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Pension Committee Agenda

To: Councillor Patricia Hay-Justice (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Simon Brew, Robert Canning, Maddie Henson, Yvette Hopley, Dudley Mead, Wayne Trakas-Lawlor, Gill Driver, Peter Howard and Isa Makumbi

Reserve Members: Jamie Audsley, Sherwan Chowdhury, Luke Clancy, Pat Clouder, Badsha Quadir and Donald Speakman

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 13 March 2018** at **10.00 am** in the **Council Chamber - Town Hall**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

James Haywood
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www.croydon.gov.uk/meetings
Monday, 5 March 2018

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 - 10)

   To approve the minutes of the meetings held on 5 December 2017 and 29 January 2018 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. **Local Pension Board**

   The Committee will receive a verbal update from the Chair of the Croydon Local Pension Board.

6. **Key Performance Indicators** (Pages 11 - 16)
7. **London CIV Consultation** (Pages 17 - 24)
8. **Progress Report for Quarter Ended 31 December 2017** (Pages 25 - 34)

9. 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

10. Minutes of the Previous Meeting (Pages 35 - 36)

To approve the Part B minutes of the meeting held on 5 December 2017 as an accurate record.

11. Progress Report for Quarter Ended 31 December 2017 (Pages 37 - 74)

Pension Committee

Meeting of held on Tuesday, 5 December 2017 at 10.00 am in Council Chamber - Town Hall

MINUTES

Present: Councillor Andrew Pelling (Chair);
Councillor Patricia Hay-Justice (Vice-Chair);
Councillors Simon Hall, Maddie Henson and Yvette Hopley

Apologies: Councillor Dudley Mead and Wayne Trakas-Lawlor

PART A

1/17 Minutes of the Previous Meeting

The minutes of the meeting held on 19 September 2017 were agreed as an accurate record.

2/17 Disclosure of Interests

There were none.

3/17 Urgent Business (if any)

There were no items of urgent business.

4/17 Adoption of Risk Management Policy

The Head of Pensions and Treasury introduced the report to the Committee and guided Members through the proposed policy.

The Committee **RESOLVED** to:

1.1 Adopt the Risk Management Policy

1.2 Direct the Executive Director of Resources (Section 151 Officer) to commission a review of the Fund's practices against the Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

5/17 Review of Risk Register

The Head of Pensions and Treasury introduced the report and attention was drawn to areas categorised as “amber” risks.

Committee Members asked questions related to the ongoing risks of academies contributing towards the deficit. Reassurances were made regarding risks associated with the implementation of MIFD II. The considerable number of policy and governance documents were proffered as examples of mitigating against reputational and unforeseeable risks in the future.

The Committee **NOTED** the Pension Fund Risk Register.

6/17 **Annual Report on the Progress of Asset Transfer to the London CIV**

The Head of Pensions and Treasury provided an update on the Fund’s asset transfer into the London CIV; it was noted that the equities investments in Legal and General were treated as pooled investments as well. Whilst there was still a way to go for the London CIV to provide the sub-funds necessary for the Croydon Pension Fund, progress was being made and over half of the Fund’s assets were now within the London CIV.

The Committee **NOTED** the contents of the report.

7/17 **MiFID II Compliance Requirements**

The Head of Pensions and Treasury provided the Committee with an update on officers’ submissions as part of the MIFD II directive requirements. Members were assured that progress was going in the right direction and no immediate concerns had been identified.

Members discussed the need to provide an audit trail of training sessions completed and officers stated that most conferences and seminars were free of charge for Committee Members.

The Committee **NOTED** the contents of the report.

8/17 **Forward Plan**

The Head of Pensions and Treasury introduced the proposed forward plan for the coming year, as part of the six-monthly review cycle for the Committee.

Some Committee Members reported on a meeting with Wellington and Wells Fargo they had attended. Some concern was expressed regarding the reputational damage to the Fund if it invested in Wells Fargo given the recent scandal that had been reported in its retail arm. It was noted that there was a clear division between the retail section and the investment section of the company. Some Members expressed a preference to focus on what emerging market investments would be available through the London CIV. Officers stated that London CIV options acquired a higher cost than Wells Fargo and did not offer a guarantee of non-exposure to tobacco investments.

At 10.53am Councillor Hall left the meeting.

The Chair expressed the view that whilst there was strong guidance from the Committee to treat Wells Fargo with caution, this did not preclude closing the option down completely and all options should be considered with due scrutiny.

