London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Agenda

Tuesday 11 February 2020 at 7.00 pm
Meeting Room 1 (2nd Floor) - Shortlands

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy Councillor Rebecca Harvey Councillor PJ Murphy	Councillor Matt Thorley
Co-optee	
Michael Adam	

Shortlands

3 Shortlands,
Hammersmith,
London W6 8DA

Closest Underground Station
Hammersmith

Closest Bus Stop
Latymer Court (Stop G)

CONTACT OFFICER: Amrita Gill
Committee Coordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

Reports on the open agenda are available on the Council's website:
www.lbhf.gov.uk/committees

Members of the public are welcome to attend and the building has disabled access.

Date Issued: 03 February 2020

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee
Agenda

Item		Pages
1.	**MINUTES OF THE PREVIOUS MEETING**	4 - 12

To approve as an accurate record and the Chair to sign the minutes of the meeting held on 26 November 2019.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.

At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken.

Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.

Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.

4. TRIENNIAL VALUATION 13 - 48

This paper introduces the final results of the 2019 triennial actuarial valuation process for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, which are further discussed in Appendix 1 attached by the Pension Fund's actuary, Barnett Waddingham (BW).

5. FUNDING STRATEGY STATEMENT 49 - 75

Following the 2019 triennial actuarial valuation, the Fund's actuary (Barnett Waddingham) has produced a draft Funding Strategy Statement (FSS). The purpose of the FSS is to establish a clear and transparent strategy on how to meet pension liabilities going forward.

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Tuesday 26 November 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rebecca Harvey, PJ Murphy and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), Matt Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager), Hitesh Jolapara (Strategic Director of Finance and Governance), Dawn Aunger (Assistant Director People and Talent), Trevor Webster (Human Resources)

Guests: Barry McKay (Barnett Waddingham)
Kevin Humpherson & Jonny Moore (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED:
THAT, the minutes of the meeting held on 12 September were approved and signed by the chair.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Rebecca Harvey.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. AUTHORISATION TO APPROVE ADMITTED BODIES INTO THE LBHF PENSION FUND

Trevor Webster, Human Resources introduced the report and noted that the holder of the Director of Corporate Service post left the Council on 31st May 2019. Therefore, as an interim arrangement the Chief Executive was approving Admitted Body Status (ABS) to a new employer and the Assistant Director People and Talent had been making discretionary decisions. It was recommended that the delegated authority be given to the position of

Assistant Director People and Talent to approve ABS to a new employer and also make discretionary decisions relating to death, grant and early/ill health retirement payment on behalf of the Council's Pension Fund.

Councillor PJ Murphy asked for further clarification to be provided, relating to the accountability of decision making on behalf of the Council's Pension Fund and what governance arrangements were in place. In response Trevor Webster explained that the procedure set out in the discretionary decisions policy document would be followed to ensure consistency throughout the process. In addition, an independent audit would be carried out by Surrey County Council (SCC), separately to the Council's own audit process. The Council would be notified if any discordant, decisions were made, and a review would be carried out.

RESOLVED:
THAT, the Sub-Committee delegated authority to the position of Assistant Director People and Talent to approve 'Admitted Body Status' to a new employer and to make discretionary decisions relating to making death grant and early/ill health retirement payment on behalf of the Council's Pension Fund.

5. PENSION REGULATOR REPORT

Trevor Webster, Human Resources noted that in September 2019 the Pensions Regulator (TPR) issued a report which followed their survey carried out between October 2018 and July 2019 into the Governance and Administration of Public Sector pensions. As part of the report the Pensions Regulator fed back on good practice and suggested improvements that could be made. The findings and best practice was compared to the current governance standards within the Council's Local Government Pension Scheme fund and conclusions and recommendation had been made.

In comparison to the report the Council matched closely on a number of green areas, such as key performance indicators, the complaints process and the management of admitted processes. Officers provided reassurances to members that no red flags had been identified. However, four amber areas had been established and these would be reviewed by officers. Additionally, improvements would be made in line with the report issued by the Pensions Regulator.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the contents of the report.

6. ADMINISTRATIVE PERFORMANCE UPDATE

Trevor Webster, Human Resources explained that the Council's London Government Pension Scheme (LGPS) day to day administration was delegated to SCC. SCC's performance against the agreed Key Performance

Indicators (KPIs) was shown in Appendix 1 and monthly monitoring of all KPIs would continue.

In addition to the KPIs, an agreed priority of the pension's administration service was that Surrey County Council (SCC) would focus resources on the resolution of queries at the first point of contact carried out via a dedicated help desk. The aim was to resolve matters and provide a speedy reply to routine queries. As a result, in September 2019 of the 644 personal contacts were made by employees in the Council's pension scheme to the SCC help desk. Of these 86% (567) were resolved at the first point of contact. It was noted that overall all except one out of the seventeen KPIs stood at 100%.

Councillor Rebecca Harvey asked why the total number of first point of contact queries were high. In response Trevor Webster explained that employees contacted SCC for advice, more frequently than before and higher queries would be received during the release of the Annual Benefit Statements. In addition, it was noted that in comparison to other London boroughs these figures were not higher than the average.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the contents of the report.

7. PENSION FUND QUARTERLY UPDATE PACK

Tim Mpofu, Pension Fund Manager provided an update on the Pension Fund Quarterly Monitoring report. He noted that over the quarter to 30 September 2019, the Fund delivered a return of 2.9% net of fees outperforming the fixed weight benchmark by 0.4%. In addition, the Funds valuation was close to £1.1bn which suggested a good environment from an investment point of view. It was noted that that no funding update was carried out in Q1 2019, as the assumptions had been changed ahead of the triennial valuation, however this would be revised in line with the actuaries.

Michael Adam, Co-opted Member, referring to Appendix 1 of the pack asked why there had been a decline in active members. Tim Mpofu explained that the figures had been refreshed in June. A data cleansing exercise was carried out to ensure that the Council's data was at a good standard prior to the triennial valuation. Therefore, some of the active members had moved to the deferred list.

Councillor PJ Murphy explained that the accuracy of the data was crucial, therefore enquired whether officers were satisfied with the standard of the data as it currently stood. In response Phil Triggs explained that Barnett Waddingham were of the view that the data was at a good standard since the data cleansing work had been carried out. Officers had been working to achieve a higher standard over the last 12 months. A comparison of the current standard of data in contrast to how it was, prior to the data cleansing work could be provided to the Committee to review.

Hitesh Jolapara, Strategic Director of Finance and Governance said that regular sample checks on the data would be introduced going forward to ensure that the data was consistently being reviewed.

Tim Mpofu, Pension Fund Manager provided a summary of the Fund's Environment, Social & Governance (ESG) Report. He explained that the Fund's investment in the MSCI Low Carbon index had 57% less CO2 output than the global benchmark. This analysis was carried out annually by the Pension Fund through a specialist firm. In addition, the Pension Fund's officers continued to engage with the fund managers in the development of better carbon emissions metrics and reporting. The total carbon friendly investment value was £466m.
.
Councillor PJ Murphy asked if the Fund was on target for achieving Carbon neutrality by 2030 in line with Council's priority. In response Tim Mpofu explained that a full evaluation needed to be carried out to determine the Fund's level of exposure to carbon emissions. This exercise would be carried out in January 2020 and officers would then have a better indication on how close the Fund was to achieving its target. Phil Triggs, Director of Treasury & Pensions, explained that a Responsible Investment Policy paper was being developed (an agenda item at this meeting) and part of these discussions would help determine how the Council would achieve their target by 2030. In addition, the paper would be a working document to support and improve the Council's carbon position over the long-term.

Michael Adam, Co-opted Member asked whether there was an opportunity to consider other ESG metrics across the board, rather than focusing on carbon exclusively to make improvements in this area i.e. how the council was performing on ESG overall. In response Matt Hopson explained that voting data could also be included, however this paper mainly focused on carbon. Michael Adam suggested that officers followed this up this with managers to determine how the Council could expand this paper to capture other ESG factors including gender paid gaps and good governance on boards.
.
Kevin Humpherson, Deloitte, noted that Aviva Investors had been in touch to notify officers that there had been some changes to the role of Head of Infrastructure Equity, a new managing director of infrastructure had been appointed. Kevin Humpherson explained that he would contact Aviva after the meeting to ascertain the current position and feed back to the Sub-Committee as soon as possible.

Kevin Humpherson, Deloitte provided an update on Oak Hill Advisors outlining the key organisational and personnel changes. While there had been significant changes over the period, particularly to senior management, Deloitte were of the view that the team remained strong. Robert Okun's retirement as the Portfolio Manager on the Diversified Credit Strategies fund was relatively gradual, with investors being aware for some time that Adam Kertzner would take over.

Kevin Humpherson, Deloitte provided an overview of five alternative asset classes selected by the Sub-Committee. These included direct lending, renewable infrastructure, social housing, emerging market debt and green bonds. For each of these asset classes a description of their main characteristics and various key considerations was provided to the Sub-Committee. In addition, majority of these asset classes were illiquid in nature, therefore the Sub-Committee should consider its immediate and future cashflow requirements and longer-term goals before making a commitment.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the contents of the report.

8. DRAFT TRIENNIAL VALUATION

Barry McKay, Barnett Waddingham the Pension Fund's actuary provided an update of the results for the 2019 triennial actuarial valuation and outlined the following key points:

- Active membership remained stable, however the deferred member numbers were up 10%. Therefore, the cash management and investment strategy needed to be considered going forward to find an alternative to fill the gap deficit.
- The Fund's funding level, as a whole had risen to 97% from the 88% level in 2016.
- Good results were broadly due to the excellent investment returns over the period, increasing by 88m more than expected.
- The Fund's deficit had decreased from £114m to £35m
- Each employers funding position and liabilities were calculated separately to set individual employer contribution rates.
- The cost control management mechanism in public service pensions would normally be underway at this time, the Government Actuaries Department (GAD) had suspended the process, pending the outcome of the McCloud Supreme Court case.
- It was noted that longevity rates had shown a slight decline in improvement since 2011. Therefore, a small adjustment was made to the valuation of liabilities, reducing the total by approximately £54m.
- The primary rate had increased as the cost of asset purchase was more expensive in comparison with three years ago.
- The discount rate has been reduced in order to reflect a more prudent approach to future investment outcomes, following three years of significant investment returns.
- There has also been a decrease in the secondary rate as a result of a better funding level.
- Overall aiming for stability of the total level of contributions.

Councillor PJ Murphy asked what factors were considered when life expectancy was determined. In response Barry McKay explained that many different factors were considered when life expectancy was analysed, including every member in the fund. This meant that every employer had their own analysis carried out and the mortality rate was determined on the basis of each individual's role, postcode and various other factors.

Council PJ Murphy asked whether the Council's funding level had been frozen for the next three years. In response Barry McKay explained that it's frozen from the point when the contributions were set. The overall funding level was currently 97% and would always be a moving target. The Council would ideally need to stay between 95-105% as this would keep the contributions within the investment strategy relatively stable. Additionally, other factors such as inflation can also affect the funding level.

Councillor PJ Murphy queried whether the Council was able to adjust its funding level if it chose to increase its contributions within the three-year period. Barry McKay explained that the regulations allowed the Council to pay more in and adjust the contribution rate. However, it was important to be prudent on certain factors. As this was an open-ended scheme the ideal situation, whilst looking for a long-term return in the market, was to ride out the volatility and keep contributions as stable as possible over the long term.

The Chair asked at what point should the Government Actuaries Department (GAD) be concerned in relation to funding levels for local authorities. Hitesh Jolapara, Strategic Director of Finance & Governance explained that
the GAD report on the 2016 LGPS triennial actuarial valuation outcome was somewhat critical of the LGPS and not reflective of the majority of Funds being in a strong position. Some of the tests were regarded by LGPS actuaries as being not fit for purpose. Upon receiving notable challenges from various actuarial firms, GAD revised their report reflecting the improved funding positions across the board. The Council received green flags across the board on the GAD's various tests. The initial results of 2019 triennial actuarial valuation demonstrated that the fund's funding level as a whole had risen to 97% from 88% level in 2016, therefore this showed a greatly improved funding level and was now almost fully funded.

Michael Adam, Co-Opted Member asked what the average funding level across the LGPS was. In response Barry McKay noted that the average funding level should be approximately 100%, however a more complete analyse would be available by the end of March 2020.
.
The Chair thanked Barry McKay for the presentation and for his contributions made to the meeting.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the and commented on the initial actuarial results.

9. MAC MANAGER SELECTION PAPER

Matt Hopson, Strategic Investment Manager explained that at the last Pensions Fund Sub-Committee on 12 September 2019 the Pensions Sub-Committee agreed to reallocate the Pension Fund 5% allocation to diversified private credit. After drawing up an initial longlist of managers that were capable of running such a mandate, this was reduced to a shortlist of two. The Sub-Committee met on 22 October 2019 to interview the two managers, Partners Group and Aberdeen Standard Investments (ASI), to determine their suitability for the mandate. Both managers put forward compelling cases and it was recommended that the Sub-Committee appointed ASI for the reasons set out on page 150 of the agenda pack.

In addition, as a seed investor, the Pension Fund had been offered a seat on the investment Advisory Board. ASI had offered an original fee for an extra 5bps discount. However, the original set up fee remained the same.

Michael Adam, Co-opted Member advised that if the Sub-Committee was minded to appointing ASI, then it would be well timed to wait until the outcome of the General Election to ascertain the macro economic outlook for UK before investing.

RESOLVED:
THAT, in principle the Sub-Committee appointed Aberdeen Standard Investments to run the Pension Fund's £55m diversified private credit mandate using the Multi Factor Private Credit Fund subject to the results of the General Election on 12 December 2019.

Authority was delegated to Phil Triggs, Director of Treasury & Pensions, in consultation with the Chair to agree this after 12 December 2020.

10. INVESTMENT CONSULTANT AIMS AND OBJECTIVES

Matt Hopson, Strategic Investment Manager presented the aims and objectives for the Fund's consultant, Deloitte as per the requirements of the Competition and Markets Authority (CMA).

Matt Hopson, Strategic Investment Manager referring to page 179 of the agenda pack, explained that after conducting an extensive review into the Pension Fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve Pension Fund governance, with a number of concerns expressed around fees and conflicts of interest. The key suggested remedies were set out in section 1.3 of the report.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the report with a view to formalising and agreeing aims and objectives for the Pension Fund's investment consultant, Deloitte.

11. MHCLG PROGRESS REPORT

Phil Triggs Director of Treasury & Pensions presented the Ministry for Housing, Communities and Local Government (MHCLG) report. The London CIV pooling progress report had been prepared based on the data provided by the 32 local authorities within London and, in preparing cost and savings projections a number of assumptions had been applied to this data. The estimated savings passed on to member shareholders by March 2023 was projected to be circa £60m.

Members asked how much savings the Council had made by being a member of LCIV. In response Phil Triggs said that the Council had made savings of approximately 30k per annum. In absolute terms it had cost the Council more to be part of LCIV. However, this should improve overtime. Additionally, LCIV were in the process of compiling their budgets for 2020 and the outcome would be reported in February 2020.

RESOLVED:
THAT, the Pension Fund Sub-Committee noted the contents of the report.

12. TRAINING NEEDS ASSESSMENT

Matt Hopson, Strategic Investment Manager explained that the knowledge and skills assessment form needed to be completed by the Sub-Committee and sent back to officers. This was not a statutory requirement for the Sub-Committee. However, training records needed to be documented and any feedback would be useful to determine the training programme.

RESOLVED:
THAT, the Pension Fund Sub-Committee noted the knowledge and skills assessment form.

13. ENVIRONMENTAL, SOCIAL, GOVERNANCE AND RESPONSIBLE INVESTMENT POLICY

Phil Triggs, Director of Treasury & Pensions provided an updated and noted that the suggested update of the Pension Fund's Environment, Social and Governance (ESG) Policy would be included as part of the update to the Investment Strategy Statement, a full redraft would be brought to the next Sub-Committee meeting. The responsible Investment Statement would be a stand-alone policy document which aimed to make clear the Pension Fund's investment values and would be subject to regular ongoing review.

RESOLVED:
THAT, the Pension Fund Sub-Committee noted the report with a view to enabling officers to formalise and finalise the ESG related policies statements.

14. ANY OTHER BUSINESS

LCIV PENSION RECHARGE AGREEMENT

Phil Triggs (Director of Treasury & Pensions), presented the outcome of the LCIV Pension Recharge and Guarantee Agreement discussions. It was noted that the London CIV, having opted to join the LGPS Pension Scheme via an admission agreement with City of London authority, was proposing to change the basis for this by saying that membership would not be available for new employees. LCIV have not yet entered into the admission agreement. Conditional on this was the Recharge/Guarantee Agreement paperwork being signed and returned to LCIV. Members agreed for these two agreements to be entered into by the Council.

Meeting started: 7:00pm
Meeting ended: 9:45pm

Chair ....

