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Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Patricia Hay-Justice, Clive Fraser, Robert Canning, Luke Clancy, Simon Brew and Yvette Hopley

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Reserve Members: Maddie Henson, Jamie Audsley, Sherwan Chowdhury, Steve Hollands, Robert Ward and Stuart Millson

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 12 March 2019** at **10.00 am** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

JACQUELINE HARRIS BAKER
Council Solicitor and Monitoring Officer
London Borough of Croydon
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www.croydon.gov.uk/meetings
Monday, 4 March 2019

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Minutes of the Previous Meeting (Pages 7 - 10)

To approve the minutes of the meeting held on 4 December 2019 as an accurate record.

3. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Update presentation: London CIV

For the Members of the Committee to receive an update presentation from Kevin Cullen, Client Relations Director, London CIV. The presentation will be provided at the meeting.

6. Update presentation: M&G (Pages 11 - 60)

For the Members of the Committee to receive an update presentation from Lucy Williams, Director of Institutional Business UK and Europe, M&G

7. Currency hedging (Pages 61 - 72)

For Members of the Committee to consider the case for implementing currency hedging for the equity investment part of the portfolio.

8. Audit Plan for the Local Government Pension Fund

To receive for information, an update on the audit of the Pension Fund. This report will be received at the meeting.

9. Progress report (Q3) (Pages 73 - 120)

For Members of the Committee to receive a progress report for Q3.

10. Risk register review (Pages 121 - 128)

For Members of the Committee to consider all risks assessed at amber and above.

11. Key Performance Indicators for the Local Government Pension Scheme (Pages 129 - 138)

For Members of the Committee to consider the updated Key Performance Indicators for the Local Government Pension Scheme.

12. Forward Plan (Pages 139 - 142)

For the Members of the Committee to consider the business plan for the forthcoming year and agree the review of key policy documents.

13. Consultation: draft statutory guidance on pooling assets (Pages 143 - 158)

For the Members of the Committee to consider its response to the consultation on the draft statutory guidance on asset pooling.

14. Review: training support for the Pensions Committee (Pages 159 - 164)

To consider the training support needed by the Members of the Committee.

15. Exclusion of the Press and Public

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

PART B

16. **Progress report (Q3)** (Pages 165 - 218)

For Members of the Committee to receive those aspects of the progress report for Q3 that are exempt.

Pension Committee

Meeting of the Pension Committee held on Tuesday, 4 December 2018 at 10.00 am in the Council Chamber - Town Hall

MINUTES

Present: Councillor Andrew Pelling (Chair);
Councillor Simon Hall (Vice-Chair);
Councillors Simon Brew, Robert Canning, Clive Fraser, Maddie Henson, Yvette Hopley and Robert Ward
Co-opted Members Charles Quaye (Union Representative) and Peter Howard (Pensioner Representative)

Also Present: Nigel Cook, Head of Pensions and Treasury
Michael Ellsmore, Chair, Pension Board
Peter Gent, Senior Investment Consultant, Mercer
Richard Simpson, Executive Director of Resources (Section 151 Officer)
Lisa Taylor, Director of Finance, Investment and Risk (Deputy Section 151 Officer)

Apologies: Councillors Luke Clancy and Patricia Hay-Justice in addition to Co-opted Pensioner Representative, Gilli Driver.

PART A

8/18 **Minutes of the Previous Meeting**

The minutes of the meeting held on 21 November 2018 were agreed as an accurate record. It was noted that the attendance of the Pensioner Representatives would move to the section recording those who were present at the meeting.

9/18 **Disclosure of Interests**

There were none.

10/18 **Urgent Business (if any)**

There were no items of urgent business.

11/18 **Forward Plan**

Cllr Hall, Cabinet Member for Finance & Resources, stated that whilst the Pension Board could comment on and provide feedback on the policy documents listed in paragraph 3.4 of the report, it was for the Pension Committee alone to review and amend these.

RESOLVED: The Pension Committee resolved to defer consideration of the report to allow for the reference of the report to the Pension Board for their comments.

12/18 **Update on Asset Allocation**

RESOLVED: The Pension Committee resolved to note the report and to request that M&G Investments be invited to a future meeting.

13/18 **Transition to Emerging Markets Fund**

RESOLVED: The Pension Committee resolved to note the report.

14/18 **Progress Report for Quarter Ended 30 September 2018 (Part A)**

RESOLVED: The Pension Committee resolved to note the report.

A formal vote of thanks to Richard Simpson, Executive Director of Resources, was agreed in recognition of his contribution to the work of the Committee.

15/18 **Exclusion of the Press and Public**

The following motion was moved by Councillor Pelling and seconded by Councillor Hall to exclude the press and public:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

The motion was put and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

16/18 **Minutes of the previous meeting (Part B)**

The minutes of the meeting held on 21 November 2018 (Part B) were agreed as an accurate record.

17/18 **Progress Report for Quarter Ended 30 September 2018 (Part B)**

RESOLVED: The Pension Committee resolved to note the report.

The meeting ended at 11.50 am

Signed: .....

Date: .....

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

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Croydon Council

REPORT TO:	**Pension Committee** **12 March 2019**
SUBJECT:	**Pension Fund Currency Hedging**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: This report relates to the question of currency hedging in respect of the Pension Fund.

FINANCIAL SUMMARY:

There are significant financial implications relating to this question, whether a currency hedging strategy is employed or not.

1. RECOMMENDATIONS

1.1 To note the report on currency hedging commissioned from Mercer.

1.2 To delegate to the Chief Financial Officer, in consultation with the Committee's Chair and Cabinet Member for Finance and Resources, the decision whether to implement a currency hedge.

2. EXECUTIVE SUMMARY

2.1 This report sets out the case for implementing a currency hedge for the equity investment part of the portfolio, referencing the costs and advantages set out in Mercer's paper, which is appended.

3 DETAIL

3.1 Heightened volatility in currency exchange rates has a direct impact on the Pension Fund. This volatility can be managed by employing various hedging techniques. However, these techniques can be expensive, and movements in exchange rates can be beneficial as well as damaging to the Fund. Past Pension Committees have discussed the merits and demerits of actively managing this

issue on a number of previous occasions but have never executed a currency hedging strategy.

3.2 Following on from the most recent discussion of this issue by the Committee on 4th December Mercer were asked to review the Pension Fund's currency exposure and suggest options to manage the risk that goes with that exposure. That report is included here as Appendix A.

3.3 The LGIM Developed World ex-Tobacco Fund fits the criteria set out in the Mercer report for implementing a currency hedge. There are technical reasons, described in the Mercer report, for not hedging other components of the portfolio, and cost issues.

3.4 The liabilities of the Croydon pension scheme are denominated in sterling, with the result that any exposure to foreign currency through the asset portfolio can lead to an increase in volatility with little or no additional expected excess return. However, there are valid reasons to have exposure to assets priced in foreign currencies, including:

- A further investment opportunity above and beyond that offered by the asset class;
- Hedging currency exposures in and of itself can be expensive;
- Exposure to "reserve currencies" (e.g. USD, EUR, CHF and JPY) can act as a tail risk hedge; and
- Exposure to reserve currencies can act as a second order liability hedge as a fall in UK interest rates (increasing the value of the liabilities) will likely coincide with a fall in the value of sterling and a relative gain on assets exposed to foreign currencies.

3.5 Since 2016 and the outcome of the Referendum on leaving the EU, sterling has devalued so that UK investors with un-hedged overseas currency exposure have seen material gains from their position. This scenario is likely to continue for some time, dependent on the outcome of the immediate process on March.

3.6 Mercer's review notes that a satisfactory conclusion to the negotiations would result in these currency gains unwinding. Conversely, continued uncertainty would likely result in a weak sterling for a longer period. Thus the review suggests that the Committee might want to consider locking in some of these gains. Three options are set out, hedging all, none, or half of the exposure.

3.7 There are broadly two options available to the Committee if they want to crystallise some of the recent gains and reduce the Fund's foreign currency exposure: either to introduce a currency hedging manager to implement an overlay strategy or ask the Fund's existing managers to hedge their foreign currency exposures. Both options give rise to costs.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report. In the long run the impact of currency movements will likely be neutral. This strategy is more about eliminating, or whenever possible, mitigating the effects of volatility of the currency

markets.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the recommendations within this report do not give rise to any legal considerations however, Appendix A provides a number of options for consideration which are not reflected within the recommendations. Specific specialist legal advice will be required regarding the legal implications prior to any decisions being taken if the Committee is minded to progress any of the options suggested within Appendix A or indeed in paragraphs 3.5 and 3.6 above.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: London Borough of Croydon Pension Fund Currency Hedging, Mercer February 2019

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MERCER
MAKE TOMORROW, TODAY

LONDON BOROUGH OF CROYDON PENSION FUND

CURRENCY HEDGING

Introduction

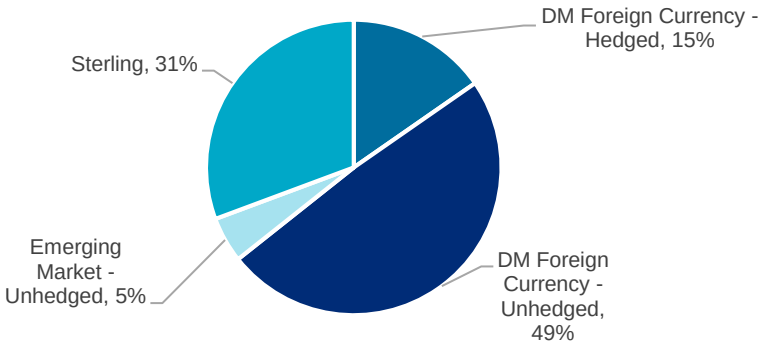
This note has been written for the Pensions Committee ("Committee") of the London Borough of Croydon Pension Fund ("the Fund"). Its purpose is to review the foreign currency exposure of the Fund's investment portfolio and to consider options available to manage the foreign currency risk.

We raised the concept of currency hedging to the Committee on 6 November 2018 as part of a wider risk management session. At that meeting the Committee agreed in principle to reduce the amount of currency risk in the Fund. The purpose of this paper is set out the options to implement that decision. This paper should be considered in conjunction with our paper entitled *"Scenario Analysis"* (dated October 2018) and the formal minutes of the 6 November 2018 meeting as they contain pertinant background to this paper.

Background

The Fund has overseas investments that are non-sterling denominated. The chart below shows the Fund's overall asset portfolio split between exposure to sterling denominated assets and assets priced in foreign currencies (based on the strategic benchmark allocation).

Figure 1: Fund's strategic currency exposure



Source: Mercer based on Stategic Asset Allocation as at 31 December 2018

The foreign currency exposure is split as follows:

- **Developed market exposure - hedged (15%)**
  - Aberdeen Standard Investment Absolute Return Bond Fund – 7.7%
  - Pimco Global Corporate Bond fund (via LCIV) – 7.7%
- **Developed market exposure - unhedged (49%)**
  - LGIM Developed World ex-Tobacco Fund – 37%
  - Infrastructure – 4%
  - Private Equity – 8%
- **Emerging market – unhedged (5%)**
  - Janus Henderson Emerging Market Equity ('EME') (via LCIV) – 5%

In terms of the current hedging policy inferred by the allocations above we would make the following comments:

- **Bonds –** given the bonds are used for risk management and cashflow purposes versus a set of sterling liabilities we are comfortable with the position to currency hedge these assets.
- **Private market assets (infrastructure and private equity) –** we would not recommend currency hedging these assets as stale pricing of the underlying exposures can lead to more risk. In addition, the relatively unknown frequency of investments and redemption payments create complications for managing the level of hedged exposure. We would note the this may need to be reviewed if/when the Fund relies heavily on the income from these assets for cashflow purposes, however given the Fund is in a reasonable cashflow position and has other sterling denominated cashflow generating assets (particularly property and PRS) we would recommend leaving the 12% private markets (the other 6% allocation to infrastructure is sterling) exposure as un-hedged.
- **Emerging Market Equity** - hedging emerging markets exposure can be costly, the exposure can also be considered as a rewarded risk i.e. economic growth above that of developed markets should lead to appreciation of emerging market currencies relative to developed markets over time and hence the exposure should benefit the Fund (noting that there will be a significant amount of volatility carried and return cannot be guaranteed). Therefore, we would not recommend looking to hedge this exposure at the present time.

As such, the remainder of this paper considers the proportion of the Fund's allocation to the LGIM Developed World ex-Tobacco Fund to hedge and the mechanism to implement this.

What is currency risk?

Developed market currency (typically US Dollar, Euro, Japanese Yen) exposure is generally considered an unrewarded risk (or at least poorly rewarded). That is, unlike equity risk for example, there is no expected long term return that comes with the risk (or the level of excess return is not commensurate with the volatility that results).

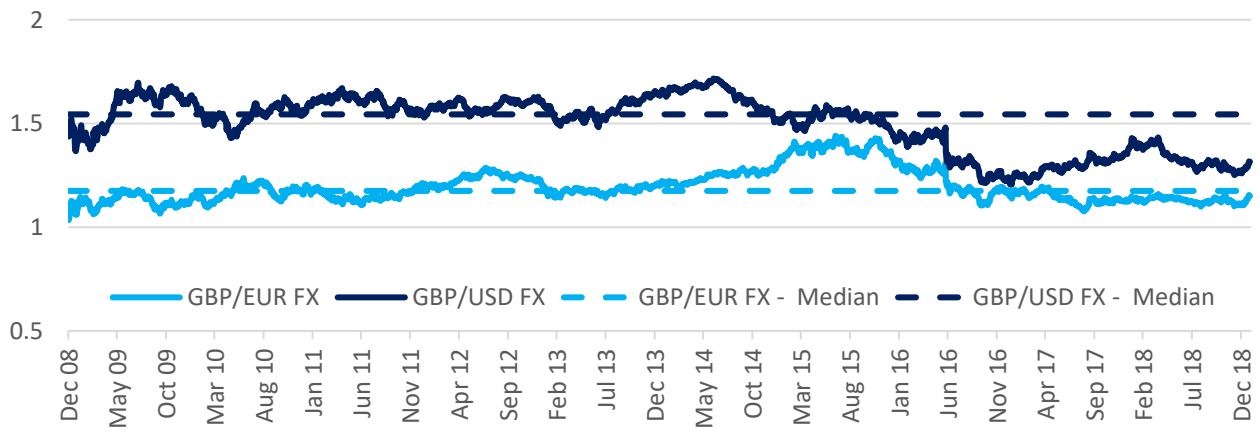
As a UK based pension scheme with 100% sterling denominated liabilities, being exposed to foreign currency through the asset portfolio leads to increase in expected volatility with little or no additional expected excess return. That said, there are valid reasons to have exposure to assets priced in foreign currencies. Examples of these reasons are:

- It allows the Committee to widen the opportunity set to enable the Fund to meet its objectives.
- Hedging currency exposures can be expensive (particularly in emerging markets) thus negating some of the additional gains from accessing these markets.
- Exposure to "reserve currencies" (e.g. USD, EUR, CHF and JPY) can act as a tail risk hedge as market stress events tend to result in a 'flight to safety' and an appreciation of these reserve currencies versus sterling.
- Exposure to reserve currencies can act as a second order liability hedge as a fall in UK interest rates (increasing the value of the liabilities) will likely coincide with a fall in the value of sterling and a relative gain on assets exposed to foreign currencies.

Market background and tactical considerations

The chart below shows how the sterling exchange rate versus the US dollar and Euro has moved over the last 10 years. Over the period (and particularly as a result of the 2016 EU referendum vote) we have seen a decline in the value of sterling to a point now where current pricing is below the 10-year average. We would however note that particularly versus the Euro rate, sterling has been relatively stable (albeit weak) since 2016.

