

Pension Fund Sub-Committee

Agenda

Tuesday 24 November 2020 at 7.00 pm
Online - Virtual Meeting

Note: This meeting will follow the Audit and Pensions Committee meeting.

MEMBERSHIP

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

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www.lbhf.gov.uk/committees

Members of the press and public can watch the meeting on YouTube:
https://youtu.be/U_DGTkh-cRQ

Date Issued: 16 November 2020

Pension Fund Sub-Committee Agenda

<u>Item</u>		<u>Pages</u>
1. APOLOGIES FOR ABSENCE		
2. ROLL CALL AND DECLARATIONS OF INTEREST		
	To confirm attendance, the Chair will perform a roll call. Members will also have the opportunity to declare any interests.	
	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 Standards Committee.	
3. MINUTES OF THE PREVIOUS MEETING		5 - 9
	To approve the minutes of the meeting held on 29 th September 2020.	
4. QUARTERLY UPDATE PACK		10 - 27
	This paper provides the Pensions Sub-Committee with a summary of the Pension Fund's overall performance for the quarter ended 30 September 2020.	
5. GROUND RENT AND AFFORDABLE HOUSING		28 - 32

This paper and associated appendix provides the Sub-Committee with more detailed information on two asset classes that the Sub-Committee agreed to take forward as potential replacements for the Fund's inflation protection allocation.

- 6. NATIONAL LGPS FRAMEWORK MEMBER ACCESS AGREEMENTS** 33 - 36

This paper provides the Pension Fund Sub-Committee with an update on the contracts of its actuarial and investment consultancy services which are due to expire at the end of the year.
- 7. CONSULTANT REVIEW** 37 - 46

This paper provides the Pensions Sub-Committee with a performance review of the Pension Fund's investment consultant, in line with the agreed set of aims and objectives.
- 8. EXCLUSION OF THE PUBLIC AND PRESS**

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.
- 9. EXEMPT MINUTES OF THE PREVIOUS MEETING**

To approve the exempt minutes of the meeting held on 29th September 2020.
- 10. QUARTERLY UPDATE PACK (EXEMPT)**

This report contains the exempt elements of item 4.
- 11. GROUND RENT AND AFFORDABLE HOUSING (EXEMPT)**

This report contains exempt elements of item 5.
- 12. PENSIONS ADMINISTRATION UPDATE** 47 - 74

Agenda Item 3



London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee Minutes

Tuesday 29 September 2020

*This meeting was held remotely. You can watch a recording of it here:
www.youtube.com/watch?v=hlNrLdVAIEs*

PRESENT

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

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury and Pensions), Matt Hopson (Strategic Investment Manager), Tim Mpofu (Pension Fund Manager), David Hughes (Director of Audit, Fraud, Risk and Insurance), Rhian Davies (Director of Resources), David Abbott (Head of Governance)

Guests:

Kevin Humpherson (Deloitte)
Gareth Hopkins (Independent Pensions Advisor)

1. MINUTES OF THE PREVIOUS MEETING

The minutes of the meetings held on the 23rd of June and the 31st of July 2020 were agreed as an accurate record.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Rebecca Harvey.

3. ROLL CALL AND DECLARATIONS OF INTEREST

The Chair carried out a roll call to confirm attendance. Attendance is listed above. There were no declarations of interest.

NOTE: The Chair agreed to reorder the agenda. Items 11, 12, and 13 were given priority.

4. EXCLUSION OF THE PUBLIC AND PRESS

Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

The Sub-Committee agreed, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of Items 12 and 13, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

5. EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the meeting held on the 31st of July 2020 were agreed as an accurate record.

6. PENSIONS ADMINISTRATION UPDATE

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report and gave a summary of the key points. Members discussed the report.

RESOLVED

That the Sub-Committee noted the report.

7. QUARTERLY UPDATE

Tim Mpofo (Pension Fund Manager) presented the report and gave a summary of the key points.

Michael Adam asked if officers had any indication of what the yield on the cash balances would be. Tim Mpofo said there was in the region of £5 to £10m in cash at any one time so the yield would be around £50k.

Michael Adam asked if another £40-50k a year was worth it given the counter-party risk. Tim Mpofo said it was low risk and only for short periods (with daily dealing).

Michael Adam asked for a breakdown of where the fund was currently invested. Tim Mpofo said he could share the fact sheet but generally it was in Triple A rated, lowest risk bond funds.

The Chair asked if the committee approved the recommendation to move cash balances. The sub-committee agreed moving cash balances to Northern Trust's Conservative Ultra Short Fund.

RESOLVED

1. That the Sub-Committee noted the update.
2. That the Sub-Committee approved moving cash balances to Northern Trust's Conservative Ultra Short Fund

8. ANNUAL REPORT

Matt Hopson (Strategic Investment Manager) presented the report and gave a summary of the key points. He noted that the annual report was still draft

because the preparation of the final set of accounts had been delayed by the Covid-19 pandemic.

RESOLVED

1. That the Sub-Committee approved the Pension Fund Annual Report for 2019/20, subject to any necessary final alterations made by the Director for Treasury and Pensions in consultation with the Chair.
2. That the Sub-Committee noted the draft Pension Fund Accounts for 2019/20 and PIRC Universe Overview.

9. RESPONSIBLE INVESTMENT STATEMENT

Tim Mpofu (Pension Fund Manager) presented the report and gave a summary of the key points.

The Chair said he was really impressed with the progress in this area and thanked officers for their hard work. Councillor PJ Murphy agreed and said it would be useful for the committee to understand both the quick wins and the challenges moving forward. Tim Mpofu said officers would look into this and feedback to the committee.

