

Pension Committee Agenda



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

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

Reserve Members: Jamie Audsley, Sherwan Chowdhury, Pat Clouder,
Patsy Cummings, Steve Hollands, Vidhi Mohan and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend,
will be held on **Tuesday, 5 November 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
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

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www.croydon.gov.uk/meetings
Monday, 28 October 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 5 - 12)

To approve the minutes of the meeting held on 17 September 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. Review of the Investment Strategy Statement (Pages 13 - 24)

For Members to review and approve the approach being taken to the revision of the Investment Strategy Statement.

6. The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (Pages 25 - 28)

For Members to provide a delegation in relation to the provision of Investment Consultancy Service as required by the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

7. Report back from the Pension Board

For Committee Members to receive a verbal update on the Pension Board meeting held on 17 October 2019, supported by the Board's Independent Chair.

8. 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

9. Minutes (Part B) of the Previous Meeting (Pages 29 - 32)

To approve the minutes (Part B) of the meeting held on 17 September 2019 as an accurate record.

10. Investing in a Time of Climate Crisis (Pages 33 - 60)

For Committee Members to undertake training on the key issues related to investments and climate change.

11. Scenario Analysis (Pages 61 - 96)

For Committee Members to receive training on the potential impact on investments of a range of geo-political factors.

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Pension Committee

Meeting held on Tuesday, 17 September 2019 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

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

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

Also Present: Councillor Michael Ellsmore
Nigel Cook (Head of Pensions and Treasury), Matthew Hallett (Pension Fund Investment Manager), Victoria Richardson (Head of HR and Finance Service Centre) and Lisa Taylor (Director of Finance, Investment and Risk (S151 Officer))

PART A

40/19 Minutes of the Previous Meeting

The minutes of the meeting held on 11 June 2019 were agreed as an accurate record subject to the following revisions:

- Acknowledgement of the apologies received from Councillor Clancy and Gilli Driver;
- Councillor Mohan was substituting for Councillor Clancy; and
- Councillor Hall left the Committee to attend a meeting of the Children's Improvement Board of which he was a member.

41/19 Disclosure of Interests

There were no declarations of interests.

42/19 Urgent Business (if any)

There were no items of urgent business.

43/19 Key Performance Indicators

The Head of HR and Finance Service Centre introduced the item. It was highlighted that the report comprised a proposal for the standardised presentation of information on Key Performance Indicators at Pension Committee and Board meetings. The proposal was based on good practice guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Members sought clarification on performance including the time taken to provide for notifications of retirement, death in service and the time taken to make lump sum payments. The facility for pension members to gain the information required through the self-service provision was emphasised. It was confirmed that the stated KPIs reflected the legal requirements with team targets based on CIPFA guidance.

The Independent Chair of the Pension Board stressed the need to achieve the legal requirement on provision of annual benefit statements. It was also requested that performance against the legal requirements and team targets be expressed as percentages. Members were informed by the Head of Pensions and Treasury that the breaches in law policy was agreed by the Pension Board; any breaches would necessitate self-reporting to the Pensions Regulator. It was noted that the Regulator had only held this responsibility for a year and was most likely to respond with a focus on education.

A discussion about the records held where an employee opts out was to be taken further outside the Committee meeting. The need for members of the Fund to check their payslips to ensure contributions were being made was stressed.

It was acknowledged that whilst a Pension Manager role had been filled, there was still a number of vacancies in the service; these included a governance role, two administrator roles and a team leader. These vacancies were to be addressed.

Officers were to consider the options available for making information available to pension fund members.

RESOLVED: Members AGREED to endorse the Key Performance Indicators as set out in the officer's report. Members gave their thanks to the administration team for attending the meeting.

44/19 Progress Report to the end of June 2019 (Q1)

The Head of Pensions and Treasury introduced the item.

The Chair asked for the exclusion of the press and public to take part of this item within exempt session. The motion was seconded by Councillor Hall and agreed by the Members of the Committee.