Contact officer: Amrita Gill
Committee Co-ordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 11/02/2020

Subject: Draft Triennial Valuation

Report of: Matt Hopson – Strategic Investment Manager

Summary

1.1 This paper introduces the final results of the 2019 triennial actuarial valuation process for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, which are further discussed in Appendix 1 attached by the Pension Fund's actuary, Barnett Waddingham (BW).

1.2 The key highlights are:

- The Fund's funding level, as a whole, has risen to 97% from the 88% level in 2016, which is broadly due to the excellent investment returns over the period, increasing by £88m more than expected.

- The two major changes to the assumptions are a reduction in the real discount rate and a reduction in the long-term improvement in pensioner longevity. These two changes combined have led to an increase in liabilities by approximately £40m in total as a result.

Recommendations

1. The Sub-Committee is requested to approve the final 2019 Triennial Valuation for the Pension Fund set out at Appendix 1.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Being ruthlessly financially efficient	The Triennial actuarial valuation shows a greatly improved funding level and is now almost fully funded.

Financial Impact

The initial results of the triennial actuarial valuation show an annual saving to the Council in total contributions of £2.8m per annum with effect from 1 April 2020. Contributions are set for a three-year period from that date.

Legal Implications

None

Contact Officer(s):

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

1.1 The Sub-Committee is requested to approve the final 2019 triennial actuarial valuation for the Pension Fund set out at Appendix 1.

Actuarial Results

1.2 In the period from 31 March 2016 to 31 March 2019, the Pension Fund has increased its overall funding level from 88% to 97%. The main drivers for this improvement were the significant investment returns of £88m above what was assumed by the actuary in 2016.

1.3 The funding level for Hammersmith and Fulham (as a single employer) stands at 95%, improving from 84% previously.

1.4 The much improved funding level has allowed the Council to reduce its deficit recovery contributions from £8.6m to £3.8m going forward, although the ongoing primary contributions are expected to cost the Council an additional £2m per annum (net £2.8m reduction per annum). The Council's primary employer contribution rate will rise to 17.1% from 15.3%.

Changes to Actuarial Assumptions

1.5 There are a number of assumptions made during the triennial actuarial valuation process, with the two most significant ones being longevity projections and the real discount rate used to value liabilities.

1.6 Longevity rates have shown a slight decline in improvement since 2011, which implies that mortality expectations have started to flatten out. The actuary has taken into account this trend by reducing the long-term improvement expectations from 1.50% per annum to 1.25% per annum. This small adjustment makes a substantial difference to the valuation of the liabilities, reducing the total by approximately £54m.

1.7 The real discount rate, a proxy for the real investment return, has fallen during the period 2016 to 2019, falling from 3.0% (5.4% investment return less 2.4% CPI) to 2.4% (5.0% investment return less 2.6% CPI). The discount rate has reduced for investments as the actuary considers that investment returns have improved significantly in recent years and has thus factored in a higher level of prudence going forward.

1.8 As a result of the financial changes and demographic changes outlined above, the net increase to the Fund's overall average contribution rate is 1.9%, rising from 15.5% to 17.4%.

1.9 In association with the triennial actuarial valuation, the Fund is also required to approve a funding strategy statement (FSS) and an investment strategy statement ISS), which are being presented later in the agenda (11 February 2020 meeting).

2. Reasons for Decision

2.1. Reasons are set out in the main body of the report.

3. Equality Implications

3.1. None

4. Risk Management Implications

4.1. *None*

5. Other Implications

5.1. *None*

6. Consultation

6.1. Consultation has been undertaken with all employers of the fund to discuss the impact of the valuation on overall contribution rates and to take into account any feedback reference the draft Funding Strategy Statement.

List of Appendices:

Appendix 1: LBHF March 2019 final Actuarial Valuation

VALUATION REPORT

London Borough of Hammersmith and Fulham Pension Fund

Barry McKay FFA | Barnett Waddingham LLP

Introduction

We have been asked by London Borough of Hammersmith and Fulham, the administering authority for the London Borough of Hammersmith and Fulham Pension Fund (the Fund), to carry out an actuarial valuation of the Fund as at 31 March 2019. The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations. Contributions are set to cover any shortfall between the assumed cost of providing benefits built up by members at the valuation date and the assets held by the Fund and to also cover the cost of benefits that active members will build up in the future.

This report is provided further to earlier advice dated 1 October 2019 which set out the background to the valuation and explained the underlying methods and assumptions derivation.

This report summarises the results of the valuation and is addressed to the administering authority of the Fund. It is not intended to assist any user other than the administering authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This advice complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council – in particular TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions.

We would be pleased to discuss any aspect of this report in more detail.

Contents

Executive summary

Some of the key results contained within this report are set out below:

1. Funding position

Using the agreed assumptions, the Fund had assets sufficient to cover 97%of the accrued liabilities as at 31 March 2019.

2. Contributions

Individual employer contributions are set out in Appendix 4 in the Rates and Adjustment Certificate to cover the period from 1 April 2020 to 31 March 2023.

3. Method and assumptions

The resulting method and assumptions are set out in Appendix 2 and we believe they are appropriate for the 31 March 2019 valuation.

4. McCloud

Regulatory uncertainties have put increased pressure on the 2019 valuation results. An allowance for McCloud has been made in the discount rate and more detail is included within this report.

5. Next valuation

Despite the consultation to move local actuarial valuations to a quadrennial cycle, the next actuarial valuation should be carried out with an effective date of 31 March 2022.

Background to valuation approach

The purpose of the 2019 actuarial valuation is to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023, as required under Regulation 62 of the LGPS Regulations.

The contribution rates consist of two elements, the primary rate and the secondary rate:

- The primary rate for each employer is the employer's future service contribution rate (i.e. the rate required to meet the cost of future accrual of benefits) expressed as a percentage of pay.
- The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). The secondary rate may be expressed as a percentage of pay or a monetary amount.

Regulation 62 specifies four requirements that the actuary "must have regard" to and these are detailed below:

1. The existing and prospective liabilities arising from circumstances common to all those bodies
2. The desirability of maintaining as nearly a constant a primary rate as possible
3. The current version of the administering authority's Funding Strategy Statement
4. The requirement to secure the "solvency" of the pension fund and the "long-term cost efficiency" of the Scheme, so far as relating to the pension fund

The wording of the second objective is not ideal in that it appears to be aimed towards the primary rate rather than taking into account the surplus or deficit of the employer. We believe that if we achieve reasonably stable total individual employer rates (which seems like a preferable objective) then we will also meet the regulatory aim.

Definitions for "solvency" and "long-term cost efficiency" are included in CIPFA's Funding Strategy Statement guidance. These can be briefly summarised as:

- ensuring that employers are paying in contributions that cover the cost of benefit accrual and target a fully funded position over an appropriate time period using appropriate actuarial assumptions, and
- that employers have the financial capacity to increase contributions (or there is an alternative plan in place) should contributions need to be increased in future.

We have considered these four requirements when providing our advice and choosing the method and assumptions used and a number of reports and discussions have taken place with the administering authority before agreeing the final assumptions to calculate the results and set contribution rates. In particular:

- The initial results report dated 1 October 2019 which provides information and results on a whole fund basis as well as more detailed background to the method and derivation of the assumptions.
- The follow up report dated 28 October 2019 confirming the agreed actuarial assumptions following the meeting of 3 October 2019.
- The Funding Strategy Statement which will confirm the approach in setting employer contributions.

Note that not all these documents may be in the public domain.

The final assumptions have been agreed with the administering authority. We suggest that the Fund's Funding Strategy Statement is reviewed to ensure that it is consistent with this approach as well as complying with the updated version of CIPFA's Funding Strategy Statement guidance.

We confirm that in our opinion the agreed assumptions are appropriate for the purpose of the valuation. Assumptions in full are set out in Appendix 2.

Regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2019 valuation as follows:

- Effect of the McCloud and Sargeant cases and the cost cap on the future and historic LGPS benefits structure
- Change in timing of future actuarial valuations from a triennial cycle, although the effective date of the next triennial valuation is expected to be 31 March 2022
- Guaranteed Minimum Pensions (GMP) equalisation

Although it is unclear what impact these uncertainties will have on the future benefits of individual members, we have considered these issues in the assumptions used to set the contribution rates for employers. We have made an allowance for the McCloud/Sargeant cases in our derivation of the discount rate and our approach taken to the treatment of McCloud/Sargeant will be disclosed in the Funding Strategy Statement.

Membership data

A summary of the membership data used for the valuation is set out in Appendix 1.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund accounts. Any missing or inconsistent data has been estimated where necessary. While this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Benefits

Full details of the benefits being valued are set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Valuation of liabilities

To calculate the value of the liabilities, we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants. We then discount these projected cashflows using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions used in projecting the future cashflows in respect of both past service and future service are summarised in Appendix 2.

Assets

We have been provided with audited Fund accounts for each of the three years to 31 March 2019.

The market asset valuation as at 31 March 2019 was £1,052,073,000, excluding members' additional voluntary contributions (AVCs).

For the purposes of the valuation, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Therefore we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

The smoothed asset valuation as at 31 March 2019 was £1,043,467,000, based on a smoothing adjustment of 99.2%.

The Fund's long-term investment strategy has been taken into consideration in the derivation of the discount rate assumption. The investment strategy is set out in the Fund's Investment Strategy Statement (ISS) that should be made publicly available on the Fund's website.

Previous valuation

The previous valuation was carried out as at 31 March 2016 by Graeme Muir. The results are summarised in the valuation report dated 31 March 2017 and reported a deficit of £114,434,000.

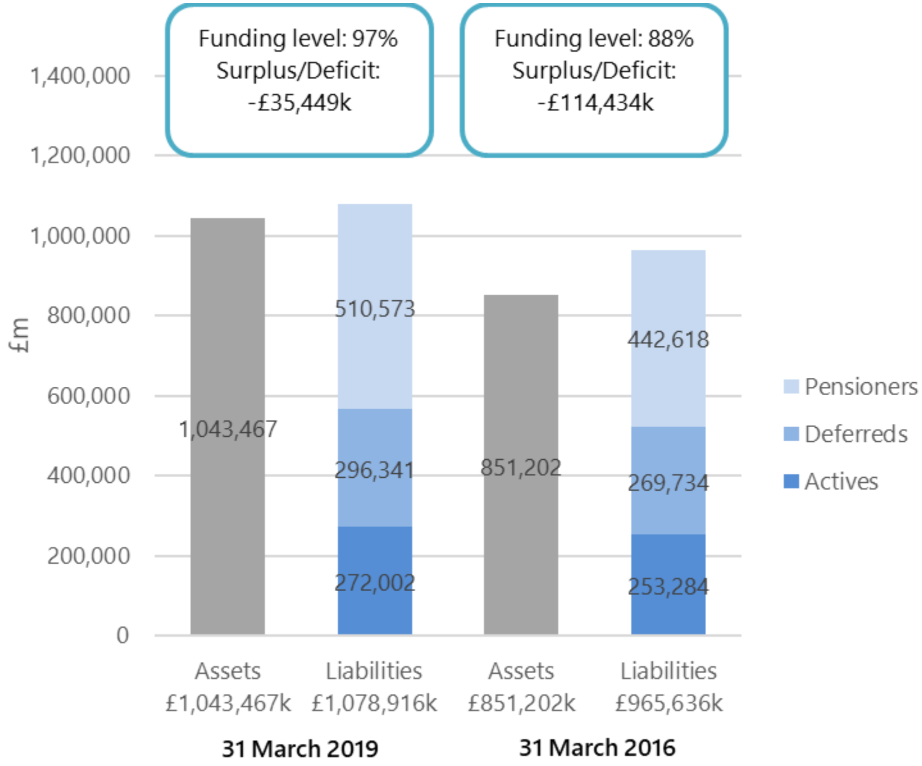
Results

Shortfall between assets and liabilities

A comparison is made of the value of the existing assets with the value of liabilities. If there is an excess of assets over the liabilities then there is a surplus. If the converse applies there is a deficit.

Using the assumptions summarised in Appendix 2, the results of the valuation are set out in the graph below. This shows how well funded the Fund was at the valuation date.

As shown in the chart below there was a deficit of £35,449,000 in the Fund at the valuation date, corresponding to a funding level of 97%.



Contribution rates

The total contribution rate payable by employers consists of two elements: the primary rate and the secondary rate.

Primary rate

Using the assumptions summarised in Appendix 2, the resulting average primary rate across the whole Fund is set out in the table below after allowing for member contributions.

The primary rate for the whole Fund is the weighted average (by Pensionable Pay) of the individual employers' primary rates (after allowing for member contributions).

Primary rate	Valuation basis 31 March 2019 % of payroll p.a.	Previous valuation 31 March 2016 % of payroll p.a.
Average total future service rate	24.4%	22.5%
Less average member rate	-7.0%	-7.0%
Fund primary rate	**17.4%**	**15.5%**

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the Regulations.

Please note that expenses are dealt with in the derivation of the discount rate and therefore we make no explicit allowance in the primary rate for expenses.

Secondary rate

The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). Where there is a deficit, contributions should be set to restore the funding positions to 100% over an agreed "recovery period".

Please note that the recovery period for individual employers varies across the Fund but the administering authority will set out their approach in their FSS to setting recovery periods to address each employer's shortfalls. Where there is a surplus, in line with the Fund's FSS this may be reflected in contribution rates.

The primary and secondary rate of the individual employer contributions payable are set out in the Rates and Adjustment Certificate in Appendix 4. These will differ from the primary rate set out above as well as varying from each other as they are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

The secondary contributions agreed with individual employers have been set at this valuation in order to restore the Fund to a funding position of 100% by 31 March 2036.

In Appendix 4 we also disclose the sum of the secondary rates for the whole Fund for each of the three years beginning 1 April 2020.

Standardised basis

As part of our calculations we have considered the results a standardised basis as set by the Scheme Advisory Board (SAB). We are required to provide the Scheme Advisory Board with the results for the Fund for comparison purposes.

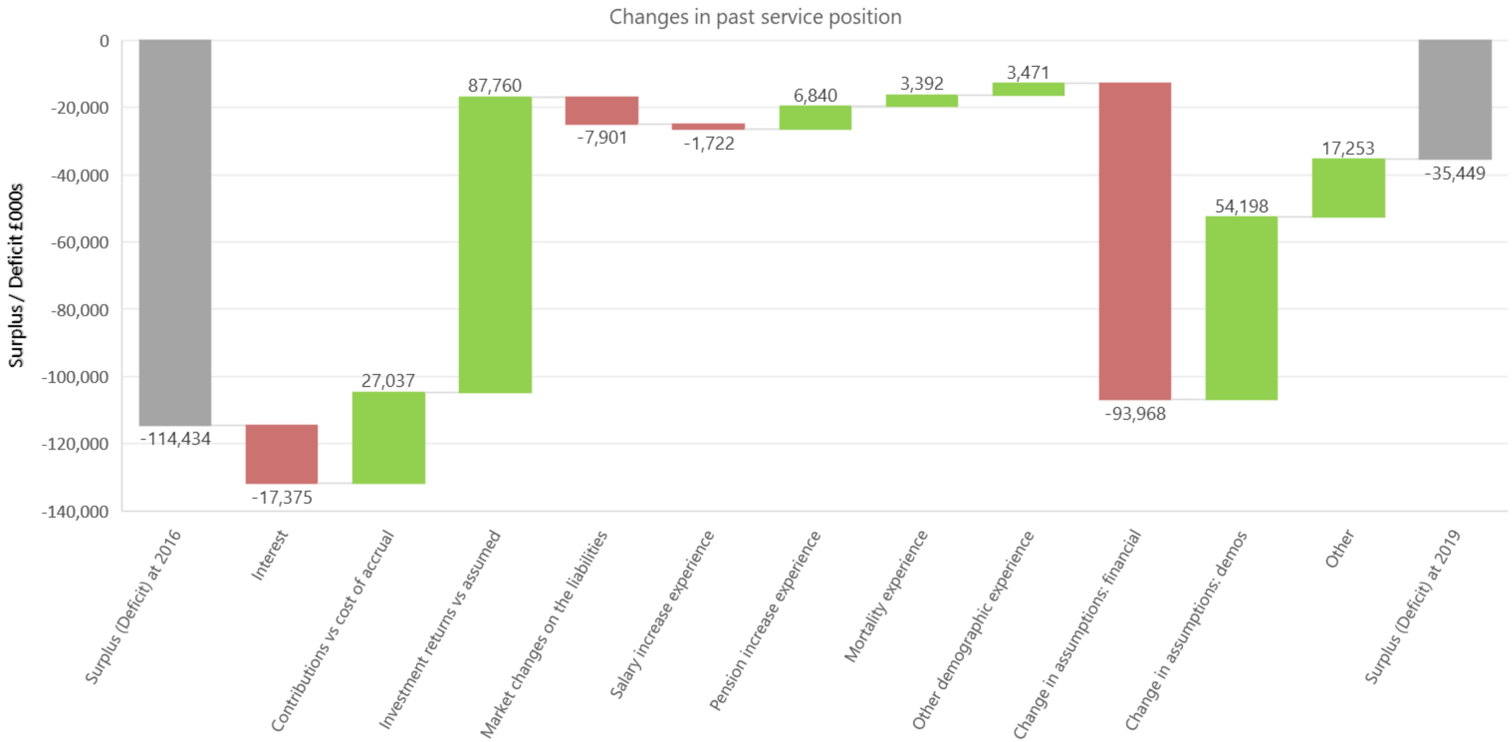
The standardised basis is set by the Government Actuary's Department (GAD) with some of the assumptions used being set locally (such as mortality) and some are set at Scheme level (including all the financial assumptions). It is not used to set contributions as it does not reflect the Fund's investment strategy or the administering authority's attitude to risk; contributions are set using the funding basis.