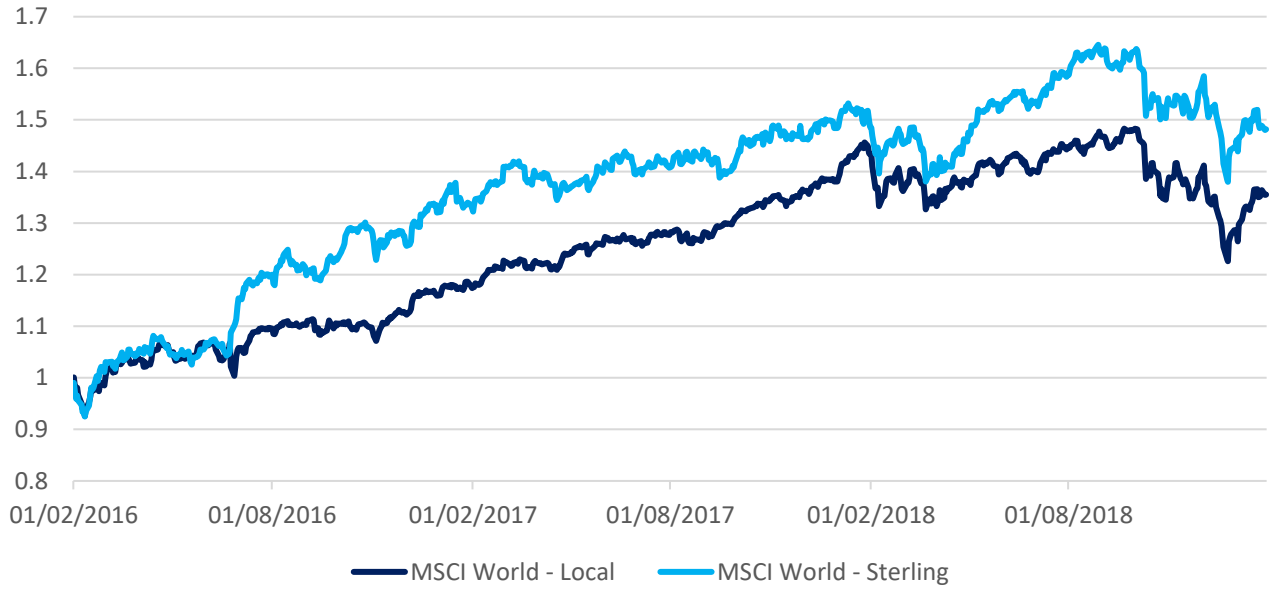
Figure 2: Exchange Rates – USD & EUR vs GBP over 10 years



Source: DataStream, Mercer

The result of this sterling weakness has been that UK investors with un-hedged overseas currency exposure have seen material gains from the position. If we consider the chart below the difference in performance between MSCI world index in local currency (hedged) and sterling (unhedged) terms has been c.3.3% p.a. over the last three years which equates to a gain of c.£40m per £400m (the Fund's approximate holding in the LGIM fund at 30 September 2018).

Figure 3: MSCI World Local Vs Sterling 31 January 2016 – 31 January 2019



Source: DataStream, Mercer

We don't have a strong view as to whether sterling is over- or under-priced versus the major developed market currencies at the current time. However, we would expect the uncertainty around sterling to remain, particularly while the UK's future relationship with the EU is still so uncertain.

We have worked on the basis that the Committee does not want to explore an active currency management strategy i.e. to appoint a manager who will aim to garner additional returns through taking views on currency movements. That said there is an opportunity to be tactical in setting the 'hedge ratio' of the Fund's foreign currency exposure.

Based on our scenarios (see our previous paper) we would assign a higher probability to the Brexit scenarios (e.g. negotiated deal) which lead to an appreciation in sterling and for some (or all) of the recent gains set out above to be unwound.

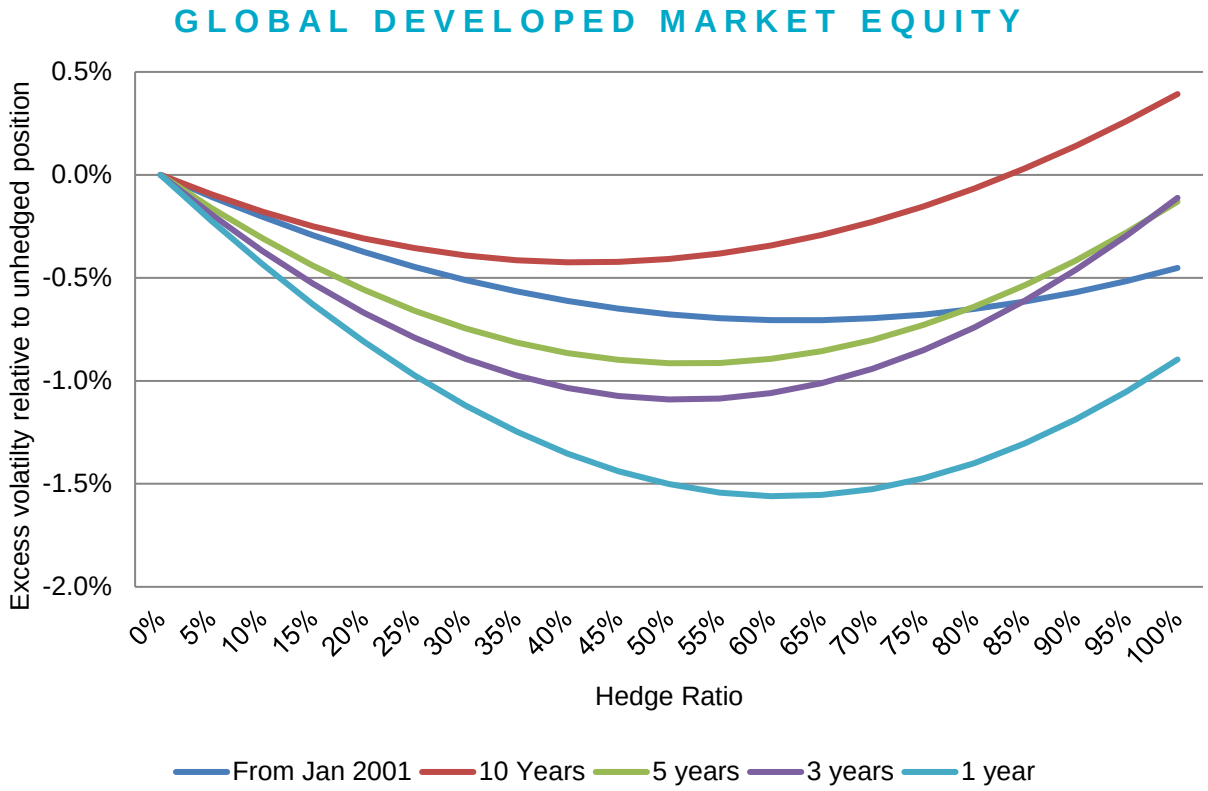
That said we are cognisant that there is a real risk that sterling could weaken further in which case the current un-hedged position would be more favourable.

Therefore, from a current tactical point of view there is an argument to remove some foreign currency risk to 'lock-in' a portion of the recent gains made from the weakness in sterling whilst retaining scope to benefit to some degree from any further decline in sterling.

How much currency hedging is optimal from a strategic perspective?

Figure 4 overleaf shows (based on historic data) the relative risk experience of different currency hedged positions (versus being unhedged) over a number of time period.

Figure 4: Impact on volatility and returns



Source: Thomson Reuters and Mercer

The 'smile' shape of the charts indicates holding less than 100% of foreign currency exposure has historically achieved a greater level of volatility reduction than either being 100% hedged or completely unhedged. Over most time periods, the greatest level of risk ***(as defined by volatility) reduction is achieved by hedging c.50% - 70% of currency risk.***

There is a spectrum of options available to Committee if they want to crystallise some of the recent currency gains and reduce the Fund's foreign currency exposure. However, we show 3 for illustrative purposes in the following table:

LEVEL OF HEDGING	PROS	CONS
0% **(Current)**	• Adds value when sterling **depreciates** (overseas assets are worth more in sterling terms). • No additional cost of hedging	• Loses value when sterling **appreciates** (overseas assets are worth less in sterling terms) • Greater level of expected volatility of returns

LEVEL OF HEDGING	PROS	CONS
50%	• Removes volatility of exchange rates (to the extent hedged) • Locks in recent gains from sterling depreciation (to the extent hedged) - sterling is well below long term averages against other major currencies • Gives access to some upside from further sterling weakness	• Additional costs – hedged funds tend to be slightly more expensive. • When sterling **depreciates** overseas assets are worth more sterling terms. The Fund will not benefit from these gains (to the extent hedged).
100%	• Removes risk of losses when sterling **appreciates** - sterling is well below long term averages against other major currencies	• Opportunity cost - should sterling **depreciate** further), the Fund would not participate in these returns. • Additional costs and fees for greater levels of hedging • Lower level of expected volatility reduction at 100% hedging.

Options to hedge currency risk

There are broadly two options available to the Committee if they want to crystallise some of the recent gains and reduce the Fund's foreign currency exposure:

A. Introduce a currency hedging manager to implement an overlay strategy

B. Ask the Fund's existing managers to hedge their foreign currency exposures

Option A. is a relatively expensive and time consuming (including ongoing governance and lead time to set-up) route to take. As such, we would only advocate this route as part of a deep dive currency hedging review and/or a wider risk management strategy project (including strategies such as LDI and equity protection). We can look into these options with Committee as part of the upcoming investment strategy review.

Option B. is a quicker, cheaper and more pragmatic solution.

To that end we have been discussing the options to currency hedge the LGIM exposure with the manager. LGIM have confirmed they are able to set up a currency hedged version of the FTSE World Developed Ex Tobacco fund and based on our request have initiated the process so that the currency hedged fund is available for the Fund to invest in should the Committee agree to proceed.

There would be a number of costs associated with switching into the hedged version of the fund, as follows:

- **One off cost** - LGIM have confirmed that **transaction costs** for switching assets from the existing unhedged fund to the currency hedged fund are expected to be c.0.026% of assets transferred. This

equates to c.£54,000 for a 50% currency hedged solution and c.£109,000 if all assets were switched to the currency hedged fund.

- **Ongoing costs** - LGIM charge an additional 0.025% p.a. **management fee** on assets invested in the currency hedged fund (equal to c.£52,000 p.a. for a 50% hedge or £104,000 p.a. for a 100% hedge).

  In order to roll the hedges each month there is an additional on-fund cost passed through the fund. This may vary depending on the size of the fund and the market environment. The approximate cost of the on-fund cost is 3bps p.a. this equates to c£63,000 p.a. for 50% hedge or c.£125,000p.a. for a 100% hedge.

- There may also be additional transaction costs of rebalancing between the currency hedged and non-currency hedged funds so as to maintain the target currency hedge ratio. However, these can be mitigated to an extent by not having tight rebalancing ranges in place.

We feel these costs are appropriate in an absolute sense and relative to the gains that have been made from running an un-hedged position.

Summary and next steps

In our view as a cost-effective, pragmatic approach to reduce risk and lock in gains coming from sterling depreciation over recent years we suggest switching between 50-70% of the assets held within the existing LGIM FTSE World Developed Ex Tobacco Equity fund to the currency hedged version at the earliest available opportunity.

The 50-70% range is supported by the strategic argument set-out previously, where the Committee lands within this range will depend on the appetite for future risk versus the certainty of locking in the gains that have been made thus far.

If the Committee want to lock-in more gains and/or envisage an appreciation of sterling, then a 70% hedge position on the LGIM exposure would be more appropriate. However, if the Committee are concerned about the regret risk of losing out on gains from further sterling weakness (but still want reduce the amount of risk) then they may wish to consider a 50% position.

Depending on how you agree to proceed, we will liaise with LGIM to confirm the Committee's decision and the expected value of assets to be transferred and to request LGIM provide the documentation required to implement the switch.

I look forward to discussing this paper with the Committee.

Peter Gent FIA
Mercer Ltd
February 2019

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Croydon Council

REPORT TO:	**PENSION COMMITTEE** **12 March 2019**
SUBJECT:	**Progress Report for Quarter Ended 31 December 2018**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.

FINANCIAL SUMMARY:

This report shows that the market value of the Pension Fund (the Fund) investments as at 31 December 2018 was £1,181m compared to £1,243.4m at 30 September 2018, a decrease of £62.3m and a return of -4.68% over the quarter. The performance figures Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.

1 RECOMMENDATIONS

1.1 The Committee is asked to note the performance of the fund for the quarter.

1.2 The Committee is asked to delegate fund investment decisions to the Chief Finance Officer in consultation with the Chair of the Pension Committee and the Cabinet Member for Finance and Resources.

2 EXECUTIVE SUMMARY

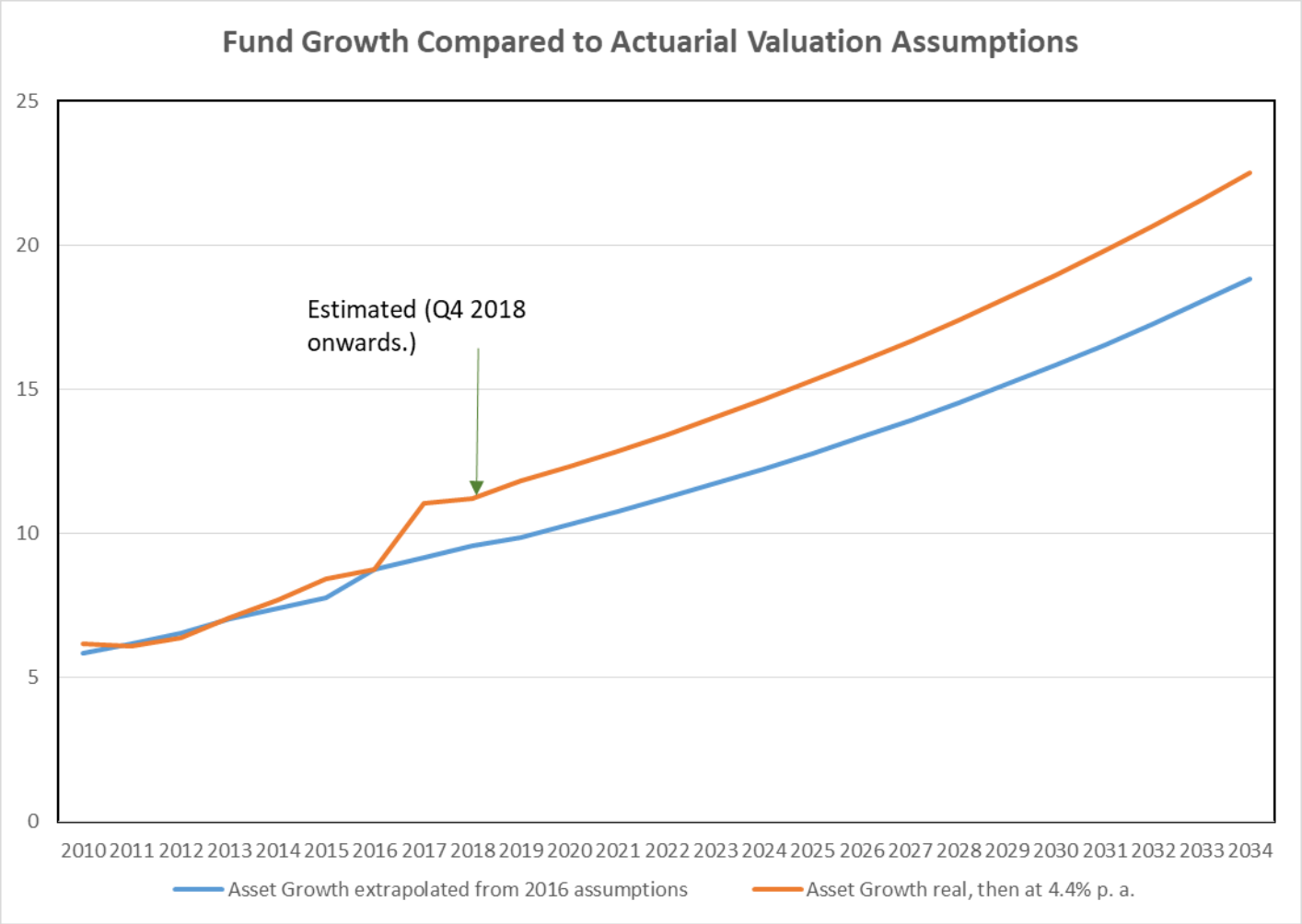
2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 December 2018. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report.

