NOTICE OF MEETING

PENSIONS COMMITTEE

Thursday, 14th January, 2016, 7.45 pm - Civic Centre, High Road, Wood Green, N22 8LE

Please note: starting at 7pm there will be training for Members of the Committee on the triennial valuation

Members: Councillors Clare Bull (Chair), John Bevan (Vice-Chair), Dhiren Basu, Sheila Peacock, Reg Rice and Viv Ross

Non Voting Members: Keith Brown, Michael Jones and Roger Melling

Quorum: 3

1. FILMING AT MEETINGS

Please note this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on. By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

The Chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual, or may lead to the breach of a legal obligation by the Council.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

To receive any apologies for absence.

3. URGENT BUSINESS

The Chair will consider the admission of any late items of Urgent Business. (Late items of Urgent Business will be considered under the agenda item where they appear. New items of Urgent Business will be dealt with under

Item 15 below. New items of exempt business will be dealt with at Item 20 below).

4. DECLARATIONS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

5. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Note from the Assistant Director of Corporate Governance and Monitoring Officer
When considering the items below, the Committee will be operating in its capacity as 'Administering Authority'. When the Committee is operating in its capacity as an Administering Authority, Members must have due regard to their duty as quasi-trustees to act in the best interest of the Pension Fund above all other considerations

6. MINUTES (PAGES 1 - 12)

To confirm and sign the minutes of the meeting held on 10 September 2015 as a correct record.

7. TRIENNIAL ACTUARIAL VALUATION (PAGES 13 - 18)

Report of the Chief Operating Officer. The pension fund is subject to an actuarial valuation every three years to determine the level of employers' contributions. The next valuation date is 31st March 2016. The Actuary will discuss the steps in the valuation process, the timetable and interactions with the Committee and employers. Prior to the meeting the Actuary will provide training on the valuation process.

8. LOW CARBON INVESTING (PAGES 19 - 34)

Report of the Chief Operating Officer. The fund has a passive approach to equity investing using market capitalised based indices. Concern has been raised as to the future performance of carbon intensive industries as Governments world-wide take action to manage the risk of climate change. The Council is a supporter of reducing carbon emissions and the Pensions Committee has been asked to consider the implication of the Paris summit on its investments in carbon intensive industries. This paper considers alternative approaches to managing carbon exposures and reducing the associated risks within the fund's investments.

9. CONFLICTS OF INTEREST POLICY (PAGES 35 - 50)

Report of the Chief Operating Officer, to introduce the proposed Conflicts of Interest Policy.

10. POOLING CONSULTATION AND REVISIONS TO INVESTMENT REGULATIONS (PAGES 51 - 76)

Report of the Chief Operating Officer. The Government have published two documents that will have a profound impact on the management of LGPS investments. This note discussed these documents and the actions required to meet the new requirements.

11. LONDON COLLECTIVE INVESTMENT VEHICLE (PAGES 77 - 82)

Report of the Chief Operating Officer. The London CIV has been established to facilitate the collective management of London LGPS investments. Boroughs have now been asked if they wish to invest through the CIV, and estimates of the impact on investment management costs have been provided.

12. INVESTMENT QUARTERLY UPDATE (PAGES 83 - 94)

Report of the Chief Operating Officer to report the following in respect of the three months to 30th September 2015:

- Investment asset values & allocation
- Investment performance
- Income & Expenditure
- Communications
- Late payment of contribution

13. WORK PLAN AND MEETING REFLECTIONS (PAGES 95 - 98)

Report of the Chief Operating Officer to identify topics that will come to the attention of the Committee in the next twelve months and to seek Members input into future agendas. Suggestions on future training are also requested.

The Committee is invited to reflect on the conduct of the meeting and identify any areas for improvement.

14. ADMINISTRATION REPORT (PAGES 99 - 104)

Report of the Assistant Director, Human Resources, to provide the Committee with a pensions administration update.

15. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

16. EXCLUSION OF THE PRESS AND PUBLIC

17. LOW CARBON INVESTING (PAGES 105 - 118)

To consider exempt information pertaining to agenda item 12

18. INVESTMENT STRATEGY UPDATE (PAGES 119 - 170)

Report of the Chief Operating Officer.

19. AGE CONCERN (UK) HARINGEY (PAGES 171 - 174)

Report of the Chief Operating Officer.

20. ANY EXEMPT ITEMS OF URGENT BUSINESS

21. DATE OF NEXT MEETING

11 April 2016, 7pm

Helen Chapman
Principal Committee Co-ordinator
Tel – 020 8489 2615
Fax – 020 8881 5218
Email: helen.chapman@haringey.gov.uk

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Wednesday, 6th January 2016

MINUTES OF THE PENSIONS COMMITTEE
THURSDAY, 10 SEPTEMBER 2015

Councillors Present:	C Bull (Chair), Bevan (Vice-Chair), Basu, Peacock and Ross
Non-voting members present:	Keith Brown
Apologies:	Cllr Rice, Michael Jones and Roger Melling

84 **FILMING AT MEETINGS**

The Chair referred Members present to agenda item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

85 **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)**

Apologies for absence were received from Cllr Rice, Michael Jones and Roger Melling.

86 **URGENT BUSINESS**

There were no new items of urgent business.

87 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

88 **MINUTES**

Noted that the Chair’s name was omitted from the list of those present and would be corrected.

RESOLVED

That, with the correction above, the unrestricted minutes of the meeting of the Pensions Committee held on 13 July 2015 be approved and signed by the Chair as a correct record.

89 **LOCAL GOVERNMENT PENSION SCHEME - GUARANTEED MINIMUM PENSION RECONCILIATION INITIAL FINDINGS**

The Committee received a report on the initial findings of the Guaranteed Minimum Pension reconciliation exercise, as presented by Janet Richards, Pensions Manager. Further to the initial stage of this work, it was noted that the Pensions Administration Team proposed to engage an additional member of staff for a temporary period of one year in order to complete the reconciliation exercise. It was also noted that the cost of adopting the £2 per week tolerance for reconciliation would be calculated and provided in the next report to the

Committee, and that the working note on this point should be disregarded from the comments of the Chief Finance Officer as set out in the report.

In response to a question from the Committee regarding the number of rejected and queried records identified in the initial reconciliation work, it was reported that there were a number of possible reasons for discrepancies in the records and that some of the inaccuracies may relate to the data held by HMRC as well as the Council's own data. It was anticipated that the reconciliation work could be completed by one additional officer within a year, however in the event that additional resource was still needed in a year's time, this would be brought back to the Committee for consideration.

RESOLVED

1. That the Committee note that the first stage of the exercise for the reconciliation of GMP has been completed and identifies where there are differences between the Fund's scheme records and HMRC records.

2. That the Committee note and agree that following the first stage, the Pensions Administration Team has assessed the potential resources required to reconcile the identified differences and complete the GMP reconciliation exercise. This will include the need for additional resources, to hire an additional temporary member of staff with pension administration experience on a fixed term contract for at least 1 year. The cost of this person on a SO1 grade £38,083.21 (including oncost) will be met from the pension fund.

3. That the cost of adopting the Pensions Regulators £2 per week tolerance be calculated and reported back to the Committee.

4. That the Committee agree a policy regarding recovery of any current overpayments of £250 (reclaim over £250 and write off any overpayment under £250) and pay any underpayments.

90 **LOCAL GOVERNMENT PENSIONS SCHEME - ADMISSION OF NEW EMPLOYERS AS TRANSFEREE ADMISSION BODY**

The Committee received a report on the proposed admission of KM Cleaning and Maintenance Services Limited and Amey Community Limited as Transferee Admission Bodies to the Haringey Pension Fund, as presented by Janet Richards, Pensions Manager.