The resulting comments made in exempt session are noted in item 16, drawing together all the Part B comments on the Progress Report.

The Chair then recommended that the meeting return to open session. The motion was seconded by Councillor Hall and agreed by the Members of the Committee. The meeting returned to open session.

Peter Howard left the meeting at 11:16.

Members discussed the performance of Fixed Interest investments noting the strong performance from the time of the portfolio adjustment towards fixed income.

The Head of Pensions and Treasury provided Members with information on a new renewables infrastructure investment in the development of wind turbines in Eire. The Chair reminded officers that a briefing on infrastructure investments had been requested and that he would be grateful for this to be provided.

The Chair and Vice-Chair requested the more timely provision of market information comparable to how information was provided by the CIV (within two or three working days). The Director of Finance, Investment and Risk was to look at what it might be possible to provide given the statutory requirements around the calling of Pension Committee meetings.

The Head of Pensions and Treasury was to check on the promised provision of a presentation to members of the Committee on the political risks to the housing market by M&G.

Members expressed that they valued receiving information on the geographical breakdown of investments. It was agreed that this should continue to be provided as part of the Progress Report.

Summary information on the training undertaken by Committee Members in addition to new training opportunities was to be provided by the Head of Pensions and Treasury.

RESOLVED: The Committee AGREED to note the report.

45/19 Pension Committee Forward Plan

Members agreed the following additions/amendments to the Pension Committee forward plan:

- Consideration of Environmental, Social and Governance issues to be taken at the Committee's meeting in November 2019;
- Consideration of the Investment Strategy Statement to be taken at the Committee's meeting in November 2019;
- A report on active management of emerging markets was requested to be presented at the Committee's meeting in December 2019;
- A paper on geopolitical risks to be taken at the Committee's meeting in either November or December 2019;
- A paper on the inflation linked element of the fund's infrastructure investments to be taken at the Committee's meeting in March 2020; and
- The fixed income report, provided by Mercer, to be taken by the Committee after March 2020 so following the current cycle of meetings.

RESOLVED: The Committee AGREED to note the report.

46/19 Pension Fund Annual Report 2018/2019

The Committee considered the Pension Fund Annual Report as featured in the agenda pack. Members asked questions on the decline in administration fees, the increase in investment management fees and why the authority's accounts are provided in full. In response, the Head of Pensions and Treasury explained administration costs had declined as a result of staff shortages and a resulting reduction in employment costs. Additionally, investment management fees were linked to the size of the fund and therefore would increase with the value. Furthermore, investments in alternate asset classes increased the aggregate fee level. The authority's accounts were provided in full because these are published as a single entity and it is not possible to divide the accounts without losing their integrity.

RESOLVED: The Committee AGREED to note the report.

47/19 Croydon Local Pension Board Annual Report 2018/2019

The Chair invited the Independent Chair of the Pension Board to comment on the Annual Report of the Pension Board and to report back on the Board's last meeting held on 11 July 2019.

The Independent Chair of the Pension Board highlighted the benefit of the stable membership of the Pension Board. It was noted that the Board would have two main focuses going forward:

1. The fund's own governance review with a particular focus on the code of practice; and
2. The Scheme Advisory Board's governance review and how Croydon will respond.

It was explained that having focused on the Property Asset Transfer over the last year and having new Members, the Board had requested the Secretary of the Scheme Advisory Board attend its meeting in January 2020 to provide guidance on the role of the Board.

The Independent Chair of the Pension Board welcomed the Pension Committee's consideration of the administration of the fund and the focus on the member experience. Encouragement was provided for the Committee to undertake this exercise twice a year given the importance of the fund having sufficient administrative resources.

RESOLVED: The Committee AGREED to note the report.