3 DETAIL

Section 1: Performance

3.1 The 2016 Triennial Actuarial Valuation used an asset outperformance assumption of 2.2% over gilt yields, meaning an asset return assumption, otherwise described as the discount rate, of 4.4%. The valuation also assumes that the funding gap will be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and assuming other assumptions remain constant, the funding gap will reduce.

3.2 The following graph has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the 2016 valuation assumptions. This will be adjusted after subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This measure does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and that does not reflect changes in cash contributions nor movements in the gilt yield curve. It is valuable as a tool to help track whether the direction of travel is in the right direction.



3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by our investment advisors in Appendix A

Section 2: Asset Allocation Strategy

3.4 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). Recognising that there are a number of factors dictating the delivery timeframe for the asset allocation, namely: the selection process and time taken to undertake due diligence; the revision of the LGPS investment regulations; and the role of the London CIV; delivering the revised asset allocation remains a work in progress.

3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

Equities including allocation to emerging markets.		42%	+/- 5%
Fixed interest		23%	+/- 5%
Alternates		34%	+/- 5%
Comprised of:			
Private Equity	8%		
Infrastructure	10%		
Traditional (Commercial) Property	10%		
Private Rental Sector (Residential) Property	6%		

Cash	1%
	100%

3.6 **Progress towards revised asset allocation**

3.6.1 **Global Equity –** During the quarter £155.6m was divested from the L&G FTSE World (Ex Tobacco) fund. The amount divested was used to fund the following:

- **£55m** - Invested in the London CIV Emerging Markets fund managed by Janus Henderson in order to gain exposure to emerging markets as stated in the Fund's target asset allocation.

- **£80m** - Invested in the London CIV Global Bond mandate managed by PIMCO. This was in order rebalance the Fund to bring the Fixed Interest allocation back into the target range.

- **£10.8m** - To pay the final part of the Fund's commitment to the Private Rental Sector mandate managed by M&G.

- **£9.8m** - To fund various private equity and infrastructure fund calls and other working capital during the period.

The L&G FTSE World (Ex Tobacco) fund returned a negative 11.13% during the quarter. The Fund was shielded from the full impact of this loss due to the timing of the transactions above.

Allocation: The allocation dropped to 40.1% of the overall Fund due to the poor performance of global equities during the quarter. The allocation is still within the target range and since the quarter end global equities have made a slight recovery.

3.6.2 **Fixed Interest** – During the quarter £80m was invested in the London CIV Global Bond mandate managed by PIMCO. This was a rebalancing of the Fund in order to bring the Fixed Interest allocation back to target. The Fixed Interest allocation produced positive returns of £2.1m for the quarter. The bond mandate managed by Aberdeen Standard Life is due to be transferred to the London CIV Global Bond mandate in due course. The Absolute return mandate manage by Aberdeen Standard Life and the Bond mandate managed by Wellington are to be retained, but kept under review.

Allocation: On target.

3.6.3 **Infrastructure –** During the quarter further net investments of £7.4m were made to the Funds Infrastructure mandates. During the quarter the first distributions were received from Temporis and Access Capital Partners. The Fund's infrastructure mandates have now distributed £4.1m for the year to date. Distributions from infrastructure investments will be used to finance further investments and benefit payments the Fund moves to a cash flow negative position when considering contributions against benefit payments. The Fund's infrastructure investments are performing well.

Allocation: Infrastructure has moved above target due to the poor performance of equities in the quarter. The allocation is still in an acceptable range.

3.6.4 **Private Equity –** .The Fund received net distributions of £0.8m during the quarter and gains of £5.9m were experienced, although it should be noted that the valuations of these funds are lagged and usually mirror global equity valuations.

Allocation: The allocation by 31 December 2018 was 9.5%. This is 1.5% above the target allocation, but within the acceptable range.

3.6.5 **Traditional Property –** There was a modest gain of £1.1m during the quarter.

Allocation: The allocation at 10.5% is considered on target.

3.6.6 **Private Rental Sector –** £10.8m was drawn by M&G during the quarter. This means the Fund's total commitment of £60m is now fully invested in the PRS mandate.

Allocation: The allocation is at 5.1% which is below the original target of 6%, but this is due to the good performance experienced by the rest of the portfolio.

3.6.7 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 31 December 2018

	Valuation at 30/09/2018 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 31/12/2018 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage	
Equities					**40.1%**	**42%**	
Legal & General FTSE4Good	203	-	38	241			
Lega & General FTSE World (Ex Tobacco)	633,599	- 155,637	- 60,453	417,508			
LCIV Emerging Markets	-	55,000	506	55,506			
Fixed Interest					**23.0%**	**23%**	
Standard Life	127,565	-	- 365	127,200			
Wellington	63,234	-	1,501	64,735			
LCIV Global Bond	-	80,000	254	80,254			
Infrastructure					**11.8%**	**10%**	
Access	10,656	2,844	74	13,574			3 month lagged
Temporis	30,209	1,048	-	31,257			3 month lagged
Equitix	62,005	1,382	1,085	64,473			
Green Investment bank	25,618	- 728	259	25,149			
I Squared	1,562	3,092	101	4,754			3 month lagged
Private Equity					**9.5%**	**8%**	
Knightsbridge	25,902	847	2,223	28,971			3 month lagged
Pantheon	66,111	- 1,377	3,379	68,113			
Access	12,769	- 328	156	12,597			3 month lagged
North Sea	2,327	-	125	2,452			3 month lagged
Property					**10.5%**	**10%**	
Schroders	122,437	-	1,116	123,553			
Property PRS					**5.1%**	**6%**	
M&G	49,008	10,871	207	60,085			
Cash					**0.1%**	**1%**	
Cash	10,158	- 1,195	- 8,318	645			
Fund Total	**1,243,363**	**- 4,181**	**- 58,114**	**1,181,068**	**100%**	**100%**	

Valuations are based on the bid price as reported by the Fund Managers. The valuations of some of the Infrastructure and Private Equity funds are lagged by 3 months due to the timing of the reporting of these funds.

Section 3: Risk Management

3.9 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.

3.10 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

3.11 Mercer, the Fund's investment advisor, have drafted a Fund Monitoring Report, for the 3 months to 31 December 2018. These reports are included in the closed part of this Committee agenda.

Section 4: Investment Manager Visits

3.12 Members of the Pensions Committee visited Access Capital Partners in October 2018. Access Capital manage a Co-Investment Fund focused on investing in the smaller buy-out market in Europe and an Infrastructure Fund focused on investing into European brownfield infrastructure assets. The Committee noted that both funds are delivering in line with our expectations.

3.13 Following an internal restructure the Committee is asked to reflect the change in senior management thus:

To delegate fund investment decisions to the Chief Finance Officer in consultation with the Chair of the Pension Committee.

This is consistent with established practice and reflects the changes in job title and usage in the Council's Constitution.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments that no additional legal considerations arise from this report.

(Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Quarterly reports from each fund manager (circulated under separate cover)

Appendices:

Appendix A: London Borough of Croydon Returns to 30 December 2018, Mercer

Part B appendices:

Pursuant to Schedule 12A paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information), the following appendices are considered to be precluded from publication:

Appendix B: Market Background and Market View Q3 2018, Mercer

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HEALTH WEALTH CAREER

LONDON BOROUGH OF CROYDON PENSION FUND

INVESTMENT PERFORMANCE REPORT

PRIVATE PAPER – NOT FOR PUBLIC DISTRIBUTION

QUARTER TO 31 DECEMBER 2018

Peter Gent FIA

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This report considers only the investment related aspects of the money purchase arrangement. As such this report is not a full review of the provider. Optional - include if bundled money purchase contract.

Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

SECTION 1

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Asset Values

The Fund's assets decreased over the quarter by £32.2m from £1,215.8m as at 30 September 2018 to £1,183.6m as at 31 December 2018. The Fund's assets have increased by £33.2m over the last twelve months.

Fund Performance

The Fund returned -4.5% (net of fees) over the quarter to 31 December 2018, underperforming the composite benchmark by 0.9% and the CPI + 4% p.a. benchmark by 6.0%.

The relative performance (net of fees) of the Fund's mandates versus their respective benchmarks was mixed over the quarter. Wellington (Sterling Bonds), Knightsbridge (Private Equity) and Pantheon (Private Equity), produced positive relative returns. Aberdeen Standard (UK Corporate Bonds), LGIM (Developed World (ex Tobacco) Equity), I Squared (Infrastructure) and Schroders (Property) performed broadly in line with their benchmarks. The remaining portfolios underperformed against their benchmarks.

Over the three year period, Aberdeen Standard (UK Corporate Bonds), Wellington (Sterling Bonds), Equitix (Infrastructure), Knightsbridge (Private Equity), Pantheon (Private Equity), Schroders (Property), M&G (Residential Property) and cash outperformed their respective benchmarks. Aberdeen Standard (Absolute Return Bonds) underperformed its benchmark.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	1 Year Performance	3 Year Performance
LGIM	Developed World (ex Tobacco) Equity	✓	
Janus Henderson	Emerging Markets Equity		
Aberdeen Standard	UK Corporate Bonds	-	-
Aberdeen Standard	Absolute Return Bonds	✕	✕
Wellington	Sterling Bonds	✓	-
PIMCO	Global Bonds		
Access	Infrastructure	✕	
Temporis	Infrastructure	✓	
Equitix [(b)]	Infrastructure	✓	✓
Green Investment Bank	Infrastructure	✓	
I Squared	Infrastructure	✓	
Knightsbridge	Private Equity	✓	✓
Pantheon	Private Equity	✓	✓
Access	Private Equity	✓	
North Sea	Private Equity	✓	
Schroders	Property	-	-
M&G	Residential Property	✕	✓

Meets criteria	✓
Partially meets criteria	-
Does not meet criteria	✕

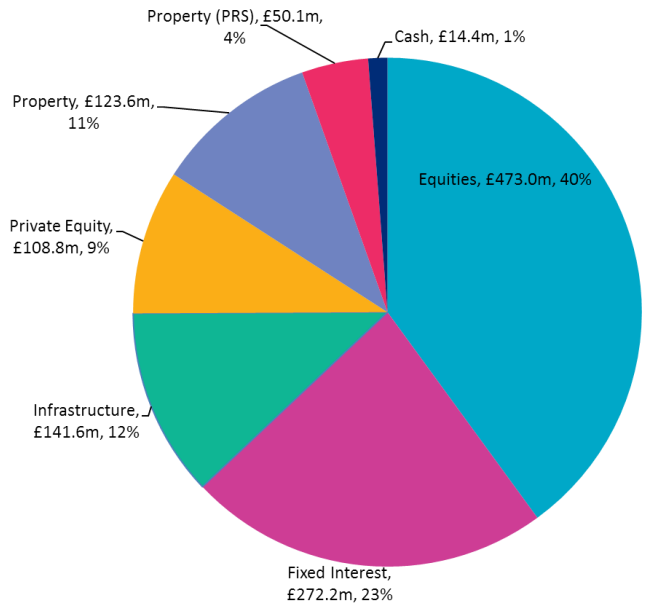
Focus Points

- In December 2018, we assigning a Watch (W) status to Janus Henderson Investors' Emerging Markets Equity strategy following the recent review of the strategy. Further details are set out in section 4.
- In December 2018, we downgraded the rating for Aberdeen Standard Investment's Absolute Return Global Bond Strategies from A (P) to B+ following the uncertainty on appointment of Aymeric Forest as a portfolio manager. Further details are set out in section 4.
- In January 2019, we assigned a Watch (W) status to M&G UK Residential Property Fund following the resignation of Steven Hollands, Senior Investment Manager. Further details are set out in section 4.

(a) Rating is based on the indicative rating from Knightsbridge Advisors Venture Capital Fund of Fund .
(b) Rating is based on the indicative rating from Pantheon's European Private Equity (Fund of Funds) Up to PEURO VI and Pantheon's Private Equity (Fund of Funds) up to PUSA IX .

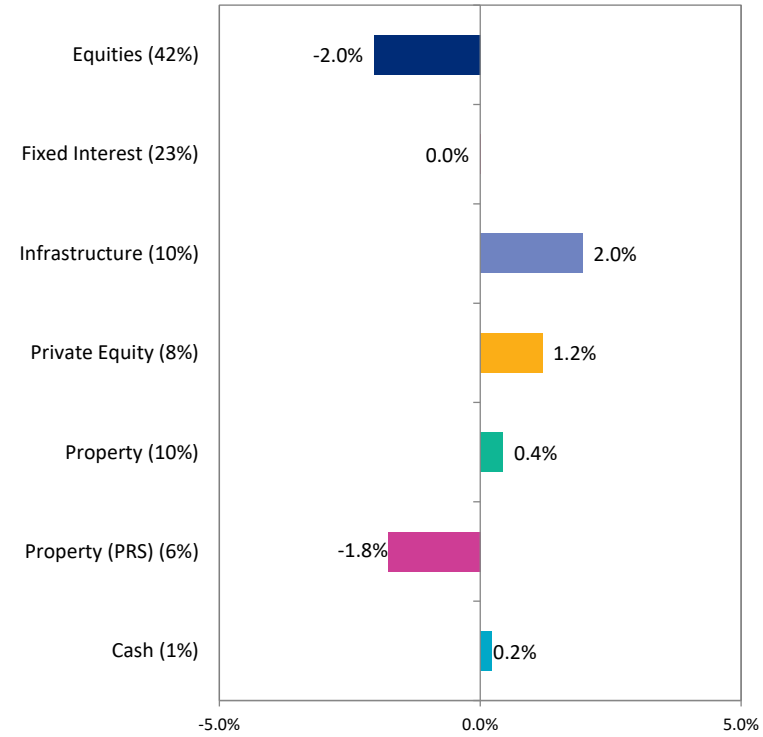
EXECUTIVE SUMMARY
ASSET ALLOCATION

ASSET CLASS ALLOCATION
Total Invested Assets Value £1,183.6m

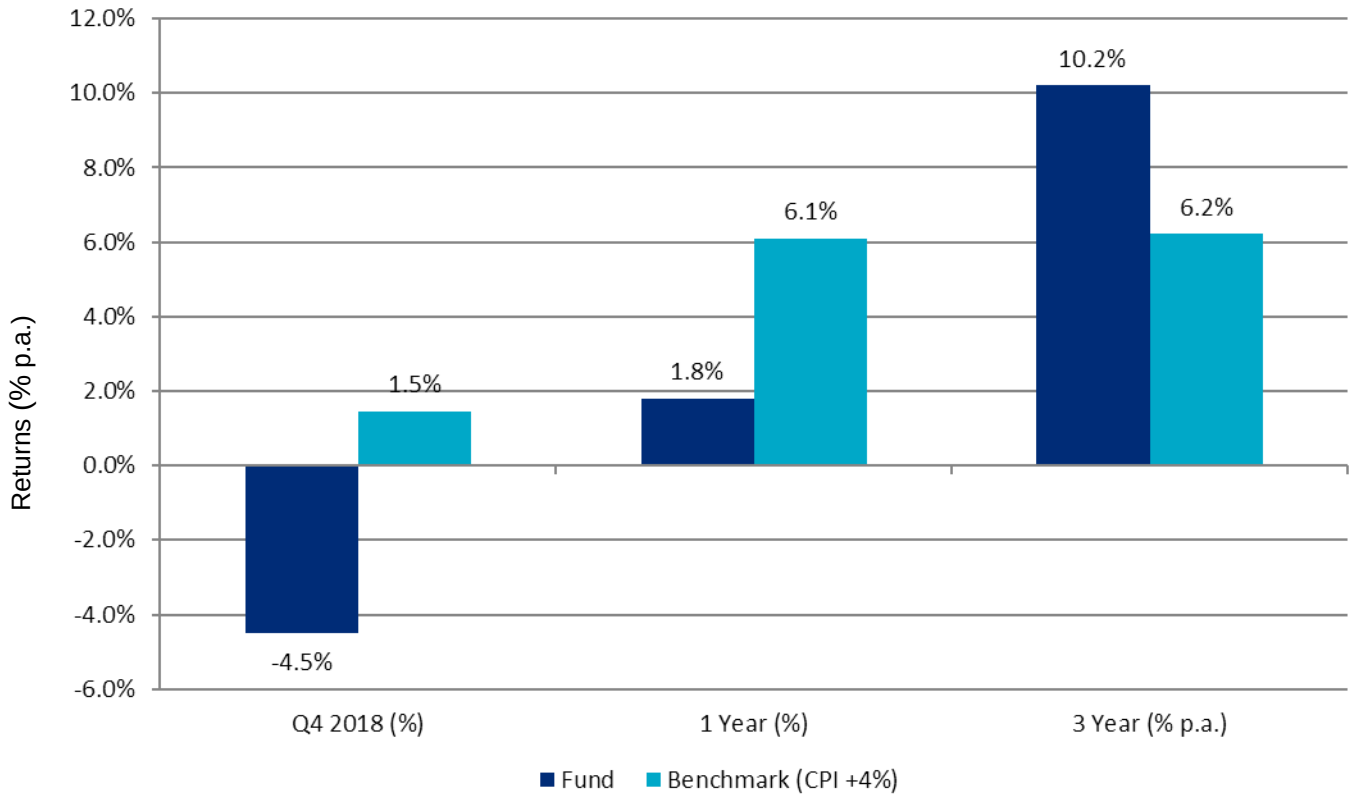


Source: Investment Managers and Mercer.
Figures may not sum to 100% due to rounding.

