

PENSIONS COMMITTEE 30 MARCH 2022

Report title: Lambeth Pension Fund – General Update March 2022

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Andy Wilson

Report Authorised by: Strategic Director for Finance and Investment: Fiona McDermott

Contact for Enquiries: Robert Browning, Head of Treasury and Pensions, 07394 402801, rbrowning@lambeth.gov.uk

REPORT SUMMARY

This paper provides members with an update on several general pensions related matters to have arisen since the last meeting.

FINANCE SUMMARY

There are no direct financial implications arising from the recommendations in this report.

RECOMMENDATIONS

1. That the report, together with the information in the accompanying papers, be noted.

1 CONTEXT

- 1.1 The Pensions Committee is responsible for ensuring that the Fund is properly operated in accordance with all relevant legislation and best practice as advised by the Pensions Regulator, the Local Government Pension Scheme (LGPS), Scheme Advisory Board (SAB), the Department for Levelling Up, Housing and Communities (DLUHC) and the Chartered Institute of Finance and Accountancy (CIPFA), including both financial and administration matters.
- 1.2 The purpose of this report is to update the Committee on a number of pensions related matters that have arisen since the last meeting and which are of relevance to the Fund, including standing items on the London CIV, the Pensions Board and training opportunities.

2 PROPOSALS AND REASONS

LONDON CIV

Funding and Fee Savings

- 2.1 The most recent London CIV (LCIV) Business Update call took place on 17 February 2022, during which updates were provided on their current fund launch activity and new fund launch pipeline; the current fund offering is attached at Appendix One for information.
- 2.2 As at 31 January 2022 the LCIV had £13.4bn of assets under direct management (approximately £15.1bn including commitments). The Lambeth Fund is a key stakeholder in the LCIV, with approximately £1.09bn or 57% of the Fund's active assets invested directly in the pool as at 31 December 2021, one of the highest proportions of total Fund assets compared to other London boroughs.
- 2.3 The estimated net fee savings for the year to date as at 31 December 2021 is £985k, which represents a saving over an estimate of additional fees that would have been paid if invested outside of the LCIV. The full year net fee savings forecast for 2021/22, after accounting for LCIV management fees and service charges, is approximately £1.2m (£938k in 2020/21).

Fund Pipeline

- 2.4 The LCIV ran a property workshop on 31 January 2022 with all interested London client Funds to share the results of a client property survey issued in October 2021 and put forward their plans for launching their own dedicated real estate fund. Based on initial demand the LCIV is planning to move forward with a residential property fund with a focus on affordable and social housing, and the first Seed Investor Group (SIG) meeting to begin developing this fund took place on 22 March 2022.
- 2.5 The initial timelines put forward by the LCIV will see a draft term sheet for the fund issued in the summer of this year, with a manager selection exercise to take place in the second half of the year and a fund launch date of Q1 2023. Officers will take part in the SIG to help develop the proposed fund alongside the existing work strand

being undertaken by the Fund's advisors to explore options in this asset class outside of the LCIV.

2.6 The possibility of a "lift and shift" of existing client property assets into the LCIV was also discussed, but at this stage was deemed a lower priority given the wide range of property managers in use across London Funds and the resources required to carry it out.

2.7 The LCIV has also begun the transition to add a second manager to the Multi Asset Credit Fund, in which the Lambeth Fund holds £239m as at 3 December 2021. The intention is to split asset holdings equally across the two managers, as advised to Committee in July 2021, in a process which is expected to take place over a period of up to six months to mitigate the impact of transition costs.

Governance

2.8 The LCIV General Meeting took place on 27 January 2022 as an in-person and online event, attended by shareholder representatives from all London boroughs and, from Lambeth, the Chair of this Committee. The meeting focussed on the 2022/23 budget and Medium-Term Financial Strategy (MTFS), which were both approved by the Board, and also updated members on progress made in addressing the ongoing issues raised by the FCA around the LCIV's treatment of regulatory capital. At its last business update webinar, the LCIV confirmed that there are still four London boroughs which have not returned the signed documentation required to amend the LCIV's Articles of Association and Shareholder Agreement in line with the FCA's requirements, with at least two boroughs indicating they are not minded to do so.

2.9 The confidential minutes from the meeting are appended to the investment performance report in the exempt section of this agenda.