The Aon Hewitt advisor noted that emerging markets were performing strongly and it would be prudent to consider the options available in this area. Some London authorities had appointed managers in this area.

The Committee **NOTED** the contents of the report.

9/17 **Progress Report for Quarter Ended 30 September 2017**

The Head of Pensions and Treasury introduced the report and noted that the Fund was still overweight in equities due to their strong performance but steady progress was being made towards fulfilling the asset allocation strategy.

The Committee **NOTED** the contents of the report.

10/17 **Exclusion of the Press and Public**

The following motion was moved by Councillor Pelling and seconded by Councillor Henson 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.

The meeting ended at 11.19 am

Signed: ....

Date: ....

Pension Committee

Meeting of held on Monday, 29 January 2018 at 6.15 pm in F10 - Town Hall

MINUTES

Present: Councillor Patricia Hay-Justice (Vice-Chair);

Councillors Simon Brew, Robert Canning, Simon Hall and Yvette Hopley
Gilli Driver and Peter Howard

Also Present: Councillor Andrew Pelling

Apologies: Councillors Dudley Mead and Wayne Trakas-Lawlor and Isa Makumbi.

PART A

13/18 Disclosure of Interests

There were none.

14/18 Urgent Business (if any)

There were no items of urgent business.

15/18 Appointment of Committee Chair

Councillor Hall proposed, and Councillor Chowdhury seconded, that Councillor Hay-Justice be appointed as Chair of the Committee.

Peter Howard proposed that Councillor Hopley be appointed as Chair of the Committee.

After speeches in favour of the proposed nominees the first motion, to appoint Councillor Hay-Justice as Chair, was put to the vote. The motion was put to the vote and was carried.

The Committee therefore **RESOLVED** to appoint Councillor Hay-Justice as Chair for the Pension Committee.

After the vote on the Chair, the Committee considered the appointment of a Vice-Chair. Councillor Hay-Justice proposed, and Councillor Canning seconded, that Councillor Hall be appointed as Vice-Chair for the Committee.

The motion was put to the vote and was carried.

The Committee therefore **RESOLVED** to appoint Councillor Hall as Vice-Chair for the Pension Committee.

16/18 **Exclusion of the Press and Public**

Not required.

The meeting ended at 6.26 pm

Signed: ....

Date: ....

Croydon Council

REPORT TO:	**Pension Committee** **13 March 2018**
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 Treasury**
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.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

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 nine months to 31 December 2017.

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 In November 2016 the Local Government Pension Scheme (LGPS) pensions administration teams reviewed and revised many of the systems and processes in place with the view to improving efficiency and performance. One of the changes made was to introduce the concept of measuring Business As Usual (BAU) activity separately from the inherited backlog cases. The backlog cases date to when the service was provided by an external service provider and was one of the reasons that the service was brought back in house. This involves putting cases outstanding as at 6 November 2016 in to a “Backlog” file. All new cases received since that date are placed in BAU. This has enabled the team to manage their workload more effectively and help ensure all BAU cases are processed in line with the Key Performance Indicators (KPIs) as set out in the Administration Strategy as described above. The backlog cases are prioritised and processed accordingly. There are no death or retirement cases in this backlog. The tables below illustrates the administration team’s performance against the KPIs for priority cases: deaths and retirements. It also shows the total number of cases processed by the team.

Table 1: Business as Usual Cases (April to December 2017)

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	5	20	4	100	
Retirements	April	10	39	5	97.5	
Total cases processed	April					1,086
Deaths	May	5	15	8	93.33	
Retirements	May	10	29	7	96.55	
Total cases processed	May					1,229
Deaths	June	5	19	7	89.4	
Retirement	June	10	28	5	92.8	
Total cases processed	June					504
Deaths	Jul	5	15	4	87.5	
Retirement	Jul	10	32	3	100	
Total cases processed	Jul					1,082
Deaths	Aug	5	22	3	95	
Retirements	Aug	10	25	4	100	
Total Cases	Aug					1,233
Deaths	Sept	5	30	4	87	
Retirements	Sept	10	34	6	97	
Total Cases	Sept					1,241
Deaths	Oct	5	20	3	90	
Retirements	Oct	10	39	4	100	

Total Cases*	Oct					1,532
Deaths	Nov	5	15	3	100	
Retirements	Nov	10	39	4	100	
Total Cases*	Nov					1,720
Deaths	Dec	5	23	3	100	
Retirements	Dec	10	26	5	100	
Total Cases*	Dec					1,270

*Total cases processed includes all categories processed by the administration team in the month.