ASSET CLASS WEIGHT RELATIVE TO BENCHMARK

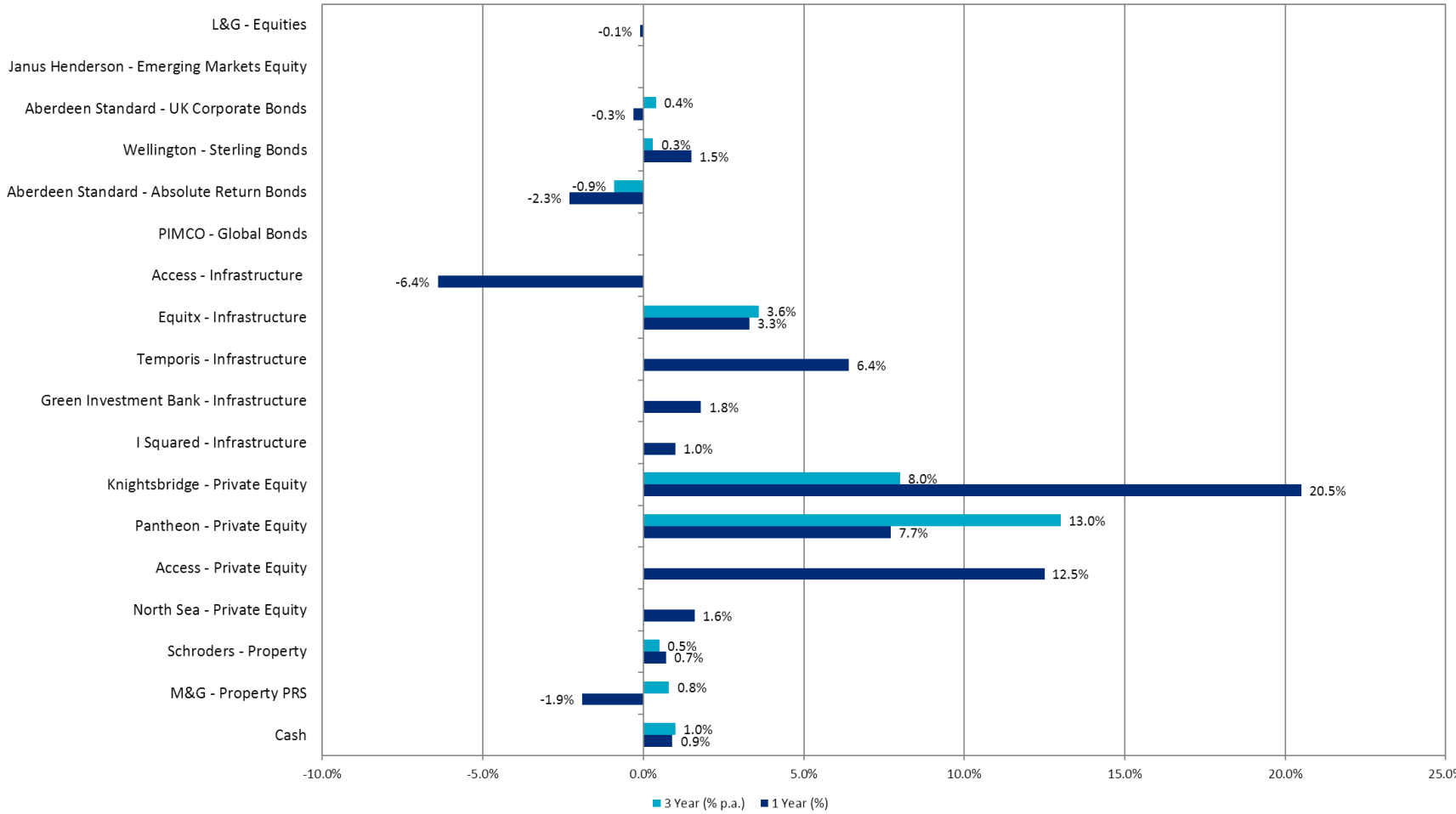


EXECUTIVE SUMMARY
FUND PERFORMANCE- NET OF FEES



Figures shown are based on performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream.

EXECUTIVE SUMMARY
FUND PERFORMANCE – NET OF FEES VS BENCHMARK



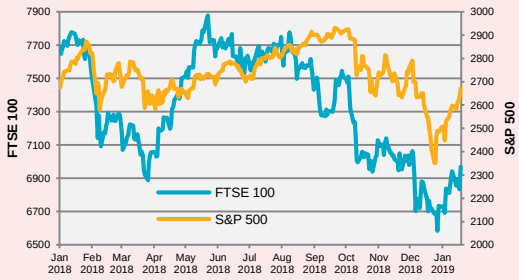
Figures shown are based on performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream.

CURRENT TOPICS

Is Your Investment Strategy On Track?

What happened?

- Many UK schemes experienced a deterioration in their funding position in Q4
- This was due to the "Triple Whammy" of falling equities, falling gilt yields and widening credit spreads
- Most equity markets fell around 20% from their October highs, the biggest decline since 2008
- Despite the market recovery in January, many uncertainties remain – i.e. the US government shutdown, China and Brexit



What might happen?

1. **Release of a "Pressure Valve":**
   - Q4 was a "necessary correction to over-exuberance, and markets will recover in 2019
2. **Beginning of a Typical "Cyclical" Bear Market:**
   - Withdrawal of monetary stimulus and natural unwind of strong period of economic growth
   - Returns on equities and other risky assets modestly negative for 2-3 years
   - Defensive asset returns also modest due to low starting level of yields
3. **Another "Tremor" Signaling Major Earthquake"**
   - Unwinding of zero rates and QE-driven global asset price bubble
   - Significant "2008-like" decline in equities and other risky assets
   - Limited scope for policy response outside US

What should trustees do?

1. **Contingency plan for each scenario**
   - Will recovery in Q1 provide opportunity to de-risk?
   - If cyclical bear market or major crisis unfolds, what strategies are available to protect capital (e.g. direct hedging through options, or diversifying away from market beta)
2. **Engage with sponsor on implications of poor asset returns for 2019 (and 2020) valuations**
   - Schemes with large equity and or corporate bond exposures with limited hedging will have experienced significant increases in deficits
   - Need to consider implications for sponsor covenants and potential recovery plan payments

Keep Equity Option Protection on the Radar

- Many UK schemes implemented equity protection strategies in 2017 and 2018, which both protected their portfolios in the market corrections and provided opportunities to book profits and rest strategies.
- While option protection is now more expensive, due to the sharp rise in actual and market implied volatility, this cost can be managed by adopting more complex "dynamic" strategies
- For example, investors could consider selling shorter dated options to fund longer dated protection, though the risks of such a strategy need to be understood.

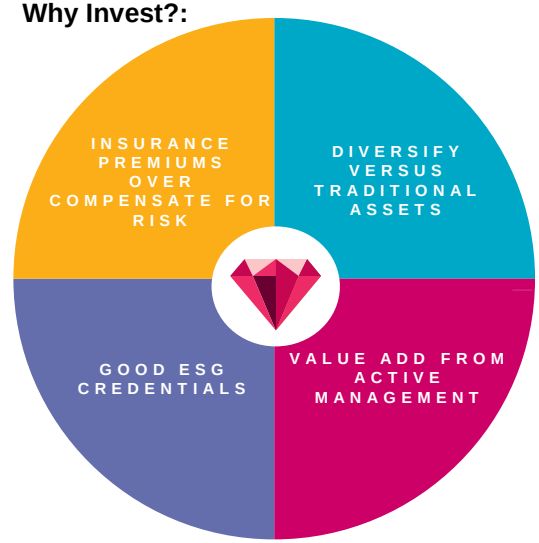
CURRENT TOPICS

Insurance-Linked Securities

What Are They?:

- Different types of securities providing access to premium income in the catastrophe reinsurance market
- Funds available spanning the risk/return spectrum (e.g. 5% - 10% p.a. net returns in “average loss event” years

Why Invest?:



What Are The Challenges?:

- Less liquidity, underlying complexity and potential for significant losses (if insured “events” more frequent or severe than assumed in pricing)
- Need to understand sufficiently the complexity and risks
- Manager selection very important

CMA Investigation: Final Decision Report

Key Highlights:

- Report reflecting many of the CMA’s findings from Provisional Decision Report
- CMA recognition of the vital role of investment consultancy (IC) and fiduciary management (FM), dispelling some misconceptions
- Conclusion that some market features impact competition, which may lead to customer detriment
- Eight measures (plus four recommendations) announced
- Some measures directly impacting pension scheme trustees and others impacting IC and FM firms
- Measures expected to take effect within six months after formal order finalised – i.e. 2019

Summary of measures:

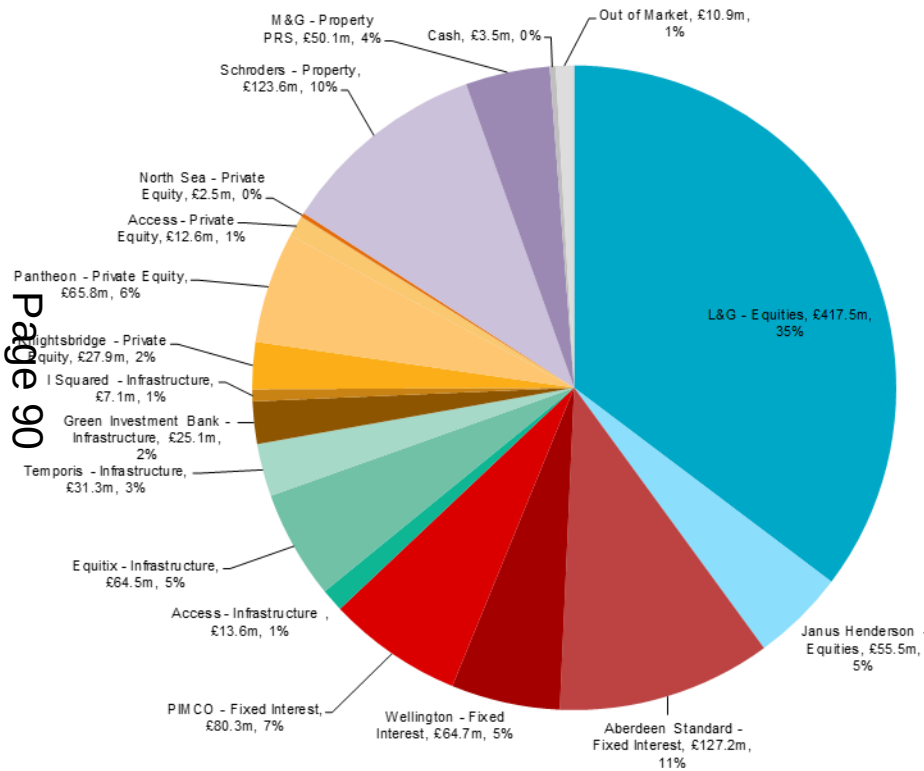
- Mandatory competitive tender process for first time FM appointments
- Separation of FM advice & marketing
- Greater transparency of FM fees and standardised past performance analysis
- Duty of trustees to set and keep updated a set of strategic objectives for their IC provider
- Disclosure of performance of recommended asset management products by IC and FM firms to prospective clients

SECTION 2

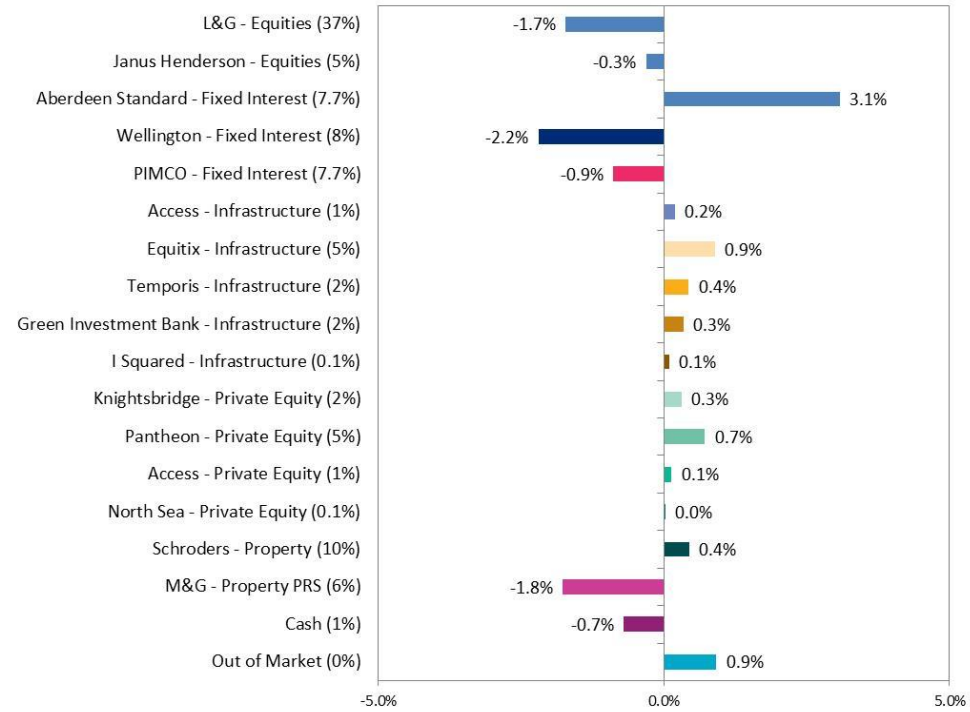
FUND MONITORING

FUND MONITORING
PORTFOLIO MAKE-UP

MANAGER ALLOCATION
Total Invested Assets Value £1,183.6m



MANAGER WEIGHTING RELATIVE TO BENCHMARK



Source: Investment Managers and Mercer.
Figures may not sum to 100% due to rounding.
Valuations for I Squared infrastructure debt is provisional.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Asset Allocation