ACTION: Tim Mpofu

Michael Adam asked if this would be expanded in future with more granular comments from fund managers – including how they measured and implemented ESG. He also suggested fixed income could also be incorporated in future.

Tim Mpofu said it would be expanded – and while the impact of fixed income was difficult to measure it could potentially be included in future. This report was the ‘start of the journey’.

RESOLVED

That the Sub-Committee approved the updated Responsible Investment Statement.

10. TRANSITION REPORT

Matt Hopson (Strategic Investment Manager) presented the report and gave a summary of the key points. He noted that the transition had been successfully completed and the overall cost was in line with expectations.

RESOLVED

That the Sub-Committee noted the report.

11. SUPREME COURT DECISION

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points.

The Chair asked if the decision would have an impact on pooling. Phil Triggs said it might – the decision suggested local authorities could exercise more sovereign power, but that may change in future if the Government passed additional legislation.

RESOLVED

That the Sub-Committee noted the report.

12. MCCLLOUD CONSULTATION

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points.

Councillor PJ Murphy asked if this meant each beneficiary would get a statement with two valuations and be asked to choose between them. Phil Triggs agreed but said the detail of any administrative changes would be down to the Head of Pensions Administration.

Michael Adam asked if the Government had set out a timeframe for implementation. He also asked if there was an indication of the impact on liabilities. Phil Triggs said the actuary was prudent when anticipating this decision and made allowance for extra liability and made consideration in their calculations. The contribution rates from the 1st of April took extra liability into consideration.

The Chair asked for regular updates at future meetings.

RESOLVED

That the Sub-Committee noted the report and requested progress updates at future meetings.

13. INVESTMENT STRATEGY REVIEW

Kevin Humpherson (Deloitte) presented the report and gave a summary of the key points.

Councillor Matt Thorley asked if purchasing ground rents meant residential or commercial ground rents. Kevin Humpherson clarified that it was commercial only.

Councillor PJ Murphy asked if purchasing ground rents would overlap with the current property fund. Kevin Humpherson said ground rents were less exposed to property market price – default on a ground rent was very unlikely. But there was a degree of overlap because the underlying market was the same.

Councillor Murphy asked if a property needed a tenant for ground rent to come in. Kevin Humpherson said the level of collateralisation gave protection.

The Chair noted the mention of reputational risk around leasehold and freehold issues and asked if that could affect the commercial sector given the

Governments upcoming planning reforms. Kevin Humpherson said the commercial sector was completely different to the residential sector and he would be surprised to see changes.

The Chair asked what the next steps were. Matt Hopson (Strategic Investment Manager) said officers would bring back a definitive strategy for a ground rent fund with a social supported housing fund – and provide a shortlist of suggested managers at the next meeting. Officers noted that interviews with managers may have to take place outside of the arranged schedule of meetings. The Chair agreed.

RESOLVED

1. That the Sub-Committee noted the report and agreed that asset allocations should be taken to the next stage as a part replacement for the Fund's Inflation Protection portfolio with M&G.
2. That the Sub-Committee agreed an allocation to the LCIV Absolute Return Ruffer fund.

Meeting started: 6:30pm
Meeting ended: 8:40pm

Chair

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London Borough of Hammersmith & Fulham

Report to: Pension Fund Sub-Committee

Date: 24/11/2020

Subject: Pension Fund Quarterly Update Pack

Report of: Tim Mpofo, Pension Fund Manager

Executive Summary

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

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

Recommendations

1. The Pensions Sub-Committee is recommended to note the update.
-

Wards Affected: None

H&F Priorities

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

Financial Impact

- None

Legal Implications

- None
-

Contact Officers:

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Name: Matt Hopson
Position: Strategic Investment Manager
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Name: Phil Triggs
Position: Director of Treasury and Pensions
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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 – Q2 2020/21

- 1.1. This report and attached appendices make up the pack for the quarter ended 30 September 2020. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.
- 1.2. Appendix 2 contains the Pension Fund's report on the latest updates with regards to the integration of the environmental, social and governance (ESG) factors as part of the its investment strategy.
- 1.3. Appendix 3 provides information about the Pension Fund's investments and performance. Kevin Humpherson from Deloitte will be attending the meeting to present this report.
- 1.4. 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 as at 30 September 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 edited to show a current 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 30 September 2020.

2. Update on Aviva Investors

- 2.1. The Sub-Committee will be aware of an ongoing dispute relating to Aviva investor Renewable Infrastructure Fund. This issue has led to the qualification of the Infrastructure Fund's 2019 Statement of Accounts.
- 2.2. Despite the investment being a relatively small allocation to the Pension Fund at 2.5%, this has caused concern with the Pension Fund's auditors, Grant Thornton, over material accuracy of the statements.
- 2.3. Officers are working with Grant Thornton to provide assurance over the value of the investment and will provide a verbal update at the meeting.