The results on the standardised basis as at 31 March 2019 are set out in the dashboard in Appendix 3. The dashboard has been introduced since the previous valuation to assist readers to compare LGPS valuation reports and the information will be used by GAD in their Section 13 review of the LGPS funds.

Reconciliation to the previous valuation

Funding position

The previous valuation revealed a deficit of £114,434,000. The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.



Experience

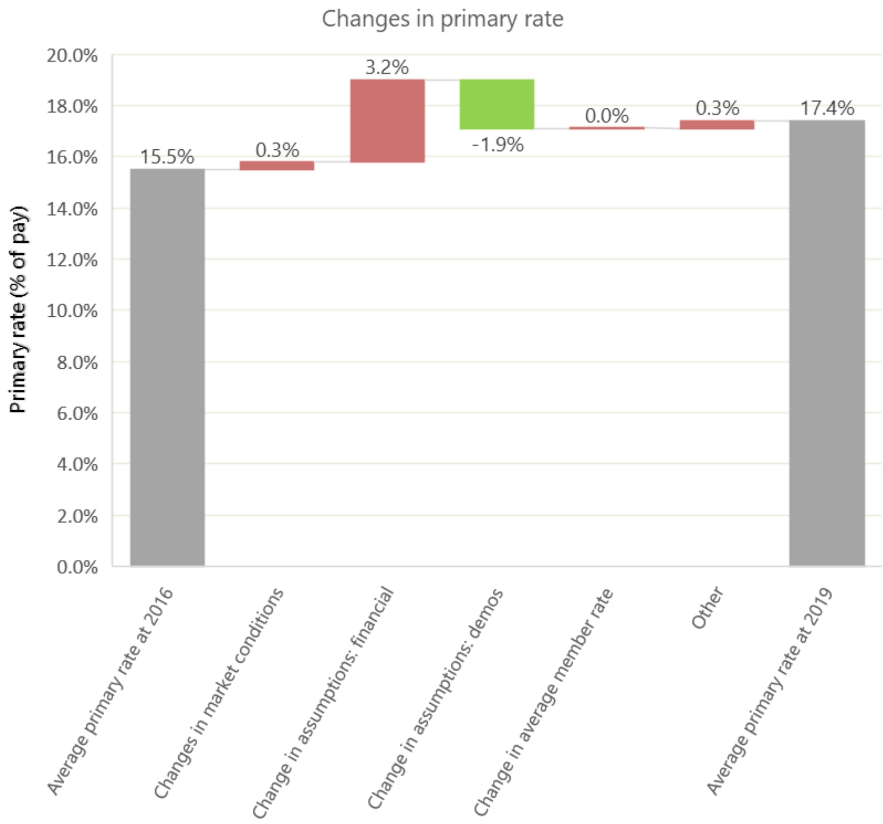
- Investment returns have been strong since 2016 leading to a profit of £87.8m. The Fund has returned over 8.4% p.a. compared to the assumed return of 5.4% p.a. over the three year period. Please note that the assumed return is a long-term assumption.
- Contributions paid were higher than the cost of benefits accrued as the employers made deficit contributions resulting in a profit of £27.0m.
- Salary increases were greater than assumed with some offset from pension increases being less than assumed resulting in a profit of £5.1m. The overall impact of other demographic experience resulted in a profit of £6.8m.
- The "Other" item is mainly a result of ongoing transfers to and from the Fund that have not been settled as yet as well as improvements in the membership data quality since 2016.

Assumptions

- A review of the approach when setting the financial assumptions combined with the change in market conditions resulted in an increase in the liabilities of £101.9m
- Updating the mortality assumptions to allow for a fall in future life expectancies resulted in a decrease in the liabilities of £54.2m

Primary contribution rate

The previous valuation resulted in an average primary rate of 15.5% of Pensionable Pay. The reasons for the change in the cost of future benefit accrual are set out in the reconciliation chart below.



Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the table below.

The figures in the table are shown relative to the deficit of £35,449,000 and funding level of 97% on the agreed funding basis.

Sensitivity analysis - Past service funding position

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	£000	£000	£000	£000	£000	£000	£000
Smoothed asset value	1,043,467	1,043,467	1,043,467	1,043,467	1,043,467	1,043,467	1,043,467
Total past service liabilities	1,078,916	1,095,516	1,086,383	1,085,114	1,087,419	1,091,034	1,082,298
Surplus (Deficit)	**-35,449**	**-52,049**	**-42,916**	**-41,647**	**-43,952**	**-47,567**	**-38,831**
Funding level	97%	95%	96%	96%	96%	96%	96%

Sensitivities to the primary contribution rate

The calculated primary contribution rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below. Please note that the primary rate set out below does not include any adjustment via the secondary rate. The total contribution rate payable by employers will be a combination of the primary rate and a secondary rate adjustment, further details can be found in Appendix 4.

Sensitivity analysis - Primary rate

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay
Total future service rate	24.4%	24.9%	24.6%	24.5%	24.6%	24.6%	25.1%
less employee contribution rate	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%
Total primary rate	**17.4%**	**17.9%**	**17.6%**	**17.5%**	**17.6%**	**17.6%**	**18.1%**

Final comments

Funding Strategy Statement (FSS)

The assumptions used for the valuation must be documented in a revised FSS to be agreed between the Fund Actuary and the administering authority.

Risks

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund are:

- Employer covenant risk
- Investment risk
- Inflation risk
- Mortality risk
- Member options risk
- Regulatory risk

Sensitivity to some of these risks were set out in the sensitivities section of this report. Please note that this is not an exhaustive list. Further information on these risks and more can be found in our initial results report and will be set out in greater detail in the Funding Strategy Statement.

Rates and Adjustments Certificate

The contributions payable in respect of benefit accrual and any deficit contributions under each employer's recovery period have been set out in Appendix 4 in the Rates and Adjustments Certificate in accordance with Regulation 62 of the Regulations and cover the period from 1 April 2020 to 31 March 2023. In this certificate no allowance will be made for additional costs arising which need to be met by additional contributions by the employer such as non-ill health early retirements.

The contributions in the Rates and Adjustments Certificate are set so that each employer's assets (including future contributions) are projected to be sufficient to cover the benefit payments for their members, on the assumptions set out in this report. Where there is currently a deficit for an individual employer, recovery of this deficit is targeted in line with the Fund's FSS and all employers are projected to be fully funded after a recovery period length of no more than 17 years.

This document has been agreed between the administering authority and the Fund Actuary. Contributions have been set which in our opinion meet the regulatory requirements and the funding objectives set out in the Fund's Funding Strategy Statement.

This report must be made available to members on request.

The next formal valuation is due to be carried out as at 31 March 2022 however we would recommend that the financial position of the Fund is monitored regularly during the period leading up to the next formal valuation. We would be happy to give more detail about the ways that this can be achieved.

Barry McKay

Barry McKay FFA
Partner
Barnett Waddingham LLP

Appendices

Appendix 1 Summary of membership data and benefits

Membership data

The membership data has been provided to us by the administering authority on behalf of the Fund's administrators. We have relied on information supplied by the administering authority being accurate.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund's accounts. The numbers in the tables below relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.

Any missing or inconsistent data has been estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Membership summary

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison. The 2019 average ages are weighted by liability calculated on the funding basis, while the 2016 average ages are unweighted.

Active members

	31 March 2019			31 March 2016		
	Number	Pensionable pay £000s	Average age	Number	Pensionable pay £000s	Average age
Males	1,206	41,695	55	1,351	40,889	48
Females	2,424	57,423	54	2,597	52,762	47
Total	3,630	99,118	55	3,948	93,650	47

Deferred members (including undecided)

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	2,589	7,928	54	2,491	7,403	49
Females	5,184	10,392	53	4,484	8,982	48
Total	7,773	18,320	53	6,975	16,384	48

Pensioner and dependant members

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	2,094	18,072	68	2,164	16,884	70
Females	2,901	16,000	68	2,367	12,680	71
Total	4,995	34,071	68	4.531	29,564	71

Projected retirements

In the table below we have set out the number of members who are assumed to reach retirement age over the period from 1 April 2019 to 31 March 2023 as required under the Regulations.

Projected new benefits		
Year to	Number of members	Retirement benefits £000's
31/03/2020	178	3,629
31/03/2021	104	1,893
31/03/2022	137	2,071
31/03/2023	174	3,632

Members may retire for a number of reasons including reaching normal retirement age, retiring through ill-health or redundancy. The amounts set out in the table below are the new retirement benefit amounts, as at the current valuation date that are assumed to come into payment in each of the intervaluation years.

Allowance for GMP equalisation

On 26 October 2018 the judgement was published for the Lloyd's Banking Group Pensions Trustees Ltd vs Lloyds Bank Plc & Ors on how their Guaranteed Minimum Pensions (GMPs) should be equalised. However, HM Treasury (HMT) have confirmed that the GMP judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes", which is set out here:

www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

The assumption made at the 2016 valuation was that funds pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase and that funds will be required to pay the full indexation on GMPs for those attaining SPA after 6 April 2016. This effectively assumes that the Government extends their current policy indefinitely and we believe this is a sensible approach to making an interim allowance for GMP equalisation.

Appendix 2 Summary of assumptions

A summary of the assumptions adopted for the valuation at 31 March 2019 is set out below. The assumptions used in the previous valuation are also given below for comparison.

Summary of financial assumptions

Assumptions	Assumptions used for the 2019 valuation	Assumptions used for the 2016 valuation
Financial assumptions		
Market date	31 March 2019	31 March 2016
CPI inflation	2.6% p.a.	2.4% p.a.
Salary increases		
Short-term	n/a	CPI to 31 March 2020
Long-term	3.6% p.a.	3.9% p.a.
Discount rate	5.0% p.a.	5.4% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date , we have assumed that Funds are required to pay the entire inflationary increases	

Summary of demographic assumptions

Assumptions	Assumptions used for the 2019 valuation	Assumptions used for the 2016 valuation
Demographic assumptions		
Post-retirement mortality	Male / Female	Male / Female
Member base tables	S3PA	S2PA
Member mortality multiplier	110% / 105%	120% / 85%
Dependant base tables	S3DMA / S3DFA	S2PA
Dependant mortality multiplier	70% / 85%	120% / 85%
Projection model	CMI 2018	CMI 2015
Long-term rate of improvement	1.25% p.a.	1.5% p.a.
Smoothing parameter	7.5	n/a
Initial addition to improvements	0.5% p.a.	n/a
Retirement assumption	Weighted average of each tranche retirement age	
Pre-retirement decrements	GAD 2016 scheme valuation with no salary scale, 50% IH decrement	GAD 2013 scheme valuation
50:50 assumption	Member data	Member data
Commutation	50% of maximum	50% of maximum
% members with qualifying dependant	75% / 70%	75% / 70%
Age difference	Husbands are 3 years older	Husbands are 3 years older

Demographic assumptions – sample rates

The following tables set out some sample rates of the demographic assumptions used in the calculations. These sample rates are based on those set by the Government Actuary's Department (GAD) based on analysis of the Local Government Pension Scheme (LGPS) in England and Wales.

Allowance for ill-health early retirements

A small proportion of members are assumed to retire early due to ill-health. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.01%	0.00%
30	0.01%	0.01%
35	0.02%	0.01%
40	0.04%	0.03%
45	0.09%	0.06%
50	0.18%	0.13%
55	0.36%	0.28%
60	0.74%	0.62%
65	1.51%	1.34%

Please note the above rates are the raw decrements as set by GAD. Our assumption is that there will be 50% of the number of ill-health retirements assumed by GAD.

The proportion of ill-health early retirements falling into each tier category has been assumed to be as follows for both males and females:

Tier 1	Tier 2	Tier 3
75%	15%	10%

Death before retirement

A small number of members are assumed to die before reaching retirement age. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.02%	0.01%
30	0.03%	0.01%
35	0.05%	0.02%
40	0.06%	0.03%
45	0.09%	0.05%
50	0.13%	0.08%
55	0.21%	0.12%
60	0.32%	0.19%
65	0.50%	0.29%

Allowance for withdrawals

This assumption is regarding active members who leave service to move to deferred member status. Active members are assumed to leave service at the following sample rates:

Age	Males	Females
25	9.21%	10.17%
30	7.25%	8.07%
35	5.70%	6.40%
40	4.48%	5.07%
45	3.53%	4.03%
50	2.78%	3.19%
55	2.18%	2.53%
60	1.72%	2.01%
65	1.35%	1.59%

Appendix 3 Dashboard

Past service funding position - local funding basis

Funding level (assets/liabilities)	97%
Funding level (change since previous valuation)	9%
Asset value used at the valuation	1,043m
Value of liabilities	1,079m
Surplus (deficit)	-35m
Discount rate(s)	5.0% p.a.
Assumed pension increases (CPI)	2.6% p.a.
Method of derivation of discount rate, plus any changes since previous valuation	Weighted average of expected long term Fund returns adjusted for expenses and prudence allowances
Assumed life expectancies at age 65:	
Average life expectancy for current pensioners - men currently age 65	21.7 years
Average life expectancy for current pensioners - women currently age 65	24.3 years
Average life expectancy for current pensioners - men currently age 45	23.1 years
Average life expectancy for current pensioners - women currently age 45	25.8 years

Past service funding position - SAB basis (for comparison purposes only)

Market value of assets	1,052m
Value of liabilities	1,038m
Funding level on SAB basis (assets/liabilities)	101%
Funding level on SAB basis (change since last valuation)	9%

Contribution rates payable

Primary contribution rate		17.4% of pay
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)		
	Secondary contribution rate 2020/21	£4.6m
	Secondary contribution rate 2021/22	£4.6m
	Secondary contribution rate 2022/23	£4.6m
Giving total expected contributions, based on expected payroll of £103m increasing at 3.6% p.a:		
	Total expected contributions 2020/21	£22.5m
	Total expected contributions 2021/22	£23.1m
	Total expected contributions 2022/23	£23.8m
Average employee contribution rate (% of pay)		7.0% of pay
Employee contribution rate (£ figure based on assumed payroll of £103m)		£7.2m p.a.
Additional information		
Pecentage of liabilities relating to employers with deficit recovery periods longer than 20 years		0%
Percentage of total liabilities that are in respect of Tier 3 employers		tbc

Appendix 4 Rates and Adjustment Certificate

Regulatory background

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2020 to 31 March 2023.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments Certificate are detailed in the Funding Strategy Statement and our report on the actuarial valuation.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2020 to 31 March 2023 is set out in the table overleaf. The primary rate is the employer's contribution towards the cost of benefits accruing in each of the three years beginning 1 April 2020. In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The primary rate for the whole Fund is the weighted average (by Pensionable Pay) of the individual employers' primary rates, and is 17.4% of Pensionable Pay.

The secondary rates across the entire Fund (as a percentage of projected Pensionable Pay and as a monetary amount) in each of the three years in the period 1 April 2020 to 31 March 2023 is set out in the table below.

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	4.5%	4.3%	4.2%
Equivalent to total monetary amounts of	£4,611,700	£4,594,209	£4,618,238

General notes

Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us as the Fund Actuary. The administering authority, with the advice from us as the Fund Actuary may allow some or all of these contributions to be treated as a prepayment and offset against future certified contributions.

The certified contributions include an allowance for expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by participating employers in addition.

The monetary amounts are payable in 12 monthly instalments throughout the relevant year unless agreed by the administering authority and an individual employer.