Manager	Fund	Start of Quarter (£m)	Cashflows (£m) [a]	End of Quarter (£m)	Start of Quarter (%)	End of Quarter (%)	Start of Quarter Benchmark (%)	End of Quarter Benchmark (%)
LGIM	Developed World (ex-Tobacco) Equity	633.6	-155.7	417.5	52.1	35.3	42.0	37.0
Janus Henderson	Emerging Markets Equity	-	55.0	55.5	-	4.7	-	5.0
Total Equity		**633.6**	**-100.7**	**473.0**	**52.1**	**40.0**	**42.0**	**42.0**
Aberdeen Standard	UK Corporate Bonds	62.5	-	62.5	5.1	5.3	7.7	-
Wellington	Sterling Bonds	63.2	-	64.7	5.2	5.5	7.7	7.7
Aberdeen Standard	Absolute Returns Bonds	65.0	-	64.7	5.4	5.5	7.7	7.7
PIMCO	Global Bonds	-	80.0	80.3	-	6.8	-	7.7
Total Fixed Income		**190.7**	**80.0**	**272.2**	**15.7**	**23.0**	**23.0**	**23.0**
Access [b]	Infrastructure	10.6	2.9	13.6	0.9	1.2	10.0	10.0
Equitix	Infrastructure	62.0	1.4	64.5	5.1	5.4		
Temporis [b]	Infrastructure	30.2	1.0	31.3	2.5	2.6		
GIB [b]	Infrastructure	25.6	-0.7	25.1	2.1	2.1		
I Squared [b]	Infrastructure	1.8	5.2	7.1	0.1	0.6		
Knightsbridge [b]	Private Equity	27.5	-0.2	27.9	2.3	2.4	8.0	8.0
Pantheon [b]	Private Equity	65.9	-1.4	65.8	5.4	5.6		
Access [b]	Private Equity	12.8	-0.3	12.6	1.1	1.1		
North Sea Capital [b]	Private Equity	2.4	-	2.5	0.2	0.2		
Total Alternatives		**238.8**	**7.9**	**250.3**	**19.6**	**21.2**	**18.0**	**18.0**
Schroders	Property	122.4	-	123.6	10.1	10.4	10.0	10.0
M&G	Residential Property	26.6	23.5	50.1	2.2	4.2	6.0	6.0
Total Property		**149.1**	**23.5**	**173.6**	**12.3**	**14.7**	**16.0**	**16.0**
Cash		3.5	-	3.5	0.3	0.3	1.0	1.0
Out of Market		-	10.9	10.9	-	0.9	-	-
Total		**1,215.8**	**21.5**	**1,183.6**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment Manager, Mercer estimates and Thomson Reuters Datastream.
Total Scheme valuation excludes cash.
(a) Represents net contributions and distributions over the quarter for the infrastructure and private equity funds.
(b) Figures shown are estimates.

FUND MONITORING

FUND PERFORMANCE- NET OF FEES

Net of Fees Performance

Manager	Fund	Last Quarter		Last Year		Last 3 Years		Last 5 Years	
		Fund (%)	Benchmark (%)	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)	Fund (% p.a.)	Benchmark (% p.a.)
LGIM	Developed World (ex-Tobacco) Equity	-11.1	-11.2	-2.7	-2.6	-	-	-	-
Janus Henderson [(a)]	Emerging Markets Equity	1.4	3.8	-	-	-	-	-	-
Total Equity		**-10.5**	**-9.8**	**-**	**-**	**-**	**-**	**-**	**-**
Aberdeen Standard	UK Corporate Bonds	0.2	0.1	-1.8	-1.5	4.7	4.3	5.6	5.1
Wellington	Sterling Bonds	2.4	1.4	1.4	-0.1	4.6	4.3	5.6	5.4
Aberdeen Standard	Absolute Returns Bonds	-0.5	0.2	-1.7	0.6	-0.4	0.5	0.5	0.5
PIMCO [(a)]	Global Bonds	0.4	1.0	-	-	-	-	-	-
Total Fixed Income		**0.7**	**0.6**	**-**	**-**	**-**	**-**	**-**	**-**
Access	Infrastructure	0.9	1.7	0.7	7.1	-	-	-	-
Equitix	Infrastructure	1.7	1.7	10.4	7.1	10.8	7.2	12.3	6.5
Temporis	Infrastructure	0.0	1.7	13.5	7.1	-	-	-	-
GPB	Infrastructure	1.0	1.7	8.9	7.1	-	-	-	-
I Squared	Infrastructure	1.8	1.7	8.1	7.1	-	-	-	-
Knightsbridge	Private Equity	2.4	1.7	27.6	7.1	15.2	7.2	17.3	6.5
Pantheon	Private Equity	2.1	1.7	14.8	7.1	20.2	7.2	17.1	6.5
Access	Private Equity	0.7	1.7	19.6	7.1	-	-	-	-
North Sea Capital	Private Equity	0.8	1.7	8.7	7.1	-	-	-	-
Total Alternatives		**1.5**	**1.7**	**-**	**-**	**-**	**-**	**-**	**-**
Schroders	Property	0.9	0.9	7.2	6.5	6.9	6.4	10.2	9.7
M&G	Residential Property	0.9	1.5	4.1	6.0	6.8	6.0	9.4	6.0
Total Property		**0.9**	**1.1**	**-**	**-**	**-**	**-**	**-**	**-**
Cash [(b)]		0.4	0.2	1.5	0.6	1.5	0.5	1.5	0.5
Total	**-**	**-4.5**	**-3.6**	**1.8**	**-**	**10.2**	**-**	**-**	**-**
CPI +4%	**-**	**-**	**1.5**	**-**	**6.1**	**-**	**6.2**	**-**	**5.5**

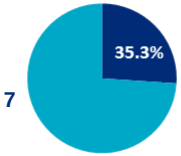
Source: Investment Managers, Mercer estimates and Thomson Reuters Datastream.
Historical total benchmark figures unavailable prior to Q2 2018.
Infrastructure and private equity funds are shown against CPI + 5% p.a. benchmark. Infrastructure and private equity figures shown are calculated by Mercer using a Modified Dietz approach over each period and are based on data provided by the respective managers in their original currency converted to GBP (where required) by Mercer using exchanged rates sourced from Thomson Reuters Datastream. (See Appendix E)
[(a)] Performance shown since inception. Inception taken as 26 October 2018 for Janus Henderson and 30 November 2018 for PIMCO.
[(b)] Long term figures are indicative, rather than actual.

SECTION 3

MANAGER MONITORING

LGIM
DEVELOPED WORLD (EX-TOBACCO)

INCEPTION: 01-NOV-17
VALUE: £417.5M



Item Monitored	Outcome
Mandate	Global equities benchmarked measured against FTSE Developed World (ex-Tobacco) Index.
Performance Objective *To match the benchmark.* [(a)]	Too early to determine.

Performance Commentary

On a net of fees basis, the fund performed broadly in line with the benchmark over the quarter and one year period to 31 December 2018.

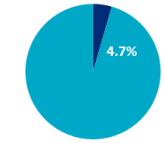
(a) *Performance objective is measured over 3 years.*

Net of Fees Performance

Asset Class	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)
Developed World (ex-Tobacco)	-11.1	-2.7	-
Benchmark	*-11.2*	-2.6	-

JANUS HENDERSON
EMERGING MARKETS EQUITY

INCEPTION: 26-OCT-18
VALUE: £55.5M



Item Monitored	Outcome
Mandate	Emerging Markets Equity measured against the MSCI Emerging Markets (NDR) Index.
Performance Objective *Benchmark + 3% p.a.*	Too early to determine.

Performance Commentary

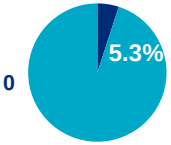
- On a net of fees basis, the fund underperformed the benchmark by 2.4% over the period since inception to 31 December 2018.

Net of Fees Performance

Asset Class	Since inception (%)
Emerging Markets Equity	1.4
Benchmark	*3.8*

ABERDEEN STANDARD
UK CORPORATES BONDS

INCEPTION: 03-FEB-10
VALUE: £62.5M



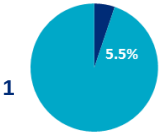
Item Monitored	Outcome	
Mandate	UK Corporate Bonds benchmarked measured against Markit iBoxx Sterling Non-Gilts Index.	
Performance Objective *Benchmark + 0.8% p.a.*	●	Outperformed by 0.7% p.a. over the three year period to 31 December 2018 (gross of fees).

Performance Commentary

- The fund marginally outperformed the benchmark over the quarter to 31 December 2018 on a net of fees basis.
- The fund underperformed the benchmark over the one year period by 0.3% and outperformed the benchmark by 0.4% p.a. over the three year period to 31 December 2018, on a net of fees basis.
- The fund has outperformed the median manager in Mercer's peer group universe over the quarter and one year periods by 0.3% and 0.4% respectively. The fund has underperformed the median over the three year and five year periods to 31 December 2018 by 0.3% p.a. and 0.2% p.a. respectively (based on representative account data, which may differ from Croydon's Fund-specific returns).

ABERDEEN STANDARD
ABSOLUTE RETURN BONDS

INCEPTION: 10-NOV-11
VALUE: £64.7M



Item Monitored	Outcome	
Mandate	Absolute Return Bonds measured against 3 Month Sterling LIBOR.	
Performance Objective *Benchmark + 2.5% p.a.*	●	Underperformed by 0.4% p.a. over the three year period to 31 December 2018 (gross of fees).

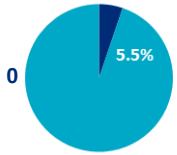
Performance Commentary

The strategy underperformed the benchmark by 0.7% over the quarter to 31 December 2018, on a net of fees basis.

- The strategy underperformed the benchmark by 2.3% and 0.9% p.a. over the one year and three year periods but performed in line with the benchmark over the five year period to 31 December 2018.
- The strategy has performed broadly in line with the median manager in Mercer's peer group universe over the quarter but has underperformed over the one, three and five year periods by 1.0%, 1.3% p.a. and 0.5% p.a. respectively (based on representative account data, which may differ from Croydon's Fund-specific returns).

WELLINGTON
STERLING BONDS

INCEPTION: 27-JAN-10
VALUE: £64.7M



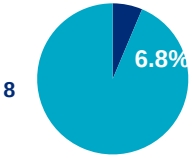
Item Monitored	Outcome	
Mandate	Wellington have a mandate to outperform the BofAML Sterling Broad Market Index by 1% - 1.5% p.a. (gross of fees).	
Performance Objective *Benchmark + 1-1.5% p.a.*	●	Outperformed by 2.0% over the one year period to 31 December 2018 (gross of fees).

Performance Commentary

- The fund outperformed the benchmark by 1.0% over the quarter to 31 December 2018 (net of fees).
- The fund has outperformed the benchmark by 1.5% over the one year period and outperformed the benchmark over the three and five year periods by 0.3% p.a. and 0.2% p.a. respectively (net of fees).
- The fund has outperformed the median manager in Mercer's peer group universe over the quarter, one, three and five year periods by 1.7%, 2.7% p.a., 0.3% p.a. and 0.4% p.a., respectively.

PIMCO
GLOBAL BONDS

INCEPTION: 30-NOV-18
VALUE: £80.3M



Item Monitored	Outcome
Mandate	Global Bonds measured against the Barclays Aggregate Credit Index Hedged (GBP) Index
Performance Objective *Benchmark +1- 1.5% p.a.*	Too early to determine.

Performance Commentary

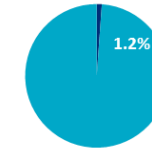
- On a net of fees basis, the fund underperformed the benchmark by 0.6% over the period since inception to 31 December 2018.

Net of Fees Performance

Asset Class	Since inception (%)
Global Bonds	0.4
Benchmark	*1.0*

ACCESS INFRASTRUCTURE

INCEPTION: 18-SEP-17
VALUE: £13.6M



Quarterly Cashflow Commentary

- Over the quarter, c. €3.4m was drawn down and c. €0.2m was distributed.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	€30.0m	-
Drawn down	€15.0m	50.1%
Distributed	€0.3m	2.1% (of drawn down capital)

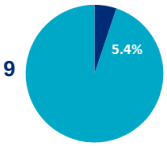
Performance Commentary

- The estimated net return from inception (18 September 2017) to 31 December 2018 is 3.9% p.a.

Figure shown is calculated by Mercer using a IRR approach over the period since inception and is based on data provided by manager in its original currency converted to GBP by Mercer using exchange rates sourced from Thomson Reuters Datastream. (See Appendix E)

EQUITIX INFRASTRUCTURE

INCEPTION: 16-JUL-09
VALUE: £64.5M



Quarterly Cashflow Commentary

- Over the quarter, c. £1.4m was drawn down.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	£49.0m	-
Drawn down	£44.4m	90.5%
Distributed	£12.0m	27.0% (of drawn down capital)

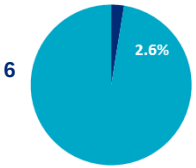
Performance Commentary

- The net return from inception (16 July 2009) to 31 December 2018 is 14.0% p.a.

Figure shown is calculated by Mercer using a IRR approach over the period since inception and is based on data provided by manager in its original currency converted to GBP by Mercer using exchange rates sourced from Thomson Reuters Datastream. (See Appendix E)

TEMPORIS INFRASTRUCTURE

INCEPTION: 23-FEB-16
VALUE: £31.3M



Quarterly Cashflow Commentary

- Over the quarter, c. £2.0m was drawn down and c. £0.9m was distributed

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	£30.0m	-
Drawn down	£29.8m	99.3%
Distributed	£0.9m	3.1% (of drawn down capital)

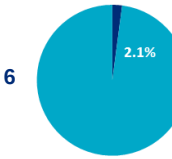
Performance Commentary

- The estimated net return from inception (23 February 2016) to 31 December 2018 was 5.8% p.a.

Figure shown is calculated by Mercer using a IRR approach over the period since inception and is based on data provided by manager (See Appendix E)

GREEN INVESTMENT BANK
INFRASTRUCTURE

INCEPTION: 15-DEC-16
VALUE: £25.1M



Quarterly Cashflow Commentary

- Over the quarter c. £0.7m was distributed.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	£25.0m	-
Drawn down	£24.9m	99.5%
Distributed	£5.8m	23.4% (of drawn down capital)

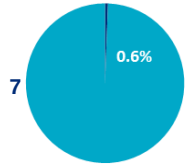
Performance Commentary

- The net return from inception (15 December 2016) to 31 December 2018 was 8.9% p.a.

Figure shown is calculated by Mercer using a IRR approach over the period since inception and is based on data provided by manager (See Appendix E)

I-SQUARED INFRASTRUCTURE

INCEPTION: 24-JUL-17
VALUE: £7.1M



Quarterly Cashflow Commentary

- Over the quarter c. €6.7m was drawn down.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	€35.0m	-
Drawn down	€9.0m	25.8%
Distributed	€0.0m	0.0% (of drawn down capital)

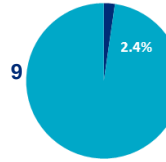
Performance Commentary

- The estimated net return from inception (24 July 2017) to 31 December 2018 was 7.9 p.a.

Figure shown is calculated by Mercer using a Modified Dietz approach over the period since inception and is based on data provided by manager (See Appendix E)

KNIGHTSBRIDGE PRIVATE EQUITY

INCEPTION: 25-SEP-09
VALUE: £27.9M



Quarterly Cashflow Commentary

- Over the quarter, c. $0.3m was distributed.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	$48.0m	-
Drawn down	$25.5m	53.2%
Distributed	$6.7m	26.1% (drawn down capital)

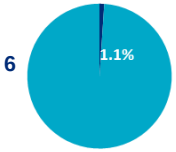
Performance Commentary

- The estimated GBP return from inception (25 September 2009) to 31 December 2018 was 13.2% p.a.