In response to a question from the Committee, it was confirmed that St Paul's and All Hallows' school was not included in the report as no staff from this school were transferring under the KM Cleaning and Maintenance Services Limited contract. The Committee noted the different contribution rates for these employers as set by the actuary; the training on roles and responsibilities that had preceded the meeting had given some background regarding the way in which these were calculated by the actuary and the application of the Funding

Strategy Statement.

RESOLVED

1. That the cleaning contractor KM Cleaning and Maintenance Services Ltd be admitted to the Haringey Pension Fund as a Transferee Admission Body. The reason being KM Cleaning and Maintenance Services Ltd is entering into a service contract with the Governing Body of the LDBS Academies Trust Schools i.e. Holy Trinity, St Ann's and St Michael's Schools and is subject to an admission agreement.

2. That the admission agreement for KM Cleaning and Maintenance Services is a closed agreement such that no new members can be admitted.

3. That the contractor Amey Community Limited be admitted to the Haringey Pension Fund. The reason being Amey Community Limited is entering into a service contract with FM services and is subject to an admission agreement.

4. That the admission agreement for Amey Community Limited is a closed agreement such that no new members can be admitted.

91 **LOCAL GOVERNMENT PENSION SCHEME - ADMINISTRATION REPORT, TRANSFERS OUT**

The Committee received a report on the number of members leaving the pension scheme and transferring their pension benefits out of the Local Government Pensions Scheme to another pension provider, as presented by Janet Richards, Pensions Manager. It was noted that 36 members of the Haringey Scheme had enquired about transferring their pension benefits to another scheme in the period 6 April to 31 July 2015.

In response to a question from the Committee as to how many of those transferring out of the Haringey scheme had transferred their benefits to a scheme where they could withdraw their money, it was confirmed that 5 transfers had been made to personal pension schemes or defined contribution schemes. It was noted that one of these had made the request to transfer before the implementation of the new regulations, and the value of the other 4 transfers had been less than £30,000 in each case, which meant that they there was no obligation for these members to obtain independent financial advice, although the Council did still encourage them to do so.

In response to a question from the Committee as to why the information provided to members requesting a cash equivalent transfer value did not set out the benefits of the Haringey scheme, Ms Richards advised that this information was provided to members at the point of a transfer being requested and that a copy of this information could be supplied as part of the next update to the Committee. It was noted that any information provided had to be purely factual in nature regarding the benefits of the scheme, as the Council could not provide financial advice.

RESOLVED

That the number of scheme members that have or are transferring their pension benefits into a defined contribution pension scheme be noted.

92 **PENSION FUND ANNUAL REPORT AND ACCOUNTS 2014/15 AND ISA260 AUDIT REPORT**

The Committee received a report on the audited Pension Fund Annual Report and Accounts for 2014/15 and the Annual Governance Report of the external auditors, Grant Thornton, as presented by George Bruce, Head of Finance – Treasury and Pensions and Paul Jacklin, Grant Thornton. It was noted that the content of the annual report and accounts was what was required in order to comply with regulations. Members were invited to note the number of active members, the list of employers, the Fund value of £1,045m as at the end of 2014/15 and that the level of contributions received had increased relative to pension payments.

The Committee noted that there were 83 active members of the Haringey scheme who also held AVCs, and it was agreed that the Committee should review the list of AVC providers recommended by the Council, as this had not been considered recently.

The Committee noted the value of Promised Retirement Benefits as at 31 March 2015 was £1,708m as set out by the actuary in annex 1 to the Financial Statement, but it was reported that the way in which this valuation was calculated was different from the method used in producing the triennial valuation and could not therefore be taken as an indication of the value of liabilities in advance of the 2016 actuarial Fund valuation.

It was noted that the Governance Compliance Statement appended to the independent auditor’s report was out of date in that it referred to the Corporate Committee having responsibility for Pensions matters, and it was confirmed that officers would update this information and circulate it to the Committee by email for their reference. It was also noted that the Infrastructure Debt manager as set out under Commitments on page 49 of the accounts should be corrected to read ‘Allianz’ and that this amendment would be made.

