A Q&A was released for administering authorities on the 30 March which indicated next steps is to determine who will be protected and the appropriate remedies. Two working parties are to be set up one being a policy group to determine the remedy and an implementation group to consider the steps for implementing the remedy.

Update on MHCLG Consultations

9.6 We updated members on a number of MHCLG consultations i.e. exit payments, New Fair Deal and valuation cycles. There is no update on progress on fair deal and exit caps, however there has been a partial response on the consultation which includes changes on exit credits. The recap is as follows:

To recap:

- £95K cap on exit payments: the proposed limit to the value of settlement payments that are made to employees when they leave an employer. Payments are normally a lump sum cash payment or shares/share options, but for employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55.

- New Fair Deal: Employees whose employment is outsourced from a "Fair Deal employer" will be guaranteed to be able to access the LGPS. The option of the new employer establishing a "broadly comparable" scheme as an alternative will, in effect, become redundant.

- 4-year valuation cycle: this consultation also included proposals for interim valuations, more flexibility for dealing with termination payments (exit credits), modifications to exit credits and removing the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants. January the MHCLG published its latest consultation on the "New" Fair Deal, pertaining to the introduction of greater pension's protection for employees of LGPS employers who are compulsorily transferred to service providers. The consultation closed on Thursday 4th April 2019. A copy of the schemes response to this consultation was circulated to Members in June.

  Exit credits partial response
  There has been a response in respect of exit credits. Though this was meant to clarify the position where there had been risk sharing arrangement between the Council and the admitted body, it had left a lot opened to interpretation. Funds now need to ensure that they have clear policies to determine how they deal with exit credits and the regulations now leave it up to the administering body to determine how they govern this process.

MHCLG consultation Pooling Investment Guidance

9.7 Officers reported at the last three meetings that MHCLG was preparing new statutory guidance on LGPS asset pooling which will set out the requirements on administering authorities regarding pooling. This will replace the existing guidance.

9.8 The consultation was issued on 3 January 2019 and closed on 28 March and they invited views on the proposed revised guidance from a limited range of participants including pension committees. A copy of our response was circulated to Members. There has been no further update on this consultation.

Good Governance in the LGPS /Separation Project

9.9 Members were informed at previous meetings that the Scheme Advisory Board (SAB) appointed Hymans Robertson to research the various LGPS governance models and make recommendations on best practices and a suggested way forward.

9.10 The SAB has published the Good Governance Report in July 2019. The key proposals are that Funds should report their governance again sky best practice. A phase 2 report expanded more on this and phase 3 is underway this is seeking the best way to achieve regulatory backing and what KPI's could be useful.

Supreme Court Decision on the LGPS

9.11 The Secretary of State for Housing Communities and Local Government (MHCLG) issues guidance for the LGPS on how to prepare and maintain an Investment Strategy Statement (ISS) and there were two paragraphs which provoked the Palestine Solidarity Campaign Ltd.

9.12 On 29th April 2020, the Supreme Court handed down a judgement, ruling against the Secretary of State. The court decided that by including these two paragraphs in the guidance the Secretary of State had exceeded his statutory powers. The judge ruled that the Secretary of state did not have the power to direct what investments the LGPS could enter. The Government is expected to respond to the ruling in the coming weeks.

10. London Collective Investment Vehicle (LCIV)

10.1 The LCIV was open to London authorities on a voluntary basis until 1 April 2018. The government expects funds to invest through the pool they have committed to where investments are available.

10.2 The LCIV initially identified the largest common mandates across London and transferred all those investment mandates onto the LCIV to provide a single pooled investment to London Funds within the LCIV construct. The London LCIV have over £8billion of assets under management (AUM).

10.3 They extended the asset class offering to include other asset classes such as infrastructure and other alternatives. They are working with member funds to develop new products.

LCIV Recharge agreement and City of London Guarantee agreement

10.4 Members received an update on the LCIV recharge and guarantee agreement. It was agreed that the Guarantee agreement would be signed, but the recharge agreement signing would be deferred. Officers have signed and returned the guarantee agreement under delegation.

11 Training and Other External Presentations

11.1 LCIV will be updating the panel on the Fund's investments as well as give a general update.

Darwin Investments

11.2 Darwin will be training members on their bereavement services Fund and developments since COVID-19. With ongoing market uncertainty set against a backdrop of decreasing bond yields, Darwin will discuss another way in which the London Borough of Ealing Pension Fund can ensure that it achieves the returns required to meet its current pension liabilities and help to build a diversified and stable portfolio going forward. Whilst all local authorities have a requirement to provide bereavement services, they will explore how these assets can also provide an investment opportunity.

Hymans Club Vita

11.3 Hymans will be updating members on Club Vita their Longevity database and updating members of some of the factors emerging in the data post the pandemic and discussing how this can impact pensioners longevity.

