

	<b>Local Pension Board</b> <b>5<sup>th</sup> September 2018</b>
<b>Title</b>	<b>Decisions made by the Pension Fund Committee</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	n/a
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	None
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## Summary

Part of the role of the Local Pension Board is to ensure the effective governance of the Pension Fund. This role is not clearly defined but is deemed to include considering whether the decision making processes of the Pension Fund Committee are reasonable or appropriate i.e. soundly based, consider relevant information, are consistent with the objectives and policies of the Fund and are taken after considering appropriate advice. The paper considers recent decisions by the Pension Fund Committee and summarises the rationale, the processes followed and the link with policy documents and regulations.

## Recommendations

That the Local Pension Board considers the appropriateness of the procedures applied by the Pension Fund Committee when reaching decisions at recent meetings and reports any concerns back to the Pension Fund Committee.

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 The Board's role is to assist the administering authority in securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme and in ensuring the effective and efficient governance and administration of the LGPS for the LBB Pension Fund.
- 1.2 Part of the role is to review the decision-making processes and ensure that these are soundly based, meet regulatory requirements and consider advice received as appropriate. While it is not appropriate for the Board to seek to replace its own judgments for those of the Pension Fund Committee, it is appropriate to review whether decisions have followed an appropriate process.
- 1.3 Since the last Local Pension Board meeting there has been two meeting of the Pension Fund Committee. The paper will highlight decisions made at these meetings.

### **Meeting 26<sup>th</sup> June 2018**

- 1.4 The meeting was attended by Mr Leigh Lloyd-Thomas of BDO (auditor), Mr Matt Woodman and Ms Kinna Patel of Hymans Robertson (investment advisor), Mr Kevin Bartle (Director of Finance), officers from Governance and Finance. The meeting was preceded by 90 minutes of training covering governance, legislation, administration, investment and actuarial matters.
- 1.5 External Audit Report
- 1.6 Mr Lloyd-Thomas discussed with the Committee BDO's audit plan for the 2017-18 annual accounts highlighting the key risks. The Committee have responsibility to approve the pension fund's annual accounts.
- 1.7 The Pension Fund Committee noted the report.

### Update on Admitted Bodies

- 1.8 The purpose of the report was to seek the Committee's approval to new admitted bodies and to inform the Committee of cessation and the renewal of bonds. Three new admitted bodies were proposed. It was confirmed that each was willing to sign admission agreements and provide bonds / guarantees.
- 1.9 It was noted that delays by the administrator with the provision of information to the actuary has resulted in delays to the renewal of bonds and the finalisation of cessations.
- 1.10 The Pension Fund Committee noted the report and approved the admission of Greenwich Leisure Limited, Elior and Churchill Catering.

Barnet Southgate College

- 1.11 Barnet and Southgate colleges merged in 2011, with the staff of Southgate college joining the Barnet fund from Enfield. Previous staff (deferred and pensioners) remained within the Enfield fund. The pension fund implications remain unresolved and under discussion since 2011. Enfield are seeking a substantial payment (£4.2 million) to cover the liabilities of deferred and pensioner members as at 2011. The Scheme Actuary has been asked to review the options with the aim of identifying a solution that is less costly for the college yet provides security to Enfield.
- 1.12 The Committee noted the report and asked that progress be reported to the next meetings.

#### Annual Performance Update

- 1.13 The Pension Fund participates in the local authority comparative performance service provided by PIRC. The Committee considered the PIRC analysis covering varying periods to 31<sup>st</sup> March 2018. The comparison at asset class level is generally (seven out of eleven measures) positive with a higher return for Barnet than the average LGPS. For two of the measures the returns are equal to the average and two below. This indicates that Barnet's record at implementing strategy (appointing fund managers) is better than the average LGPS.
- 1.14 Barnet's allocation to asset classes is very different from the average fund. We have higher allocations to diversified growth funds and bonds, with lower allocation to the other asset classes. Unfortunately, the assets classes we are underweight (equities and property especially) have generated the highest returns in each of the reported time periods and the overweight asset classes have lower returns. In particular diversified growth funds have generated the lowest returns. The impact of the portfolio positioning is that the total Barnet returns, particularly over longer periods, has lagged the LGPS average.
- 1.15 The Committee noted the recent changes in investment strategy. Five years ago, the Fund was 5% invested in equities and 63% invested in diversified growth funds. The strategy changes in recent years have positively benefited the fund by moving into higher returning asset classes.