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Employers participating in the Fund								
00H01	London Borough of Hammersmith and	17.1%	£3.80m	£3.80m	£3.80m	17.1% plus £3.80m	17.1% plus £3.80m	17.1% plus £3.80m
00H20	Mortlake Crematorium Board	17.1%	-	-	-	17.1%	17.1%	17.1%
00H7Y	Urban Partnership Group	23.0%	£39k	£40k	£42k	23.0% plus £39k	23.0% plus £40k	23.0% plus £42k
00H59	London Oratory School	17.3%	-1.4%	-1.4%	-1.4%	15.9%	15.9%	15.9%
00H7W	Disabilities Trust	21.7%	-1.7%	-1.7%	-1.7%	20.0%	20.0%	20.0%
00H7N	Medequip Assistive Technology Ltd	29.6%	-	-	-	29.6%	29.6%	29.6%
00H52	Burlington Danes Academy	14.6%	-0.3%	-0.3%	-0.3%	14.3%	14.3%	14.3%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
00H7R	Quadron Services Ltd	23.9%	-1.1%	-1.1%	-1.1%	22.8%	22.8%	22.8%
00H7T	Serco	20.1%	-1.9%	-0.9%	0.0%	18.2%	19.2%	20.1%
00H79	FM Conway	21.6%	-1.3%	-1.3%	-1.3%	20.3%	20.3%	20.3%
	Academies							
00H55	Hammersmith Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H58	Sacred Heart Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H53	Conway Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5A	West London Free School	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H50	Bentworth Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H56	Lady Margaret Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H54	Fulham College Academy Trust	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H51	Bridge Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5D	Langford Primary Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5E	Hurlingham and Chelsea Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5B	Ark Swift Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
00H5G	Greenside Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5C	Thomas's Academy	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5H	Fulham Boys Free School	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5J	Futures Academy (Phoenix)	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H5K	Brightwells Academy Trust	16.5%	7.4%	7.4%	7.4%	23.9%	23.9%	23.9%
00H7A	Fulham Palace Trust	21.9%	-21.9%	-21.9%	-21.9%	-	-	-
00H70	3BM	20.7%	£13k	£14k	£14k	20.7% plus £13k	20.7% plus £14k	20.7% plus £14k
00H82	Pinnacle Estate Services	23.7%	-1.0%	-1.0%	-1.0%	22.7%	22.7%	22.7%
00H83	Pinnacle Housing Management	23.3%	-1.2%	-1.2%	-1.2%	22.1%	22.1%	22.1%
00H74	Eden Foods	25.2%	-	-	-	25.2%	25.2%	25.2%
00H8H	Caterlink	22.0%	-	-	-	22.0%	22.0%	22.0%
00H85	Agilisys	20.2%	-	-	-	20.2%	20.2%	20.2%
00H8E	Abelian (Wormholt Primary School)	26.6%	-	-	-	26.6%	26.6%	26.6%
00H8C	Birkin Clean	31.0%	-	-	-	31.0%	31.0%	31.0%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
00H88	BT	17.2%	4.2%	4.2%	4.2%	21.4%	21.4%	21.4%
00H80	FM Conway (EDTE)	23.8%	£71k	-	-	23.8% plus £71k	23.8%	23.8%
00H8Q	Family Support Service	17.1%	£31k	£32k	-	17.1% plus £31k	17.1% plus £32k	17.1%
00H8M	London Hire Community Services	32.9%	£1k	£1k	£1k	32.9% plus £1k	32.9% plus £1k	32.9% plus £1k
00H8G	Caterlink (Hurlingham and Chelsea)	25.5%	-3.3%	-3.3%	-3.3%	22.2%	22.2%	22.2%
00H8S	RM Education	18.0%	-	-	-	18.0%	18.0%	18.0%
00H8K	Quadron Services Ltd (Leisure Centre)	21.4%	-	-	-	21.4%	21.4%	21.4%
00H8J	CT Plus	28.3%	-	-	-	28.3%	28.3%	28.3%
00H8P	Peabody Trust South East	24.8%	-1.9% plus £1k	-1.0% plus £1k	£1k	22.9% plus £1k	23.8% plus £1k	24.8% plus £1k
IDEV	Ideverde	21.8%	£1k	£1k	£1k	21.8% plus £1k	21.8% plus £1k	21.8% plus £1k

Post valuation employers

A number of employers joined the Fund on or after 1 April 2019 and their rates were certified at their date of joining and have been reviewed as part of the 2019 valuation process. The table summarises the start dates and contributions required from these employers where known.

Start date	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
16 April 2019	Mears	22.7%	-	-	-	22.7%	22.7%	22.7%
16 April 2019	Sure Serve (K&T Heating)	20.9%	-	-	-	20.9%	20.9%	20.9%
16 April 2019	Chigwell Group	29.9%	-	-	-	29.9%	29.9%	29.9%
16 April 2019	Wates Group	28.9%	-	-	-	28.9%	28.9%	28.9%

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 11/02/2020

Subject: Draft Funding Strategy Statement

Report of: Matt Hopson – Strategic Investment Manager

Summary

1.1 Following the 2019 triennial actuarial valuation, the Fund's actuary (Barnett Waddingham) has produced a draft Funding Strategy Statement (FSS). The purpose of the FSS is to establish a clear and transparent strategy on how to meet pension liabilities going forward.

1.2 The purpose of the FSS is as follows:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent, longer-term view of funding those liabilities.

Recommendations

1. The Sub-Committee is requested to approve the draft Funding Strategy Statement and subject to any comments or amendments, delegate final approval to the Director of Treasury and Pensions in consultation with the Chairman.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Being ruthlessly financially efficient	The draft Funding Strategy Statement shows a greatly improved funding level with the overall pension fund now being almost fully funded.

Financial Impact

The initial results of the triennial actuarial valuation show an annual saving to the Council (as a single employer within the fund) with regard to total contributions of £2.8m per annum with effect from 1 April 2020. Contributions are set for a three-year period from that date.

Legal Implications

None

Contact Officer(s):

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

1.1 The Sub-Committee is requested to approve the draft Funding Strategy Statement and subject to any comments or amendments, delegate final approval to the Director of Treasury and Pensions in consultation with the Chairman.

Funding Strategy Statement

1.2 Regulation 58 of the LGPS Regulations 2013 sets out the requirement for every LGPS fund to maintain a Funding Strategy Statement. The regulation requires the Fund to have regard to the guidance published by CIPFA and to consult with parties it considers appropriate when updating it. The current version of the statement was approved by the Pension Fund Committee in February 2017. Attached at Appendix 1 is a draft Funding Strategy Statement for 2020, which reflect the results of the 2019 actuarial valuation.

1.3 The financial assumptions adopted for the 2019 valuation show a decrease in the discount rate applied and an increase in the inflation rate compared with 2016. It should also be noted that long-term salary increases have decreased from 2016, along with a slowdown in the long-term longevity rate of improvement. The actuarial assumptions applied during the 2019 valuation result in the funding level increasing from 88% in 2016 to 97% as at 31 March 2019.

1.4 The FSS incorporates the funding approach of the admitted and scheduled bodies, including admissions, new academies, bulk transfers and cessations. The strategy also takes in to consideration the impact which the McCloud case judgement may have on the pension liabilities. Although still uncertain, this is anticipated to be less than the effect of reducing the discount rate assumption by 0.05%.

1.5 The major risks to the funding strategy are financial, although there are other external factors including maturity risks, demographic risks, employer risks, regulatory risks and governance risks. Whilst the FSS attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that these risks may impact on the ability of the strategy to meet the funding objectives.

2. Reasons for Decision

2.1 The Fund is required to regularly review the FSS and to have regard to CIPFA 2016 guidance, Preparing and Maintaining a funding strategy statement in the Local Government Pension Scheme (LGPS).

3. Equality Implications

3.1. None

4. Risk Management Implications

4.1. *None*

5. Other Implications

5.1. *None*

6. Consultation

6.1. Consultation has been undertaken with all employer bodies of the Fund. No feedback / comments have yet been received.

List of Appendices:

Appendix 1: LBHF March 2019 Funding Strategy Statement

London Borough of Hammersmith and Fulham Pension Fund Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the London Borough of Hammersmith and Fulham Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Hammersmith and Fulham's strategy, in its capacity as administering authority, for the funding of the London Borough of Hammersmith and Fulham Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent valuation of the Fund was as at 31 March 2019.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	5.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any surplus that is amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;

- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, academy employers are pooled for the purposes of determining contribution rates to recognise the common characteristics of these employers.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2% and decrease/increase the required employer contribution by around 0.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The London Borough of Hammersmith and Fulham Council do not pay additional amounts to cover any strain costs arising from early retirements at the retirement date but instead allow for the additional liability at the next formal valuation and pay additional contributions to meet these strains as part of their secondary rate contributions. The Fund is comfortable with this approach due the strong covenant of the Council.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.

BARNETT WADDINGHAM
beyond the expected

- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
    - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
    - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile for these employers. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Agenda Item 6

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 11/02/2020

Subject: Responsible Investment Policy Draft

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager
Tim Mpofu, Pension Fund Manager

Summary

1.1 In late 2019, the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) issued draft guidance on Responsible Investment in the LGPS. This guidance outlined the duties of investment decision makers in LGPS administering authorities.

1.2 This paper introduces the draft Responsible Investment policy for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, which is attached as Appendix 1 to this paper.

Recommendations

1. The Sub-Committee is requested to note and comment on the report with a view to enabling officers to formalise and finalise the Responsible Investment policy.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Building shared prosperity	Being a responsible investor means that, as part of the Pension Fund's fiduciary responsibility, its investments should be able to assist in making a positive contribution to the long-term sustainability of the global environment, enabling the Pension Fund to enhance its investment return.

Financial Impact

The financial implications of the introduction of this policy will be continually monitored to ensure that members' future pensions payments are safeguarded.

Legal Implications

None

Contact Officer(s):

Name: Tim Mpofu
Position: Pension Fund Manager
Telephone: 020 7641 6308
Email: tmpofu@westminster.gov.uk

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposed Policy

1.1. The Responsible Investment policy will be a stand-alone policy document which aims to make clear the Pension Fund's investment values. The purpose of this policy document is to lay out the Pension Fund's approach to how environmental, social and governance (ESG) and responsible investment (RI) considerations are taken into account in the selection, non-selection, retention and realisation of investments.

1.2. The policy document introduces the Pension Fund's investment principles whose implementation is discussed in each of the sub-sections below:

- **Investing to build a better future** – this highlights the Pension Fund's commitment to achieving carbon neutrality by 2030 and how it intends to shape its asset allocation to meet this target.

- **Engaging with the investment community** – the Pension Fund believes there is significant value in being able to engage with companies to influence best practice. The Pension Fund will actively contribute to the London CIV's development of sustainable investments.

- **Collaboration with other stakeholders** – The Pension Fund will work alongside pressure groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure that companies are held to account for their behaviour.

- **Making our members proud** – The Pension Fund acknowledges that it important for scheme members to understand how their pension fund is being managed and invested. To this end, the Pension Fund will report regularly on its overall performance.

1.3. This policy will be subject to regular, ongoing review.

2. Reasons for Decision

2.1. Reasons are set out in the main body of the report.

3. Equality Implications

3.1. None

4. Risk Management Implications

4.1. None
4.2.

5. Other Implications

5.1. None

6. Consultation

6.1. None

List of Appendices:

Appendix 1: Responsible Investment policy for London Borough of Hammersmith and Fulham Pension Fund

LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND
RESPONSIBLE INVESTMENT POLICY

The London Borough of Hammersmith and Fulham Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of capital. Such a responsibility extends to making a positive contribution to the long-term sustainability of the global environment.

The Pension Fund recognises that managing environmental, social and governance (ESG) issues is consistent with its fiduciary responsibility as their outcome may be financially material. This presents a significant responsibility for the Pension Fund and the ESG approach will be integral to the investment strategy.

There are a wide range of ESG issues, with none greater currently than climate change. The Pension Fund recognises climate change as the biggest threat to global sustainability. The Pension Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by 2030. This commitment means that the Pension Fund must integrate ESG factors as part of its overall investment strategy.

Our pension fund members trust the Pension Fund Sub-Committee (the Sub-Committee) to act in their best interests and ensure that their benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match with our pension liabilities, we are committed to managing the investment risks: those risks pose a substantial threat to the long-term futures of our members.

The Pension Fund's investment strategy is governed by the investment principles, which are set out below:

Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.

- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice from its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool (London CIV) and other member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- We want to **make our members proud** of their Pension Fund. It is important for the Pension Fund to be transparent and accountable to members and stakeholders.

Policy Implementation – Investing to build a better future

Over recent years, the Pension Fund has made great strides in considering the impact of climate change within its investments. This has influenced the choice of investment and how performance is monitored.

- The Pension Fund has committed to investing its entire passive equities holdings into a low carbon index-tracker fund. This represents estimated carbon savings of over 35,000 tonnes per annum.

- The Pension Fund maintains a 7.5% allocation to infrastructure investments, the majority of which is currently invested in renewable energy assets. This includes wind farms, solar plants and energy storage facilities.

The Pension Fund will continue to assess its investment opportunities in sustainable and low carbon assets. The aim is for the Pension Fund to be carbon neutral by the year 2030. As such, this will be reflected in the strategic asset allocation and the overall Pension Fund Investment Strategy Statement (ISS).

In addition to carbon neutrality, the Pension Fund will continually assess investment opportunities that have a positive impact on society as whole. These include, but are not limited to, investments in fixed income (green bonds), property and social impact investment strategies.

Policy Implementation – Engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The London Borough of Hammersmith and Fulham Pension Fund believes that there is significant value in being able to engage with the companies in which we invest and be part of the transition to a global, low carbon economy.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its portfolio annually via a specialist firm. The outcome of this process will be instrumental in ensuring that the Fund is able to meet its decarbonisation goals through effective asset allocation.

- The Pension Fund will continue to work closely with its investment managers to measure the impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed regularly.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

Policy Implementation – Collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) impacts how the Pension Fund's Responsible Investment policy is implemented. The Pension Fund is committed to playing a key role as part of the London CIV pool.

As asset owners, the Pension Fund, in line with its Investment Strategy Statement, is responsible for deciding how its money is invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK LGPS pension funds to find common solutions for environmental, social and governance issues.

As more funds are onboarded onto the London CIV, the Pension Fund expects to increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the 31 other London Borough's pension funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance the LAPPF's governance policies. In exceptional cases, the investment manager will be required to explain their reason for not doing so, preferably in advance of the meeting. This will be monitored on a regular basis.

Policy Implementation – Making our members proud

All of our LGPS members have spent at least part of their career helping to deliver key services to their community. It is important for them to understand how the Pension Fund is managed and the contribution its investments have on securing a sustainable future. Members are encouraged to take an active interest in how the Pension Fund is run and their views are represented on the Local Pension Board.

The Pension Fund will aim to provide members with interesting information which allows them to easily understand the types of investments in its portfolio. Overall performance of the Pension Fund is reported annually through an annual report which is readily accessible to members on the Fund's website. This will include investment performance, an assessment of the key performance indicators of the Fund's administrative function and the Fund's risk assessment.

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 11/02/2020

Subject: Investment Strategy Statement

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager
Tim Mpofu, Pension Fund Manager

Summary

1.1 As per the Local Government Pension Scheme (LPGS) Management and Investment of Funds Regulations 2016, the Fund is required to publish an Investment Strategy Statement (ISS). Attached is a draft ISS for 2020, which sets out the Council's policy on investment, risk management, pooling and ethical, social and governance (ESG) issues for both its own investments and those being managed through the London CIV.

1.2 This paper introduces the draft Investment Strategy Statement for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, which is attached as Appendix 1 to this paper.

Recommendations

The Sub-Committee is invited to:

a. To comment on the Investment Strategy Statement (ISS) and delegate authority to the Director of Treasury and Pensions in consultation with the Chairman to publish the final ISS.

b. To consider and comment on the investment beliefs within the questionnaire as prepared by the investment advisor. This will assist in developing a set of core beliefs to be adopted by the Fund.

Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Building shared prosperity	Being an outperforming investor means that as part of the Pension Fund's fiduciary duty, its investments should be able to assist in making a positive financial contribution, sharing prosperity and lessening the financial impact on council tax payers.

Financial Impact

The financial implications of the introduction of this policy will be continually monitored to ensure that members' pensions are safeguarded.

Legal Implications

None

Contact Officer(s):

Name: Tim Mpofu
Position: Pension Fund Manager
Telephone: 020 7641 6308
Email: tmpofu@westminster.gov.uk

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Overview of the Investment Regulations – Investment Strategy Statement

1.1. The ISS sets out the requirements of the LGPS legislation and the Sub-Committee's terms of reference. The ISS has been prepared in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) guidance on Preparing and Maintaining an Investment Strategy Statement.

1.2. The six main objectives of the legislation are then detailed in relation to the London Borough of Hammersmith & Fulham Pension Fund's policies and strategies. There are:

1.3. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments – this sets out how the Fund's investment strategy deals with diversification and investment return to meet the long-term objectives of the Fund;

1.4. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment – this sets out how the Sub-Committee assesses the suitability of Investments and measures that suitability;

1.5. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed – this sets out how the Sub-Committee assesses the different types of risk in order to establish what is acceptable to ensure that the Fund meets its obligations;

1.6. Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles – this sets out the Sub-Committee's approach to pooling and also what the London Collective Investment Vehicle (CIV) can offer in terms of investment opportunities;

1.7. Objective 7.2(e): How social, environmental and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments – this sets out how the Fund meets these obligations and also how potential investments with the London CIV will comply with these obligations;

1.8. Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments - this sets out how the Fund meets these obligations and also how potential investments with the London CIV will be dealt with.

1.9. The ISS also deals in turn with the Fund’s compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS (Appendix A, ISS). These six principles cover a range of factors as follows:

- Effective decision-making
- Clear objectives
- Risk and Liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

1.10. The Fund’s compliance with the Stewardship Code (2020) guidance is set out within Appendix B of the ISS. The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code.