3.3 As can be seen from the table:

- Death and retirement cases are overwhelmingly being processed with the target period of 5 and 10 days respectively;
- The volume of cases processed each month remains high, in the range 1,000 to 1,200 each month, peaking in September / October before falling back.

3.4 Table 2 reports the position with regards to the project to address the backlog cases. Together these tables 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. The high number of cases processed in April and May reflects the missing starters that have been identified by the year end-process.

Table 2: Backlog Cases

	Deferreds	Transfers	Combined	Misc	Total
April	1,381	462	271	274	2,388
May	1,356	431	271	261	2,319
June	1,333	392	271	185	2,181
July	1,325	385	268	181	2,159
August	1,302	358	264	163	2,087
Sept	1,287	352	259	144	2,042
Oct	1,258	318	258	134	1,978
Nov	1,251	301	255	36*	1,843
Dec	1,240	281	252	35	1,808
Jan	1,237	280	252	33	1,083

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.

3.5 Over the period the backlog has been reduced by 1,300 cases. Further, in January, another 465 cases have been calculated but have yet to be checked and signed off.

3.6 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 the time taken in dealing with some cases may be longer than ideal.

3.7 The team has done a lot of work on developing Iconnect. This IT package will streamline the new starter process as well as identify leavers much earlier than was previously the case. The team is using Iconnect for the Council with the view to a managed roll out to other Scheme employers throughout the year. This has caused considerable work for the pensions team as they are resolving the data issues that would normally fall to the other Scheme employers. Although this causes short term additional administration resource pressures, it will generate benefits in the long run. The Iconnect package will be rolled out to other Scheme employers once there is assurance that there are the necessary resources available to provide similar administrative support for each employer.

3.8 The Guaranteed Minimum Pension (GMP) reconciliation project is progressing. HMRC has imposed a deadline of December 2018 for the completion of this exercise so progress against this timeline is monitored carefully. Failure to complete the project could result in the Pension Fund being liable for pension liabilities that we are not responsible for.

3.9 By way of context, the Fund comprises of 90 scheme employers and approximately 21,900 members, this includes active, deferred, pensioner and dependent members of the LGPS. The efficient delivery of the benefits of the LGPS is dependent on good quality data and sound administrative procedures being in place between a number of interested parties, including the administering authority and scheme employers. The administration strategy statement, reference above, sets out the expected levels of performance for both the administering authority and the scheme employers within the London Borough of Croydon Pension Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

3.10 This report is only concerned with the performance of the administration team. It would be a more challenging exercise to measure the performance of other Scheme employers in discharging their responsibilities. Nevertheless on those occasions when the administering team become aware of issues around the administration of the Scheme by other employers, such as failing to enroll staff or pay over contributions collected, there are a range of remedies available and these are deployed as appropriate. These include engaging with employers to educate and encourage through to sanctions such as reporting cases to the Pensions Regulator and levying fines.

3.11 Finally, the Pensions Committee should note that these metrics are often reliant upon information being made available in a timely fashion, be that from the Scheme member themselves, from their employer or from a dependent.

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 Solicitor to the Council comments that there are no additional legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law, for and on behalf of Jacqueline Harris Baker, Director of Law and Monitoring Officer

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

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Croydon Council

REPORT TO:	**Pension Committee** **13 March 2018**
SUBJECT:	**London CIV Consultation**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: The London CIV will form a component of the Pension Fund's investment strategy going forward so it is important to engage with this review of governance arrangements.	
FINANCIAL SUMMARY: The performance of any funds managed by the London CIV will have a direct impact on the level of contributions levied from the Council and other Scheme employers. .	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 To note the response submitted to this consultation.

2. EXECUTIVE SUMMARY

2.1 This report describes the context for the consultation on the future governance arrangements for the London CIV.

3 DETAIL

3.1 The London CIV (Collective Investment Vehicle) was established as a response to the Government's requirement for all Local Government Pension Schemes to pool their assets. Pooling was seen as a way to reduce fees by aggregating assets; allow for greater flexibility in investing assets; and enable local authorities to invest in infrastructure. The CIV has now 16 staff and its activities are authorised by the FCA. Assets under management are circa £14 billion, around half the target set by the Government. All London LGPS administering authorities are shareholders of the CIV. However, following recent changes in key personnel, including the Chief Executive and Chief Investment Officer, the CIV Board agreed to undertake a Governance review.