#### Fossil Fuel and Corporate Engagement

- 1.16 The Mayor of London had issued a press release recommending that London pension funds disinvest from fossil fuel companies and invest in more clean projects. In doing so, the Mayor argued that London fund's "will have a louder voice to convince polluting firms to change their ways in order to tackle climate change."
- 1.17 The Committee concluded that dialogue with companies was more likely to bring about changes in behaviour. However, they asked for training to be provided on alternative passive equity portfolios, in particular the low carbon fund operated by Legal and General. They also noted the engagement work of

the Local Authority Pension Fund Forum and agreed to join the forum thereby supporting its engagement activity.

### Scheme Funding Update

- 1.18 Part of the remit of the Committee is “To consider actuarial valuations and their impact on the Pension Fund.” The actuary determines the contribution rates payable by employers at three yearly intervals, the next due as at 31 March 2019. The report indicated that the valuation of liabilities had increased by £289 million since March 2016 (see below), due to the reduced assumed future investment returns. Increases in the scheme deficit could lead to increases in the contributions rates payable by employers.

	31-Mar-13 £m	31-Mar-16 £m	Impact	31-Mar-18 £m	Impact
<b>Value of liabilities</b>	1,000	1,256		1,545	
<b>Value of Assets</b>	789	916		1102	
<b>Deficit</b>	<b>-211</b>	<b>-340</b>		<b>-443</b>	
<b><u>Key Assumptions</u></b>					
<i>Assumed discount rate</i>	6.00%	4.20%	negative	3.60%	negative
<i>Inflation (CPI)</i>	2.70%	2.10%	positive	2.34%	negative
<i>Future salary increases</i>	4.50%	2.40%		2.64%	negative
<i>Longevity - males pensioners</i>	22.1 years	21.9 years	positive	21.9 years	nil

- 1.19 The Committee noted that the Actuary was due to attend a Committee meeting during 2018-19 to discuss planning for the 2019 triennial valuation.
- 1.20 The Government Actuary’s Department had reviewed the conduct of the 2016 triennial valuation for all local authority funds with the aim of ensuring that the valuation was undertaken in line with guidance, that there was consistency between valuations and that the schedule of contributions ensured long-term solvency and cost-efficiency. GAD used assessment measures to score each valuation and identify outliers. LB Barnet was flagged amber (warning) on one measure – being in the bottom decile of funding levels on a standardised basis (82.3% funded on the Scheme Advisory Board basis) but otherwise was given green (no issues) scores for all other measures.
- 1.21 GAD meet with Barnet’s Director of Finance and raised no concerns with the funding plan. However, they noted that Barnet’s administrator had not provided data to GAD for this exercise and that they were aware of concerns relating to data quality. The Pension Fund Committee noted the report.

### Pension Fund Annual Accounts

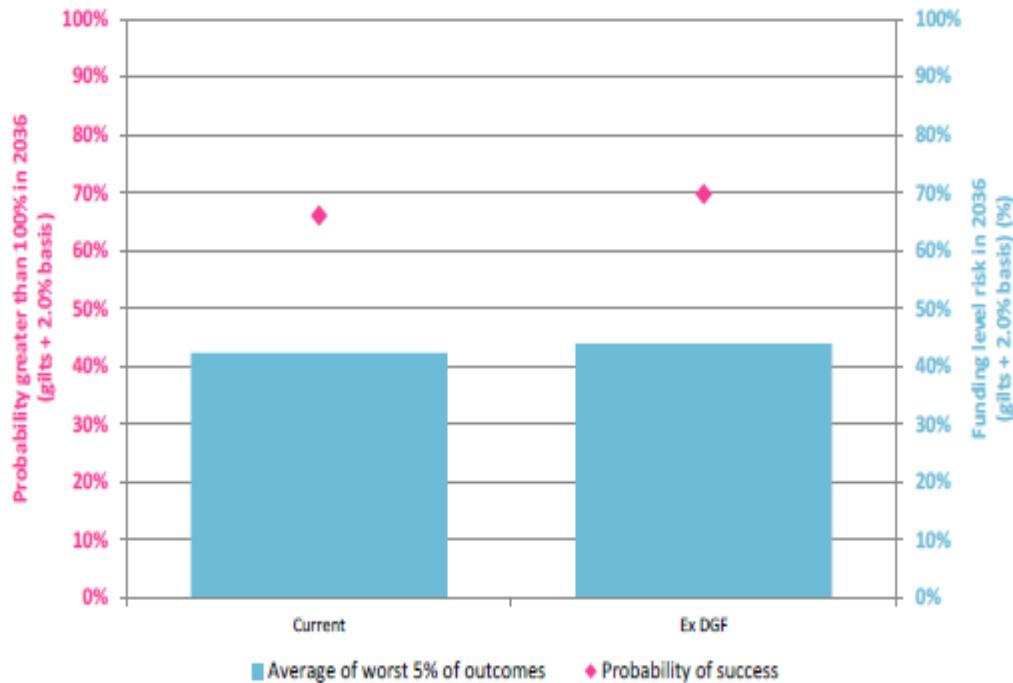
- 1.22 The Committee were asked to send any comments on the pension fund accounts to officers, with the accounts being presented for approval at the July meeting.