48/19 Review of Risk Register

The Head of Pensions and Treasury introduced the item explaining that the register used the same format as the corporate risk register (the level of risk

times by the likelihood of occurrence on a one to five scale). Those judged to be amber or above were provided in the agenda pack.

Members sought further information on risk number six related to academies not paying over contributions. The Head of Pensions and Treasury updated Members that the response of the Ombudsman was still being awaited. It was noted that the Fund had a duty to fund benefits regardless of whether contributions were being paid over.

It was requested that risk number thirteen be updated to encompass information available on US politics.

RESOLVED: The Committee AGREED to note the report.

49/19 Preparing for Brexit Risks

The Head of Pensions and Treasury clarified that advice had been provided by the Minister for Housing, Communities and Local Government. However, it was stressed that it was difficult to know with any certainty what impact Brexit may have on the Pension Fund. The issue of Pension Fund members who were resident in the EU outside of the UK was specifically noted.

Members requested officers to look at the potential impact of other geopolitical risks (as noted in item 7).

RESOLVED: The Committee AGREED to note the report.

50/19 Review of the Investment Strategy Statement

RESOLVED: The Committee AGREED to defer consideration of the review of the Investment Strategy Statement until its meeting in November 2019.

51/19 Pension Committee Governance Update

The Head of Pensions and Treasury introduced the item. The Director of Finance, Investment and Risk confirmed the table provided on page 249 of the agenda pack, looking at governance compliance best practice, would be reviewed for accuracy.

Members sought clarity on what communication was undertaken with pension scheme members. The Head of Pensions and Treasury described how statutory requirements are being met with the provision of pay slips, an annual newsletter and annual benefit statements to all Scheme members including those members who were deferred. However, it was also described how it could be difficult to communicate with pensioners, and that this could cause upset and confusion for members who were frail or infirm.

Members again discussed options for communicating with members of the Pension Fund. Mention was made of the pension conference previously held at Fairfield Halls in addition to the option to self-serve online. The Pensioner

and Employee Representatives also highlighted the difficulties they faced in communicating with Pension Fund members.

The Director for Finance, Investment and Risk noted that communication with members of the pension fund would be reviewed outside of the meeting with opportunities taken to raise awareness of Pensioner and Employee Representatives.

RESOLVED: The Committee AGREED to note the report.

52/19 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.

53/19 Minutes of the Previous Meeting (Part B)

The minutes of the meeting held on 11 June 2019 were agreed as an accurate record subject to the following revisions:

- Acknowledgement of the apologies received from Councillor Clancy and Gilli Driver;
- Councillor Mohan was substituting for Councillor Clancy;
- Councillor Hall left the Committee to attend a meeting of the Children’s Improvement Board of which he was a member; and
- Janus Henderson be spelt correctly.

54/19 Progress report to the end of June 2019 (Q1) (Part B)

The Committee reviewed the progress report for Q1 (to the end of June 2019).

The meeting ended at 12.50 pm

Signed:

Date:

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Croydon Council

REPORT TO:	Pension Committee 5 November 2019
AGENDA ITEM:	
SUBJECT:	Review of the Investment Strategy Statement
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 statutory requirement to set an Investment Strategy, a critical aspect of the management of the Pension Fund.	
FINANCIAL SUMMARY:	
There are no direct financial implications associated with this report but the continued viability of the Scheme depends on adherence to an effective investment strategy.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

- 1.1 The Committee is invited to approve the approach set out in this report to drafting a revised Investment Strategy Statement and to delegate to the Director of Finance, Investment and Risk and section 151 officer in consultation with the Chairman of the Committee the final approval of the Investment Strategy Statement.

2. EXECUTIVE SUMMARY

- 2.1 This report asks the Committee to approve the approach set out in this report to deliver a draft revised Investment Strategy Statement (“ISS”).