Members noted the breakdown of costs provided at the end of the report, which indicated that costs had increased by around £800k compared with the previous year. It was reported that much of this increase related to the increase in the Fund value, as most fees were linked to the value of the investments. It was also noted that this was the first time that fees for underlying fund managers in relation to the private equity mandate had been disclosed by Pantheon; these costs were therefore being reported for the first time but would have been paid in previous years.

In response to a suggestion from the Committee regarding the list of Fund employers, it was agreed that the number of Haringey pension scheme members would also be shown as a percentage of those eligible to join the scheme within the Council and Homes for Haringey, in order to give an indication of the level of scheme membership in those employers.

The Committee mentioned a current petition calling on local authorities, including Haringey, to divest the Pension Fund money currently invested in the coal industry. Steve Turner, Mercer, advised that some fund managers were now offering low carbon funds. Mr Bruce advised that the Committee's overriding duty was to operate in the best interest of the Pension Fund and that as long as it was satisfied that it was doing so, this was an issue that could be considered. It was reported that a training session covering ethical investment was proposed for October 2015 and that a report on this topic would then be brought to the next meeting of the Committee. It was suggested that the Committee consider inviting the authors of the petition mentioned in respect of divesting from the coal industry to address the next meeting, and also representatives from Oxfordshire County Council Pension Fund, who had recently passed a motion on fossil fuel divestment.

Paul Jacklin, Grant Thornton, outlined the auditors report and advised that it was anticipated that an unqualified opinion would be provided in respect of the Fund's financial statements. It was noted that there had been one adjustment made in respect of the private equity holdings, and that three presentational amendments had been recommended by the auditor and accepted by the Council. It had been found during the course of the audit that one of the Fund employers had been using an incorrect contribution rate; while the amounts involved were very small, this highlighted the need to regularly review the data provided by the admitted bodies for accuracy and this had been put forward as a recommendation in the report. The report also set out the auditors' fee of £21k, which was in line with the initial audit plan. Mr Jacklin advised the Committee that this was the last meeting that he would be attending, and thanked officers for their work and cooperation with the audit process. The Council thanked Mr Jacklin and Grant Thornton staff for their support and assistance.

The Committee welcomed the positive report from the external auditor.

RESOLVED

1. That the contents of the report and verbal updates given at the meeting by Grant Thornton be noted.

2. That, subject to the amendments noted above being made, the Pension Fund Annual Report and Accounts for 2014/15 be approved.

3. That the Chair and Chief Financial Officer be authorised to sign the letter of representation to the auditor.

93 **INVESTMENT QUARTERLY UPDATE**

The Committee received a report on investment asset values and allocation, investment performance, income and expenditure, communications and late payment of contributions for the three months to 30th June 2015, as presented by George Bruce, Head of Finance – Treasury and Pensions. The Committee also noted the information contained in the exempt note of the meeting with CBRE and the background market data supplied by the independent financial advisor, John Raisin.

In response to a question from the Committee regarding the European property holdings, it was reported that this was office property in Italy and German residential property. Performance for these had been very disappointing and related to poor selections by the property fund manager at that time. The Committee also asked what 'unhedged' meant, as referred to in the benchmarks set out in appendix 1 to the report, and it was reported that this was where assets were kept in the same currency in which they had been purchased.

Steve Turner, Mercer, invited the Committee to note that Allianz and CQS had been selected on the basis of their cautious approach, and that the performance reported was broadly consistent with that approach. In the case of CQS in particular, this cautious approach had lead to their performance comparing favourably relative to their peers.

RESOLVED

That the information provided in respect of the activity in the three months to 30th June 2015 be noted.