3.2 The Governance review was undertaken last year jointly by the London CIV, the

Joint Committee (PSJC) overseeing the work of the CIV, and the London authorities' Chief Finance Officers. Willis Towers Watson was commissioned to lead the review and presented their final report to the Governance Review Steering Group in December 2017. The Towers Watson report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. This report also recommended that the CIV strengthen its capacity to engage with individual local authorities.

3.3 To take this forward the CIV has asked stakeholders to respond to a consultation in the form of a report on the future direction for the CIV. This report aims to initiate a consultation with key stakeholders to clarify the purpose of the London CIV and set out the direction of its future strategy. Although the report proposes a considered vision of how the London CIV should operate, it does not purport to be a fully formed proposal.

3.4 Croydon's response to this consultation is attached to this report as Appendix A.

4 FINANCIAL CONSIDERATIONS

4.1 Croydon Council is a shareholder of the London CIV and the Pension Fund pays a contribution to its running costs. The viability of the pension scheme depends ultimately on the performance of the investment of the Pension Fund's assets.

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 Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law for and on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None.

Appendix A

London Local Authority Response to London CIV Consultation on Strategy

Completed by on behalf of Croydon:

Nigel Cook, Head of Pensions Investments

Do you believe the Strategy Proposal from the London CIV is:

	Yes	No
Broadly appropriate subject to clarifications and further detail	☒	☐
Needs revisions and/or a different direction	☒	☐

Overall Strategy Comments

Croydon supports the general direction of travel described by this strategy. Clearer roles and an emphasis on communication would be welcome. However, there are areas of concern, namely representation, costs, performance and ESG issues.

The recommendations made by this review should make it easier for the CIV to operate and mean a less bulky and unwieldy oversight structure but reduced representation will bring its own challenges and there is little detail on how a consensus would be reached.

In terms of representation, we would suggest that there be a formal Supervisory Board (which could well have the same make-up as the proposed consultative group) that would have a formal status. This could be modelled on the structures common in many financial institutions and also common (or even required in some cases) in quoted companies in many European countries.

In addition, we would like to see more clarity and transparency about director appointment & remuneration, i.e. that the Supervisory Board or a sub-committee of it would have a direct role in recruitment & remuneration.

Overall, the CIV needs to make sure that the cost-benefit analysis is clear and that the choice of products it develops and funds and sub-funds is based on active engagement with the local authorities.

ESG issues are very important to this authority and to state that 'the CIV will not be able to accommodate individual ESG policies for each LLA' is problematic and not acceptable. The CIV needs to understand clearly what the various LLAs' ESG requirements are. The CIV needs to move away from a 'lowest common denominator' approach. In particular, we would suggest that there be a qualified majority (rather than the current unanimity) for the overall approach and that, where necessary, there be a proactive approach of creating sub-products that address different LLAs' ESG requirements.

Governance

Do you agree with the proposals to:

	Yes	No
Have two meetings a year with all shareholders and disband the PSJC under the London Councils framework.	☒	☐
Form a small consultative shareholder group of 12 Treasurers and Pension Chairs. **('Pension Chair' should be 'LLA Pension rep')**	☒	☐
Invite the Chair of the main Shareholder Group onto the Board of the London CIV and a Treasurer as an observer.	☒	☐

The Chair of the main Shareholder group should be:

	Tick
Political leader	☐
Elected from the Shareholders	☒
Independent	☐

****

The Chair of the Shareholder consultative group should be:

	Tick
The Chair of the shareholder group	☒
The Chair of the London CIV	☐
Elected by all Shareholders	☐

****

The London CIV Board should be expanded by:

	Tick
The Chair of the main shareholder group	☒
A Shareholder nominated by all shareholders	☒

****

	Yes	No
It is proposed that the IAC becomes a forum to share ideas and consult with LLA's, when appropriate. Do you agree?	☒	☐

Additional comments:

The proposal to address the unwieldiness of the current governance arrangements is sensible. The proposal is for a 12-person shareholder committee and a Treasurer observer on the board. Practical implementation might be more challenging though and questions of duration of tenure and the mechanics of reporting back to constituents are not explored.

The proposal needs to be clarified and worked through to make sure that all these issues and how officers' experience is captured are worked through.