Figures shown is calculated by Mercer using a Modified Dietz approach over the period since inception and is based on data provided by manager in its original currency converted to GBP by Mercer using exchanged rates sourced from Thomson Reuters Datastream. (See Appendix E)

ACCESS
PRIVATE EQUITY

INCEPTION: 31-MAR-16
VALUE: £12.6M



Quarterly Cashflow Commentary

- Over the quarter, there was a return of call of c. €0.1m and a distribution of c. €0.3m.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	€20.0m	-
Drawn down	€12.1m	60.5%
Distributed	€1.9m	16.1% (of drawn down capital)

Performance Commentary

- The estimated GBP return from inception (31 March 2016) to 31 December 2018 was 15.9% p.a.

Figure shown is calculated by Mercer using a Modified Dietz approach over the period since inception and is based on data provided by manager in its original currency converted to GBP by Mercer using exchanged rates sourced from Thomson Reuters Datastream (See Appendix E)

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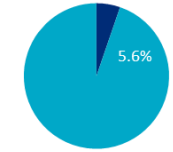
PANTHEON
PRIVATE EQUITY

VALUE: £65.8M



Quarterly Cashflow Commentary

- Over the quarter, c. €0.5m was distributed from the Euro denominated portfolios.
- Over the quarter, c. $1.0m was drawn down and c. $2.2m was distributed from the USD denominated portfolios.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	€29.3m $101.3m	-
Drawn down	€25.5m $78.7m	87.1% for EUR 77.6% for USD
Distributed	€26.6m $53.4m	104.2% for EUR (of drawn down capital) 67.9% for USD (of drawn down capital)

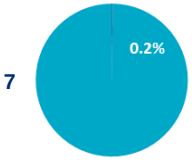
Performance Commentary

- The estimated GBP return over the last three years is 20.2% p.a.

Figure shown is calculated by Mercer using a Modified Dietz approach over the three year period and is based on data provided by manager in its original currency converted to GBP by Mercer using exchanged rates sourced from Thomson Reuters Datastream .Since inception performance is unavailable at the time of writing (See Appendix E) .

NORTH SEA
PRIVATE EQUITY

INCEPTION: 2-MAR-17
VALUE: £2.7M



Quarterly Cashflow Commentary

- Over the quarter, there were no distributions or drawdowns.

Item Monitored	Value (to 31 December 2018)	Percentage
Committed	€20.0m	-
Drawn down	€2.6m	13.0%
Distributed	-	0.0% (of drawn down capital)

Performance Commentary

- The estimated GBP return from inception (2 March 2017) to 31 December 2018 was -1.6% p.a.

Figure shown is calculated by Mercer using a Modified Dietz approach over the period since inception and is based on data provided by manager in its original currency converted to GBP by Mercer using exchanged rates sourced from Thomson Reuters Datastream (See Appendix E)

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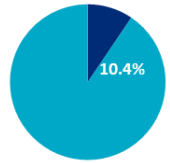
SCHRODERS PROPERTY

INCEPTION: 29-DEC-11
VALUE: £123.6M



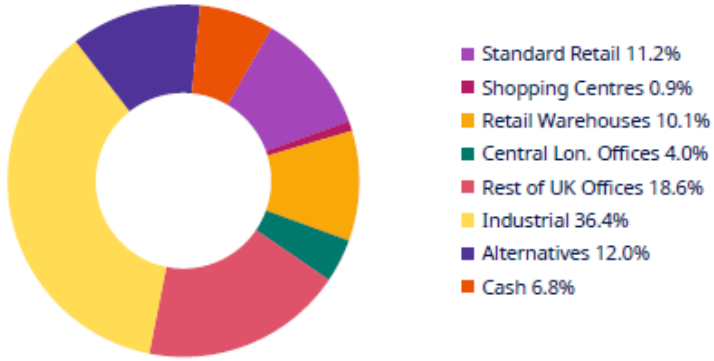
Item Monitored	Outcome	
Mandate	Schroders have a mandate to outperform the IPD All Balanced Property Funds Index by 0.75% p.a. (net of fees) over rolling three year periods.	
Performance Objective *Benchmark + 0.75% p.a.*	●	Outperformed by 0.5% p.a. over three year period to 31 December 2018 (net of fees).

Performance Commentary

The fund performed in line with the benchmark over the quarter to 31 December 2018 (net of fees).

- The fund has outperformed the benchmark by 0.7% over the one year period, 0.5% p.a. over the three year period and 0.5% p.a. over the five year period to 31 December 2018, on a net of fees basis.
- The fund has outperformed the median of the universe for the longer term periods shown and performed in line with the benchmark for the quarter (based on representative account data, which may differ from Croydon's Fund-specific returns).

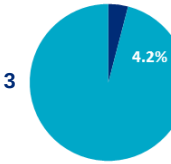
Asset Allocation



Source: Schroders, 31 December 2018

M & G
RESIDENTIAL PROPERTY

INCEPTION: 5-JUN-13
VALUE: £50.1M



Item Monitored	Outcome	
Mandate	Long term target return of 6.0% - 8.0% p.a.	
Performance Objective *6.0% p.a.*	●	Achieved a return of 6.8% p.a. over the three year period to 31 December 2018 (net of fees).

Performance Commentary

The fund achieved a return of 0.9% (net of fees) over the quarter to 31 December 2018.

- The fund has achieved a return of 4.1%, 6.8% p.a. and 9.4% p.a. over the one year, three year and five year periods to 31 December 2018, on a net of fees basis.

APPENDICES

APPENDIX A
PORTFOLIO MAKE-UP

Asset Class	Mandate/ Key Comments	Benchmark Allocation	Actual Allocation
Global Equities	Demonstrates strong Environmental, Social and Governance (ESG) credentials. Promotes good ESG practises and will assist the Fund in meeting its long term funding requirement.	42.0	40.0
Fixed Income	The Standard Life Corporate Bond fund measures performance against the Merrill Lynch non-gilt sterling all stocks index and the Standard Life Absolute Return fund measures performance against 3 month LIBOR. Performance of the Wellington bond fund is measured against the Merrill Lynch Sterling Broad Market Index.	23.0	23.0
Infrastructure	A number of infrastructure managers have been selected in order to gain cost effective, , diversified exposure to global infrastructure assets. Investments seek to generate satisfactory risk adjusted returns and provide a hedge against inflation. Some of the investments aim to be more growth seeking and some aim to be income generating.	10.0	12.0
Private Equity	Enables the Fund to benefit from increased diversification through investments in a variety of companies in different markets.	8.0	9.2
Property	Focus on investing mainly in UK commercial real estate, objective to outperform the Investment Property Databank (IPD) All Properties Index.	10.0	10.4
Residential Property	Objective to outperform the Investment Property Databank (IPD) All Properties Index.	6.0	4.2
Cash	Objective is to maintain capital and hold enough cash to meet ongoing benefit payments.	1.0	1.2

APPENDIX A
TOTAL FUND

Total Fund (%)	Manager	Asset Class	Benchmark	Outperformance		
				Target (p.a.)	Fees	Time Horizon (years)
37.0	LGIM	Developed World (ex Tobacco) Equity	FTSE Developed World (ex-Tobacco) Index	To match the benchmark	Gross	3 [(a)]
5.0	Janus Henderson	Emerging Markets Equity	MSCI Emerging Markets (NDR) Index	+3%	Gross	3
23.0	Aberdeen Standard	UK Corporate Bonds	Markit iBoxx Sterling Non-Gilts Index	Outperform [(b)]	Net [(b)]	3 [(b)]
	Aberdeen Standard	Absolute Return Bonds	3 Month Sterling LIBOR	+2.5%	Gross	3
	Wellington	Sterling Bonds	ICE BofAML Sterling Broad Market Index	1-1.5%	Gross	1
	PIMCO	Global Bonds	Barclays Aggregate Credit Index Hedged (GBP) Index	1-1.5%	Gross	3
10.0	Access	Infrastructure	UK Consumer Price Index	5%	Net	1
	Temporis	Infrastructure	UK Consumer Price Index	5%	Net	1
	Equitix	Infrastructure	UK Consumer Price Index	5%	Net	1
	Green Investment Bank	Infrastructure	UK Consumer Price Index	5%	Net	1
	I Squared	Infrastructure	UK Consumer Price Index	5%	Net	1
8.0	Knightsbridge	Private Equity	UK Consumer Price Index	5%	Net	1
	Pantheon	Private Equity	UK Consumer Price Index	5%	Net	1
	Access	Private Equity	UK Consumer Price Index	5%	Net	1
	North Sea	Private Equity	UK Consumer Price Index	5%	Net	1
10.0	Schroders	Property	IPD All Balanced Property Funds Index	Outperform [(b)]	Net [(b)]	3 [(b)]
6.0	M&G	Residential Property	Fixed	6-8%	Net	1
1.0	n/a	Cash	-	-	-	-

(a) For passive mandates, LGIM aims to track the benchmark to within the tolerance range shown two years out of three.
(b) To be confirmed as manager data is still outstanding.

APPENDIX C
INVESTMENT MANAGER FEES

Fee Schedule		
Manager	**Asset Class**	**Fee**
LGIM	Developed World (ex-Tobacco) Equity	0.06% p.a.
Janus Henderson	Emerging Markets Equity	tbc
Aberdeen Standard	UK Corporates Bonds	0.23% p.a.
Aberdeen Standard	Absolute Return Bonds	0.45% p.a. [(a)]
Wellington	Sterling Bonds	0.30% p.a.
PIMCO	Global Bonds	tbc
Multiple	Infrastructure	tbc[(b)]
Multiple	Private Equity	tbc[(b)]
Schroders	Property	0.25% p.a.
M&G	Property PRS	0.90% p.a.

(a) Fee rebate of 0.05% applies on assets over £50m.

(b) Manager data still outstanding.

APPENDIX D
MONITORING CRITERIA – GUIDE TO COLOUR CODES

Introduction

This is a guide to the “traffic light” colour codes shown in our performance reports for non Mercer Fiduciary investment managers. It describes what the colours are intended to illustrate for the various monitoring criteria included in our reports.

Please note where it is not appropriate to assign a specific traffic light we mark the boxes grey.

Performance – target specified	
Colour	**Description**
	Target or above performance
	Benchmark or above performance, but below target
	Below benchmark performance

Volatility / Tracking Error	
Colour	**Description**
	Within tracking error target range (or within ±1.0% if target is a single figure)
	Within 1% of target range (or within ±1.0 – 2.0% if target is a single figure)
	1% or more outside of the target range (or > ±2.0% if target is a single figure)

Performance – Passive Funds	
Colour	**Description**
	Within tolerance range
	Outside tolerance range

Performance – target not specified	
Colour	**Description**
	Benchmark or above performance
	Below benchmark performance

APPENDIX E
CALCULATION METHODOLOGY – MODIFIED DIETZ

The return metric used in the report to calculate the performance for Private Equity, Infrastructure and Real Estate Debt Investments at manager level is known as the Modified Dietz approach, which is based on the Internal Rate of Return ("IRR") concept. The IRR by its nature is sensitive to early cash flow events, and the IRR calculation assumes that the residual value of a composite is totally liquid, whereas, in reality, the residual value is the unrealised (and often illiquid) portion of the composite.

However, when calculating total scheme performance (which is on a Time Weighted Rate of Return "TWRR" basis) it is important that the IRR returns shown at a manager level for Private Equity/Infrastructure/Real Estate Debt are not used to calculate Total Scheme performance. Instead, for Total Scheme calculations we a proxy for TWR is used instead, known as Modified Dietz.. The formula is a follows.

$$\frac{\textbf{Closing Value} - \textbf{Opening Value} - P_i + D_i}{\textbf{Opening Value} + \Sigma\,(Wi * P_i - Wi * Di)}$$

$$Wi = \frac{CD-d}{CD}$$

Closing value= valuation at the end of the period.
Opening value= valuation at the start of the period.
Pi = Total Contributions. This should be the sum of all your contributions.
Di = Total Distributions. This should be the sum of all your non-recallable distributions (this should include Return of Capital, Capital Gains and Income).
Wi = Time weighting factor.
CD = total number of calendar days in the period.
d = the number of the days from the start of the return period until the date on which the cashflow occurs. *Note: (in some cases people may use d+1 however our approach is to use just d).*

The "Modified Dietz" method focuses on all external cashflows in and out of the fund. For example, within private equity investments:

- Cashflows in will be the capital calls (can also be referenced as drawdowns).
- Cashflows out are distributions.

The distributions provided by the manager are combined. Each contribution and distribution is weighted by a factor according to the date when they occurred and included in the denominator. Within the numerator, the contribution and distributions are not weighted.

MERCER

MAKE TOMORROW, TODAY

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Croydon Council

REPORT TO:	**Pension Committee** **12 March 2019**
SUBJECT:	**Review of the Risk Register**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	

1. RECOMMENDATIONS

1.1 The Committee is asked to note the contents of the Pension Fund's Risk Register and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee to maintain a risk register. This report presents the current risk register for the Committee's consideration.

3 DETAIL

3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording all relevant risk scenarios, together with an assessment of their likelihood and impact and the appropriate mitigations. This report provides the Committee with a report covering risks relating to governance, funding, assets and liabilities, and operational risks.

3.2 The Committee is invited to comment upon whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and to comment on the adequacy of future and existing controls.

3.3 The risk register will be reviewed periodically and brought back to the Committee

for its consideration twice each annual cycle of meetings – the register was most recently reviewed in June 2018. Members will be familiar with the corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously the Committee has not had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.

3.4 The previously reported risk relating to the Markets in Financial Instruments Directive (MiFID II) exercise has been resolved and thus taken off this register. The risks relating to the London CIV are better understood and thus less likely. Specific risks relating to the Pension Fund investment portfolio are addressed within the Progress Report elsewhere on the Committee's agenda.

3.5 The register shows that there are 10 significant risks for the Scheme (i.e. scored 12 or higher). The register is appended to this report – it shows only those risks that are scored 12 or higher in the current year; risks are rated on a scale of 1 to 5 on likelihood and impact giving a range of potential scores between 1 and 25. Where a risk has been down-graded to below 12 it will be taken off this report. Similarly, new risks that are scored lower than the threshold noted above, do not feature on the register.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within the report and to the extent that the risk register itself presents matters which raise legal issues, specific advice will need to be sought from the Council's legal team.as and when such matters arise.

(Approved by Sandra Herbert, Head of Litigation and Corporate law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

PEN 120319

BACKGROUND DOCUMENTS:

Appendices

Appendix A: Risk Register (excerpt)

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	Risk	Assigned to	Existing Controls	Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
	Governance Risks									
2	If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to the Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.	3	3	9
	Funding - Assets and Liabilities									
4	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years. Although this needs to be done efficiently and in a cost effective manner.	4	2	8
5	Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liablities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall. Investments have been identified that are dividend yielding.	3	2	6
6	There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. The most significant case, in terms of contributions due, is currently being considered by the Pensions Ombudsman.	3	5	15	This is likely to be an issue requiring attention for some time.	3	5	15
7	Under the S.13 reporting regime, the Government Actuary Department, (GAD), form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, this fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the fund.	Head of Pensions and Treasury	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years.	4	3	12	The authority will revisit the funding position at the next triennial valuation and can adjust contribution levels.	4	2	8
	Investment Risks									

	Investment Risks								
8	There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.	Pension Fund Investment Manager	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse porfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.	4	3	12	A new asset allocation will be agreed in 2019.	3	2	6
10	The London CIV does not have a transition team. Moreover it does not appear to have permission from the FCA to perform standard transition activities. This leaves investors exposed to significant risks when transferring assets into, from or within the CIV.	Head of Pensions and Treasury	Croydon Council retain the services of an external consultant to assess the efficacy of transitions. This is a backward looking review and the Council does not have visibility of the process when the transition is happening or when the Fund is out of the market.	4	3	12	In the future the CIV should build a proper transition team.	3	2	6
11	Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.	Pension Fund Investment Manager	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.	4	3	12	Existing controls deemed adequate. Reviewed 31/12/2018. Next review 31/12/19.	4	3	12
12	There is a risk that a 'Hard Brexit' will result in disruption to the way that fund managers can operate and this will have a deleterous impact on the Fund.	Head of Pensions and Treasury.	The government has rolled out a temporary permissions regime and EU27 governments are intoducing mirror regimes. So far Holland, France, Italy, Germany, Finland and Luxembourg have intoduced regulations to allow existing arrangements to continue. However, a long-term solution to passporting has not been agreed.	3	4	12	There will be unresolved problems for a number of years due to the scale and complexity of this issue.	3	3	9
13	There are a number of current specific geopolitical risks. The administration of US President Trump can be considered an unknown factor in so far as its impact on the US economy. To date this has been largely benign and the US markets have reacted positively. Other ongoing concerns include the impact of Brexit, the Euro crisis, the growth of the Chinese economy and the impact of populist movements.	Pension Fund Investment Manager	Equities have performed well to the extent that the Fund is currently over-weight in the asset class. This is being addressed by moving cash into alternate asset classes. Currency hedging is an option to address potential volatility as is some form of synthetic hedging.	4	3	12	By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.	3	2	6

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Croydon Council

REPORT TO:	**Pension Committee** **12 March 2019**
SUBJECT:	**Key Performance Indicators for the Local Government Pension Scheme**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Pension Committee is responsible for the effective administration of the Local Government Pension Scheme. These Key Performance indicators provide a measure of how well that administration works.