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 30 September 2020

Appendix 2: Pension Fund ESG Report

Appendix 3: Deloitte Quarterly Report for Quarter Ended 30 September 2020



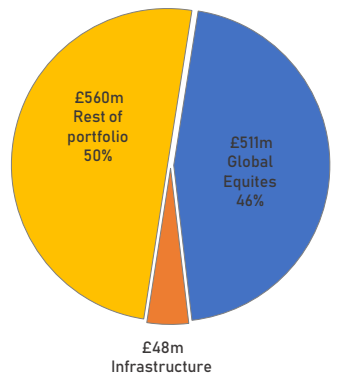

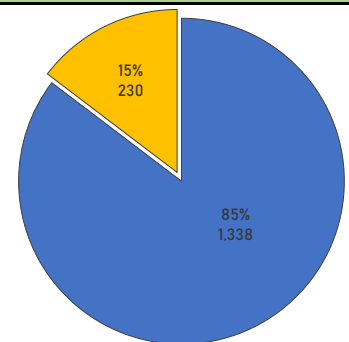
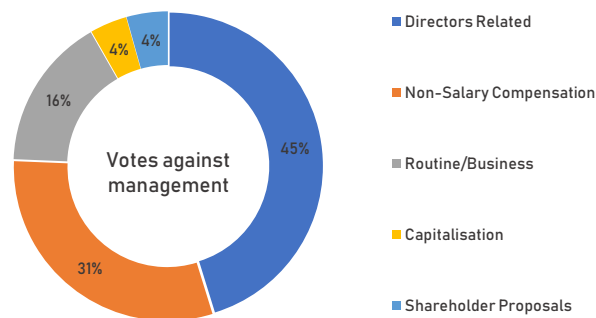
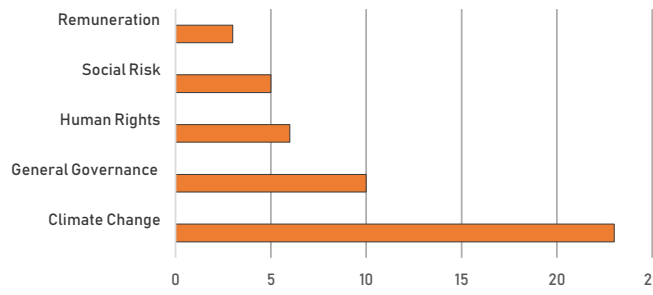
Appendix 4: Cashflow Monitoring Report

Appendix 5: Pension Fund Risk Register

Appendix 6: Pensions Sub-Committee Forward Plan

London Borough of Hammersmith and Fulham Pension Fund Quarterly Monitoring Report

	Dec 19	Mar 20	Jun 20	Sep 20	Comment/ Report
LIABILITIES					
Value (£m)	1,108.7	1,006.4	1,118.7	1,141.3	Deloitte Report Net of Fees
% return quarter	0.3%	-8.8%	11.1%	2.0%	
% return one year	12.3%	-2.9%	4.8%	3.81%	
LIABILITIES					
Value (£m)	1,082	1,090	1,142	1,187	
Surplus/(Deficit) (£m)	9.7	(22)	(36)	(47)	
Funding Level	101%	98%	97%	96%	
MEMBERSHIP					
Active members	4,026	4,332	4,151	4,252	
Deferred beneficiaries	7,085	6,840	6,992	6,914	
Pensioners	5,222	5,111	5,278	5,334	
Employers	50	50	47	47	
CASHFLOW					
Cash balance	£1.2m	£1.6m	£3.0m	£1.7m	Appendix 4
Variance from forecast	£0.0m	£0.0m	£0.6m	(0.5m)	
RISK					
No. of new risks	1	0	1	0	Appendix 5 – Risk Register
No. of ratings changed	5	0	12	0	
LGPS REGULATIONS					
New consultations	None	None	McCloud Supreme Court Judgement	McCloud Supreme Court Judgement	
New sets of regulations	None	None	None	None	

Environmental, Social & Governance (ESG) Report		30 September 2020		Key Highlights		Investment in Low Carbon Assets													
<p>The London Borough of Hammersmith & Fulham Pension Fund is committed to being a responsible investor. In line with this commitment, the Pension Fund recognises Environmental, Social & Governance (ESG) factors to be integral to its investment strategy.</p>				 <p>57% CO₂ emissions saved by investing in the MSCI Low Carbon Fund</p>		<p>£566mil</p>													
<p>The Pension Fund has a target to achieve carbon neutrality by 2030.</p>				 <p>45.5k estimated number of cars kept of the road each year by investing in renewable energy¹</p>		<p>Low Carbon Investments £000</p>													
		<p>Estimated Carbon Savings (tonnes p/a)</p> <table border="1"> <tr> <td>Equity Investments</td> <td>Aviva Infrastructure</td> </tr> <tr> <td>68.2k</td> <td>9.9k</td> </tr> </table>		Equity Investments	Aviva Infrastructure	68.2k	9.9k	 <p>114 number of engagements by LGIM on Social topics during the last quarter.</p>		<table border="1"> <tr> <td>Equity Investments</td> <td>510,539</td> </tr> <tr> <td>Aviva Infrastructure</td> <td>26,745</td> </tr> <tr> <td>Partners Infrastructure</td> <td>21,337</td> </tr> <tr> <td>LCIV Green Bonds</td> <td>7,748</td> </tr> </table>		Equity Investments	510,539	Aviva Infrastructure	26,745	Partners Infrastructure	21,337	LCIV Green Bonds	7,748
Equity Investments	Aviva Infrastructure																		
68.2k	9.9k																		
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Aviva Infrastructure	26,745																		
Partners Infrastructure	21,337																		
LCIV Green Bonds	7,748																		
<p>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).</p>				<p>LAPFF Engagement</p> <p>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.</p>															
<p>Voting Summary</p>		<p>Voting Breakdown</p>																	
																			
																			

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

Appendix 4: Cashflow Monitoring Position as at 30 September 2020

Pension Fund Current Account Cashflow Actuals and Forecast for period July 2020 – June 2021