3 DETAIL

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, brought into force on 1st November 2016, require that all LGPS administering authorities draft an Investment Strategy Statement (ISS). These Regulations require that this Committee should review the ISS from time to time and at least every three years. In the event of any material change to any matter contained within the ISS, changes will be reflected within six months of the change occurring. The Regulations require all Administering Authorities take 'proper advice' when formulating investment strategy. The Council is in the process of consulting suitably qualified persons and has obtained advice from its investment consultant, Mercer and consulted Hymans Robertson, the Scheme Actuary.
- 3.2 The Statement was reviewed most recently by this Committee at its meeting of 18th September, 2018 (Minute A50/18 refers).
- 3.3 This report represents the initial steps to a revised statement, reviewed to ensure compliance with the government guidance issued on 15th September 2016 and 12th July 2017. The Committee is invited to input into the process by offering any comment on the approach set out in this report.
- 3.4 The current statement is attached to this report as Appendix A..
- 3.5 References to advisors and fund managers will be updated to reflect the current arrangements.
- 3.6 The Strategy considers six areas:
- Investment Objectives;
 - Asset Allocation;
 - Risk Management;
 - Pooling;
 - ESG and
 - Voting.

Investment Objectives will remain essentially unchanged. Asset allocation ranges may need to be revised in response to any reassessment of the Committee's risk appetite and the return assumptions agreed with the Scheme Actuary. Assuming no new asset classes are considered this section will provide information about the qualities of assets and how they contribute to the performance of the portfolio.

- 3.7 The risk management section will be revised to ensure that it is consistent with the current risk register.
- 3.8 The section on asset pooling and the London CIV can be updated to reflect the present status of the sub-funds and this Fund's engagement with the pooling agenda. This section will need to provide a link between principles adopted by this Committee and principles applied to investment choices.

- 3.9 The Environmental, Social and Corporate Governance (ESG) section will need to be drafted to ensure consistency with the Committee's views on these important issues. The Statement should specify the position the Council adopts on a number of issues and note where this aligns with the position adopted by the London CIV.
- 3.10 The section on Voting will be substantially unchanged.

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. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the provisions of Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 place the following requirements on the Administering Authority in relation to the Investment Strategy:

"7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority's investment strategy must include:

- (a) a requirement to invest fund money in a wide variety of investments;
- (b) the authority's assessment of the suitability of particular investments and types of investments;
- (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
- (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

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

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk, Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Appendices

Appendix A: Investment Strategy Statement

Appendix A: Revised Investment Strategy Statement.

Investment Strategy Statement (Effective 1 April 2017; Reviewed September 2018)

1 Introduction

- 1.1 The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Investment Strategy Statement (ISS) as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, brought into force on 1st November 2016. This statement is compliant with the government guidance issued on 15th September 2016 and 12th July 2017.
- 1.2 As set out in these Regulations, the Committee will review the ISS from time to time and at least every three years. In the event of any material change to any matter contained within the ISS, changes will be reflected within six months of the change occurring.
- 1.3 The Regulations require all Administering Authorities take 'proper advice' when formulating investment strategy. The Council has consulted suitably qualified persons and has obtained advice from its investment consultant, Mercer and consulted Hymans Robertson, the Scheme Actuary.

2 Investment Objectives

- 2.1 The Fund's goal is to ensure there are sufficient assets to meet all liabilities as they fall due. In order to achieve this goal the Pensions Committee has adopted the following objectives:
 - 2.1.1 Achieve a return on investments which at least meets the assumed return (the discount rate) used by the Actuary when setting the triennial valuation.
 - 2.1.2 Keep risk within acceptable levels.
 - 2.1.3 Maintain liquidity requirements to pay liabilities when they fall due.
- 2.2 The investment objectives align with the Funding Strategy Statement. This statement sets out the four key measures that the Actuary has developed which capture the essence of the Fund's strategies, both the funding and this investment strategy. These include how much each employer can afford; and the question of stability, that is to say employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment. These objectives are often in conflict. In setting the Funding Strategy the Council has adopted a stabilisation approach that meets the need for stability of contributions without jeopardising the aim of prudent stewardship of the Fund.