94 **INVESTMENT STRATEGY REVIEW**

The Committee received a report setting out Mercer's modelling of the impact of reducing the Fund's equity allocation by 5% or 10%, as requested at the July meeting. The report was presented by George Bruce, Head of Finance – Treasury and Pensions, and Steve Turner, Mercer, and at this stage it was recommended only that the Committee undertake training on a variety of asset classes before being asked to take any decision in relation to the possible adjustment of the investment strategy.

Mr Turner advised that the aim was to increase the stability of the Fund's investment returns, in order to increase the affordability of the Fund for employers. Equities were highlighted as the main driver of return for the Fund, but also the main source of risk due to the volatility of this asset class, and Mercer had been looking for ways of maintaining the level of return, but at a lower risk level. Mr Turner advised that Mercer's view was that equities were now fully valued; it was likely that the strong returns seen in recent years would start to reduce and that it was therefore a good time to consider alternatives.

Mr Turner gave a brief presentation to the Committee on the different asset classes considered in this exercise and the benefits and drawbacks of each. It was proposed that the Committee undertake more detailed training on the different asset classes in order that Members had the knowledge they needed to make future decisions regarding changes to asset allocation. Mr Turner also set out some different models for a 5% and 10% reduction in equities, and the impact of these different options on the Fund's returns and risk level.

Mr Bruce invited the Committee to note the comments of the actuary, which had been circulated separately prior to the meeting, which indicated that it would not be expected that contribution rates would be affected by any change in asset allocation that maintained the current expected returns.

The Committee emphasised the need for training on the different asset classes before any further consideration could be given to amending the investment strategy. It was also felt that this training should take place before the Committee gave further consideration to ethical investment and divestment issues.

RESOLVED

That training be provided on the following asset classes prior to making any decisions on reducing equity allocations:

- Diversified growth funds
- Private debt
- High lease to value properties

95 **LONDON COLLECTIVE INVESTMENT VEHICLE**

The Committee received a report on the London Collective Investment Vehicle (CIV), as presented by George Bruce, Head of Finance – Treasury and Pensions. The report provided an update on the progress made in making the CIV operational and requested that authority be delegated to the Chief Finance Officer to purchase share capital of the London CIV up to a maximum of £150k. It was clarified that this £150k would be an investment and not an expense.

Steve Turner, Mercer, advised that many funds were currently looking for ways of collaborating, and that this was a significant challenge across the country. It was noted that Haringey had the benefit of having the option of participating in the London CIV, although there was no obligation to use it.

The Committee asked why two boroughs had chosen not to participate in the CIV. It was reported that this was a decision taken by the individual Pension Committees concerned and their view that they were able to make their own decisions relating to Fund investment. It was noted that contributing to the set-up of the CIV did not confer any obligation to use it, but that being involved did give the Fund the option of investing in it further down the line, and also provided an opportunity to influence the development of the CIV in the long term. Kevin Bartle, Assistant Director of Finance, and Mr Bruce advised that they had given robust consideration to the potential benefits and drawbacks of contributing to the establishment of the CIV and felt comfortable recommending to Members that the potential benefits outweighed the risks.

John Raisin, Independent Advisor to the Fund, advised that it was his opinion that the Government intended to impose compulsory pooling of local authority pension funds, as set out in The Red Book for 2015. If this was the case, Haringey would be in a better position by being engaged with the CIV.

RESOLVED

1. That progress in establishing the London CIV be noted.

2. That authority be delegated to the Chief Financial Officer in consultation with the Chair of the Pensions Committee to purchase share capital of the London CIV to meet the requirements for FCA (Financial Conduct Authority) authorisation up to a maximum of £150k.

96 **THE ROLE OF THE PENSIONS REGULATOR IN LGPS**

The Committee received a report on the role of the Pensions Regulator in LGPS, presented by George Bruce, Head of Finance – Treasury and Pensions, and John Raisin, Independent Advisor to the Fund. The report referred to the code of practice issued by the Pensions Regulator titled ‘Governance and administration of public service pension schemes’ and set out the areas where the Fund was not currently fully in line with best practice. Mr Raisin outlined the content of his note, which aimed to summarise the key points of the Regulator’s code of practice and emphasised the need to pay attention to the standards expected of schemes and act on the matters highlighted. It was noted that much of the work required in order to comply with best practice related to documenting and testing processes that were already in place.