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	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	3,033	2,007	3,219	1,697	2,697	2,497	1,997	2,997	3,597	3,097	5,897	5,697	£000s	£000s
Contributions	2,738	2,380	2,506	2,600	2,600	2,600	2,600	2,600	2,600	6,400	2,600	2,600	34,824	2,902
Pensions	(3,225)	(2,856)	(3,224)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(37,205)	(3,100)
Lump Sums	(125)	(379)	(791)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(6,695)	(558)
Net TVs in/(out)	191	1,149	(544)	300	300	300	300	300	300	300	300	300	3,496	291
Net Miscellaneous Expenses	(606)	(551)	(1)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(2,958)	(247)
Net Cash Surplus/(Deficit)	(1,027)	(257)	(2,054)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	2,800	(1,000)	(1,000)	(8,538)	(712)
Distributions	-	1,469	532	-	800	500	-	1,600	500	-	800	500	6,701	558
Net Cash Surplus/(Deficit) including investment income	(1,027)	1,212	(1,522)	(1,000)	(200)	(500)	(1,000)	600	(500)	2,800	(200)	(500)	(1,837)	(153)
Withdrawals from Custody Cash	-	-	-	2,000	-	-	2,000	-	-	-	-	-	4,000	333
Balance c/f	2,007	3,219	1,697	2,697	2,497	1,997	2,997	3,597	3,097	5,897	5,697	5,197	2,163	180

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Current Account Cashflow Actuals Compared to Forecast During the July to September 2020 Quarter

	Jul-20		Aug-20		Sep-20		Jul-Sep 20
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	2,600	2,738	2,600	2,380	2,600	2,506	(176)
Pensions	(3,100)	(3,225)	(3,100)	(2,856)	(3,100)	(3,224)	(5)
Lump Sums	(600)	(125)	(600)	(379)	(600)	(791)	505
Net TVs in/(out)	300	191	300	1,149	300	(544)	(104)
Expenses	(200)	(606)	(200)	(551)	(200)	(1)	(558)
Distributions	-	-	1,600	1,469	600	532	(199)
Withdrawals from Custody Cash	-	-	-	-	-	-	-
Total	(1,000)	(1,027)	600	1,212	(400)	(1,522)	(537)

Notes on variances during quarter:

- Distributions of £2m were paid to the fund during the quarter. The forecast for the near future is for this amount to remain relatively stable. However, this will be subject to change once the cashflows from the LCIV Global Sustain Fund are known.
- 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 July 2020 – June 2021







	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Forecast Annual Total
	£000s	£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	3,485	3,489	5,384	5,351	3,351	3,351	3,151	1,151	1,151	2,951	2,951	2,951	£000s
Sale of Assets	-	-	-			1,000			1,000				2,000
Purchase of Assets	-	-	-			(1,200)			(1,200)				(3,507)
Net Capital Cashflows	-	-	-	-	-	(200)	-	-	(200)	-	-	-	(1,507)
Distributions	-	1,958	-						2,000				5,062
Interest	-	-	-										-
Management Expenses	-	-	(10)										(6)
Foreign Exchange Gains/Losses	4	(63)	(23)										(81)
Class Actions	-	-	-										-
Net Revenue Cashflows	4	1,895	(33)	-	-	-	-	-	2,000	-	-	-	4,973
Net Cash Surplus/(Deficit) excluding withdrawals	4	1,895	(33)	-	-	(200)	-	-	1,800	-	-	-	3,467
Withdrawals from Custody Cash	-	-	-	(2,000)	-	-	(2,000)	-	-	-	-	-	(4,000)
Balance c/f	3,489	5,384	5,351	3,351	3,351	3,151	1,151	1,151	2,951	2,951	2,951	2,951	(533)

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Notes on Invested Cash Movements

- During the quarter, the following amounts were repaid back
 - £1.8m from Partner's Group Private Multi-Asset Credit Fund
- There were distributions during the quarter of £0.2m from the Partners Group Funds
- During the quarter, there were no capital calls of requested from the fund by any investment manager.

London Borough of Hammersmith & 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						
Investment	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	5	4	2	11	4	44	TREAT 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment 2) The Fund will continue to review its asset allocation and make any changes when necessary 3) The Fund holds a well diversified portfolio, which should reduce the downside risks of adverse stock market movements.	3	33	10/09/2020
Investment	2		Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty	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 integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes.	3	30	10/09/2020
Funding	3		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	4	40	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.	3	30	10/09/2020
Investment	4		Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including the failure to agree to a trade deal and the economic fallout after the transition period at the end of 2020.	4	4	1	9	3	27	TREAT 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. 3) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply.	3	27	10/09/2020
Funding	5		There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	5	4	3	12	3	36	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. 3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements.	2	24	10/09/2020
Governance	6		The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	5	4	3	12	2	24	TORRELATE 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) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4) Fund representation on key officer groups.	2	24	10/09/2020






Investment	7		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	3	11	3	33	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	22	10/09/2020
Funding	8		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	10/09/2020
Funding	9		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	10/09/2020
Investment	10		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	3	30	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.	2	20	10/09/2020
Governance	11		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	10/09/2020
Governance	12		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	3	24	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.	2	16	10/09/2020

Funding	13	↔	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	10/09/2020
Funding	14	↔	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	10/09/2020
Funding	15	↔	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	10/09/2020
Governance	16	↔	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	10/09/2020
Governance	17	↔	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 be 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	10/09/2020
Investment	18	↔	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	10/09/2020
Governance	19	↔	Failure by the audit committee to perform 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 governance issues are regularly tabled.	2	12	10/09/2020