1.11. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

2. Reasons for Decision

2.1. Reasons are set out in the main body of the report.

3. Equality Implications

3.1. None

4. Risk Management Implications

4.1. The ISS presented sets out the requirements of regulation in regard to the London Borough of Hammersmith and Fulham Pension Fund.

5. Other Implications

5.1. None

6. Consultation

6.1. None

List of Appendices:

Appendix 1: Investment Strategy Statement

hammersmith & fulham

London Borough of Hammersmith & Fulham Pension Fund

Investment Strategy Statement 2020/21

1. Purpose of the Investment Strategy Statement

1.1. This is the Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund ("the Fund"), which is administered by the London Borough of Hammersmith & Fulham Council ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the London Borough of Hammersmith & Fulham Pension Fund is required to publish this ISS. The regulations require administering authorities to outline how they meet each of the six objectives, aimed at improving the investment and governance processes of the Fund.

1.2. This statement addresses each of the objectives included in the 2016 Regulations:

a) A requirement to invest fund money in a wide range of instruments;
b) The authority's assessment of suitability of particular investments and types of investment;
c) The authority's approach to risk, including the way in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles;
e) The authority's policy on how environmental, social or governance (ESG) 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 rights (including voting rights) attaching to investments.

1.3. The Pension Fund Sub-Committee ("the Sub-Committee") of the London Borough of Hammersmith & Fulham Pension Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Sub-Committee owe a fiduciary duty similar to that of trustees to the council tax payers, who ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4. The relevant terms of reference for the Sub-Committee within the Council's Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- The consideration and approval of the authority statement of accounts and annual report in accordance with the relevant Accounts & Audit Regulations made from time to time.
- To receive and consider the Auditor's report on the governance of the Fund.
- To receive actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the Fund.
- To have responsibility for all aspects of the investment and other management activity of the Fund.

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the investment managers, actuary, custodians and fund advisers.
- To agree the Investment Strategy Statement, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and to ensure compliance with these.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To determine any other investment or pension fund policies that may be required from time to time, so as to comply with Government regulations and to make any decisions in accordance with those policies.

1.5. The Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes to the Fund.
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary.
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls.
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents.
- Reviewing social, environmental, governance (ESG) and ethical considerations policies, and the exercise of voting rights.

1.6. The Director of Finance, officers and the appointed consultants and actuaries support the Sub-Committee. The day-to-day management of the Fund's assets is delegated to the investment managers.

1.7. This ISS will be reviewed at least annually, or more frequently as required, in particular, following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement (FSS).

1.8. Under the previous Regulations the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations, this information is given in Appendix A.

2. Objective 7.2 (A) – A requirement to investment fund money in a wide range of instruments

2.1. Funding and investment risks are discussed in more detail later in this document. However, at this stage, it is important to state that the Sub-Committee is aware of the risks it runs within the Fund and the consequences associated with these risks.

2.2. In order to control risk, the Sub-Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return; such as the financial markets, the manager's skill and the use of alternative investments which are less liquid.
- A diverse range of investible asset classes.
- A diverse range of approaches to the management of the underlying assets.

2.3. This approach to diversification has seen the Fund dividing its assets into six broad categories as shown in the table below:

Asset Category	Asset Allocation	Review Range
Global Equities	**45.0%**	**+/-3.0%**
Fixed Income	**22.5%**	**+/-2.0%**
Global Bonds	10.0%	
Multi Asset Credit	7.5%	
Private Credit	5.0%	
Alternatives	**12.5%**	**+/-0.5%**
Infrastructure	7.5%	
Illiquid Strategies	5.0%	
Inflation Protection	**10.0%**	**+/-1.0%**
Multi-Asset	**5.0%**	**+/-1.0%**
Property	**5.0%**	**+/-1.0%**

It is important to note that within each category, the Fund's underlying investments are not concentrated to one particular sector, thereby providing further diversification benefits. The asset allocation is regularly reviewed and subject to change depending on the prevalent investment conditions.

2.4. The Sub-Committee is mainly concerned about ensuring the Fund's long-term ability to meet pension and other benefit obligations, as and when they fall due. To this end, the Sub-Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Sub-Committee considers to be excessive.

2.5. The Sub-Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met, and is likely to meet in the future, its return objectives. The Fund currently has a negative cash flow position. This means that the contributions paid in by active members are less than the pension obligations paid out on a monthly basis. The Sub-Committee regularly monitors the Fund's cash flow position and the impact investment income has towards mitigating this risk.

2.6. In addition to keeping its investment strategy and policy under regular review, the Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken. At all times, the Sub-Committee takes the view that its investment decisions, including those involving diversification, are in the best long-term interest of the Fund's beneficiaries and seeks appropriate advice from investment advisors.

3. **Objective 7.2 (B) The authority's assessment of the suitability of particular investments and types of investment**

3.1. When assessing the suitability of investments, the Fund considers several factors:
- Expected return
- Risk profile
- Market concentration
- Risk management qualities provided by the asset when the whole portfolio is considered
- Geographic and currency exposures
- The extent to which the management of the asset meet the Fund's ESG criteria

3.2. Suitability is a critical test for whether or not a particular investment should be made. Each of the Fund's investments has an individual performance benchmark, against which their reported performance is measured.

3.3. The Sub-Committee monitors the suitability of the Fund's assets on a quarterly basis. This includes the monitoring of investment returns and the volatility of the individual investments, together with the Fund's expected level of returns and acceptable risk. This latter point being to ensure that risks caused by interactions between investments within the portfolio are properly understood. When comparative statistics are available, the Sub-Committee will also compare the Fund asset performance with those of similar funds.

3.4. The Sub-Committee relies on external advice in relation to the collation of the statistics for review.

4. **Objective 7.2 (C) The authority's approach to risk, including ways in which risks are to be measured and managed**

4.1. The Sub-Committee recognises that there are several risks involved in the investment of fund assets, which include:

- **Geopolitical and currency risks:**
    - are measured by the value assets (concentration risk) in any one market, leading to the risk of an adverse influence on investment values arising from political intervention; and
    - are managed by regular reviews of the actual investments relative to policy and through regular assessment of levels of diversification.

- **Manager risk:**
    - is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
    - is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

- **Solvency and mismatching risks:**
    - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
    - are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

- **Liquidity risk:**
    - is measured by the level of cash flow required over a specified period; and
    - managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

- **Custodial risk:**
    - Is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.2. Employer contributions are based upon financial and demographic assumption determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- the adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns.
- the appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk.

4.3. The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.4. The Sub-Committee is aware that investment risk is only one aspect of the risks facing the Fund. The other key risk relates to the Fund's ability to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment return) and underwrite actuarial risk, namely, the volatility in the actuarial funding position and the impact this has on contributions.

4.5. The Sub-Committee is of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy, the Sub-Committee carefully considers both the individual asset risk characteristics and those of the combined portfolio to ensure the risks are appropriate.

4.6. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed asset classes in which the Fund invests. However, for other private market and less liquid assets, it is much more difficult.

4.7. The Sub-Committee is mindful that correlations change over time and at time of stress, it can be significantly different from when they are in more benign market conditions.

4.8. To help manage risk, the Sub-Committee uses an external investment adviser to monitor the portfolio risk level. In addition, when carrying out their investment strategy review, the Sub-Committee can appoint different investment advisors to assess the level of risk involved.

4.9. The Fund targets a return of 5.0%, in line with the latest triennial actuarial valuation provided by the fund's actuary. This investment strategy is considered to have a low degree of volatility.

4.10. When reviewing the investment strategy on a quarterly basis, the Sub-Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this, the risk registers are also reviewed and updated on a quarterly basis.

4.11. At each review of the Investment Strategy Statement, the assumptions on risk and return, and their impact on asset allocation will be reviewed.

5. Objective 7.2 (D) The authority's approach to pooling investments, including the use of collective investment vehicles

5.1. The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Fund's pooling arrangements meet the criteria set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.

5.2. The Fund is a member of the London Collective Investment Vehicle (CIV) and joined the asset pool as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has about £19.5 billion of assets under management, of which £8.8 billion is managed directly with 14 active funds as of 30 September 2019.

5.3. As at the 31st December 2019, the Fund had transitioned assets into the London CIV with a value of £788 million, equivalent to 71% of the fund's assets. The Fund continues to monitor the ongoing development of investment strategies available on the London CIV platform and will look to transition further assets as and when there are suitable investment strategies available on the platform that are compatible with the Fund's investment strategy and objectives.

The table below details the investment assets held by the Fund, the availability of similar mandates on the London CIV platform and how much of the assets are invested with the pool as at 31 December 2019:

Asset Class	Availability on LCIV	Investment with LCIV
Global Equities		
MSCI Low Carbon Fund (LGIM)	Contract negotiated on behalf of LCIV clients	£546.2m
Multi Asset		
LCIV Absolute Return (Ruffer)	Yes	£132.9m
Fixed Income		
LCIV Global Bonds (PIMCO)	Yes	£108.8m
Private Multi Asset Credit (Partners Group, Aberdeen Standard)	No	-
Multi Asset Credit (Oakhill)	No	-
Infrastructure		-
Renewable Infrastructure (Aviva)	No	-
*Global Infrastructure (Partners Group)	Yes	-
Inflation Protection		-
Inflation Protection (M&G)	No	-
Property		-
Long Lease (Aberdeen Standard)	No	-

** The London CIV launched an infrastructure product in mid-2019.*

5.4. The Fund has committed capital to alternative investment strategies such as property, infrastructure and illiquid debt. The cost of exiting these strategies early would present a material negative financial impact for the Fund. As such, the Fund will continue to hold these investments outside of the London CIV pooling structure to maturity, at which point, the Fund will assess the viability of making such investments within the pool, subject to availability and the Fund's asset allocation.

5.5. The Sub-Committee is aware that transitioning certain investment assets to the London CIV could incur significant costs. Whilst it is the expectation of the Fund to make use of the London CIV for the management of most of the Fund's assets in the longer term, the Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over several years to ensure that unnecessary costs are not incurred.

5.6. The Fund reviews its investment strategy at least once every three years, an exercise which considers the suitability of each investment within the portfolio, including an assessment of transition and investment opportunities with the London CIV.

Governance structure of the London CIV

5.7. The London CIV is an authorised company by the Financial Conduct Authority (FCA), which was established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. The current Corporate Governance and Controls Framework was approved by London CIV shareholders in 2018. This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

5.8. The London CIV Company Board (the Board) comprises of an independent chair, seven non-executive directors (NEDs) of which two are nominated by the LLAs, three executive directors and the London CIV Treasurer. The Board has a duty to act in the best interests of the shareholders and have collective responsibility for:

- Strategy and oversight
- Budget and forward plans
- Performance reviews
- Major contracts and significant decisions, including decisions relating to funds
- Financial reporting and controls
- Compliance, risk and internal controls
- Governance and key policies

5.9. The London CIV has four committees responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- Determine, maintain and monitor the company's investment strategy, investment performance and investment risks of the portfolios in accordance with the company's strategy and business plan.

The responsibilities of the Compliance, Audit and Risk Committee include:

- overseeing compliance obligations;
- developing and monitoring a risk management framework; and
- ensuring the integrity of financial statements and reporting.

The responsibilities of the Remuneration & Nomination Committee include:

- developing and monitoring a remuneration policy;
- overseeing the remuneration of key staff; and
- handling nominations and succession planning of key staff and board members.

5.10. The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss and formulate effective solutions to address issues and opportunities facing the company;
- ensure the day-to-day operations meet the relevant legal requirements and compliance obligations of the company; and
- ensure the Board and Committee members receive timely, accurate and transparent management information and reporting to fulfil their duties and responsibilities.

5.11. The London CIV's Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Shareholder Committee meets on a quarterly basis and comprises of 12 members, including Councillors and Treasurers from the LLAs.

5.12. The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

5.13. External independent oversight and assurance of the pool company is provided to the FCA, depositary, external auditors and the Ministry of Housing, Communities and Local Government (MHCLG).

6. Objective 7.2 (E) How environmental, social and governance (ESG) considerations are taken into account in the selection, non-selection and retention and realisation of investments

6.1. The Fund recognises environmental, social and governance (ESG) factors as central themes in measuring the sustainability and impact of its investment decisions. Failure to appropriately manage these factors is considered to be a key risk for the fund as this can have an adverse impact on the fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.

6.2. The United Nations (UN) has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

6.3. Whilst it might not be practical for any organisation to achieve all the SDGs solely by itself, the Fund has developed a Responsible Investment policy that targets several of the UN's SDGs that are aligned with the Fund's investment values.

6.4. The Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by the year 2030. This commitment demonstrates the Fund's intention to act as a responsible investor and will increasingly play a fundamental role in fund's asset allocation and investment manager selection processes.

6.5. The Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewables as the main source of energy production. The impact of this transition on the sustainability of investment returns will be continually assessed.

6.6. The Sub-Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that end, the Fund will continue to seek investments that match its pension liability profile, whilst having a positive impact on society. The Fund is of the view that greater impact can be achieved through active ownership and lobbying for firms to change and utilise their resources sustainably.

6.7. The Sub-Committee recognises that is has a fiduciary duty to act in the best interests of the scheme's members to ensure that their benefits are honoured in retirement. Such responsibility extends also to making a positive contribution to the long-term sustainability of the global environment. ESG integration into the Fund's investment decision processes aims to mitigate the associated investment risks, whilst enhancing investment returns for the Fund, thereby safeguarding members' futures.

Policy implementation – Selection process

6.8. The Sub-Committee delegates the individual investment selection decisions to it investment managers. In doing so, the Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Sub-Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection process. This includes, but is not limited to:

- evidence of the existence of a responsible investment policy;
- evidence of ESG integration in the investment process;
- evidence of sign up to relevant responsible investment frameworks such as the United Nations Principles of Responsible Investment (UNPRI);
- commitment to addressing the challenges posed by climate change;
- a track record of actively engaging with stakeholders to influence best practice;
- an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made

6.9. As part of its investment manager selection process, the Sub-Committee will obtain proper advice from the Fund's internal and external advisers with the requisite knowledge and skills; this will be supplemented by regular training.

6.10. Investment managers are expected to follow industry best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all the applicable laws and regulations in their respective markets as a minimum.

Policy Implementation – Ongoing engagement

6.11. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvements. Several benchmarks and disclosure frameworks exist to measure the difference aspects of available ESG data which includes carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investments.

6.12. The Fund's officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include but are not limited to:

- regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- reviewing reports issued by investment managers and challenging performance where appropriate;
- working with investment managers to establish appropriate ESG reporting and disclosures in line with pension fund's objectives;
- contribution to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member.

6.13. The Fund's officers will work closely with the London CIV (through which the Fund will increasingly invest) in developing and monitoring its internal frameworks and policies on all issues which could present a material financial risk to the long-term performance of the Fund. This will include the London CIV's ESG frameworks and policies for investment analysis and decision making.

6.14. Fund officers will report on the Fund's investment performance, including an update on the ongoing ESG performance, to the Sub-Committee at least once every quarter. This will include a review into the Fund's progress towards achieving its ESG targets.

6.15. In preparing and reviewing its Investment Strategy Statement, the Fund will consult with the relevant stakeholders including, but not limited to:

- pension fund employers;
- local pension board;
- advisers/consultants to the fund;
- investment managers.

Policy Implementation - Training

6.16. The Sub-Committee and the Fund's officers will receive regular training on responsible investment. A review of training requirements and needs will be carried out at least annually. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the Fund's investment process.

7. Objective 7.2 (F) The exercise of rights (including voting rights) attached to investments

7.1. The Fund recognises the importance of its role as good stewards of capital and the need to ensure the highest standards of governance, promoting corporate responsibility in the underlying companies in which it holds its investments. The Sub-Committee has delegated the Fund's voting rights to its investment managers who are required and expected, where practical, to make considered use of voting in the interests of the Fund.

7.2. Through its participation as a member of the London CIV, the Fund continues to work closely with other LGPS funds in London to enhance the level of engagement with both the investment managers and the underlying companies in which it invests.

7.3. The Fund is a member of the LAPFF, a leading collaborative shareholder engagement group in the UK. The LAPFF regularly issues voting alerts to investment managers on behalf of its members. Investment managers are encouraged to vote in accordance with these alerts where possible or provide an explanation as to why they are unable to do so. The Fund's membership in the LAPFF and the Pensions and Lifetime Savings Association (PSLA) helps in magnifying the voice and influence of pension fund assets owners.

7.4. Further information on the ongoing voting and engagement activities of the Fund are covered in the Fund's Responsible Investment Policy (Appendix xxx). The Sub-Committee expects investment managers, including the London CIV pool company, to comply with the Stewardship Code (2020) and this is monitored on an annual basis. Additional information regarding the fund's approach are included in Appendix xxx and xxx.

Feedback on this statement

Any feedback on this Investment Statement is welcomed. If you have any comments or wish to discuss any issues, please contact:

Tri-Borough Pensions Team

pensionfund@lbhf.gov.uk

Compliance with CIPFA Pensions Panels Principles

Appendix A

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "*Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*".