The Committee suggested that training undertaken by members of the Committee be added as a standing item to Pensions Committee agendas so that this was documented in the minutes. It was noted that this would be especially important if approval were granted for a combined Pension Board and Committee, as members of the Pension Board would be under an obligation to attend appropriate training.

It was recorded that the following Members had attended training on roles and responsibilities within the LGPS, delivered by John Raisin on 10th September 2015:

Cllr C Bull
Cllr Bevan
Cllr Basu
Cllr Peacock
Cllr Ross
Keith Brown

It was proposed that action be taken to address the issues set out in the report over the next 6 months and for the Committee to review progress and the Fund’s performance in relation to best practice after this time.

RESOLVED

That the Committee agree with the proposed actions required and set out in paragraph 5.4 of the report to comply with the Regulator's Code of Practice.

97 **APPLICATION FOR A COMBINED PENSION COMMITTEE AND BOARD**

The Committee received a report on the progress of the application to operate a combined Pensions Committee and Board, presented by George Bruce, Head of Finance – Treasury and Pensions. The Committee noted that the Council had been advised by the DCLG that the minister has been asked to approve the application.

Members were invited to note that DCLG had indicated that it was not problematic that Haringey's stand-alone Pension Board had not met or had members appointed to it since its establishment by Full Council in March 2015, however it was agreed that the Council would write to the Pensions Regulator to provide the reasons why the Board had not met.

In terms of the draft terms of reference of the combined Committee and Board attached to the report, the Committee expressed concern that circulating papers for meetings a week in advance did not give sufficient time for members to read the reports, especially where the paperwork was lengthy. It was agreed that reports that were finalised in advance of the usual despatch date would be issued early, in order to give members more time to read all the necessary information.

RESOLVED

That the Committee note the progress of the application.

98 **WORK PLAN AND MEETING REFLECTIONS**

The Committee received a report on the work plan for the Committee over the next twelve months and suggestions for future training, as presented by George Bruce, Head of Finance – Treasury and Pensions. The Committee was also invited to reflect on the way in which the meeting had been conducted.

The Committee noted that one of the dates proposed for training, 22 October 2015, clashed with a meeting of the Labour Group, and it was agreed that an alternative date be sought. It was also suggested that the training on ethical investment be added to the topics to be covered at that session, although if officers felt that this would take longer than 2 hours, a separate date would be sought. Members expressed a preference for later start times for training in order to allow people time to arrive from work – 7-9pm was proposed as a reasonable timeslot for training sessions.

The Committee welcomed the opportunity to reflect on the way in which the meeting had run. The point regarding early publication of paperwork had been raised earlier in the agenda, but aside from the it was felt that the meeting had been well-conducted.

99 **ANY OTHER BUSINESS OF AN URGENT NATURE**

Cllr Bevan raised concerns regarding Sports Direct, which had been reported on extensively in the financial press, and asked whether it was possible to find out how the Fund's equities manager had voted at the company's AGM. Mr Bruce advised that the LAPFF had issued a voting recommendation to abstain or vote against the resolutions put forward by the company's Board which the Council had forwarded on to Legal and General. The Council had asked Legal and General to advise the Council how they had voted and would circulate this information to the Committee once received.

It was agreed that all LAPFF voting recommendations would be passed on to Legal and General and in each case they would be asked to advise the Council on how they voted.

100 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That the press and public be excluded from the meeting for the following items as they contained exempt information as detailed in Section 100a of the Local Government Act 1972, Paragraph 3; information relating to the business or financial affairs of any particular person (including the Authority holding that information).

101 **EXEMPT MINUTES**

RESOLVED

That the exempt minutes of the meeting of the Pensions Committee held on 13 July 2015 be approved as a correct record and signed by the Chair.