3 Asset Allocation

- 3.1 In order to meet the Investment Objectives the Pensions Committee, in consultation with its Investment Adviser, has determined a suitable asset mix.

The Pension Committee's interpretation of a suitable asset mix, is one which includes a variety of assets which are well understood, are less than perfectly correlated and which together are expected to meet the long term return objectives of the Fund. An asset mix which meets this criteria will be well diversified and improve the overall risk and return profile of the Fund increasing the likelihood of meeting the Investment Objectives. A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

- 3.2 The Pensions Committee has identified four broad asset groups with the alternatives being split into four further classes. Cash is held as working capital and invested in Money Market Funds for short periods but is not considered as an investment asset, although fund managers may hold cash as part of their investment strategy. Desired targets and ranges have been assigned to each asset class. The holding in an asset class ought not to breach the upper end of the range. Table 1, below, sets out the maximum percentage of the total value of all investments of fund money that will be invested in each investments or class of investment. This replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Note that the Regulations require that this investment strategy must set out the maximum percentage of the total value of all investments of fund money that will be invested in particular investments or classes of investment. The Target Allocations set out above are aspirational and for guidance only because of the inevitable fluctuations caused by market volatility. The operational range reflects experience and current forecasts.

- 3.3 As a general principle Croydon Council will actively seek to identify how the Pension Scheme could contribute to and invest in the Borough.

Global Equities

- 3.4 The Pensions Committee has selected a passive global equity mandate managed solely by Legal and General Investment Management. The objective of the mandate is to track the L&G World Developed (Ex Tobacco) Index Fund. The reasons for this decision is to: reduce concentration risk by increasing the number of stocks covered for investment; achieve a reduction in management fee; and to move to a fund which is considered as fulfilling the criteria for the requirement to pool assets. In addition it is considered important to invest in a pooled arrangement to allow currency hedging to be implemented fairly easily and cheaply. The equity holdings are now considered part of the London CIV for pooling purposes (see section below for more details of the Fund's strategy on asset pooling).

Fixed Interest

- 3.5 The Pensions Committee has appointed Standard Life and Wellington to manage its Fixed Interest allocation. Investments with Standard Life are in the Corporate Bond fund measuring performance against the Merrill Lynch non gilt

sterling all stocks index and the Absolute Return fund measuring performance against 3 month LIBOR. Performance of the Wellington bond fund is measured against the Merrill Lynch Sterling Broad Market Index.

Traditional Property

- 3.6 The Pensions Committee has appointed Schroders to manage its traditional property portfolio, investing mainly in UK commercial real estate, with an objective to outperform the Investment Property Databank (IPD) All Properties Index.

Private Rental Sector Property

- 3.7 The Pensions Committee has appointed M&G to manage its Private Rental Sector property portfolio, with an objective to achieve a return of 7%.

Private Equity

- 3.8 Four Private Equity managers have been selected enabling the Fund to benefit from increased diversification through investments in a variety of companies in different markets. These managers are: Pantheon, providing access to funds of funds in Europe, US and Asia; Knightsbridge, investing in Venture Capital predominantly in the US; Access Capital Partners, a European co-investment fund; and North Sea Capital, providing exposure to markets in northern Europe and Scandinavia. The objective of this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

Infrastructure

- 3.9 This asset class is represented by four asset managers that have been selected in order to gain cost effective, diversified exposure to global infrastructure assets. These managers comprise: Equitix that focus on UK PFI / PPP / PF2 contracts; Temporis and the Green Investment Bank that allow the Fund to access different types of renewables; and I Squared Capital, that provides opportunities across global infrastructure funds and projects. The investments seek to generate satisfactory risk adjusted return and provide a hedge against inflation. Some of the investments aim to be more growth seeking and some aim to be income generating. The overall return objective for this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

Cash

- 3.10 The objective is to maintain capital and hold enough cash to meet ongoing benefit payments.