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is therefore important for the Fund to demonstrate how it meets principles and intends to achieve best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hopwood, for pension funds whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

> "A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are widely accepted to be in support of this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 – Effective decision making

Administrating authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive whilst also managing any conflicts of interest.

Full compliance

The Hammersmith & Fulham Council (the Council) has delegated the management and administration of the Fund to the Pension Fund Sub-Committee (the Sub-Committee). The Sub-Committee meets at least quarterly. The responsibilities of the Sub-Committee are described in section 1 of the Investment Strategy Statement (ISS).

The Sub-Committee is made up of elected members of the Council who each have voting rights. Representatives from the admitted and scheduled bodies, as well as the trade unions may attend as observers.

The Sub-Committee obtains and considers advices from the Fund's officers, appointed actuary, investment managers and advisors. Investment managers are appointed in accordance with the scheme's regulations and the scope of their activities are specified in detailed investment management agreements and regularly monitored. Business plans are presented to the Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Sub-Committee members have extensive experience of dealing with investment matters and training is made available to new members when they are appointed to the committee.

Principle 2 – Clear objectives

The Fund should set investment objectives that consider the following factors:

- the funds overall pension liabilities
- the potential impact of investment risks on local council tax players
- the strength of the covenant for non-local authority employers
- the attitude towards risk of both the administering authority and the scheme employers

These should be clearly communicated to advisors and investment managers.

Full compliance

The aims and objectives of the Fund are set out within the Funding Strategy Statement and the Investment Strategy Statement. The main objective of the fund is to meet the cost of pension liabilities whilst minimising the fluctuations in the employer contribution rates, thereby keeping costs to tax payers and admitted bodies at a reasonable level.

In order to ensure that the Fund's assets are sufficient to meeting its short-term and long-term pension liabilities, the Fund's investment strategy has been set to include a combination of income yielding and growth assets. The Fund's investment performance is measured against this objective on a quarterly basis. The Fund's investment strategy is also reviewed regularly.

Principle 3 – Risk and liabilities

The Fund should consider the form and structure of its liabilities. This includes:

- the implications for local council tax payers;
- the strength of the covenant for non-local authority employers;
- the risk of their default; and
- longevity risk.

Full compliance

The Sub-Committee, in conjunction with its advisers, agrees an investment strategy that is appropriate to meet the Fund's liabilities. A fund actuarial valuation is carried out every three years, with the most recent triennial valuation having been conducted in 2019. The investment strategy is designed to be well diversified, achieving the optimal risk adjusted return for the Fund.

An appropriate asset allocation has been agreed, which aims maximise the potential to close the funding deficit over future years. This is included as an appendix to the ISS.

Principle 4 – Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.

Full compliance

The Sub-Committee has appointed investment managers with clear index strategic benchmarks as a means of monitoring the investment manager's skill. Investment managers are held accountable to any under performance against the appropriate agreed upon benchmark.

Manager performance is monitored on a quarterly basis and independent detailed monitoring of the Fund's investments is carried out by the Fund's investment adviser and custodian. Portfolio risk is measured on a quarterly basis and the risk/return implications of the different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of the quality of the advice given which include the asset allocation recommendations and the performance of the funds on their rated list. The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the Official Journal of the European Union (OJEU) procedures.

Principle 5 – Responsible ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the statement of investment principles.
- report periodically to scheme members on the discharge of such responsibilities.

Full compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in Section 7 of the ISS. Authority has been delegated to investment managers to exercise voting rights on behalf of the Fund. Investment managers are required to report how they have voted in their quarterly reports.

The Fund intends on using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests. The Fund's approach to this is outline in the ISS.

Principle 6 – Transparency and reporting

Administering authorities should:

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks including performance against stated objectives.
- provide regular communications to scheme members in the form they consider most appropriate.

Full compliance

The Fund publishes an annual report each year which communicates the Fund's strategy and performance to stakeholders. Copies of the Investment Strategy Statement, Funding Strategy Statement and other policy documents are also made publicly available online on the Council's website.

All Pension Fund Sub-Committee meetings are open to members of the public, and agendas and minutes are also published on the Council's website.

Compliance with the Stewardship Code

Appendix B

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC), directed at institutional investors who hold rights in United Kingdom companies. Its principal aim is to make shareholders who manage other people's money actively engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship Code, however expects any directly appointed fund managers and the pool company (London CIV, in this Fund's case) to comply and this is monitored on an annual basis.

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 11/02/2020

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 31 December 2019
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 the Transition timeline for selling down equities
   b. Note the Update

Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• 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

Contact Officer(s):

Name: Tim Mpofu
Position: Pension Fund Manager
Telephone: 020 7641 6308
Email: tmpofu@westminster.gov.uk

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. LBHF Pension Fund Quarterly Update – Q3 2019/2020

1.1. This report and associated appendices make up the pack for the quarter ended 31 December 2019. 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. The Pension Fund's cashflow monitor is provided in Appendix 4. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to June 2020. An analysis of the differences between the actuals and the forecasts for the quarter is also included.

1.5. Appendix 5 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.

1.6. Appendix 6 gives an update on the Forward Plan as at 31 December 2019.

2. Aberdeen Standard Investments (ASI) Private Multi-Asset Credit Investment Plan

2.1. In November 2019, the Pension Fund Sub-Committee appointed ASI as the Pension Fund's new private multi-asset credit manager. It was agreed that a commitment of £55 million would be made with the capital expected to be called in the first quarter of 2020.

2.2. In preparation for this investment, during February 2020, the Pension Fund will start to liquidate £56 million of assets from its passive equity strategy in four tranches in order to spread the timing risk.

2.3. The table below shows the target dealing dates to complete the trade:

LGIM Dealing Date	Amount
17 February	£14m
24 February	£14m
2 March	£14m
9 March	£14m
Total	**£56m**

3. Risk Management Implications

3.1. N/A

4. Other Implications

4.1. N/A

5. Consultation

5.1. N/A

List of Appendices:

Appendix 1: Scorecard at 31 December 2019
Appendix 2: Pension Fund ESG Report
Appendix 3: Deloitte Quarterly Report for Quarter Ended 31 December 2019
Appendix 4: Cashflow Monitoring Report
Appendix 5: Pension Fund Risk Register
Appendix 6: Pensions Sub-Committee Forward Plan

Scorecard at 31 December 2019

Appendix 1

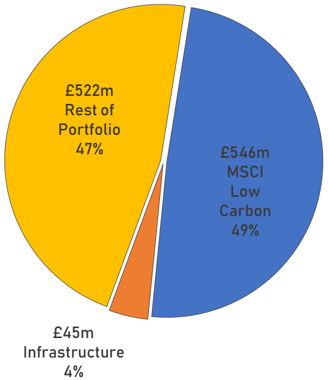
London Borough of Hammersmith and Fulham Pension Fund Quarterly Monitoring Report

	Mar 19	June 19	Sep 19	Dec 19	Comment/ Report
Value (£m)	1,037.0	1,067.3	1,098.6	1,108.7	Deloitte Report Gross of Fees
% return quarter	5.5%	3.2%	3.0%	0.3%	
% return one year	6.3%	4.8%	5.9%	12.3%	
LIABILITIES					
Value (£m)	1,057.3	1,057.3	1,057.3	1,057.3	No funding update was carried out in Q1 2019, as the assumptions have been changed ahead of the triennial valuation
Deficit (£m)	27.6	27.6	27.6	27.6	
Funding Level	97%	97%	97%	97%	
MEMBERSHIP					
Active members	4,332	4,332	3,821	4,026	
Deferred beneficiaries	6,840	6,840	7,171	7,085	
Pensioners	5,111	5,111	5,173	5,222	
Employers	50	50	50	50	
CASHFLOW					
Cash balance	£2.7m	£2.5m	£4.4m	£1.2m	Appendix 4
Variance from forecast	£0.8m	£1.0m	£3.1m	£0.0m	
RISK					
No. of new risks	0	0	0	1	Appendix 5 – Risk Register
No. of ratings changed	16	0	7	5	
LGPS REGULATIONS					
New consultations	MHCLG Pooling 95K Cap	None	CMA Review	None	
New sets of regulations	None	None	None	None	

Enviromental, Social & Governance (ESG) Report — 31 December 2019

The London Borough of Hammersmith & Fulham Pension Fund is committed to being a responsible investor. In line with this commitment, the Pension Fund recognises Enviromental, Social & Governance (ESG) factors to be integral to its investment strategy.

The Pension Fund has a target to achieve carbon neutrality by 2030.

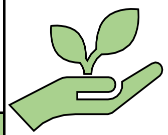


47.8k
estimated number of cars kept of the road each year by investing in renewable energy[1]

Estimated Carbon Savings (tonnes p/a)

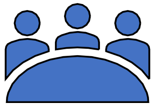
MSCI Low Carbon	Aviva Infrastructure
37.8k	10.6k

Key Highlights



57%
CO_2 emissions saved by investing in the MSCI Low Carbon Fund

100+
number of UK chairs LGIM voted against due to a lack of gender diversity on their board



108
number of companies engaged over the last quarter by LAPFF

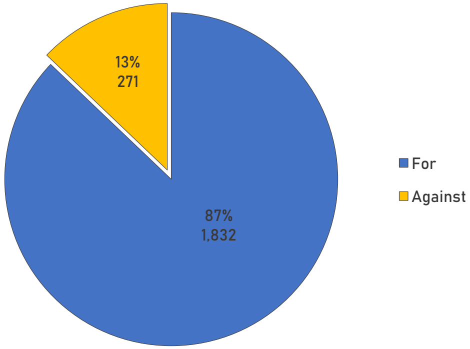
Investment in Low Carbon Assets

£595mil	53%

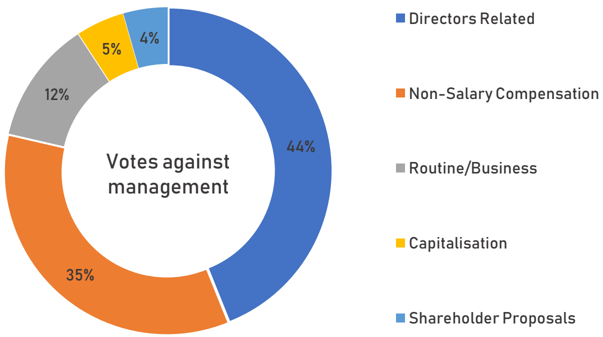
Low Carbon Investments	£000
MSCI Low Carbon	546,201
Aviva Infrastructure	28,060
Partners Infrastructure	17,087
LCIV Green Bonds	3,711

Although the Pension Fund does not invest through the use of segregated mandates, fund managers are expected to develop a voting framework consistent with the Pension Fund's own voting policy. The fund managers' voting activity for this quarter is reported below. At present, the Pension Fund holds pooled equity investments with Legal & General Investment Management and the London CIV, through its Absolute Return Fund (Ruffer).

Voting Summary

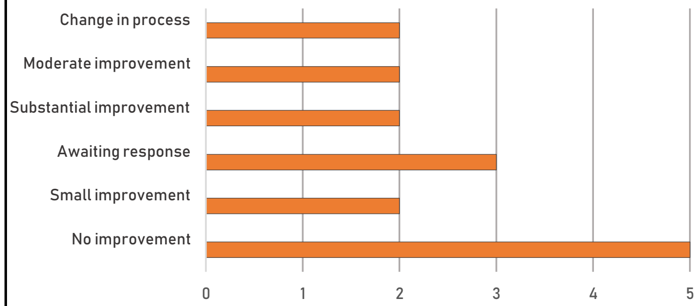


Voting Breakdown



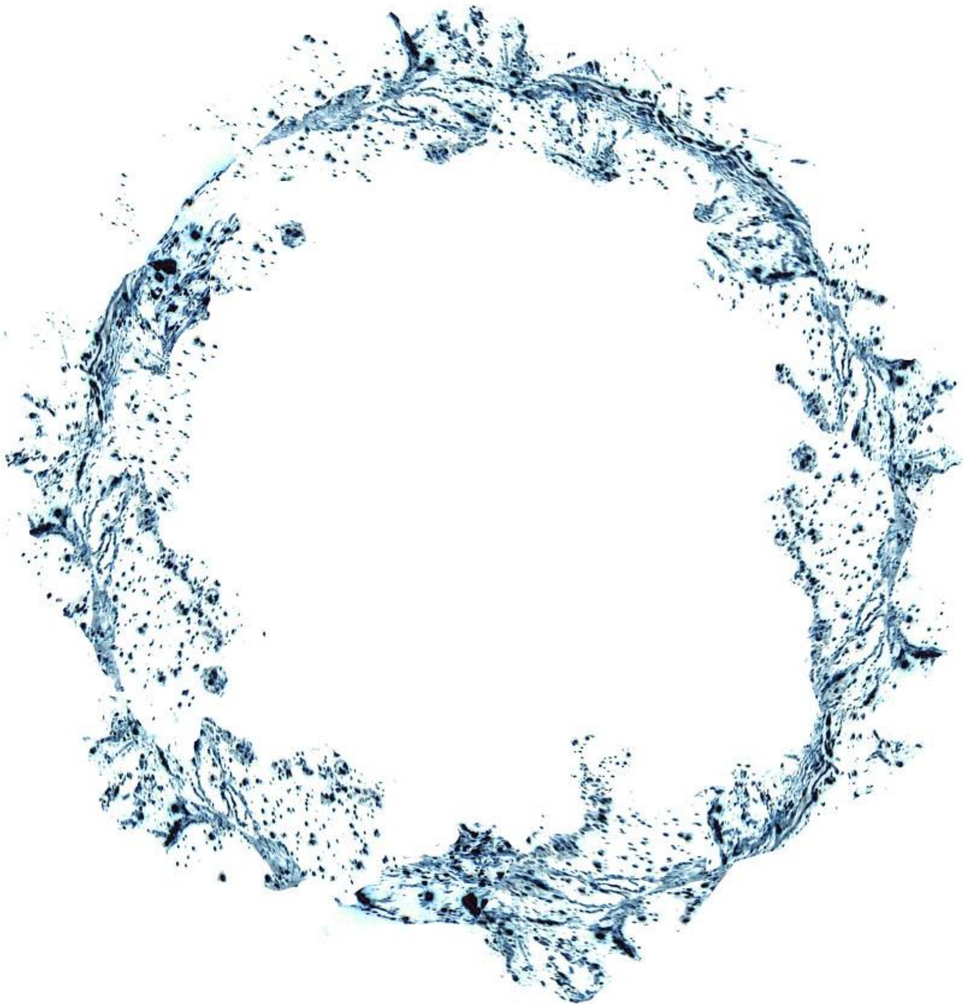
LAPFF Engagement

The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF), the UK's leading collaborative shareholder engagement group. LAPFF regularly engages with companies to encourage best practice and ensuring that they have the right policies in place to create value.



[1]Source: Aviva Investors/ERM. Data as at 30 June 2018. Car equivalency calculation based on 2016 5 door hatchback; 10,000 p.a (Carbon Footprint)

Deloitte.



London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 31 December 2019

Deloitte Total Reward and Benefits Limited
January 2019

Contents

1 Market Background

1.1 Three months and twelve months to 31 December 2019

Global equity markets delivered strong positive returns in the fourth quarter, buoyed by the agreement of an interim US-China trade deal, relatively robust economic data in challenging conditions and accommodating monetary policy by the Fed (which cut rates in October) and other central banks. Gains were shared across all global regions, with emerging markets, which are particularly sensitive to global trade disruptions, delivering the strongest returns.

UK equities also made gains over the quarter to 31 December 2019, with the FTSE All Share Index returning 4.2%. The UK market was dominated by domestic politics proving volatile for much of the quarter as a result of heightened Brexit uncertainty before rallying in December in response to the decisive Conservative victory in the general election on 12 December which lessened investors' fears of an imminent 'no deal' exit and raised expectations of an orderly Brexit transition period and future trade deal.

The FTSE 100 Index gained 2.7% while the FTSE 250 returned 10.4%, as smaller UK-centric companies received a significant boost from the reduction in political and Brexit uncertainty, outperforming larger multinational companies where return were dampened by sterling appreciation. Technology was the best performing sector returning 14.5%, while Oil & Gas was the poorest performing sector falling 7.6% in the fourth quarter.

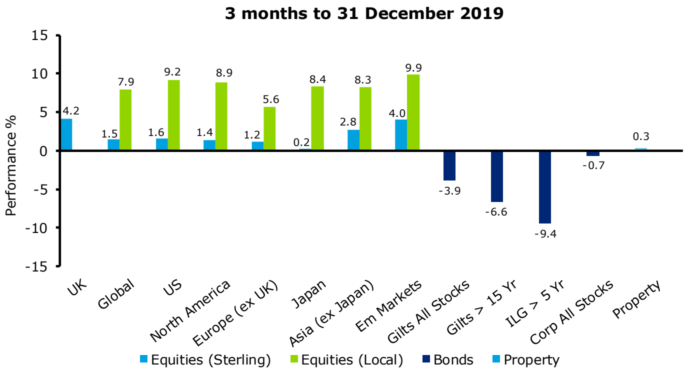
Global markets outperformed UK equities in local currency terms (7.9%) but underperformed in sterling terms (1.5%) as sterling appreciated following the general election. Consequently, currency hedging contributed positively to the returns over the quarter. All global regions performed strongly in local currency terms, with Emerging Markets the best performer, returning 9.9%, having benefited strongly from the prospect of a 'Phase one' US-China trade deal. Europe (ex UK) was the poorest performing overseas market, as Germany continues to struggle, but still returned a positive return of 5.6% over the quarter.