Operational	20	↔	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	1	6	3	18	<p>TREAT</p> <p>1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement)</p> <p>2) The Fund currently holds investments all its passive equities in a low carbon tracker fund, and is invested in renewable infrastructure.</p> <p>3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment</p> <p>4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy</p> <p>5) 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.</p>	2	12	10/09/2020
Funding	21	↔	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	22	<p>TREAT</p> <p>1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants.</p> <p>2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities.</p> <p>3) Fund manager targets set and based on market benchmarks or absolute return measures.</p>	1	11	10/09/2020
Investment	22	↔	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	22	<p>TREAT</p> <p>1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised.</p> <p>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.</p> <p>3) Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).</p>	1	11	10/09/2020
Operational	23	↔	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	<p>TREAT</p> <p>1) Data encryption technology is in place which allow the secure transmission of data to external service providers.</p> <p>2) LBHF IT data security policy adhered to.</p> <p>3) Implementation of GDPR</p>	1	11	10/09/2020
Governance	24	↔	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	<p>TREAT</p> <p>1) Officers maintain knowledge of legal framework for routine decisions.</p> <p>2) Eversheds retained for consultation on non-routine matters.</p>	1	11	10/09/2020
Funding	25	↔	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	<p>TREAT</p> <p>1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement.</p> <p>2) Regular monitoring of employers and follow up of expiring bonds.</p>	1	11	10/09/2020
Governance	26	↔	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	<p>TREAT</p> <p>1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place.</p> <p>2) Committee and officers scrutinise, and challenge advice provided routinely.</p>	1	10	10/09/2020

Operational	27		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	10/09/2020
Investment	28		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	10/09/2020
Operational	29		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	10/09/2020
Governance	30		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	10/09/2020
Governance	31		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	10/09/2020
Operational	32		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	10/09/2020
Funding	33		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	10	TOLERATE 1) Political power required to effect the change.	1	10	10/09/2020
Funding	34		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	1	10	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.	1	10	10/09/2020

Funding	35	↔	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	10/09/2020
Governance	36	↔	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	10/09/2020
Governance	37	↔	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	10/09/2020
Regulation	38	↓	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	10/09/2020
Operational	39	↔	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	10/09/2020
Funding	40	↔	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	10/09/2020
Regulation	41	↔	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	10/09/2020
Governance	42	↔	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	2	10	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.	1	5	10/09/2020

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	NEW	After agreeing on changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house, the pension fund may experience difficulty in finding an appropriately qualified candidate in a competitive recruitment market. A private sector solution may not meet the necessary service requirements.	4	3	3	10	5	50	TREAT 1) A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team 2) Recruitment is underway for the pensions manager of the retained team 3) Officers to receive a handover pack from the departing RBKC retained pensions team. 4) Consultant to assist in recommending an appropriate replacement for the third-party administration provider.	4	40	10/09/2020
Admin	2		COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	3	27	TOLERATE 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home.	3	27	10/09/2020
Admin	3		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	3	3	7	4	28	TOLERATE 1) Officers to continue monitor the ongoing staffing changes at Surrey CC. 2) Ongoing monitoring of contract and KPIs	3	21	10/09/2020
Admin	4		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	10/09/2020
Admin	5		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 investment	2	18	10/09/2020
Admin	6		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	10/09/2020

Admin	7		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 can interrogate data to ensure accuracy.	1	11	10/09/2020
Admin	8		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	10/09/2020
Admin	9		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 regarding 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	10/09/2020
Admin	10		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	10/09/2020
Admin	11		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	10/09/2020
Admin	12		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	10/09/2020
Admin	13		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	10/09/2020
Admin	14		Failure to detect material errors in bank reconciliation 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	10/09/2020

Admin	15		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 several months.	1	6	10/09/2020
Admin	16		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	10/09/2020
Admin	17		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	10/09/2020
Admin	18		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	10/09/2020
Admin	19		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	10/09/2020
Admin	20		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	10/09/2020
Admin	21		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	10/09/2020
Admin	22		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	10/09/2020

Forward Plan for Pensions Sub-Committee – September 2020

Area of work	November 2020	February 2021	July 2021	July 2021
Governance	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes
Investments	Fund Manager monitoring Investment Strategy Review	Fund Manager monitoring	Fund Manager monitoring	Fund Manager monitoring
Funding	Actuarial Funding Level Update	Actuarial Funding Level Update	Actuarial Funding Level Update	Actuarial Funding Level Update

London Borough of Hammersmith & Fulham

Report to: Pensions Sub Committee

Date: 24/11/2020

Subject: Investment Strategy – Ground Rents and Supported Social Housing

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager

Summary

This paper and associated appendix provides the Sub-Committee with more detailed information on two asset classes that the Sub-Committee agreed to take forward as potential replacements for the Fund's inflation protection allocation. These are:

- Ground Rents
- Supported Social Housing

The attached appendix from Deloitte explores these asset classes further and the asset managers that run these types of investment mandates.

Recommendations

The Sub Committee is requested to:

- a. Approve the shortlisted managers to progress to the next stage of the investment process.

Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none">• 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 taxpayers.

Financial Impact

The financial implications of these investments will be continually monitored to ensure that members' pensions are safeguarded.

Legal Implications

None

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

Asset Class Review

1. Background

- 1.1. The Pensions Sub Committee agreed to terminate the M&G inflation protection mandate. This was due to a number of factors but, most notably, the over exposure to long lease property that has built up in the portfolio, overlapping with the Fund's exposure to long lease property through Aberdeen Standard Investments.
- 1.2. Since then, the Fund's investment consultant, Deloitte, has narrowed down a list of prospective inflation protection strategies that warrant further investigation as potential investment alternatives.
- 1.3. The Sub-Committee agreed at the last meeting on 29 September 2020 that a replacement portfolio should be constructed of diversified commercial ground rents and an allocation to supported social housing.