Net Zero

2.10 The LCIV has trialled and is now preparing to launch a climate analytics service which aims to inform the development of decarbonisation strategies, assist internal risk management, and support climate-related disclosures. At present the service only covers listed equity and fixed income instruments (for investment both in and outside the pool) and will produce a carbon footprint of those holdings, measure their fossil fuel exposure and indicate their net-zero alignment (implied temperature increase).

2.11 The service would be subject to a separate agreement and additional fees, and would not provide access to the underlying data used to generate the outputs. This service is currently provided to the Lambeth Fund by its advisers, Mercer. Indicative fees have been provided, but officers will undertake further discussion with the LCIV to better understand the offering before taking any further action.

PENSIONS BOARD

- 2.12 The Board last met on 26 January 2022 and considered the quarterly administration performance report for the Fund as well as the latest risk register. Updates included:
- statistics on key administrative workflows in the quarter ending December 2021, usage of the Fund website and the Member Self Service platform, and details of member complaints and responses in the period; and
 - the latest on the HM Treasury consultation on the cost control mechanism and exit pay reform, Guaranteed Minimum Pension Rectification, and changes to the normal minimum pension change.
- 2.13 As set out in the Terms of Reference of both the Committee and Board, and as a means of ensuring the good governance of the Fund, the Committee will work with and receive and consider reports from the Board and ensure that appropriate actions are undertaken as required. The Board can request information from the Committee and make recommendations which should be considered, and a response made to the Board on the outcome within a reasonable period of time.
- 2.14 The agreed process with the Committee and the Board is for these recommendations to be made via officers and raised at the next available meeting where appropriate so that the response or resolved action can be recorded in the meeting minutes.
- 2.15 The next meeting of the Board will take place on 13 April 2022.

RUSSIA UKRAINE WAR

- 2.16 On 24 February 2022 Russia began an invasion of Ukraine and, in the days that have followed, there have been a wide range of government sanctions issued across the Western World as markets react to the ongoing crisis. Commodity markets in particular have been heavily impacted; oil and gas prices have soared, there are concerns over global wheat supplies given that both Russia and Ukraine are two of the largest global producers, and metal prices have risen given Russia is a key producer of metals such as aluminium, copper and nickel.
- 2.17 Many UK pension schemes have extremely low exposure to Russian entities, as most developed market benchmarks will have no direct exposure whilst emerging market indices will often have a relatively small exposure. After engaging with its fund managers, officers estimate that the Lambeth Fund's exposure to Russian assets as at 28 February 2022 was approximately £807k, or 0.04% of the Fund. Exposure was limited to the LCIV global alpha growth and emerging market funds, the Adams Street private equity fund and the Permira private debt funds, with the largest exposure being approx. £675k to Sberbank across the LCIV equity funds.
- 2.18 In all cases our managers continue to assess the implications of the invasion and communicate regularly with us as the situation changes. In the short term we can expect sharp reductions in the value of our equity holdings in particular, especially given the trading restrictions in place, and over the mid to longer term the wider

impact on global growth and existing inflationary pressures will likely affect performance of the wider portfolio.

2.19 Further updates will be provided verbally to members at the meeting.

RESPONSIBLE INVESTMENT – UNITED NATIONS LETTER

2.20 Following on from the letter sent by Michael Lynk, UN Special Rapporteur, to all LGPS Funds in November 2021 regarding exposure to companies involved in Israeli settlements in the Occupied Palestinian Territory, representatives from the Scheme Advisory Board (SAB) and Local Authority Pension Fund Forum (LAPFF) met with Mr Lynk in early January 2022 to discuss his concerns. It was made clear that the primary objective of LGPS Funds is to ensure benefits are paid to members, but that Funds do take human rights seriously and, through the LAPFF, actively engage with many of the companies listed on the database. Mr Lynk will provide further information on the database, in particular the process for removing companies from it, and discussions will remain ongoing between all parties.

2.21 In March 2022 the legal group UK Lawyers for Israel (UKLFI) issued a statement claiming that Mr Lynk acted outside his powers in advising on investment decisions, and that any decision influenced by his decision would be challengeable. The group has written to the SAB and LAPFF requesting a pause in discussions, with the SAB confirming that they are taking advice on the matter and will consider it at their next Board meeting on 7 March 2022.