Assets' Features

- 3.11 Each of these asset classes possess features that, in combination, address the strategic goals for the Croydon Scheme. The authority's assessment of the suitability of particular investments and types of investments can be summarised thus:

- **Equities** Over the long-run will deliver sufficient growth to address funding gap. Allows investment in wide range of sectors and geographic regions. Should beat inflation in the long run.
- **Fixed Interest** Matches liabilities of the Fund. Demonstrates, in normal scenarios, negative correlation to equities. Absolute return portfolio should provide downside protection and is not dependent on direction of interest rates. Government and blue chip corporate debt is relatively low risk and provides protection against falling interest rates.
- **Property** Does not correlate to equity or fixed interest. Provides steady cash flows. Provides some protection against inflation.
- **Private Equity** Similar benefits to equity but at different points on the cycle. Regional diversification. Access to otherwise closed markets.
- **Infrastructure** Diversification. Good spread of regions. Elements of regulated income. Mixture of growth and income generating assets. Income generating assets have an inflation link.

4 Risk Management

- 4.1 There are various risks to which any pension fund is exposed. The Pension Committee has considered a number of risks such as:
- The risk arising through a mismatch between the Fund's assets and its liabilities.
 - The risk of deterioration in the Fund's ongoing funding level.
 - The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Fund's Actuary.
 - The risk that volatility resulting from various geopolitical factors will have an adverse effect on the long-term viability of the Fund. This risk is increased by having a majority of the fund under passive management.
 - Exchange rate risk arises from investing in unhedged overseas assets with all liabilities due to be paid in sterling. As a long-term investor such volatility can be tolerated. The extent to which the Fund is diversified across asset classes, geography and approach to investments works to mitigate this risk.
 - The risk of insufficient liquidity from the Fund's assets.
- 4.2 In order to mitigate the risks identified the Pensions Committee formulated the asset allocation having taken proper advice from its investment adviser. Various scenarios were tested and the probability of achieving full funding over a specified period of time was calculated in order to identify an asset mix which should fulfil the objectives. The main way to mitigate risk of the investment portfolio not achieving its objectives is through diversification of assets. This should provide protection in periods of market turmoil as some assets will preserve capital better than others and in rising markets some assets will perform better than others.
- 4.3 Risks specifically relating to the Pension Fund are included in a risk register that is regularly reviewed by both the Pension Committee (which considers the most significant risks) and the Croydon Pension Board (which looks at all the risks). The most immediate and significant risks are also included in the corporate risk

register. Steps to mitigate risks in the short and longer-term are included in the register.

- 4.4 The Pension Fund's appetite for risk, in so far as generating returns is concerned, should be only that much as is sufficient to meet the return target set by the Funding Strategy Statement. Other risks should be mitigated as far as is possible.
- 4.5 The Pensions Committee constantly monitors the performance of managers to ensure the Fund's objectives are met.

5 Pooling of Assets

- 5.1 The Fund participates in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. Croydon is a shareholder, contributes regulatory capital and a subscription fee. The London CIV was launched in December 2015. It has launched a number of sub-funds comprising: UK, Global and Emerging Market equities; Multi-Asset and Fixed Interest Funds.
- 5.2 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform. At present there are options for participating in pooling: including transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds available to meet the Fund's investment strategy requirements; investing in sub-funds that meet the requirements of the Fund's investment strategy; and investing in assets that have been deemed part of the pooling strategy but which are assets that are not suitable for pooling in an ACS structure.
- 5.3 The Fund holds illiquid assets outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature. The Fund will continue to invest in illiquid assets outside of the London CIV pool, until suitable strategies are made available by the London CIV pool, in order to meet its asset allocation target.
- 5.4 Therefore, the proportion of assets that will be invested through the pool will be circa. 65%, depending on valuations. At year-end 2017/2018 51% of the Pension Fund should be considered pooled.
- 5.5 In establishing the framework for asset pooling the government recognised that investing in illiquid assets like infrastructure, direct holdings in property and locally targeted investments might more appropriately sit outside the pooling arrangements. The alternative asset classes listed above, property, private equity and infrastructure, are included in this group.