Client

Do you agree that the relationship between each London Local Authority and the London CIV should be formalised by:

	Yes	No
A service level agreement which would set out how the London CIV would service and consult with LLAs.	☒	☐
A Responsible Investment Policy framework for the London CIV which is proposed by the London CIV and agreed by shareholders.	☒	☐

This Responsible Investment Policy should be agreed by what % of Shareholders:	50%☐	66%☒	75%☐	Other☐

	Yes	No
Do you believe that the proposed investment approach of the London CIV can fulfil your Strategic Asset Allocation.	☐	☒

	Yes	No
Do you agree with the proposal that each LLA would have an individual investment consultation with the London CIV. This would enable LLAs to choose earlier or later pooling.	☒	☐

Additional comments:

Clarification would be helpful as the strategy as it stands seems to imply that the local authority's investment strategy will be subordinated to the choices made by the CIV and the Pension Committee will have to be prepared to compromise. This runs counter to the Government guidance on drafting and adopting an Investment Strategy Statement (ISS) and the autonomy and statutory obligations of individual pension committees in respect of their individual authorities.

Secondly, as indicated above, it is difficult to see how the Shareholder Group will be able to draft an ESG policy that can be adopted by all 33 participating authorities.

There are also questions around the CIV's internal capacity to meet reporting and engagement deadlines for such a large number of stakeholders: committees, local pension boards and investment sub-committees.

Investment

Which Statement do you believe best represents your view of the London CIV revised strategy:	Tick
The revised strategy proposed by the London CIV of a high quality efficient pool ***will*** improve the Investment returns of my Borough's Pension Fund as it will enable the Pension Committee to clearly delegate manager selection and related investment decisions to the London CIV in a more efficient manner.	☒
The revised strategy of the London CIV ***will not*** improve the investment returns of my Borough's Pension Fund as it will no longer enable the Pension Committee to make tactical asset allocations and manager selections.	☐

Additional comments:

Nothing in the new structures should be seen as undermining the autonomy and ultimate decision-making authority of individual pension committees.

Any other comments

There are four main concerns:

- this strategy does not address individual ESG policies. Croydon currently explicitly excludes tobacco stocks and is likely to exclude other sectors but other stakeholders might adopt contrary views.
- the governance arrangements need to bring in the right level of LLA involvement and accountability, as detailed in the comments above
- nothing should be taken as taking away the ultimate investment decision-making authority of individual pension committees.
- Products and sub-products need to recognise the various differing positions and priorities of individual LLAs

Please send your response to Chloe Crouch by 28th February 2018

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Croydon Council

REPORT TO:	**PENSION COMMITTEE** **13 March 2018**
SUBJECT:	**Progress Report for Quarter Ended 31 December 2017**
LEAD OFFICER:	**Richard Simpson** **Executive Director of Resources**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
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 2017 was £1150.4m compared to £1113.9m at 30 September 2017, an increase of £36.5m and a return of 3.42% over the quarter. The performance figures in this report have been compiled from data provided by each fund manager and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

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 note the decision to invest 5% of the value of the Fund in an actively managed Emerging Market equity fund (paragraph 3.6.7. refers) by transitioning 5% of the value of the portfolio into the London CIV emerging markets sub-fund.