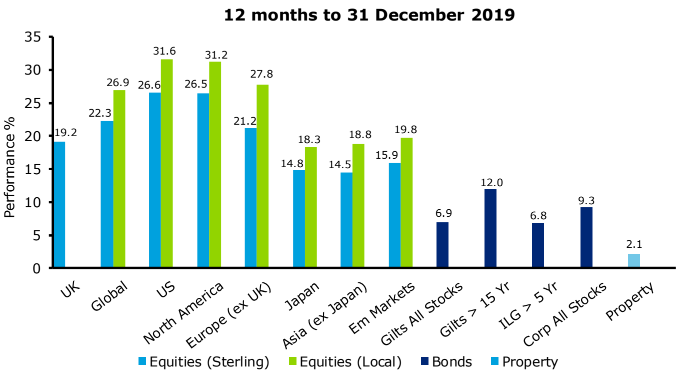
Government bond yields rebounded over the quarter in response to the improving global economic outlook as the US and China agreed an interim trade deal. In the UK, gilt yields also increased in response to an apparent reduction in Brexit-related uncertainty. Nominal gilt yields increased sharply, rising by c. 30-40 bps across the curve to partially offset significant yield falls in the previous quarter. The All Stocks Gilts Index subsequently delivered a negative return of -3.9% over the quarter with the Over 15 Year Index falling by 6.6%. Real yields also increased with the Over 5 Year Index-Linked Gilts Index delivering a negative return of -8.5% over the same period. Credit spreads tightened over the quarter in response to renewed risk appetite late in the period. Corporate bonds therefore outperformed equivalent gilts, with the iBoxx All Stocks Non Gilt Index experienced a more modest fall of 0.7%.

Over the 12 months to 31 December 2019, the FTSE All Share Index delivered a positive return of 19.2% as the uncertainty surrounding the global economy appeared to ease over the final 3 months of the year. There was a wide dispersion in returns at a sector level with Technology the best performer, returning 29.6%, whilst Telecommunications was the poorest performing sector falling by 6.3%. Global markets outperformed UK equities in both local currency terms (26.9%) and sterling terms (22.3%), with sterling appreciating over the year against a basket of global currencies. It is worth noting that returns over the calendar year are somewhat inflated by the sharp falls in the final quarter of 2018.

UK nominal gilts achieved strong returns over the 12 months to 31 December 2019 as nominal gilt yields fell sharply across the curve (mostly over the third quarter), despite the rebound in the fourth quarter. The All Stocks Gilts Index returned 6.9% and the Over 15 Year Gilts Index returned 12.0% over the year to 31 December 2019. UK index-linked gilts delivered positive returns as real yields also fell across the curve. The Over 5 Year Index-Linked Gilts Index returned 6.8%. The iBoxx All Stocks Non Gilt Index returned 9.3% outperforming equivalent gilts as credit spreads tightened slightly over the year.

The MSCI UK All Property Index returned 0.3% over the 3 months to 31 December 2019 and 2.1% over the 12 months to 31 December 2019. The UK property market has continued to cool following the recent period of domestic political uncertainty and the slowing UK economy.





2 Performance Overview

2.1 Investment Performance to 31 December 2019

Breakdown of Fund Performance by Manager as at 31 Dec 2019 Fund	Manager	3 month	1 year	2 year p.a.	3 year p.a.	5 year p.a.
Equity Mandate						
	LCIV UK Equity Fund[3]	-1.7	6.8	-1.5	0.6	4.4
FTSE All Share		1.1	15.6	2.3	5.7	6.8
Difference		-2.8	-8.9	-3.8	-5.2	-2.4
	LGIM Low Carbon Mandate	1.2	24.1	n/a	n/a	n/a
MSCI World Low Carbon Target		1.2	24.3	n/a	n/a	n/a
Difference		0.0	-0.2	n/a	n/a	n/a
Dynamic Asset Allocation						
	LCIV Absolute Return Fund	1.0	8.9	1.2	1.0	3.4
3 Month Sterling LIBOR + 4%		1.2	4.8	4.8	4.6	4.6
Difference		-0.2	4.1	-3.6	-3.7	-1.2
Global Bonds						
	LCIV Global Bond Fund	-0.2	n/a	n/a	n/a	n/a
Barclays Credit Index (Hedged)		0.2	n/a	n/a	n/a	n/a
Difference		-0.4	n/a	n/a	n/a	n/a
Private Equity						
	Invesco	-15.7	-3.4	10.7	6.5	12.9
	Unigestion	-4.2	-15.4	-3.0	0.5	4.4
Secure Income						
	Partners Group MAC	-2.1	-1.0	1.8	2.6	n/a
3 Month Sterling LIBOR + 4%		1.2	4.8	4.8	4.6	n/a
Difference		-3.3	-5.8	-3.0	-2.0	n/a
	Oak Hill Advisors	2.1	8.1	2.3	2.8	n/a
3 Month Sterling LIBOR + 4%		1.2	4.8	4.8	4.6	n/a
Difference		0.9	3.3	-2.5	-1.9	n/a
	Partners Group Infra	-2.0	3.7	7.0	2.8	n/a
	Aviva Infra Income[2]	3.4	-0.7	n/a	n/a	n/a
Inflation *Protection*						
	M&G	-3.8	7.7	5.9	6.4	n/a
RPI + 2.5% p.a.		0.9	4.7	4.9	5.5	n/a
Difference		-4.7	3.0	1.0	0.9	n/a
	Aberdeen Standard	1.5	4.9	5.9	7.6	n/a
FT British Government All Stocks		-3.4	8.9	5.7	5.1	n/a
Difference		4.9	-4.0	0.2	2.5	n/a
Total Fund		0.2	11.9	4.1	4.9	6.7
Benchmark[1]		0.9	12.6	6.6	7.2	7.6
Difference		-0.7	-0.7	-2.5	-2.3	-0.9

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.

[1] The Total Assets benchmark is the weighted average performance of the target asset allocation.

[2] Performance figures provided by Aviva. Aviva Infrastructure Income Fund NAV has been restated, dating back to 30 September 2018, in respect of accounting treatment of a legal dispute.

[3] Performance and benchmark figures for the LCIV UK Equity Fund are to 30 November 2019 and not 31 December 2019, as the assets were disinvested during December 2019.

3 Total Fund

3.1 Investment Performance to 31 December 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund – Gross of fees	0.3	12.3	4.5	5.3	7.2
Net of fees(1)	0.2	11.9	4.1	4.9	6.7
Benchmark(2)	0.9	12.6	6.6	7.2	7.6
Net performance relative to benchmark	-0.7	-0.7	-2.5	-2.3	-0.9

Source: Northern Trust. Relative performance may not sum due to rounding.

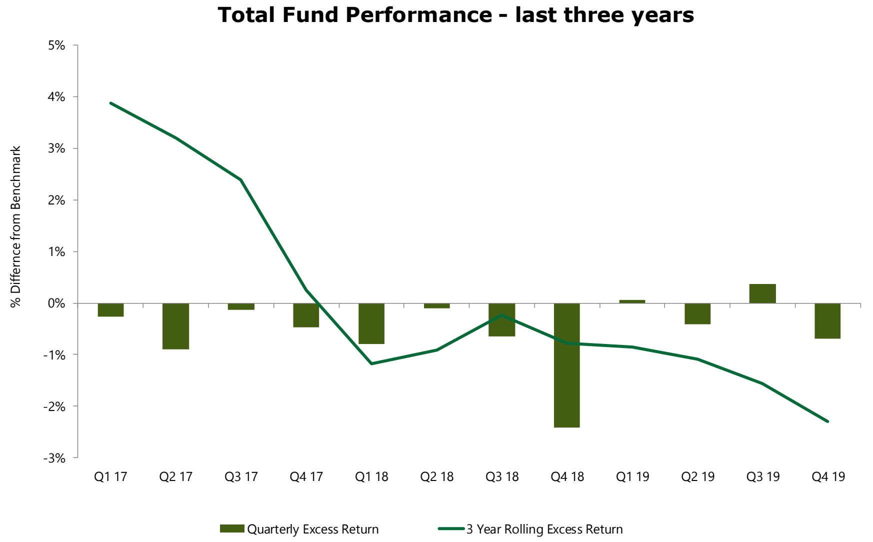
(1) Estimated by Deloitte

(2) Average weighted benchmark

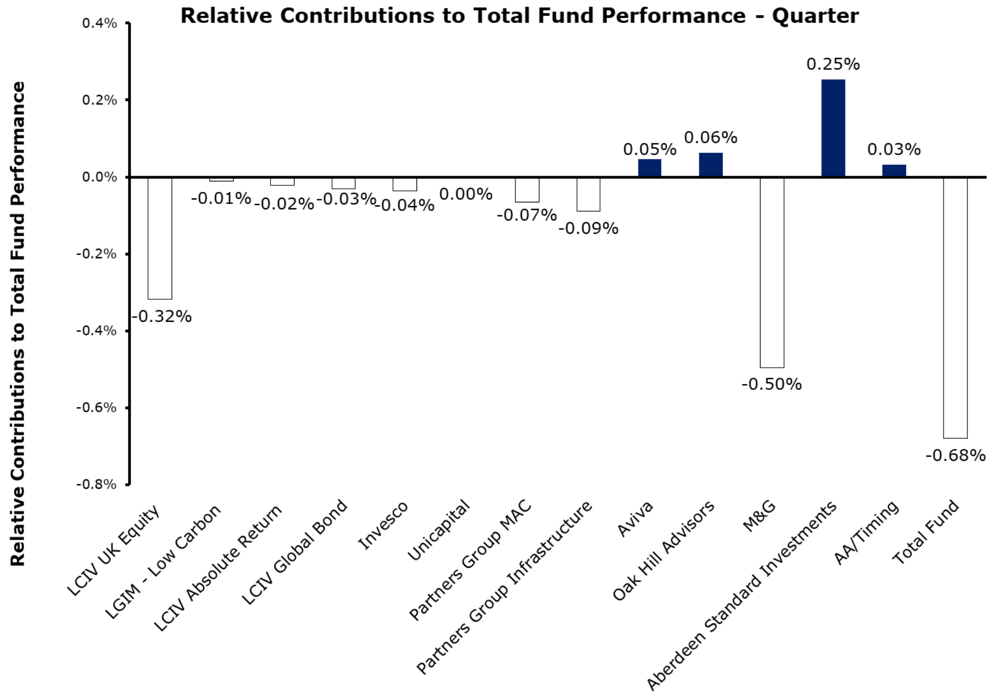
The Total Fund delivered a return of 0.2% on a net of fees basis over the quarter to 31 December 2019, underperforming the fixed weight benchmark by 0.7%.

Over the one-year period, the Fund delivered a return of 12.3% net of fees, underperforming its fixed weight benchmark by 0.7%. Over the longer three and five year periods the Fund delivered positive total returns on a net of fees basis of 4.9% p.a. and 6.7% p.a. respectively, underperforming the benchmark by 2.3% p.a. and 0.9% p.a. for each period.

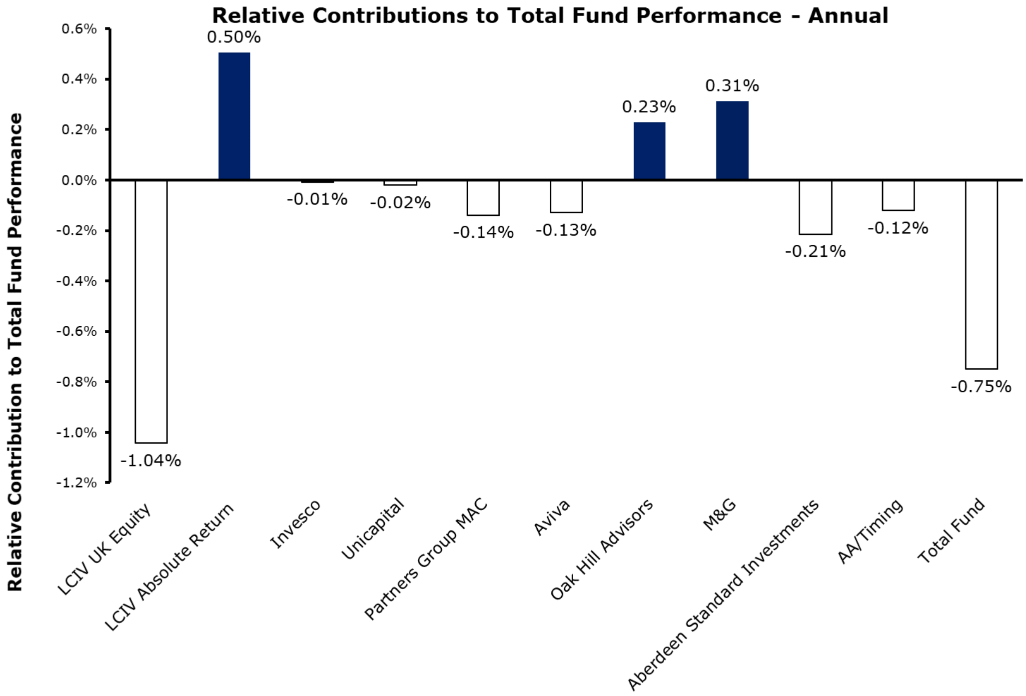
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 31 December 2019. The 3-year rolling excess return fell and remained negative over the quarter.



3.2 Attribution of Performance to 31 December 2019



Over the quarter, The Fund underperformed its benchmark with underperformance from M&G and the LCIV UK Equity Fund accounting for a large proportion of this. Positive performance from Aberdeen Standard Investments, Oak Hill Advisors and Aviva partially offset underperformance from all other managers relative to respective benchmarks.



The Fund underperformed the composite benchmark by 0.7% over the year to 31 December 2019. Underperformance from the LCIV UK Equity Fund relative to its benchmark largely contributed, with further underperformance by Partners MAC, Aviva and Aberdeen Standard Investments also impacting performance detrimentally. The negative contribution provided by the "AA/Timing" bar represents the impact of the Fund having an overweight allocation to Aviva and Aberdeen Standard Investments during a period of negative performance.

3.3 Asset Allocation

The table below shows the value of assets held by each manager as at 31 December 2019 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation 30 Sep 2019 (£m)	31 Dec 2019 (£m)	30 Sep 2019 (%)	31 Dec 2019 (%)	Benchmark Allocation (%)
LCIV	UK Equity (Active)	124.4	0.0	11.3	0.0	0.0
LGIM	Low Carbon Equity (passive)	417.2	546.2	38.0	49.3	45.0
	Total Equity	**541.6**	**546.2**	**49.3**	**49.3**	**45.0**
LCIV	Absolute Return	131.6	132.9	12.0	12.0	10.0
LCIV	Global Bond	88.8	108.8	8.1	9.8	10.0
	Total Dynamic Asset Allocation	**220.4**	**241.7**	**20.1**	**21.8**	**20.0**
Invesco	Private Equity	2.6	1.7	0.2	0.1	0.0
Unicapital	Private Equity	1.1	1.1	0.1	0.1	0.0
	Total Private Equity	**3.7**	**2.8**	**0.3**	**0.2**	**0.0**
Partners Group	Multi Asset Credit	22.1	20.9	2.0	1.9	5.0
Oak Hill Advisors	Diversified Credit Strategy	74.9	76.6	6.8	6.9	7.5
Partners Group	Direct Infrastructure	23.5	23.1	2.1	2.1	5.0
Aviva	Infrastructure Income	28.7	28.1	2.6	2.5	2.5
	Secure Income	**149.2**	**148.6**	**13.6**	**13.4**	**20.0**
M&G	Inflation Opportunities	115.6	111.3	10.5	10.0	10.0
Aberdeen Standard Investments	Long Lease Property	57.0	57.9	5.2	5.2	5.0
	Total Inflation Protection	**172.6**	**169.2**	**15.7**	**15.3**	**15.0**
LGIM	Liquidity Fund	11.1	0.2	1.0	0.0	0.0
	Total	**1,098.6**	**1,108.7**	**100.0**	**100.0**	**100.0**

Source: Northern Trust (Custodian) and have not been independently verified
Figures may not sum to total due to rounding

At 31 December 2019, the Fund was 4.3% overweight to equities whilst continuing to be underweight to secure income by 6.6%. This is a result of the Partners Group Multi Asset Credit Fund continuing to distribute funds back to investors and the Partners Group Direct Infrastructure Fund being in the process of drawing funds into its portfolio.

During October 2019, the Fund invested £20m into the LCIV Global Bond Fund with £10m from the LGIM Sterling Liquidity Fund and £10m from the Fund’s bank account. This brought the allocation to the LCIV Global Bond Fund to c. 10% in line with the strategic benchmark allocation.