6 Environmental, Social and Corporate Governance (ESG)

- 6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular

basis and this will include training and information sessions on matters of social, environmental and corporate governance.

- 6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.
- 6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.
- 6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.
- 6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.
- 6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.
- 6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.
- 6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

7 Voting

- 7.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The

Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

- 7.2 The Fund has delegated responsibility for voting rights to the Fund's external investment manager, currently LGIM, and expects them to vote in accordance with the Fund's voting policy.
- 7.3 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.
- 7.4 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.
- 7.5 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.
- 7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- 7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.
- 7.8 In addition the Fund:
 - Is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;
 - is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;
 - Joins wider lobbying activities where appropriate opportunities arise.

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Croydon Council

For General Release

REPORT TO:	Pensions Committee 5 November 2019
SUBJECT:	The Investment Consultancy and Fiduciary Management Market Investigation Order 2019
LEAD OFFICER:	Nigel Cook, Head of Pensions Investment and Treasury
CABINET MEMBER:	Councillor Simon Hall
WARDS:	
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:	
Sound Financial Management: This report forms a component of the governance arrangements for the stewardship of the Pension Fund. To contribute towards retaining workforce through provision of an attractive pension scheme.	
FINANCIAL IMPACT	
There are no direct financial implications although ultimately non-compliance can result in fines.	

1. RECOMMENDATIONS

1.1 To delegate to the Director of Finance, Investment and Risk / Section 151 Officer in consultation with the Pension Committee Chair and Vice-Chair authority to agree final Strategic Objectives in relation to the provision of Investment Consultancy Services as required by the Investment Consultancy and Fiduciary Management Market Investigation Order 2019

2. EXECUTIVE SUMMARY

2.1 This report informs members of the steps to be taken to ensure compliance with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019

3. DETAIL

3.1 The Competition and Market's Authority (CMA) have published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, henceforth the Order, placing new obligations on service providers and pension schemes with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. This Order comes into effect 10 December 2019.

From that date it prohibits Pension Scheme Trustees (including LGPS scheme managers) from entering into a contract or continuing to obtain IC Services without setting strategic objectives for the IC Provider.

- 3.2 Officers will work with Mercer, the Croydon Pension Fund investment advisors and Investment Consultancy providers to draft a set of objectives to allow the Council to be compliant with this Order. This report recommends that the decision to finalise these objectives be delegated to the Director, Finance, Investment and Risk, Section 151 Officer in consultation with the Pension Committee Chair and Vice-Chair.

4. CONSULTATION

- 4.1 Mercer, the Pension Fund's Investment Consultancy, were consulted in the drafting of this report.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 There are no additional financial considerations beyond those described in the body of the report.

(Approved by: Lisa Taylor, Director Finance, Investment and Resources,
Section 151 Officer.

6. LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that under section 138 of the Enterprise Act 2002 the Competition and Markets Authority have made the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 implementing a range of requirements in relation to the investment consultants and fiduciary management market. Part 7 section 12 of the Order prohibits Pension Scheme Trustees from entering into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continuing to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.

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

7. HUMAN RESOURCES IMPACT

- 7.1 There are no direct HR implications from this report

Approved by Sue Moorman, Director of Human Resources

8. IMPACT

8.1 There are no other equalities, nor crime and disorder reduction impact. There are no other data protection implications. This report does not relate to the processing of personal data.

CONTACT OFFICER: Nigel Cook, Head of Pensions and Treasury Management
Extension 62552.

APPENDICES

None.

BACKGROUND DOCUMENTS: none.

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