2 EXECUTIVE SUMMARY

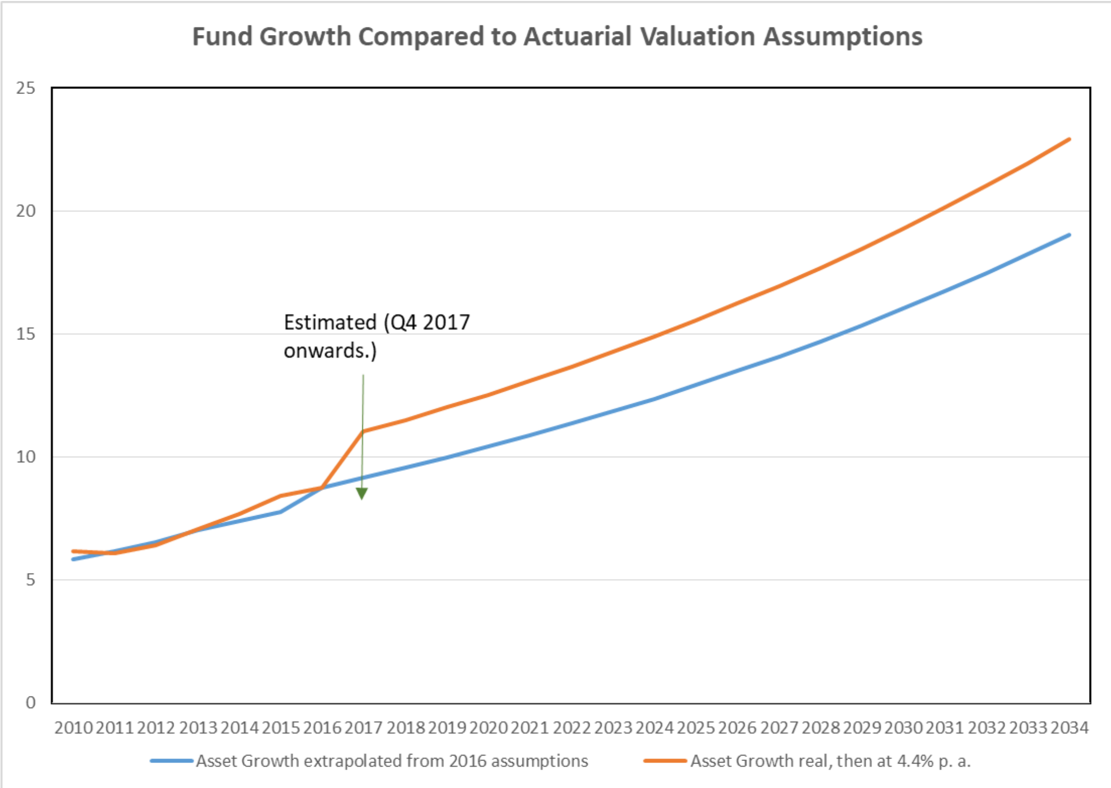
2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 December 2017. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how 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 summarised in Appendix A. The returns for L&G, Standard Life, Wellington and Schroders are calculated on a time series basis. This basis negates the effect of any cash flows made to and from a manager's portfolio (the reason being that the timing of investments and disinvestments is not the manager's decision) and so allows the performance of those managers to be compared fairly with their benchmarks and peers. The returns for the other managers are calculated using the Internal Rate of Return (IRR). Using the IRR considers the effect of cash flows and this is deemed appropriate for these managers as the timing of investments is determined by the manager. Due to the nature of these investments, less emphasis should be put on the performance for immature investments; Temporis, GIB, Access, Markham Rae, North Sea Capital and M&G, and more attention should be made to the performance since inception for the more mature investments: Equitix, Knightsbridge and Pantheon. The whole of fund return uses the IRR as this is in line with the Actuary when calculating the valuation. It should be noted that the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

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**

Since the revised asset allocation was agreed £69.2m has been disinvested from global equities and £32.2m from hedge funds. This along with new cash to the fund has been invested; £19.9m in private equity, £71m in infrastructure, £25m in Private Rental Sector property and £16.4m in traditional property.

3.6.1 **Private Equity –** During the quarter net distributions of £2.1m were paid from our existing private equity managers and positive returns were generated over the quarter meaning the allocation was 7.9% of the Fund. The allocation is considered on target.

Allocation: On target.

3.6.2 **Infrastructure –** During the quarter a net investment of £7.9m was drawn from existing managers. Positive returns of £2.9m were also generated in the quarter meaning the allocation percentage increased to 9.6%. This target allocation for this asset class can now be achieved from the current mandates.

Allocation: On target which is ahead of the original planned date of 31 December 2019.

3.6.3 **Traditional Property –** During the quarter positive returns of £3.4m meant the allocation remained on target.

Allocation: On target.

3.6.4 **Private Rental Sector -** The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and during the quarter ending 31 December 2016 signed a commitment for a further £35m with M&G. The first tranche of £25m has now been fully drawn and the fund is generating positive returns. The allocation remained at 2.2% over the quarter. Officers anticipate the second tranche to be drawn over the second half of 2018.

Allocation: On target to meet allocation by 31 December 2018 as planned.

3.6.5 **Global Equities –** The Fund's allocation to equities remained overweight at 52.7% when compared to the previous quarter of 53.4%, a movement of -0.7 %. £15m was divested from equities over the quarter. Equities provided the most positive gains over the quarter, although these have been much lower than experienced over the previous year. Members will be aware that the asset allocation strategy recognised that moving from the previous asset allocation would be a gradual process, driven by the availability of opportunities. It is also recognised that the preservation of returns is important. Consequently the current over-weight position in equities represents a positive benefit to the Fund. This must intentionally be a short-term position and the transfer of funds to other alternate asset classes, as described above, is part of the process of locking in some of the recent returns.