### Review of Strategic Asset Allocations

- 1.23 This Hymans Robertson paper was a re-run of that presented to the February meeting, recognising that five of the seven Committee members had changed since February. The Hymans proposal is to replace diversified growth funds with allocations to property, private equity and a yet to be determined asset class, as shown below:

Asset class	Current	Remove
	%	DGF %
Global equity	40	40
Diversified growth	20	-
Multi asset credit (liquid)	7	7
Multi asset credit (illiquid)	9	9
Private debt	9	9
Corporate bonds	10	10
Infrastructure	5	5
Property	-	10
Private equity	-	5
AN other	-	5
Total	<hr/> 100	<hr/> 100

- 1.24 This proposal was supported by modelling that demonstrated the revised portfolio generated better expected funding outcomes. The table below indicates that the revised portfolio has a 70% likelihood of achieving full funding in 20 years (currently 66%), and the funding level for the average of the 5% worse outcome is marginally higher at 43% (currently 41%).



- 1.25 The Committee requested that proposals to include property in the investment strategy be discussed at the next meeting.

#### Performance for the quarter to 31<sup>st</sup> March 2018

- 1.26 Part of the remit of the Committee is “to review and challenge at least quarterly the Pension Fund investment managers’ performance against the Statement of Investment Principles in general and investment performance benchmarks and targets in particular.” Hymans Robertson provide a quarterly report reviewing each managers performance against their benchmarks, noting their conviction rating for the manager and highlighting any changes that could impact on the quality of returns.
- 1.27 Mr Woodman of Hymans Robertson introduced the report. He noted the continued underperformance of the two diversified growth funds compared to their benchmark returns. Mr Woodman reported that the Newton Real Return Fund had been downgraded by Hymans from ‘Positive’ to ‘Suitable – On Watch’. The primary reason behind this downgrade is due to various team changes including the lead portfolio manager (Iain Stewart) stepping back from his day-to-day duties. The two Schroder’s funds (diversified growth and corporate bonds) were rated positive and all other funds were awarded Hyman’s highest ‘positive’ rating.
- 1.28 The Committee was informed that Schroders had offered a 5bps fee reduction. The Committee noting that the fees remained higher than those charged by similar funds on the LCIV platform, made a proposal that no funds would be withdrawn from the mandate in the next 12 months if a further 5bps fee reduction was offered.

## **Meeting 30 July 2018**

- 1.29 The meeting was attended by Nick Jellema and Kinna Patel of Hymans Robertson, Kevin Bartle (Director of Finance) and members of the Governance and Finance teams.

### Annual Report and Accounts and External Auditor's Report

- 1.30 The remit of the Pension Committee includes the following:

"To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts, and

To receive and consider approval of the Pension Fund Annual Report."

- 1.31 The Committee had received a presentation from the Auditor at the previous meeting, discussing their audit plan. The statutory deadline for approving the pension fund's statement of accounts was 31<sup>st</sup> July 2018. The audit was not complete and the Auditor's report was not available. The Committee declined to approve the annual report and accounts without sight of the Auditor's Report, but agreed to delegate approval to the Director of Finance

- 1.32 The Committee:

- Agreed to delegate approval of the accounts to the Chief Finance Officer,
- Requested that the Committee be notified when the accounts were approved. and
- Requested that the Auditor attend the next Committee meetings.

### Presentation by Newton

- 1.33 The Pension fund invests £129 million (June 2018) in the Newton Real Return Fund. The Committee has previously (Feb and June 2018) received advice from Hymans Robertson that the allocation to diversified growth funds should be replaced with allocations to property, private equity and other (yet to be determined) asset classes. The Committee has at previous meetings expressed concern at the performance of Newton and the London CIV (who oversee the fund on behalf of LB Barnet) have placed the fund on watch.