RESPONSIBLE INVESTMENT – DIVESTMENT AND BOYCOTTS

2.22 On 22 February 2022 an amendment to the Public Service Pensions and Judicial Officers Bill (PSPJO) was passed in the House of Commons which will allow the Secretary of State to issue guidance to administering authorities instructing them not to make investment decisions that conflict with the UK's foreign and defence policy.

2.23 As noted by the SAB, LGPS funds are currently able to make prudent divestment decisions based on an assessment of the financial consequence of a number of matters, including those relating to Environmental, Social and Governance (ESG) factors. Where such decisions are based on non-financial factors LGPS funds should follow the Law Commission's direction that any financial impact should not be significant and that the decision would likely be supported by scheme members.

2.24 The amendment will pass to the House of Lords and the Bill is expected to gain royal assent later in March. It is also expected that further guidance will be issued under this provision to clarify how it should be adopted, which would likely be subject to consultation later in the year. Further provisions in this area will be introduced by the Boycotts, Divestment and Sanctions Bill, expected at some point during the current Parliament.

INVESTMENT STRATEGY – LEVELLING UP

- 2.25 On 2 February 2022 the Department for Levelling Up, Housing and Communities (DLUHC) published its Levelling Up white paper. The paper includes references to LGPS funds, in conjunction with their pools, publishing plans to increase local investment by setting targets of up to 5% of assets to be invested in projects that support local areas. The SAB advises that ‘local’ in this context refers to UK-wide investment, and that they do not expect any mandate to enforce this beyond the requirement to have a plan.
- 2.26 Few details are available as yet, but it is expected that more information will be made available through public consultation in the Summer of 2022, alongside outstanding consultations on climate risk reporting, pooling guidance, and implementation of the Good Governance recommendations.

EXTERNAL AUDIT

- 2.27 At the time of writing the Pension Fund’s external audit plan for 2021/22 is only available in draft format and therefore not presented to the Committee at this stage. The external auditor, Mazars, has indicated it intends to complete some interim audit work on the Fund by the end of March 2022, with final substantive testing to take place from late June 2022 for an initial period of 9 weeks.
- 2.28 The estimated fee payable in respect of audit work on the Fund is £19,170.
- 2.29 Officers have already commenced preparations for the financial year-end, ensuring key deliverables identified by Mazars are already in place or ready to be updated when closing activities begin. Further updates will be presented to Committee at the next meeting.

UK STEWARDSHIP CODE

- 2.30 On 10 March 2022 the Financial Reporting Council (FRC) published its updated lists of signatories to the UK Stewardship Code which confirmed that the Lambeth Pension Fund has successfully been admitted as a signatory to the Code following the submission of its first stewardship report in October 2021. The Fund is now able to refer to itself as a signatory to the Code and make use of the FRC logos where relevant.
- 2.31 The successful notification of the Fund’s application was accompanied by useful feedback on our initial submission, highlighting areas for development and improvement going forward. The ongoing recognition of the Fund as a signatory to the Code requires the annual submission of a stewardship report covering the previous financial year. The next report covering 2021/22 must be submitted to the FRC by 31 October 2022.

SKILLS AUDIT

- 2.32 In December 2021 members of both the Pensions Committee and Board were sent a questionnaire designed to measure the current level of skills and understanding of

those charged with the Fund's management and provide a basis for a more targeted ongoing program of training to address areas of low understanding or familiarity.

- 2.33 The survey was based predominantly on the CIPFA Knowledge and Skills Framework 2021, focusing on the key skills identified within that framework as essential for those involved in managing an LGPS fund. The extended deadline for the survey was 31 January 2022; 8 responses in total were received from a possible 14, of which 6 were from the Pensions Committee and 2 from the Board. A summary of the results is presented in Appendix Two.
- 2.34 The summary identifies a number of areas in which respondents to the audit suggested their level of knowledge or familiarity with the topic in question is lacking. This includes governance issues such as pensions legislation and the wider governance framework, and the Committee's/Board's Terms of Reference; the role of the administration function and the principles that guide the production of the Fund's statement of accounts; actuarial methods and assumptions used for calculating the funding level and in undertaking the triennial valuation; and aspects of the investment strategy including benchmark asset allocations.
- 2.35 Some of the training needs identified in the audit may be met through member self-learning or through signposting to existing Fund documentation, and where applicable officers will direct members to the relevant resource; otherwise, these areas will be prioritised for incorporation into the 2022/23 training programme, to be met through internal and external resources, and brought to Committee for approval with the annual business plan later in the year.