3.6.6 During the quarter the Equity holdings were transferred from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The equity holdings are now considered part of the London CIV for pooling purposes.

3.6.7 Following extensive discussions and thorough due diligence officers are able to provide a high degree of comfort that investing in the London CIV's emerging market sub fund would meet the investment strategy goal of accessing this asset class. Consequently 5% of the value of the portfolio will be transitioned into this sub-fund, subject to a timetable to be agreed with the CIV. The intention is that this sub-fund will be managed by Janus Henderson for the CIV. Appendix E provides more detail. This is the information sheet published through the CIV portal and is thus included in the Part B report as it should be considered commercially sensitive.

3.6.8 **Fixed Interest –** The Fund has moved below the lower end of the target range in its fixed income allocation and this is largely due to outperformance of other assets. As outlined in the previous quarter's progress report officers have explored the use of private debt as an option to close this gap. Reduced lending by banks due to tightened regulation and legacy issues has led to retreat by banks from the credit markets post the 2008 crisis. The structural shift towards non-bank lenders in Europe has created an opportunity for alternative lenders. Private debt lenders are becoming key capital providers while banks continue their deleveraging process. Officers are seeing more and more that corporations are diversifying their financing sources and private debt and direct lending funds are capitalising on the opportunity. This asset class is at an early but fast-growing stage of development. For example private debt funds secured a combined $107bn among 136 funds that reached a final close in 2017. Investor demand continues to be strong for alternative credit strategies and new funds are launching at the moment. The key advantages of private debt compared with the current allocation to corporate bonds and gilts and so forth are that officers can see an illiquidity premium in private debt due to proprietary deal flow; an attractive overall yield and steady cash yield; a hedge against inflation and rising interest rates given floating rate debt instruments; and a significant diversifier to equity market exposures. Officers will explore options on private debt subject to the committee's views focusing first on any offering from the London CIV.

3.7 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 2017

	Valuation at 30/09/2017 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 31/12/2017 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					**52.7%**	**42%**
Legal & General FTSE4Good	594,670	- 609,974	16,866	1,562		
Lega & General FTSE World (Ex Tobacco)	-	594,974	9,930	604,904		
Fixed Interest					**16.8%**	**23%**
Standard Life	128,477	-	890	129,367		
Wellington	62,328	-	1,488	63,816		
Infrastructure					**9.6%**	**10%**
Access	11,049	1,279	581	12,910		
Temporis	12,041	5,155	53	17,248		
Equitix	51,741	2,218	1,156	55,115		
Green Investment bank	25,242	- 744	1,120	25,618		
Private Equity					**7.9%**	**8%**
Knightsbridge	19,215	446	- 27	19,633		
Pantheon	60,632	- 2,929	1,926	59,629		
Access	10,430	404	308	11,141		
North Sea	881	-	- 86	796		
Markham Rae	- 1	- 53	53	- 1		
Property					**10.0%**	**10%**
Schroders	111,401	-	3,442	114,842		
Property PRS					**2.2%**	**6%**
M&G	24,499	-	398	24,896		
Cash					**0.8%**	**1%**
Cash	1,341	7,573	5	8,919		
Fund Total	**1,113,945**	**- 1,651**	**38,103**	**1,150,397**	**100%**	**100%**

3.8 The Fund remains over-weight to equities and under-weight to fixed interest to the extent that the proportion in these asset classes is outside the allowable variance. Officers believe that this over-weight position has had advantages in the short-term. However this position is not consistent with the Fund investment strategy. Officers estimate that the commitments made in Infrastructure and PRS outlined above will result in an extra £35-50m being transitioned from equities to alternatives over the next 12 months and the pension fund will have a net cash outflow of approximately £18m as a result of the advance payment of .deficit contributions. Efforts are being made to rebalance further the portfolio and, in particular as referenced earlier, the London CIV is being considered in order to correct the under-weight position in fixed interest products, based on it meeting the funds objectives.

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 In terms of the Pension Fund investment strategy in relation to the global picture, officers believe:

- The domestic US economy will continue to grow at a healthy rate.

- China will also continue to demonstrate strong growth and this will be critical in stoking the continued expansion of emerging markets. By and large emerging market revenue account issues have been resolved.