- 1.4. This mandate will be constructed with two specialist managers, one from each investment class.

2. Investment Strategy

- 2.1. The two investment classes are described in more detail in the sections below.

Ground Rents

- 2.2 This is investing purely in the freeholds of larger developments such as mixed use commercial sites.

Benefits

- Ground rent investments receive long-term expected cashflows through the rental agreements that are in place with the leaseholder. For some funds, these cashflows can be utilised as annual income distribution and used for pension scheme cashflow management.
- The cashflows received can be inflation linked and rise over time. The inflation linkage is normally through RPI or CPI indices, with agreements in place to review the rent received with respect to inflation after a few years.
- The returns received generally have low correlation to other return seeking assets.
- If rental income received from the leaseholder ceases, the owner of the ground lease is able to take ownership of the leasehold property, which normally has a higher value. This provides security against the risk of default from the other party.

Risks

- Counterparty Risk – a leaseholder may not honour their obligation to pay rent and default on the ground lease agreement. However, as highlighted, the owner of the ground lease has security in the form of the leaseholder's property, of which it can inherit full ownership.
- Valuation Risk – the value of a ground rent asset is the opinion of the valuer based on several assumptions. Ground rents are largely illiquid and traded infrequently, so valuation evidence can be difficult to benchmark.
- Illiquidity Risk – ground rent leases can be difficult to trade without incurring a premium/discount. In exceptional circumstances, a fund may limit or suspend trading due to extreme market conditions or high levels of redemptions/withdrawals to protect an investor's funds.
- Reputational Risk – the Fund may be associated with recent ground rent negative press coverage involving residential housing estates.

Supported Social Housing

- 2.3 Investing in purpose built social housing specifically for individuals who may require special care or are unable to live and work independently.

Benefits

- The income received is ultimately funded by the UK central government, which clearly represents security. That said, this income is collected via housing associations which themselves incur credit risk. There is also a risk that the government may reduce future housing benefits.
- Social Supported Housing has strong and direct ESG credentials, predominantly within a social capacity where the provision of care and housing to individuals in this situation can have a real and tangible benefit to both the individuals and the wider community.
- Due to a shortage of supply in this type of accommodation, there is strong demand in the market. In addition, the UK government has formally backed some leases for a specified period (i.e. ten out of 25 years) to ensure they have uptake.
- The demand for the accommodation is dependent on the number of people who are in need of it, rather than the wider macro-economic and market environment. As such, demand can be seen as relatively uncorrelated to the market.

Risks

- Illiquidity Risk – due to the bespoke nature of the social supported housing assets, it can be difficult to buy and sell without incurring a discount. An investment opportunity may also specify additional liquidity restrictions to ensure that a fair return is achieved by holding onto assets for an appropriate duration or to restrict trading under certain market conditions.
- Political Risk – the return assumptions of an investment are based on the current benefits offered by the government, which could be changed or amended and adversely affect the return on investment.
- Administrative Risk – the administration of the social supported housing is carried out by a not-for-profit housing association. If administered poorly, there may be an increased likelihood that they are unable to meet payments or in worst case scenarios go bankrupt.
- Construction & Development Risk – due to the bespoke nature of the assets, they may need to be built or developed. If the construction and/or

development of an asset is delayed or requires significant changes, the asset value might be materially affected.

- Property Market Risk – the underlying assets might be subject to changes in the wider property market. If property markets undergo a period of distress, the asset values may fall.

2.4 The attached appendix describes the current providers in detail and will be discussed at the meeting.

3. Risk Management Implications

3.1. Risk are outlined in the report and associated appendix

4. Other Implications

4.1. None

5. Consultation

5.1. None

List of Appendices:

Appendix 1: EXEMPT ground rents and supported social housing

Agenda Item 6

London Borough of Hammersmith & Fulham

Report to: Pension Fund Sub-Committee

Date: 24/11/2020

Subject: National LGPS Framework Member Access Agreements for Actuarial and Investment Consultancy Services

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager

Summary

1.1 This paper provides the Pension Fund Sub-Committee with an update on the contracts of its actuarial and investment consultancy services which are due to expire at the end of the year.

Recommendations

1. The Sub-Committee is recommended to approve that the Pension Fund access the LGPS Norfolk Framework for the use of its actuarial and investment consultancy contract services.
-

Wards Affected: None

H&F Priorities

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

Financial Impact

- None

Legal Implications

- None
-

Contact Officer(s):

Name: Matt Hopson
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Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Background

- 1.1. The Pension Fund's actuarial and investment consultancy services are provided by Barnett Waddingham and Deloitte, respectively.
- 1.2. In 2015, the Pension Fund appointed Barnett Waddingham as its actuary with the service commencing on 1 October 2015 until 31 December 2020.
- 1.3. The service agreement with Deloitte was entered on 16 December 2013 for an initial period of five years. As per the initial agreement, both parties agreed to an extension for a further two years, which will be completed on 16 December 2020.
- 1.4. The Pension Fund will need to run a procurement exercise to appoint an actuary and investment consultant before the existing contracts expire. Officers plan to conduct the procurement exercise through the National LGPS Framework.

2. National LGPS Framework Member Access Agreements

- 2.1. The National LGPS Framework, which is run and managed by Norfolk County Council, has well established actuarial, benefits and governance consultancy services, as well as investment management consultancy services.
- 2.2. The services have been in place for several years and have been widely used by the LGPS Funds. The Pension Fund's current actuary and investment consultants were appointed using the Framework's services.
- 2.3. The previous framework agreements have expired, and the Pension Fund will be required to re-join the Framework by signing the Member Access Agreements for the actuarial and investment consultancy services.
- 2.4. The proposal is to issue a joint procurement with the City of Westminster and the Royal Borough of Kensington and Chelsea (under separate sovereign contracts) which will generate better value for money through economies of scale.

