

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 29/09/2020

Subject: Pension Fund Quarterly Update Pack

Report of: Tim Mpofu, Pension Fund Manager

Executive Summary

1.1 This paper provides the Pension Fund Sub-Committee with summary of the Pension Fund's:

- a. Overall performance for the quarter ended 30 June 2020
- b. Cashflow update and forecast
- c. Assessment of risks and actions taken to mitigate these
- d. Sub-Committee's strategic forward plan

Recommendations

1. The Pension Fund Sub-Committee is recommended to:
 - a. Approve moving cash balances to Northern Trust's Conservative Ultra Short Fund.
 - b. Note the update.
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Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none">• Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

Financial Impact

- None

Legal Implications

- None
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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. LBHF Pension Fund Quarterly Update – Q1 2020/21

- 1.1. This report and attached appendices make up the pack for the quarter ended 30 June 2020. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.
- 1.2. Appendix 2 contains the Pension Fund's report on the latest updates with regards to the integration of the environmental, social and governance (ESG) factors as part of the its investment strategy.
- 1.3. Appendix 3 provides information about the Pension Fund's investments and performance. Kevin Humpherson from Deloitte will be attending the meeting to present this report.
- 1.4. Appendix 4 is a report on the Pension Fund's investment performance during 2019/20 in comparison with other LGPS funds. The fund's investment performance was in the 19th percentile, mainly as a result of excellent performance from its equity and multi asset investments.
- 1.5. The Pension Fund's cashflow monitor is provided in Appendix 5. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to 31 March 2020. An analysis of the differences between the actuals and the forecasts for the quarter is also included.
- 1.6. Appendix 6 contains the Pension Fund's Risk Registers which were revamped to show a more meaningful assessment of risks and the actions taken to mitigate them. These also highlight the risks that are increasing in their likelihood for enhanced monitoring by officers.
- 1.7. Appendix 7 gives an update on the Forward Plan as at 30 September 2020.

2. Cash Management Strategy: Northern Trust Conservative Ultra Short Fund

- 2.1. On 19 March 2020, in an emergency move to help control the economic shock from the response to the coronavirus pandemic, the Bank of England reduced its base rate from 0.25% to 0.1%. Subsequently, the Pension Fund's bank and custodian reduced the overnight interest rates payable on the fund's accounts.
- 2.2. Although the Pension Fund does not have a strategic allocation to invest its cash, it often holds cash balances in order to pay scheme member pensions, transfer funds when capital calls are requested or when managing an investment transaction that requires a cash redemption. Cash balances tend to vary during the year depending on the Pension Fund's investment activity.

- 2.3. The current low interest rate environment increases the risk of cash drag for the fund, with its cash balances only yielding 0.18% since March 2020. The Pension Fund has the option to invest its cash short-term using Northern Trust's Conservative Ultra Short Fund (CUSF).
- 2.4. The CUSF currently yields 0.74% and is intended for investors with a time horizon of three to nine months. The table below provides a summary for the fund.

Yield to Maturity	0.74%
Average portfolio quality	A/A+
Target duration	0.5 years
Dealing	T+2
Cost	No additional cost

- 2.5. In addition to the above criteria, the CUSF applies ESG exclusions and integrations in its portfolio construction process. The ESG performance of the fund is reported to investors on a monthly basis.

3. Risk Management Implications

- 3.1. The cash strategy is regarded as being of minimal risk.

4. Other Implications

- 4.1. N/A

5. Consultation

- 5.1. N/A

List of Appendices:

- Appendix 1: Scorecard at 30 June 2020
- Appendix 2: Pension Fund ESG Report
- Appendix 3: Deloitte Quarterly Report for Quarter Ended 30 June 2020
- Appendix 4: PIRC Universe Overview 2019/20
- Appendix 5: Cashflow Monitoring Report
- Appendix 6: Pension Fund Risk Register
- Appendix 7: Pensions Sub-Committee Forward Plan

London Borough of Hammersmith and Fulham Pension Fund Quarterly Monitoring Report

	Sep 19	Dec 19	Mar 20	Jun 20	Comment/ Report
LIABILITIES					
Value (£m)	1,098.6	1,108.7	1,006.4	1,118.7	Deloitte Report Gross of Fees
% return quarter	3.0%	0.3%	-8.8%	11.1%	
% return one year	5.9%	12.3%	-2.9%	4.8%	
LIABILITIES					
Value (£m)	1,090	1,082	1,090	1,090	
Surplus/(Deficit) (£m)	6.0	9.7	(22)	(22)	
Funding Level	101%	101%	98%	98%	
MEMBERSHIP					
Active members	3,821	4,026	4,332	4,151	
Deferred beneficiaries	7,171	7,085	6,840	6,992	
Pensioners	5,173	5,222	5,111	5,278	
Employers	50	50	50	47	
CASHFLOW					
Cash balance	£4.4m	£1.2m	£1.6m	£3.0m	Appendix 5
Variance from forecast	£3.1m	£0.0m	£0.0m	£0.6m	
RISK					
No. of new risks	0	1	0	1	Appendix 6 – Risk Register
No. of ratings changed	7	5	0	12	
LGPS REGULATIONS					
New consultations	CMA Review	None	None	McCloud Supreme Court Judgement	
New sets of regulations	None	None	None	None	