12. Update Post Investment Strategy Review from meeting 5 July 2017

12.1 Following the approval of three new private debt managers together with their allocations, all the managers (Brightwood Churchill, and Permira) have made a number of capital calls, and all were funded from the cash reserves. Distributions have also been made. Work on commitment to the JP Morgan (infrastructure fund) was completed with full drawn down by the manager in January 2020.

Reducing UK Equity exposure and Derisking

12.2 A standing instruction is in place with the Custodian to transfer the balance of any dividend income from the Lazard UK Equity portfolio. Income will no-longer be reinvested, and this will remain in place until further notice. The income is held as cash and retained by the Custodian and swept every night into a money market fund.

12.3 The above will continue to proceed under delegated authority granted to the Section 151 Officer in consultation with the chair, vice chair and opposition spokesperson. As at 31 March 2020, private debt mangers Brightwood, Churchill, Permira and infrastructure, JP Morgan had drawn down capital of 65%, 55%, 18% and 100% of committed capital.

13.2 The performance of the Fund affects the level of contribution to the Fund required for employer's contribution (i.e. the Council's contribution towards employees' pensions). The returns achieved by the Fund for the three years beginning 1 April 2016 have an impact on the valuation as at 31 March 2019.

14.2 In discharging their functions under the Local Government Pension Regulations, the Panel must have regard to:

(i) The need for diversification of investments of Fund money;
(ii) The suitability of investments which they propose to make; and
(iii) Proper advice, obtained at reasonable intervals.

14.3 In procuring services for the Pension Fund the Panel must have regard to the Council's Contract Procedure Rules and the Public Contracts Regulations 2015 as applicable and must tender and award contracts in accordance with these procedures. The call off will be made in accordance with the terms of the framework which has been set up in accordance with the Public Contracts Regulations 2015. Where the Council is investing via the LCIV no formal procurement procedures are required by the Council.

14.4 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016. An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

15.2 This report helps in addressing value for money through benchmarking the Council's performance against its customized benchmark.

15.3 By using the national framework when procuring custodian and advisory services, it is hoped that efficiencies on current contract prices can be found, enhancing the value for money delivered to the Fund and the National Local Government Pension Scheme framework rules.

16.1 The aim of the Fund is to maximise the returns from investments within reasonable risk parameters. Generally, the higher the potential return expected, the higher the associated risk.

16.2 Managing a Pension Fund is a complex activity that exposes the Council as employer to risks such as increased contribution rate due to poor asset performance or not adequately managing the funding strategy, stakeholder disaffection due to poor communication, higher costs and legal challenges due to poor management of third party contracts, financial loss due to poor in house cash management.

16.3 The Council mitigates these risks through regular monitoring of the Fund, triennial valuations and quarterly valuations, rigorous review and consideration of the funding strategy by TRIB, annual stakeholder engagement meetings as well as annual updates on the Fund's performance posted to all scheme members. Ongoing monitoring of service contracts are carried out both at a team and corporate level.

16.4 Creation of the new pension fund entity is a systems project that requires coordination of finance and payroll systems and the project management team are identifying possible risks and outlining mitigating actions to address them.

16.5 Officers are also reviewing the new control environment in which the new pension fund and system entity will operate to ensure that robust controls and segregation of duties remain in place.

17.1 The aim of the Fund is to maximise returns within a minimum risk tolerance by setting Fund managers benchmarks, which are monitored both quarterly and in the long term. This monitoring and review of investment strategy ensures the link to the strategic objective of managing resources effectively.

Staffing/Workforce and Accommodation implications

18.1 Representatives of the staff sides of the Joint Consultative Committees attend the Panel meetings and can express their views at any time.

19 Property and Assets

19.1 None.

20 Any other implications

20.1 Not applicable.

21.1 Please see attached consultation below.

Appendices

Appendix A – Market Review from Fund managers
Appendix B1/2 – Exercise of Voting Rights for Lazard and LCIV
Appendix C – The Fund's 16 largest holdings
Appendix D – 2019 Triennial Valuation report

Consultation

Name of consultee	Department/post title	Date sent to consultee	Date response received	Comments appear in report Para:
Councillor Yvonne Johnson	Chair of the Pension Fund Panel	18/06/2020		
Ross Brown	Chief Finance officer	18/06/2020		
Helen Harris	Director Legal and Democratic Services	18/06/2020		
Shahzad Ayub	Senior Employment Lawyer	18/06/2020		
Simon Peet	Head of Technical Finance	18/06/2020		

Decision type:	**Urgency item?**
Non-key decision	No

Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no.:	Report author and contact for queries:		
	Bridget Uku Group Manager, Treasury & Investments Nyce Higiro Financial Accountant		