3. Reasons for Decision

- 3.1. n/a

4. Equality Implications

- 4.1. n/a

5. Risk Management Implications

- 5.1. n/a

6. Other Implications

6.1. n/a

7. Consultation

7.1. n/a

List of Appendices:

None

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Pension Fund Sub-Committee

Date: 24/11/2020

Subject: Pension Fund Consultant Review

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

Summary

- 1.1 The Competition and Markets Authority (CMA) requires that the Pension Fund establish aims and objectives for its investment consultant.
- 1.2 This paper provides the Pensions Sub-Committee with a performance review of the Pension Fund's investment consultant, in line with the agreed set of aims and objectives.

Recommendations

1. The Sub-Committee is requested to note and comment on the report.
-

Wards Affected: None

H&F Priorities

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

Financial Impact

- None

Legal Implications

- None

Contact Officer(s):

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Background

- 1.1. In December 2019, the Competition and Markets Authority's (CMA) Investment Consultancy and Fiduciary Management Investigation Order 2019 came into effect following an extensive review into the industry. This required all pension funds to set formal aims and objectives for their investment consultants.
- 1.2. The Sub-Committee approved its set of investment consultant aims and objectives on 26 November 2019, against which the consultant performance for 2020 has been reviewed.
- 1.3. A detailed assessment of the investment consultant's performance is attached as Appendix 1 to this paper.

2. Performance Against Aims and Objectives

- 2.1. The consultant's objectives have been broken down into the following subcategories:

Assistance in achieving the Fund's objectives

- 2.2. The consultant scored an Excellent performance rating against the all the objectives in this category by advising the Pension Fund on its investment strategy reviews throughout the year.

Governance and Costs

- 2.3. The consultant scored an Excellent performance rating against the all the objectives in this category including carrying out due diligence on behalf of the Pension Fund on existing and prospective investments.

Proactivity/Keeping Informed

- 2.4. The consultant scored an Excellent performance rating against the all the objectives in this category by providing training on new asset classes and suggesting potential investment options for the Sub-Committee to explore.

Monitoring

- 2.5. The consultant scored an Excellent performance rating against the all the objectives in this category, providing the Sub-Committee with a quarterly monitoring report on investment manager performance

Delivery

- 2.6. The consultant had an Excellent performance rating against most of the objectives, although a couple areas of improvement were identified regarding

the delivery of reports to officers and the breakdown of costs relating to work carried out on behalf of the Pension Fund.

- 2.7. As shown in Appendix 1, the consultant's performance over the past year has been to an excellent standard and the Pension Fund officers remain pleased with the work that the consultant continues to carry out in advising the fund on its investment strategy.

3. Reasons for Decision

- 3.1. n/a

4. Equality Implications

- 4.1. n/a

5. Risk Management Implications

- 5.1. n/a

6. Other Implications

- 6.1. n/a

7. Consultation

- 7.1. n/a

List of Appendices:

Appendix 1 – Investment Consultant Review

LBHF Pension Fund Investment Consultant Review 2020

Background

As per the requirements of the Competition and Markets Authority (CMA), the Pension Fund must establish aims and objectives for its investment consultant. A set of consultant objectives were drawn up for the Pension Fund investment consultant, Deloitte, and approved by Committee on 26 November 2019.

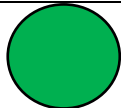
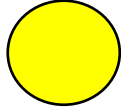
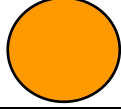
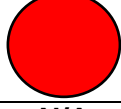
After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing several recommendations to improve pension fund governance, with a number of concerns expressed around fees and conflicts of interest.

The Pensions Regulator (tPR) welcomed the review by the CMA and produced guidance on setting aims and objectives. The regulator's view is that it is good practice for pension funds, including the LGPS, to be setting aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage areas of underperformance.

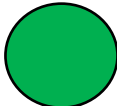
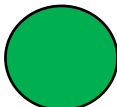
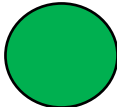
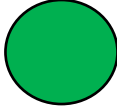
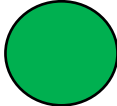
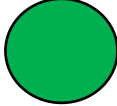
Performance Against Aims and Objectives

In line with best practice, the performance of the investment consultant against the objectives should be reviewed on an annual basis and the objectives updated at least every three years or when there has been a material change in investment approach.

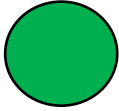
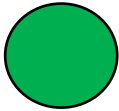
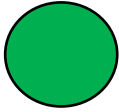
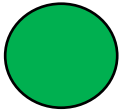
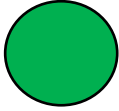
In the tables below are the agreed objectives and aims for the investment consultant, Deloitte, against which the consultant performance has been reviewed. Each objective has been assessed individually and assigned a rating as follows:

Performance Rating	Key
Excellent	
Good	
Satisfactory	
Unsatisfactory	
Not able to assess	N/A

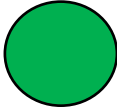
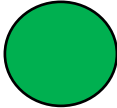
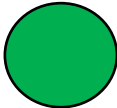
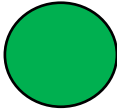
**LBHF Pension Fund
Investment Consultant Review 2020**