FINANCIAL SUMMARY:

Poor administration may ultimately lead to incorrect calculation or payment of benefits or indeed financial penalties.

1. RECOMMENDATIONS

1.1 The Committee is asked to note the Key Performance Indicators set out in this report.

2. EXECUTIVE SUMMARY

2.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme for the period April 2017 to January 2019.

3 DETAIL

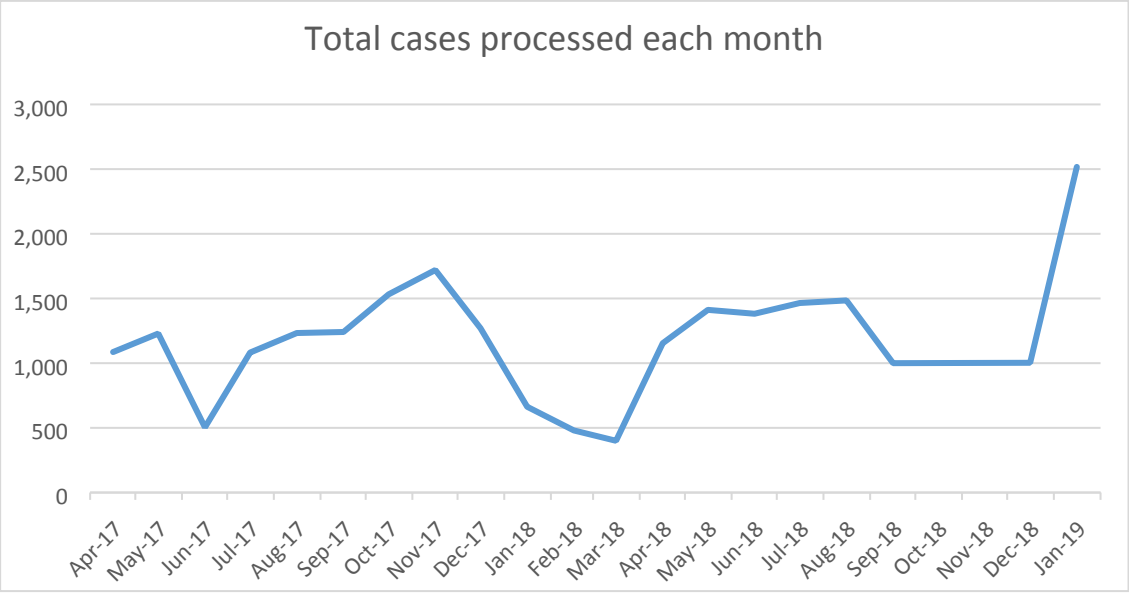
3.1 Good governance suggests that the performance of the administration of the Local Government Pension Scheme should be monitored. The standards by which performance can be assessed are set out in the Administration Strategy and published on the Scheme's website so as to be available for scrutiny by stakeholders, who include elected Members and other Scheme employers.

3.2 As previously reported to this Committee (March 2018), the caseload of the Local Government Pension Scheme administration team has been divided into backlog cases, those dating back to the period when the service was provided by an

external provider, and business as usual cases (BAU). Backlog cases are processed as and when resources become available and generally relate to deferred members. There are no death or retirement cases in this group of cases.

3.3 The following graph illustrates the total number of cases processed by the administration team, month by month.

Figure 1: Total Cases Processed by Month



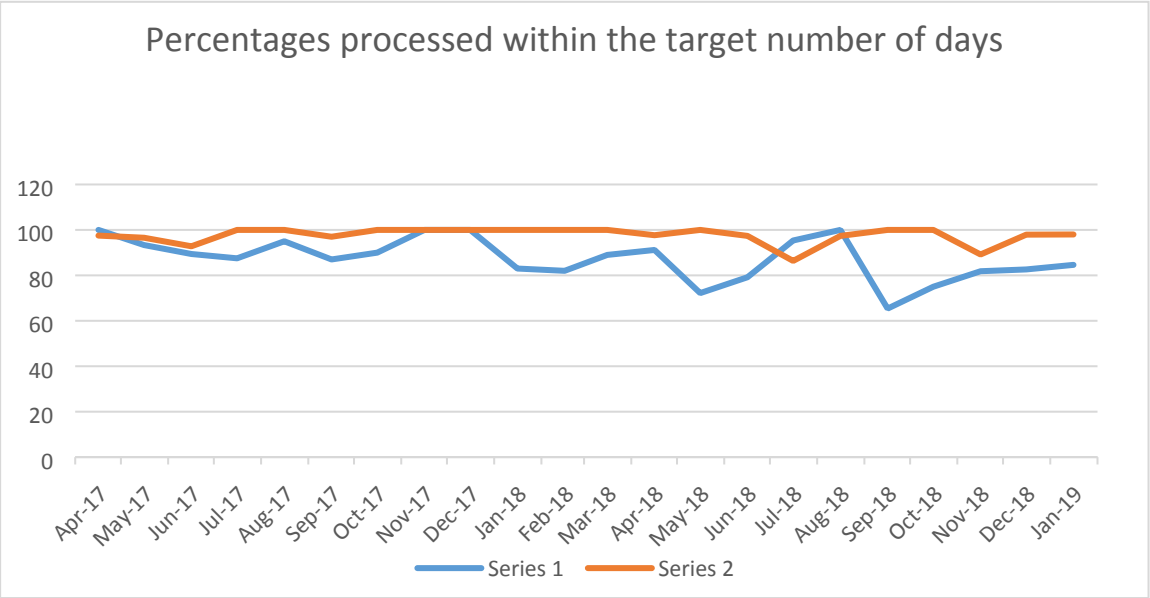
Note: the significant up-tick in cases processed in January reflects the additional resources allocated and over-time hours worked.

3.4 Members will be aware of the government's campaign to encourage take up of pensions. The auto-enrolment exercise was first undertaken in January 2013, then 2016. The Council's staging date is 1 January and some of the activity illustrated above relates to the work bringing eligible staff into the Scheme. The relevant figures are as follows:

Assessed as Eligible Jobholders	293
Re-enrolled	253
Opted out prior to January Payroll	34
Excluded as working notice period	4
Opted to Join Scheme	2

3.4 The tables illustrating the administration team's performance against the KPIs for priority cases: deaths and retirements are included at Figure 2 below. Additional data that show this indicator as well as the total number of cases processed by the team are included as an appendix to this report (Appendix A). The volume of cases processed each month remains high, averaging 1,176 each month.

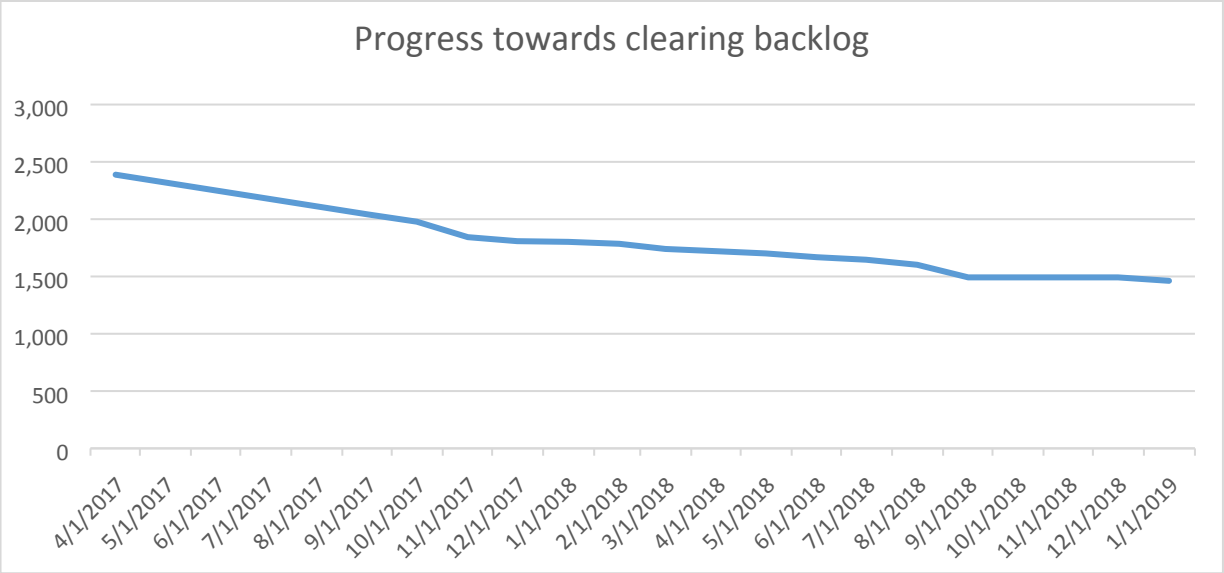
Figure 2: Deaths and Retirements: Percentages processed within the target number of days.



3.5 As can be seen from the figure above, death and retirement cases are overwhelmingly being processed with the target period of 5 and 10 days respectively;

3.6 Appendix B reports the position with regards to the project to address the backlog cases. The top-line figures are illustrated in this graph.

Figure 3: Progress towards clearing backlog cases



3.7 Together these figures show that there continues to be high volumes of work but the revised processes described in this report are helping the team to keep on top

of the workload.

3.8 The pensions team also carries out a number of “employer” functions mainly around ensuring the pay used for calculating benefits is correct. There are historic data issues which means that the time taken in dealing with some cases may be longer than would be considered ideal.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments that no additional legal considerations arise from this report.

(Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Business as Usual Cases (April 2017 to January 2019)

Appendix B: Backlog Cases

Appendix A: Business as Usual Cases (April 2017 to January 2019)

Case type	Month 2017	KPI (number of days to process)	Total cases processed	Average days taken to completed case	% with target	Total cases processed*
Deaths	April 2017	5	20	4	100	
Retirements	April 2017	10	39	5	97.5	
Total cases processed	April 2017					1,086
Deaths	May 2017	5	15	8	93.33	
Retirements	May 2017	10	29	7	96.55	
Total cases processed	May 2017					1,229
Deaths	June 2017	5	19	7	89.4	
Retirement	June 2017	10	28	5	92.8	
Total cases processed	June 2017					504
Deaths	July 2017	5	15	4	87.5	
Retirement	July 2017	10	32	3	100	
Total cases processed	July 2017					1,082
Deaths	August 2017	5	22	3	95	
Retirements	August 2017	10	25	4	100	
Total Cases	August 2017					1,233
Deaths	Sept 2017	5	30	4	87	
Retirements	Sept 2017	10	34	6	97	
Total Cases	Sept 2017					1,241
Deaths	October 2017	5	20	3	90	

Retirements	October 2017	10	39	4	100	
Total Cases*	October 2017					1,532
Deaths	Nov 2017	5	15	3	100	
Retirements	Nov 2017	10	39	4	100	
Total Cases*	Nov 2017					1,720
Deaths	Dec 2017	5	23	3	100	
Retirements	Dec 2017	10	26	5	100	
Total Cases*	Dec 2017					1,270
Deaths	January 2018	5	29	4	83	
Retirements	January 2018	10	37	37	100	
Total Cases*	January 2018					663
Deaths	Feb 2018	5	17	4	82	
Retirements	Feb 2018	10	19	5	100	
Total Cases*	Feb 2018					480
Deaths	March 2018	5	20	4	89	
Retirements	March 2018	10	30	5	100	
Total Cases*	March 2018					400
Deaths	April 2018	5	34	3	91.18	
Retirements	April 2018	10	43	3	97.67	
Total Cases*	April 2018					1,154
Deaths	May 2018	5	18	4	72.2	
Retirements	May 2018	10	17	3	100	

Total Cases*	May 2018					1,412
Deaths	June 2018	5	24	3	79.17	
Retirements	June 2018	10	38	4	97.37	
Total Cases*	June 2018					1,382
Deaths	July 2018	5	22	4	95.35	
Retirements	July 2018	10	43	5	86.36	
Total Cases*	July 2018					1,465
Deaths	August 2018	5	16	3	100	
Retirements	August 2018	10	38	6	100	
Total Cases Processed	August 2018					1,485
Deaths	Sept 2018	5	26		65.38	
Retirements	Sept 2018	10	49		100	
Total Cases Processed	Sept 2018					n/a
Deaths	October 2018	5	28		75	
Retirements	October 2018	10	55		100	
Total Cases Processed	October 2018					n/a
Deaths	Nov 2018	5	22		81.82	
Retirements	Nov 2018	10	37		89.19	
Total Cases Processed	Nov 2018					n/a
Deaths	Dec 2018	5	23		82.61	
Retirements	Dec 2018	10	48		97.92	
Total Cases Processed	Dec 2018					n/a

Deaths	Jan 2019	5	11		84.62	
Retirements	Jan 2019	10	48		98.00	
Total Cases Processed	Jan 2019					2,517

Appendix B: Backlog Cases

	Deferreds	Transfers	Combined	Misc	Total
April 2017	1,381	462	271	274	2,388
May 2017	1,356	431	271	261	2,319
June 2017	1,333	392	271	185	2,181
July 2017	1,325	385	268	181	2,159
August 2017	1,302	358	264	163	2,087
September 2017	1,287	352	259	144	2,042
October 2017	1,258	318	258	134	1,978
November 2017	1,251	301	255	36*	1,843
December 2017	1,240	281	252	35	1,808
January 2018	1,237	280	252	33	1,802
February 2018	1,225	277	250	33	1,785
March 2018	1,211	256	248	25	1,740
April 2018					
May 2018	1,195	232	247	27	1,701
June 2018	1,180	219	247	22	1,668
July 2108	1,172	210	243	21	1,646
August 2018	1,136	204	241	21	1,602
Period September to December 2018	1,065	118	241	68*	1,492
January 2019	1,055	118	268	21	1,462

Note: '*Deferreds'* relate to cases where the member of staff had in the past belonged to the LGPS but now did not and was not in receipt of a pension. '*Transfers'* relate to scheme members transferring between administrating authorities usually as part of a recruitment process.

Readers will note that as these cases are addressed some are re-categorised.

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Croydon Council

REPORT TO:	**Pension Committee** **12 March 2019**
SUBJECT:	**Forward Plan**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Ensuring that the pension fund is being given appropriate guidance and direction through the governance of the Pension Committee.

FINANCIAL SUMMARY:

There are no direct financial consequences to this report. However the implications of decisions taken by this Committee can be significant for the Revenue Account of the Council.

1. RECOMMENDATIONS

1.1 That the Committee note the business plan for the coming year.

1.2 That the Committee agree that the key policy documents listed in paragraph 3.4 be periodically reviewed by the Pensions Board and that the Board report to the Committee with any suggested amendments for this Committee to consider.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee (the Committee) to regularly review the forward plan. This report proposes a revised 2019/2020 forward plan which forms a business plan for the Committee. This report also considers the workload of the Pensions Board.