- The European economy is showing positive signs of growth, especially when compared to the UK.

- While the Brexit negotiations are ongoing sterling will remain at depressed levels. Officers are continually considering the merits of currency hedging.

3.12 The role of Central Banks in guiding local economies and that specific impact on the global economy remains an area for concern. Interest rates and inflation both represent significant headwinds impacting on the valuation of liabilities and the investments designed to match them. Specifically Officers are concerned by the increasing threat of inflation and all infrastructure investments the Fund has committed to have an inflation linkage built into the return profile.

3.13 The portfolio term Brexit encompasses a number of risks. Immediate concerns that the UK economy would register a shock have not materialised. However, the outcome of the snap election has done little to quieten concerns. The fall in the relative value of sterling has masked a long term issue around productivity and actually benefitted the portfolio. Other concerns may manifest themselves in the future. One issue that seems certain to impact the fund is that of passporting and the cost of accessing investment opportunities.

3.16 AON Hewitt, the Fund's investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 31 December 2017 and a Quarterly Investment Outlook which provides context for this risk analysis. These reports are included in the closed part of this Committee agenda.

Section 4: Investment Manager Visit

3.17 Members of the Pensions Committee visited Pantheon at their Finsbury Square offices. The meeting covered the evolution of the investment, prospects for the market and performance.

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. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The solicitor to the Council comments that there are no additional legal considerations arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law, for and on behalf of Jacqueline Harris-Baker, Director of Law and 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:

Part A appendices:

Appendix A: Fund Returns

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: AON Hewitt Manager Monitoring Report

Appendix C: AON Hewitt Market Review: 3 months to 31 December 2017

Appendix D: AON Hewitt Quarterly Investment Outlook

Appendix E: London CIV Emerging Markets Sub Fund Information Sheet

Appendix A

London Borough of Croydon fund returns for the period ending 31 December 2017

EQUITIES					
L&G Ex tobacco	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	1.7%				1.7%
Benchmark	1.8%				1.8%
L&G Ex FTSE4Good	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.8%	11.1%			10.4%
Benchmark	2.8%	11.2%			10.5%
FIXED INTEREST					
Standard Life	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.7%	1.9%	3.1%	3.6%	4.7%
Benchmark	0.6%	2.2%	3.3%	3.8%	4.8%
Wellington	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.4%	2.7%	4.2%	4.4%	6.6%
Benchmark	2.0%	2.6%	4.5%	4.8%	6.3%
INFRASTRUCTURE					
Equitix	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	1.9%	10.0%	12.6%	21.8%	14.6%
Benchmark	1.4%	7.9%	6.6%	6.5%	7.4%
Temporis	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.4%	-1.10%			-0.2%
Benchmark	1.4%	7.94%			7.5%
GIB	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	4.7%	8.9%			8.9%
Benchmark	1.4%	7.9%			7.9%
PRIVATE EQUTIY					
Knightsbridge	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-0.1%	-4.1%	14.5%	16.4%	12.6%
Benchmark	1.4%	7.9%	6.6%	6.5%	7.1%
Pantheon	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	3.3%	13.1%	15.4%	15.3%	13.1%
Benchmark	1.4%	7.9%	6.6%	6.5%	7.2%
Access	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	3.3%	9.4%			9.8%
Benchmark	1.4%	7.9%			7.5%
Markham Rae	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%	0.0%	0.0%	0.0%	0.0%
Benchmark	1.4%				
North Sea Capital	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%	0.0%	0.0%	0.0%	0.0%
Benchmark	1.4%				
PROPERTY					
Schroders	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	3.1%	10.3%	7.8%	10.7%	10.2%
Benchmark	3.1%	10.2%	8.4%	10.3%	9.5%
PROPERTY PRS					
M&G	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	1.62%	0.67%	0.00%	0.00%	-0.46%
Benchmark	3.09%	10.09%	0.00%	0.00%	7.74%
Total Fund					
	Quarter	**1 year**	**3 year**	**5yr**	**inception**
Fund	3.42%	9.67%	11.22%	11.23%	8.23%
CPI + 4%	1.18%	6.94%	5.56%	5.45%	6.26%

Returns are net of fees and annualised apart from for the last quarter

Returns for Equity, Fixed Interest and Property Funds are calculated on a time weighted basis.

Returns for Infrastructure, Private Equity ,Property PRS funds and the Total return are calculate

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