1. Assistance in achieving the Fund's objectives			
Reference	Objectives	Performance Rating	Comments
a)	Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund's objectives with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns.		Review of investment strategies during the contract period, and investment manager selections which reflect the new asset allocation decisions.
b)	All advice considers funding implications and the ability of the Fund to meet its long-term objectives.		The actuarial valuation outcome was taken into consideration when agreeing the revised asset allocation.
c)	The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk.		The investment consultant has the required due diligence processes in place to reduce risks.
d)	The investment consultant has contributed to the Fund's cashflow management process ensuring that the Fund's benefit obligations are met in a cost-efficient manner.		The Fund cashflow management is run in-house. However, the consultant may suggest appropriate income strategies to match the shortfall in cash.
e)	The investment consultant undertakes specific tasks such as the selection of new managers and asset liability studies as commissioned.		The consultant has drawn up shortlists and arranged interviews for the manager selections during the year.
f)	The investment consultant has complied with prevailing legislation, the constraints imposed by the Investment Strategy Statement, the detailed Investment Management Agreements and the policy agreed with the Committee when considering the investment of the Fund's assets.		The investment consultant and the Pension Fund have a compliant contract in place.

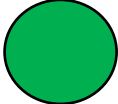
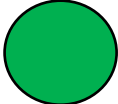
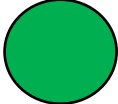
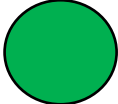
**LBHF Pension Fund
Investment Consultant Review 2020**

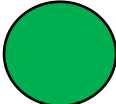
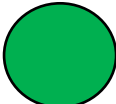
2. Governance and Costs			
Reference	Objectives	Performance Rating	Comments
a)	Assist the Committee to implement the Fund's investments on a more competitive fee basis, through negotiation and periodic benchmarking of fees.		The investment consultant produces a quarterly investment report which now includes fees benchmarking.
b)	Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice.		These factors were taken into consideration during investment strategy reviews.
c)	Where the investment consultant has provided support on implementation activity, including activity required to meet Fund benefits, these transactions have been carried out in a cost-effective manner.	N/A	The fund transitions are undertaken by the in-house investment team.
d)	The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost-effective solutions may be available.		Manager fees taken into consideration during the manager shortlisting and selection processes.
e)	The investment consultant has ensured that investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS.		The investment consultant has the required due diligence processes in place to ensure regulatory and compliance requirements are met.
f)	The investment consultant has taken into account the necessity for all investment funds within the portfolio, with few exceptions, to utilise one of the pools.		The consultant includes the asset pool products within the manager shortlisting and selection process.

**LBHF Pension Fund
Investment Consultant Review 2020**

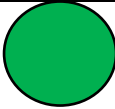
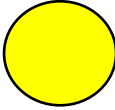
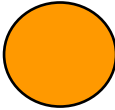
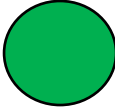
3. Proactivity/Keeping informed			
Reference	Objectives	Performance Rating	Comments
a)	Advise the Committee on appropriate new investment opportunities.		The consultant provides training to the Committee on new asset classes.
b)	Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention.		The investment consultant produces a quarterly report, rating the managers and advising if they believe the mandate is no longer rated favourably.
c)	The investment consultant has kept the Committee up to date with regulatory developments and additional compliance requirements.	N/A	The Committee is updated by the in-house investment team on regulatory matters.
d)	The investment consultant has highlighted areas that the Committee may wish to focus on in the future.		The investment consultant suggests asset classes which the Committee may wish to explore further.
e)	The investment consultant should be generally available for consultation on fund investment matters.		The consultant advises on all investment matters as required by the Pension Fund Officers and Committee.

**LBHF Pension Fund
Investment Consultant Review 2020**

4. Monitoring			
Reference	Objectives	Performance Rating	Comments
a)	The investment consultant provides insightful monitoring focused on the reasoning behind performance.		The investment consultant produces a quarterly report, providing narrative on investment manager performance.
b)	The Committee has been kept abreast of investment market developments and their implications for the Fund's investment strategy.		The consultant meets with Committee members quarterly and advises of market developments.
c)	Monitoring is integrated with funding and risk.		The risks within each mandate are monitored on an ongoing basis and the funding level is taken into consideration.
d)	Particular focus on the continued merits of active management. The investment consultant considers the value added by active management on a net of fees basis.		The consultant provides a quarterly report which details asset manager performance net of fees.

5. Delivery			
Reference	Objectives	Performance Rating	Comments
a)	The investment consultant has formed a strong working relationship with the Committee, Council Officers and other key stakeholders.		There is a good working relationship between the investment consultant and officers/committee members.
b)	Reports and educational material are pitched at the right level, given the Committee's understanding.		The reports and training matters are clear, easily understandable and concise to meet the needs of the Committee.
c)	Provides training/explanation which aids understanding and improves the		Training provided by the consultant to

**LBHF Pension Fund
Investment Consultant Review 2020**

	Committee's governance.		meet any needs of the Committee.
d)	Meeting papers are provided in a timely fashion, with all required detail and accuracy.		Papers are usually received by the Pension Fund Officers sufficiently in advance of the Committee meetings. On occasion some reports may require slight revisions to include more detail.
e)	The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance.		The consultant sends regular invoices with an itemised breakdown. However, cost of works is not always clear until after the invoice has been delivered.
f)	The investment consultant works collaboratively with the scheme's actuary and other advisors or third parties including the global custodian.		The consultant works with the custodian to calculate the quarterly fund performance and liaises with the actuary on the funding level.

As detailed in the performance review above, the consultant has performed well over the past year, meeting the majority of the aims and objectives to an excellent standard. The Pension Fund officers are pleased with the work produced by the consultant and aim to continue building on the good working relationship that has already been established.