During December 2019, the disinvestment from the LCIV UK Equity Fund and subsequent transfer to the LGIM World Low Carbon Equity Fund was completed with the benchmark allocation to the LGIM Fund also increased as a result.

In addition, during December 2019, the Sub-Committee committed to allocate £55m to the Aberdeen Standard Investments Multi-Sector Private Credit Fund with the first close set to take place in Q1 2020. This allocation is to be funded from a combination of cash, the remaining holdings in Partners MAC as funds are re-distributed, and equities.

3.4 Yield Analysis as at 31 December 2019

The following table shows the running yield on the Fund's investments:

Manager	Asset Class	Yield as at 31 Dec 2019
LGIM	Low Carbon Equity	N/A[1]
LCIV	Absolute Return	1.50%
LCIV	Global Bond	3.36%
Partners Group	Multi-Asset Credit	3.58%[2]
Oak Hill Advisors	Diversified Credit Strategy	6.50%
Aviva Investors	Infrastructure	8.00%[3]
M&G	Inflation Opportunities	2.29%
Aberdeen Standard Investments	Long Lease Property	4.20%
	Total	**1.70%**

[1]The LGIM MSCI World Low Carbon Target Index Fund is not currently eligible for NDIP payments and so there is no yield available for the fund.
[2]Represents yield to 30 June 2019.
[3]Represents yield to 30 September 2019.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund
Inception: 31 December 1999.

Manager	Asset Class	Allocation	Benchmark	Inception Date
Majedie	UK Equity	15.0%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
LGIM	Low Carbon Target	30.0%	MSCI World Low Carbon Target Index	18/12/18
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling LIBOR +4% p.a.	31/07/08
PIMCO	Global Bond	10.0%	Barclays Global Aggregate – Credit Index Hedged (GBP)	09/05/19
Invesco	Private Equity	0.0%	n/a	30/09/09
Unigestion	Private Equity	0.0%	n/a	30/09/09
Partners Group	Multi Asset Credit	5.0%	3 Month Sterling LIBOR +4% p.a.	28/01/15
Oak Hill Advisors	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	01/05/15
Partners Group	Infrastructure Fund	5.0%	3 Month Sterling LIBOR +8% p.a.	31/08/15
Aviva Investors	Infrastructure Income Fund	2.5%	3 Month Sterling LIBOR +6% p.a.	23/05/18
M&G	Inflation Opportunities	10.0%	RPI +2.5%	01/05/15
Aberdeen Standard Investments	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
	Total	**100.0%**		

Appendix 2 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

Deloitte.

Appendix 4: Cashflow Monitoring Position as at 31 December 2019

Pension Fund Current Account Cashflow Actuals and Forecast for period October 2019 to September 2020

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Forecast Annual Total	Forecast Monthly Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s		
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast		
Balance b/f	**4,388**	**2,167**	**2,634**	**1,240**	**1,140**	**1,040**	**2,340**	**4,040**	**3,940**	**5,240**	**5,140**	**3,040**	**£000s**	**£000s**
Contributions	2,267	2,215	2,263	2,200	2,200	2,200	6,000	2,200	2,200	2,200	2,200	2,200	**30,227**	**2,519**
Pensions	(2,838)	(2,785)	(3,291)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	**(35,013)**	**(2,918)**
Lump Sums	(1,771)	(1,440)	(309)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	**(9,820)**	**(818)**
Net TVs in/(out)	460	(1,193)	(338)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	**(5,571)**	**(464)**
Net Miscellaneous Expenses	(221)	(182)	(295)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	**(2,499)**	**(208)**
Net Cash Surplus/(Deficit)	**(2,221)**	**(3,386))**	**(1,969)**	**(2,100)**	**(2,100)**	**(2,100)**	**1,700**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(24,969)**	**(2,081)**
Distributions	-	1,853	575	-	-	1,400	-	-	3,400	-	-	1,400	**8,628**	**719**
Net Cash Surplus/(Deficit) including investment income	**(2,221)**	**(1,533)**	**(1,394)**	**(2,100)**	**(2,100)**	**(700)**	**1,700**	**(2,100)**	**1,300**	**(2,100)**	**(2,100)**	**(700)**	**(14,048)**	**(1,171)**
Withdrawals from Custody Cash	-	2,000	-	2,000	2,000	2,000	-	2,000	-	2,000	-	-	**12,000**	**1,000**
Balance c/f	**2,167**	**2,634**	**1,240**	**1,140**	**1,040**	**2,340**	**4,040**	**3,940**	**5,240**	**5,140**	**3,040**	**2,340**	**(2,048)**	**(171)**

Current Account Cashflow Actuals Compared to Forecast During the October to December 2019 Quarter

	Oct-19		Nov-19		Dec-19		Oct – Dec 19
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	2,100	2,149	2,100	2,215	2,100	2,263	479
Pensions	(2,900)	(2,838)	(2,900)	(2,785)	(2,900)	(3,291)	(297)
Lump Sums	(700)	(1,771)	(700)	(1,440)	(700)	(309)	(165)
Net TVs in/(out)	(500)	460	(500)	(1,193)	(500)	(338)	(1,332)
Expenses	(200)	(221)	(200)	(182)	(200)	(295)	(99)
Distributions	-	-	-	1,853	1,400	575	1,028
Withdrawals from Custody Cash	-	-	2,000	2,000	-	-	-
Total	**(2,200)**	**(2,221)**	**(200)**	**467**	**(800)**	**(1,394)**	**52**

Notes on variances during quarter:

- Distributions of £2.4m were paid to the fund during the quarter. This amount is expected to reduce to £1.4m in the next quarter due to the divestment out of the LCIV UK Equity Fund.
- Lump Sums and Net Transfer values are difficult to forecast on a month basis, however the forecast over the quarter is generally in line with expectations.

Pension Fund Custody Invested Cashflow Actuals and Forecast for period October 2019 – September 2020

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Forecast Annual Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	
Balance b/f	**24,233**	**24,399**	**3,260**	**3,297**	**1,297**	**5,297**	**2,097**	**8,097**	**4,897**	**10,897**	**7.697**	**13,697**	**£000s**
Sale of Assets	-	-	-		5,000		5,000		5,000		5,000		**20,000**
Purchase of Assets	(3)	(20,003)	(3)	(20,000)		(1,200)		(1,200)		(1,200)			**(23,610)**
Net Capital Cashflows	**(3)**	**(20,003)**	**(3)**										**(3,610)**
Distributions	202	854	29		1,000		1,000		1,000		1,000		**5,084**
Interest	10	6	3										**20**
Management Expenses	3	3	10										**16**
Foreign Exchange Gains/Losses	(46)	-	(1)										**(47)**
Class Actions	-	-	-										**-**
Net Revenue Cashflows	**170**	**864**	**40**	**-**	**1,000**	**-**	**1,000**	**-**	**1,000**	**-**	**1,000**	**-**	**5,074**
Net Cash Surplus/(Deficit) excluding withdrawals	**166**	**(19,140)**	**37**	**-**	**6,000**	**(1,200)**	**6,000**	**(1,200)**	**6,000**	**(1,200)**	**6,000**	**-**	**1,464**
Withdrawals from Custody Cash	-	(2,000)	-	-	(2,000)	-	(2,000)	(2,000)	-	(2,000)	(2,000)	-	**(12,000)**
Balance c/f	**24,399**	**3,260**	**3,297**	**1,297**	**5,297**	**2,097**	**8,097**	**4,897**	**10,897**	**7.697**	**13,697**	**13,697**	**(10,536)**

Notes on Invested Cash Movements

- In September 2019, the Pension Sub-Committee agreed to invest £20m of its custody cash into the LCIV Global Bond Fund under PIMCO's management as part of its overall rebalancing exercise. The investment was completed in November 2019.
- In November 2019, the fund agreed to make a commitment of £55m to invest into Aberdeen Standard's Private Multi Asset Credit Fund. This will be financed by redeeming assets currently invested in the Fund's passive equities strategy
- During the quarter, the following amounts were distributed back to the pension fund:
    - £0.5m from the Invesco Private Equity Funds
    - £0.2m from the Unigestion Private Equity Funds
- During the quarter, there were no capital calls requested from the fund.

London Borough of Hammersmith and Fulham Pension Fund Risk Register - Administration Risk

Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised likelihood	Total risk score	Reviewed on
				Fund	Employers	Reputation	Total						
Admin	1		Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	**TREAT** 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	02/01/2020
Admin	2		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	2	3	6	3	**18**	**TOLERATE** 1) Officers to continue monitor the ongoing staffing changes at Surrey CC.	3	**18**	02/01/2020
Admin	3		Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	**18**	**TREAT** 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investmen	2	**18**	02/01/2020
Admin	4		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	**TREAT** 1) Process notes are in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	02/01/2020
Admin	5		Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	**TREAT** 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. **TOLERATE** 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	**11**	02/01/2020
Admin	6		Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	**20**	**TREAT** 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams.	1	**10**	02/01/2020
Admin	7		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	**16**	**TREAT** 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.	1	**8**	02/01/2020

Admin	8	↔	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	**16**	**TREAT** 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	02/01/2020
Admin	9	↔	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	**TREAT** 1) Disaster recovery plan in place as part of the service specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**	02/01/2020
Admin	10	↔	Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	**TREAT** 1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	2	**8**	02/01/2020
Admin	11	↔	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	**TREAT** 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	**7**	02/01/2020
Admin	12	↓	Failure to detect material errors in bank reconcilation process.	2	2	2	6	2	**12**	**TREAT** 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed reconciliation process.	1	**6**	02/01/2020
Admin	13	↔	Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	**12**	**TREAT** 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes this is collected over a number of months.	1	**6**	02/01/2020
Admin	14	↔	Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	**TREAT** 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members	1	**6**	02/01/2020
Admin	15	↔	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	**TREAT** 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. 2) All files are backed up daily.	2	**6**	02/01/2020
Admin	16	↔	Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	1	**6**	**TREAT** 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	02/01/2020

Admin	17		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	**10**	**TREAT** 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	**5**	02/01/2020
Admin	18		Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	**TREAT** 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	02/01/2020
Admin	19		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	**10**	**TREAT** 1) Engage with actuary re assumptions in contribution rates.	1	**5**	02/01/2020
Admin	20		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	**TREAT** 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	02/01/2020

London Borough of Hammermsmith & Fulham Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed on
				Fund	Employers	Reputation	Total						
Governance	1		The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	5	4	3	12	3	36	**TORELATE** 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3) Monitor the ongoing staffing changes at the LCIV which include the recruitment of key roles of CIO, Head of Responsible Investment and Client Relations Director 4)Fund representation on key officer groups.	3	36	02/01/2020
Investment	2		Significant volatility and negative sentiment in global investment markets following disruptive politically uncertainty caused by the conflict between the US and Iran, as well as the ongoing tradewar with China.	5	4	1	10	4	40	**TREAT** 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy intergrates portfolio diversification and risk management. 3) Investment strategy review will follow post actuarial 2019 valuation.	3	30	02/01/2020
Investment	3	NEW	Outbreak of the corona virus within China and the rest of the world impacting stock markets globally.	4	4	1	9	4	36	**TREAT** 1) Officers will continue to monitor the impact the outbreak is like to have on the fund's investments 2) The Fund holds a well diversified porfolio, which should reduce the downside risks of adverse stock market movements.	3	27	30/01/2020
Investment	4		Volatility caused by uncertainty regarding to the withdrawal of the UK from the European Union, with the likelihood of a no-deal exit increasing.	4	4	1	9	3	27	**TREAT** 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. 4) The UK is currently still part of the EU, however a deal has now been agreed in Parliament with the UK expected to exit the EU on 31 January 2020.	3	27	02/01/2020
Governance	5		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	4	32	**TREAT** 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work carried out by the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	3	24	02/01/2020
Funding	6		There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	2	11	3	33	**TREAT** 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly income distributions from some of its investments to help meet its short term pensions obligations.	2	22	02/01/2020
Funding	7		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	**TOLERATE** 1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. 2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	02/01/2020

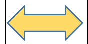
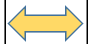
Funding	8	↔	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%.	5	**3**	2	10	3	**30**	**TREAT** 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis.	2	**20**	02/01/2020
Funding	*9*	↓	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	**TOLERATE** 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates.	2	**20**	02/01/2020
Funding	10	↓	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	**20**	**TOLERATE** 1) Fund employers continue to monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	**20**	02/01/2020
Funding	11	↔	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	**20**	**TOLERATE** 1) Political power required to effect the change.	2	**20**	02/01/2020
Investment	12	↔	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.1m.	5	3	1	9	3	**27**	**TREAT** 1) The Investment Management Agreements (IMAs)clearly state LBHF's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee is positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	**18**	02/01/2020
Governance	13	↑	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	3	**18**	**TOLERATE** 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG guidance	3	**18**	02/01/2020
Investment	14	↔	Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	**24**	**TREAT** 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	**16**	02/01/2020

Funding	15		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	**TOLERATE** 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. 2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund. 3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.	2	16	02/01/2020
Funding	16		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	**TOLERATE** 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2)Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3)Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	02/01/2020
Funding	17		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	**TREAT** 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	02/01/2020
Governance	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	**TREAT** 1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. 2)Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate expert advice is sought.	1	12	02/01/2020
Governance	19		Changes to LGPS Regulations	3	2	1	6	3	18	**TREAT** 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2019 actuarial valuation process. 3) Fund will respond to several ongoing consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	02/01/2020
Investment	20		Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	3	2	1	6	3	18	**TREAT** 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with companies on a variety of ESG issues including climate change.	2	12	02/01/2020
Governance	21		Failure by the audit committee to perfom its governance, assurance and risk management duties	3	2	1	6	3	18	**TREAT** 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governence issues are regularly tabled.	2	12	02/01/2020
Funding	22		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	22	**TREAT** 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures.	1	11	02/01/2020

Page 127

Financial	23		Financial loss of cash investments from fraudulent activity	3	3	5	11	2	**22**	**TREAT** 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. 2) Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal audit assist in the implementation of strong internal controls. 3)Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	**11**	02/01/2020
Operational	24		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	**22**	**TREAT** 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) LBHF IT data security policy adhered to. 3) Implementation of GDPR	1	**11**	02/01/2020
Governance	25		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	**TREAT** 1) Officers maintain knowledge of legal framework for routine decisions. 2)Eversheds retained for consultation on non-routine matters.	1	**11**	02/01/2020
Funding	26		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	**22**	**TREAT** 1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds.	1	**11**	02/01/2020
Governance	27		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	**TREAT** 1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise and challenge advice provided routinely.	1	**10**	02/01/2020
Operational	28		Financial failure of third party supplier results in service impairment and financial loss.	5	4	1	10	2	**20**	**TREAT** 1) Performance of third party suppliers regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	02/01/2020
Governance	29		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	**TREAT** 1) Succession planning processes are in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	**10**	02/01/2020
Investment	30		Failure of global custodian or counterparty.	5	3	2	10	2	**20**	**TREAT** 1)At time of appointment, ensure assets are separately registered and segregated by owner. 2)Review of internal control reports on an annual basis. 3)Credit rating kept under review.	1	**10**	02/01/2020
Operational	31		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	**TREAT** 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV.	1	**10**	02/01/2020

Investment	32		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	20	**TREAT** 1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10	02/01/2020
Governance	33		Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	**TREAT** 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	02/01/2020
Governance	34		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	20	**TREAT** 1) Publication of all documents on external website. 2) Officers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	02/01/2020
Operational	35		Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	15	**TREAT** 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed.	2	10	02/01/2020
Funding	36		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	**TREAT** 1) Review maturity of scheme at each triennial valuation. 2)Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly.	1	9	02/01/2020
Governance	37		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	**TREAT** 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9	02/01/2020
Operational	38		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain.	3	2	4	9	2	18	**TREAT** 1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.	1	9	02/01/2020

Governance	39		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	**TREAT** 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	02/01/2020
Regulation	40		Loss of 'Elective Professional Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers.	4	2	2	8	2	**16**	**TREAT** 1)Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2)Training programme and log are in place to ensure knowledge and understanding is kept up to date. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**8**	02/01/2020
Operational	41		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	2	2	3	7	2	**14**	**TREAT** 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**	02/01/2020
Funding	42		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	**14**	**TREAT** 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**	02/01/2020
Regulation	43		Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	**TREAT** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2)Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	02/01/2020

Forward Plan for Pensions Sub-Committee – December 2019

Area of work	February 2020	July 2020	September 2020	December 2020
Governance	Quarterly Update Pack Pension Sub-Committee minutes Governance Compliance Statement review Consultation updates Responsible Investment Policy Review	Quarterly Update Pack Pension Sub-Committee minutes Responsible Investment Policy Review	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes
Investments	Fund Manager monitoring Investment strategy statement	Fund Manager monitoring	Fund Manager monitoring	Fund Manager monitoring
Funding	Actuarial Valuation Final Funding Strategy Statement	Actuarial Valuation Review	Actuarial Funding Level Update	Actuarial Funding Level Update