- 1.34 Newton emphasised the uncertainty in financial markets and the likelihood of a significant market correction, highlighting their fund's ability to protect capital and out-perform in downward markets. They questioned the wisdom of switching allocations when property was deemed expensive compared to historical measures.

- 1.35 The Committee deferred any decisions until after the property presentations.

### Review of Strategic Allocations

- 1.36 The Committee had received advice from Hymans Robertson (see 1.23 above) that the Pension Fund should invest 10% of the fund in property. Based on this advice, the Committee had requested that Hymans identify property managers suitable for investment. After discussion with officers (who reviewed a long list of property managers selected by Hymans) four managers were invited to present to the meeting.
- 1.37 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 contain the following provisions:
- (1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.
- (2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) and (4).
- (3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.
- (4) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made."
- 1.38 Presentation were received from Fidelity, Hermes, Aberdeen Standard Life and CBRE. The Committee received a report from Hymans Robertson detailing each fund and providing an overview of the funds' strategies. Hymans confirmed that all four managers were on their highest 'preferred' ratings.
- 1.39 Following the presentations, the Committee agreed:
- To invest 10% of the fund in property,
  - To sell their investments in Newton to facilitate the property investments,
  - To invest 5% of the fund in Aberdeen Standard Life property fund,
  - Not to invest with Hermes
  - Delegate authority to the Director of Finance to take any actions to implement the Committee's decisions.
- 1.40 The presentation from CBRE was ongoing at 10pm, the cut-off time for decisions. The Committee were thus required to defer any further decisions until the next meeting. The Committee observed that Fidelity and CBRE are also suitable for investment and Hymans will report back on a suitable combination of these three managers.
- 1.41 Officers will not finalise any new investments prior to the next Committee meeting as the decisions taken were in advance of the CBRE presentation and may alter at the next meeting, but will ensure that the necessary documents to invest are reviewed and capable of early signature. Meetings will be held by

officers with Aberdeen Standard Life, Fidelity and CBRE to discuss implementation issues.

- 1.42 Following the meeting, it was noted that the London CIV was expected to unveil its property offering and a meeting with the LCIV has been arranged for 6<sup>th</sup> September (in advance of the next meeting of the Pension Committee).

### **Performance for the Quarter to 30<sup>th</sup> June 2018**

- 1.43 Hymans noted that there had been no change in manager ratings and that most managers were generating returns in line or in excess of their benchmarks over 12 month periods. Schroders were not able to offer a further fee reduction as Barnet were already on the lowest fee scale.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 The Local Pension Board may wish to review Pension Fund Committee decision making procedures as part of its role in assisting the administering authority on ensuring good governance.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 N/A. The paper does not propose particular options.

## **4. POST DECISION IMPLEMENTATION**

- 4.1 Recommendations from the Board will be communicated to the next Pension Committee meeting.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

- 5.1.1 The Local Pension Board supports delivery of Council's strategic objectives and priorities as expressed through the Corporate Plan 2015-2020 by assisting in maintaining the integrity of the Pension Fund by monitoring the administration and compliance of the Fund.

### **5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 None in the context of this report.

### **5.3 Social Value**

- 5.3.1 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

#### **5.4 Legal and Constitutional References**

- 5.4.1 The LGPS Regulations 2013 place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is LB Barnet. The Local Government Pension Scheme Regulations 2015 requires the Council to establish a Pension Board, whose role is to assist the Council in securing compliance with legislation, regulation and best practice, including as set out in the Pension Regulator's Code of Practice.
- 5.4.2 This paper considers the governance arrangement of the LGPS pension scheme that form part of the remit of the Local Pension Board.

#### **5.5 Risk Management**

- 5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.
- 5.5.2 Good governance is essential to ensuring that risks are identified and managed.

#### **5.6 Equalities and Diversity**

- 5.6.1 There are no Equalities and Diversity issues arising from this report.
- 5.6.2 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.
- 5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

#### **5.7 Consultation and Engagement**

- 5.7.1 The paper is part of the process of co-ordinating the activities of the Pension Committee and Local Pension Board.

**5.8     **Insight****

5.8.1 N/A.

**6.     **BACKGROUND PAPERS****

6.1   None

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