TRAINING UPDATE

- 2.36 A selection of external conferences, workshops and other training opportunities taking place over the next quarter has been shared with members at Appendix Three; these events have been specifically identified as relevant to the Fund and/or members' interests. Should members decide to attend any of the sessions or have identified other training they would like to attend, please inform the Fund's Governance and Compliance Officer Sarah Hargraves (shargraves@lambeth.gov.uk) so that member training records can be updated.
- 2.37 These sessions form part of the main training offer to members; other sessions arranged by fund managers or advisors will be held throughout the year and outside of formal meetings in line with the training plan. It is vital that members continue to develop and maintain their knowledge of the overall LGPS landscape to fulfil statutory obligations and compliance requirements.
- 2.38 Also included at Appendix Four is a record of training and other relevant events attended by members of the Committee and Board, as notified to officers, over the quarter ending 31 December 2021.

- 2.39 In addition, members are recommended to complete The Pension Regulator's Public Service Toolkit which comprises seven self-learning online modules about managing public service pension schemes with a focus on governance and administration. The toolkit can be found at the following link:
<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/understanding-your-role/learn-about-managing-public-service-schemes>

3 FINANCE

- 3.1 There are no direct financial implications arising from the recommendations in this report.

4 LEGAL AND DEMOCRACY

- 4.1 The Lambeth Pension Fund is run in accordance with the Local Government Pension Scheme Regulations 2013 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013, and is for the benefit of Council employees and outside organisations which have entered into an agreement with Lambeth to provide pensions for their staff.
- 4.2 The Pension Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.
- 4.3 The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with proper practice.
- 4.4 Regulation 6 requires the Council to conduct a review, at least once a year, of the effectiveness of internal control which includes risk management arrangements. The Council is also under a duty to conduct, at least once a year, a review of its system of internal audit. The findings of both reviews must be considered together by the Corporate Committee.
- 4.5 There are no additional comments from Democratic Services.

5 CONSULTATION AND CO-PRODUCTION

- 5.1 None for the purposes of this report.

6 RISK MANAGEMENT

- 6.1 Investment decisions involve taking risks that Members of the Committee should always bear in mind. Generally, risk is taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them. Members must consider the risk/reward trade-off; generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

7 EQUALITIES IMPACT ASSESSMENT

7.1 None for the purposes of this report.

8 COMMUNITY SAFETY

8.1 None for the purposes of this report.

9 ORGANISATIONAL IMPLICATIONS

Environmental

9.1 None for the purposes of this report.

Health

9.2 None for the purposes of this report.

Corporate Parenting

9.3 None for the purposes of this report.

Staffing and accommodation

9.4 None for the purposes of this report.

Responsible Procurement

9.5 None for the purposes of this report.

10 TIMETABLE FOR IMPLEMENTATION

10.1 Not applicable.

AUDIT TRAIL				
Consultation				
Name/Position	Lambeth directorate/division or partner	Date Sent	Date Received	Comments in para:
Councillor Andrew Wilson, Cabinet Member	Finance and Performance	10.03.2022	17.03.2022	
Fiona McDermott, Strategic Director	Finance and Investment	10.03.2022	16.03.2022	
Christina Thompson, Director of Finance	Finance and Investment	10.03.2022	17.03.2022	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	10.03.2022	16.03.2022	
Andrew Pavlou/ Dawn Lelliott, Legal Services	Legal and Democratic Services	10.03.2022	16.03.2022	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	10.03.2022	11.03.2022	

REPORT HISTORY	
Original discussion with Cabinet Member	N/A
Report deadline	09 March 2022
Date final report sent	10 March 2022
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	No
Date first appeared on forward plan	N/A
Key decision reasons	N/A
Background information	N/A
Appendices	<ul style="list-style-type: none"> • Appendix One – LCIV Current Fund Offering – January 2022 • Appendix Two – Skills Audit Summary of Results • Appendix Three – Suggested Training Q2-Q3 2022. • Appendix Four – Attended Training – Q4 2021