3 DETAIL

3.1 The forward plan below sets out an agenda for each quarterly meeting to be held in 2019/2020; however, further items may be added as required by senior officers in consultation with the Chair. As previously noted by the Committee in December 2018, there may be a need to add items in response to changing circumstances,

such as any issues thrown up by the government's decision to require funds to pool assets, changes to the investment regulations or if there are further global market events requiring actions from the Committee.

3.2 The Committee has committed to a programme of training and in part, this can be delivered by sessions following on from or preceding the business part of the meeting. The content of training will be informed by the direction of future legislation; and the choice of investment vehicles. A separate report, also on this agenda, sets out a draft training programme.

3.3 The Local Pensions Board supports the Scheme Administrator (the Executive Director of Resources) and hence the Pensions Committee by considering a number of issues. At the 10 January meeting of the Board it was confirmed that this would include:

- Review of strategy and policy documents such as the Funding Strategy Statement and Investment Strategy Statement;
- Key Performance Indicators;
- Engagement with stakeholders;
- ESG (Ethical, Social and Governance) and voting matters;
- Assessment of the performance of professional advisors;
- Consideration of Myners principles; and
- Matters relating to fees.

3.4 At that same Board meeting it was agreed, subject to the Committee being comfortable, that the Board could review the following key policy documents, alerting the Committee to any matters that require their closer attention. These policies include, but are not limited to:

- Cessation Policy;
- Communications Policy;
- Policy for Employers leaving the Fund;
- Internal Disputes Resolution Policy;
- Breaches of the Law Policy;
- Administration Strategy; and
- Conflicts of Interest Policy (for the Pensions Board).

3.5 Matters relating to admission agreements, schools converting to academies and other scheme employers will be reported to the Committee on an ad hoc basis.

3.6 **The Pension Committee 2019 – 2020 Business Plan**

3.6.1 **2nd April 2019**

- Special meeting to consider the Asset Allocation Strategy review, led by Mercers.

3.6.2 **11th June 2019**

- Progress report quarter ending March 2019 performance
- Asset Allocation Review

- Governance annual review – presentation on findings by Aon Hewitt.
- Report back from Pensions Board

3.6.3 **17th September 2019**

- Progress report quarter ending June 2019 performance
- KPIs
- Review of Forward Plan
- Draft Annual Report
- External Auditors Report
- Local Pension Board Annual Report
- Review of Risk Register
- Investment Strategy Statement, consider revisions, including
- Review London CIV against Investment Strategy Statement (ISS) guidance (regulation (7) (2) d)
- Review of ESG investment principles for inclusion in ISS

3.6.4 **10th December 2019**

- Progress report quarter ending September 2019 performance
- Report back from Pensions Board

3.6.5 **17th March 2020**

- Progress report quarter ending December 2019 performance
- KPIs
- Report back from Pensions Board •
- Risk Register review
- Forward Plan review

3.8 This forward plan forms the business plan for the Committee. The Committee are asked to consider any changes necessary to the forward plan and subject to these, agree its adoption.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no legal implications arising from the recommendations to the report.

Approved by: .Sandra Herbert, Head of Litigation and Corporate Law, on behalf of Director of Law and Governance and Deputy Monitoring Officer

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

Croydon Council

REPORT TO:	**Pension Committee** **12 March 2019**
SUBJECT:	**Local Government Pension Scheme: Draft Statutory Guidance on Asset Pooling**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This consultation relates to the requirement to pool assets into a pan-London Collective Investment Vehicle.	
FINANCIAL SUMMARY: There are no direct financial consequences to this report. However issues around the investment of the assets of the Pension Fund will have direct financial implications for the Council.	

1. RECOMMENDATIONS

1.1 That the Committee note the summary of the consultation which is set out in the text of this report.

1.2 That the Committee's views are sought as to the response.

1.3 That the Committee delegate to the Chief Finance Officer, in consultation with the Chair of the Pension Committee and the Cabinet member for Finance and Resources the authority to respond to the Ministry for Housing, Communities and Local Government. In the terms of paragraphs 3.19 to 3.25 inclusive.

2. EXECUTIVE SUMMARY

2.1 This report summarises the MHCLG consultation on the Draft Statutory Guidance on Asset Pooling and suggests a number of issues to be addressed in the Council's response.

3 DETAIL

3.1 The Ministry of Housing, Communities and Local Government issued, on 3rd

January 2019, an informal consultation on the Draft Statutory Guidance on Asset Pooling. This consultation is open for 12 weeks and will close on 28th March 2019.

3.2 This report summarises the consultation, which is appended to this report as Appendix A. The consultation comprises 7 sections. This report discusses each section in turn. Unlike formal consultations there are no questions for consultees to respond to, hence this report will describe the key points from each section and suggest a response.

3.3 The guidance sets out the requirements on administering authorities in relation to pooling assets and replaces the section at pages 7 to 8 of Part 2 of Guidance for Preparing and Maintaining an Investment Strategy, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces Local Government Pension Scheme: Investment Reform Criteria and Guidance, issued in November 2015.

Definitions

3.4 The consultation specifies a set of definitions for use in the current and future versions of the guidance. These are common sense definitions.

Structure and scale

3.5 This section reiterates the aims of pooling, that all administering authorities must pool their assets and that pool members must appoint a pool company or companies to implement their investment strategies, stating clearly, “It is for the pool companies to decide which investment managers to use for pool vehicles”. It also states that a pool company must be a company regulated by the FCA.

3.6 It is stated that Pool governance bodies, working with the Pool Company, “should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency” and “the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period”.

Governance

3.7 The Consultation states that pool governance bodies must be established in order to “set the direction of the pool and hold the pool company to account” while pool members through their own governance arrangements will be “responsible for effective governance and for holding pool companies and other service providers to account”. In addition “Strategic asset allocation remains the responsibility of pool members”. It also states Pension Committees should take a long term view of the potential benefits of pooling, taking into account “the benefits across the pool and across the scheme as a whole…and should not seek simply to minimise costs in the short term.” It also notes that Pension Boards can have a role in governance arrangements.

3.8 It also states that part of pool governance bodies’ role is to decide the pool’s policy on which aspects of asset allocation are “strategic” and which are “tactical”, with the guidance stating that, “governance bodies should be mindful of the trade-off between greater choice and lower costs”. It is also noted that the position between what is deemed strategic and what is tactical is something that might change over

time. It is also states that, “Pool members should set out in their FSS and ISS how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review”.

Transition of Assets to the Pool

3.9 There are a number of comments on treatment of costs, including:

“Transition of listed assets should take place over a relatively short period.” and “...should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.” And “Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government’s view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.”

3.10 It is noted that “In exceptional cases, some existing investments may be retained by pool members on a temporary basis” citing assets that need to be held to maturity as an example. It also notes that “Pool members may also retain existing direct property assets where these may be more effectively managed by pool members” and “…pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts (‘life funds’) accessed by pool members for the purpose of passive equity investment, and some infrastructure investments.”

3.11 For assets held outside the pool it is stated that, “Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool.”

Making New Investments Outside The Pool

3.12 There is an expectation that new investments will be made through the pool company with 2020 being set as the target timescale and a statement that “pool members should make new investments outside the pool only in very limited circumstances.”

3.13 Exceptions (to pool members investing in their own pool) include, “A small proportion of a pool member’s assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member”, with clarity that Local assets should, “not normally exceed an aggregate 5% of the value of the pool member’s assets at the point of investment and be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.”; or “may invest ….in a pool other than their own where collaboration across pools or specialism by pools can deliver improved net of fee returns”.

Infrastructure Investment

3.14 There are a number of infrastructure related aspects noted in the document. Although supportive of the asset class, the consultation states, “There is no target for infrastructure investment for pool members or pools, but pool members are

expected to set an ambition on investment in this area." "Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size".

3.15 It is explicitly stated that Pools are expected to provide a range of options to accessing the asset class and may offer brown and greenfield exposure to the asset class. There is also comment that, "Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment". The consultation states for the purpose of annual accounts CIFPA's definition for the asset class should be used (which includes a comment that conventional property is not normally included). The consultation also makes it clear that residential property is defined as infrastructure.

Reporting

3.16 There are a number of cost and pooling related requirements, including stating that, "Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance: Preparing the Annual Report, with effect from the 2018-19 report."

3.17 The CIPFA guidance is also to be used when it comes to defining which assets are to be deemed pool assets, "'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control." Pool members should "provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets."

3.18 It is stated that the Scheme Advisory Board (SAB) will publish an annual report on the pools based on data from the pool member annual reports. It is also stated that pool companies should report in line with the SAB Code of Cost Transparency, with pool companies requiring their internal and external investment managers to do likewise. The final point on the consultation is to state that "Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG."

Croydon Response

3.19 The recommendation of this report is that a response is drafted to reflect the views of the Committee members and dispatched in the name of the Chief Finance Officer in consultation with the Committee Chair and the Cabinet member for Finance and Resources. The following section suggests areas that should be addressed by this response.

3.20 There is an underlying assumption that investments made through the Pooling Company will 'maximise the benefits of scale'; this, it is evident from the language

in the consultation, is synonymous with value for money. However, there is no evidence to support this argument, indeed it is a fundamental principal within the investment universe that no investment fund can maintain a predominant position, compared with their peer group, over any period of time. In adopting this approach the significant due diligence that backs up each investment decision – whether undertaken by investment advisors, specialized consultants, or individual authorities – is given less weight than it should. The consultation puts an onus on the authority to 'undertake regular reviews of retained assets and the rationale for keeping these outside the pool.' This should also apply for assets held by the pool. This consultation, contentiously, revisits the debate about active and passive management: this has no place in this consultation process. The same could be said for the comments around greenfield and brownfield infrastructure projects.

3.21 On the broad issue of cost control and transparency the inclusion of the assumption of use of the National LGPS Framework is welcome.

3.22 Under the proposed reporting arrangements the Pension Fund's investments with LGIM would not count as being pooled. This contradicts the previous reporting arrangements. Further, reporting in line with the Code of Transparency will be challenging as, at present, private market funds fall out of scope. For Croydon this is 25% of the portfolio.

3.23 The section on making new investments outside of the pool has particular relevance here. Following the formulation of a revised investment strategy the Pensions Committee:

- Will only be able to 'make new investments outside the pool only in very limited circumstances;
- Invest in local initiatives only up to an aggregate 5% of the value of the Pension Fund; and
- Be required to consult with the London CIV on any investments outside of the pool.

This raises certain issues around the sovereignty of local decision making bodies.

3.24 A radical departure from the line of development to date is that 'pool members may invest through pool vehicles in a pool other than their own.'

3.25 Finally, it should be noted that the consultation is silent on ESG issues.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments that no additional legal considerations arise from this report.

(Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

Appendices

Appendix A: Statutory Guidance on Asset Pooling in the Local Government Pension Scheme.

Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement
3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management
3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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Croydon Council

REPORT TO:	**Pension Committee** **12 March 2019**
SUBJECT:	**Training Support for Pensions Committee**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Ensuring that the pension fund is being given appropriate support and training through the governance of the Pension Committee.	
FINANCIAL SUMMARY: There are no direct financial consequences to this report. However the implications of decisions taken by this Committee can be significant for the Revenue Account of the Council.	

1. RECOMMENDATIONS

1.1 That the Committee note the requirement of the guidance for key skills for successful public sector scheme administration.

1.2 That the Committee note the channels for accessing training; and

1.3 That the Committee make any recommendation as to additional training requirements.

2. EXECUTIVE SUMMARY

2.1 This reports sets out a model for Skills and Knowledge requirements for members of the Pensions Committee. Current training opportunities are set out and the Committee is invited to make suggestions as to additional training requirements.

3 DETAIL

3.1 The Pension Committee's forward business plan has it that the Committee periodically review its effectiveness in providing guidance on the administration of the Local Government Pension Scheme. The structure of the scheme has undergone significant changes with the introduction of the 2013 scheme. The membership of the Committee has also changed, which is also a significant factor.

For these reasons, as well as to provide an option for the Committee to refresh its understanding of the Scheme, this report reviews the current training opportunities for the Committee.

3.2 The CIPFA Pensions Panel, with input from technical specialists covering each element of the skills matrix, has identified the key skills that lie at the core of successful public sector pension scheme administration. Due to the complexity of pensions administration, these skill sets extend across several disciplines from accountancy and audit into areas of investment and actuarial finance, as well as knowledge of the legislative and governance environment. In total there are eight areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pensions finance. They are:

- pensions legislation;
- public sector pensions governance;
- pensions administration;
- pensions accounting and auditing standards;
- financial services procurement and relationship management;
- investment performance and risk management;
- financial markets and product knowledge; and
- actuarial methods, standards and practices.

3.3 CIPFA's Knowledge and Skills Framework identifies the key elements of expertise within each of the above areas of technical knowledge as they apply to pension board members. Although the hurdle set for the Pensions Committee is lower, the Framework does provide a useful benchmark. These areas are detailed here.

3.3.1 **Pensions legislation**

A general understanding of the pensions legislative framework in the UK.
An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
A regularly updated appreciation of the latest changes to the scheme rules.

3.3.2 **Pensions governance**

Knowledge of the role of the administering authority in relation to the LGPS.
An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.
Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.
Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.
A detailed knowledge of the duties and responsibilities of pension board members.
Knowledge of the stakeholders of the pension fund and the nature of their interests.

Knowledge of consultation, communication and involvement options relevant to the stakeholders.
Knowledge of how pension fund management risk is monitored and managed.
Understanding of how conflicts of interest are identified and managed.
Understanding of how breaches in law are reported.

3.3.3 **Pensions Administration**

An understanding of best practice in pensions administration, e.g. performance and cost measures.
Understanding of the required and adopted scheme policies and procedures relating to:

- member data maintenance and record-keeping processes
- internal dispute resolution
- contributions collection
- scheme communications and materials.

Knowledge of how discretionary powers operate.
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.
An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.

3.3.4 **Pensions accounting and auditing standards**

Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.
Understanding of the role of both internal and external audit in the governance and assurance process.
An understanding of the role played by third party assurance providers.

3.3.5 **Pensions services procurement and relationship management**

Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.
A general understanding of the main public procurement requirements of UK and EU legislation.
Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.
An understanding of how the pension fund monitors and manages the performance of their outsourced providers.

3.3.6 **Investment performance and risk management**

Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.
Awareness of the Myners principles of performance management and the approach adopted by the administering authority.
Awareness of the range of support services, who supplies them and the nature of

the performance monitoring regime.

3.3.7 **Financial markets and products knowledge**

Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).

Understanding of the role of these asset classes in long-term pension fund investing.

Understanding of the primary importance of the investment strategy decision.

A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.

An understanding of the limits placed by regulation on the investment activities of local government pension funds.

An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.

3.3.8 **Actuarial methods, standards and practices**

A general understanding of the role of the fund actuary.

Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.

Awareness of the importance of monitoring early and ill health retirement strain costs.

A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.

A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.

A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.

3.4 New members of the Committee are invited to attend a three-day course, provided by the Local Government Employers organisation and this course is designed to cover these topics.

3.5 The programme of visits to fund managers, augmented by presentations to this Committee and specific reporting from the Scheme's independent investment advisor, aims to ensure that the Committee are well informed about the funds and investments that comprise the Pension Fund portfolio.

3.6 Furthermore the independent investment advisor provides updates on a range of topical subjects, such as currency hedging, as well as relevant macro-economic and market analysis. This should be augmented by support from the London CIV.

3.7 The Scheme Actuary provides support, training and information about the actuarial process. This is particularly relevant during the triennial valuation process.

3.8 The Pensions Committee is invited to consider the various options detailed above and in particular whether this provision is sufficient for Committee members to satisfy themselves that they are able to meet the Knowledge and Skills requirement. The Committee is further asked for suggestions as to any additional training required, such as a session on ESG issues, and to express any preferences as to how this should be delivered.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments that no additional legal considerations arise from this report.

(Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

Approved by:

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

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

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