102 **INVESTMENT QUARTERLY UPDATE**

Noted the exempt information pertaining to agenda item 10 above.

103 **NEW ITEMS OF EXEMPT URGENT BUSINESS**

There were no such items.

104 **DATE OF NEXT MEETING**

The date of the next meeting of the Pensions Committee was noted as Thursday 14 January 2016.

The Chair advised the Committee that this would be the last meeting of the Pensions Committee attended by Kevin Bartle, Assistant Director of Finance as he was leaving the Council. The Chair and Committee Members thanked Mr Bartle for all his assistance and work to support the Committee over the years, and wished him well in his future endeavours. Members agreed that he would be greatly missed.

The meeting closed at 21:20hrs.

COUNCILLOR CLARE BULL
Chair

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Agenda Item 7

Report for: Pensions Committee 14th January 2016

Item number: 7

Title: Triennial Actuarial Valuation

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 The pension fund is subject to an actuarial valuation every three years to determine the level of employers' contributions. The next valuation date is 31st March 2016. The Actuary will discuss the steps in the valuation process, the timetable and interactions with the Committee and employers. Prior to the meeting the Actuary will provide training on the valuation process.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the Committee note the report.

4. Other options considered

4.1 None.

5. Background information

5.1 The pension fund has a long term target to have sufficient assets to meet the promised benefits. Progress towards this objective is measured every three year by way of an actuarial valuation. The next such valuation is at 31st March 2016. The Committee has appointed Hymans Robertson as Scheme Actuary.

5.2 The purpose of the valuation is to determine the employer contribution rates required to provide a reasonable expectation that the fund will have sufficient assets. The calculation is carried out for each employer separately. The actuarial valuation is also required to strike a funding level for each employer as at the valuation date. However, the actuary will emphasis that the calculations of the contribution rates and funding levels are separate exercises.

5.3 There are four variables that impact on the matching of investments and promised benefits. Two of these are outside the control of the Committee; benefits earned (individual employers have influence e.g. salary increases and discretionary benefits) and employee contributions. The third, investment returns is where the Committee is most able to exert influence. Finally, employer contribution rates are determined by the Actuary using basis and assumptions agreed with the Committee.

5.4 At the March 2013 valuation, the level of contributions for the Council increased by 2% to 24.9%, with differing rates for most other employers. The funding level was 70%, with a £369 million deficit.

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5.5 The attached paper from the Actuary sets out the various steps in the process. The valuation must be signed by 31st March 2017 and the new schedule of contributions will be implemented from 1st April 2017. It is anticipated that the Actuary will present his proposed assumptions and initial results in Q3, 2016, with final results to follow in Q4 2016.

5.6 Currently work is underway to review the data that the Actuary will require and to evaluate the financial strength of each employer. The later will have a bearing on the level of prudence required within the valuation.

6. Comments of the Chief Financial Officer and financial implications

6.1 The Actuarial valuation is the forward looking process that determines the contributions payable by each employer. The actuary will make assumptions with a twenty year horizon. In determining these assumptions the actuary is required to exercise a degree of prudence. The extent to this prudence will be discussed with the Committee as the valuation progresses.

7. Comments of the Assistant Director of Corporate Governance

7.1 The Council as administering authority is required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 to obtain (a) an actuarial valuation of the assets and liabilities of each of its pension funds, (b) a report by an actuary in respect of the valuation and (c) a rates and adjustments certificate prepared by an actuary. This must be done every three years from 31st March 2016.

7.2 The valuation report mentioned in (b) above must contain a statement of the demographic assumptions used in making the valuation and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the LGPS since the last valuation.

7.3 The rates and adjustment certificate must specify the primary rate of the employer’s contribution and the secondary rate of the employer’s contribution for each year of the three year period, beginning with 1st April in the year following that in which the valuation date falls – in this case, beginning 1st April 2017.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Hymans Robertson note on valuation process

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

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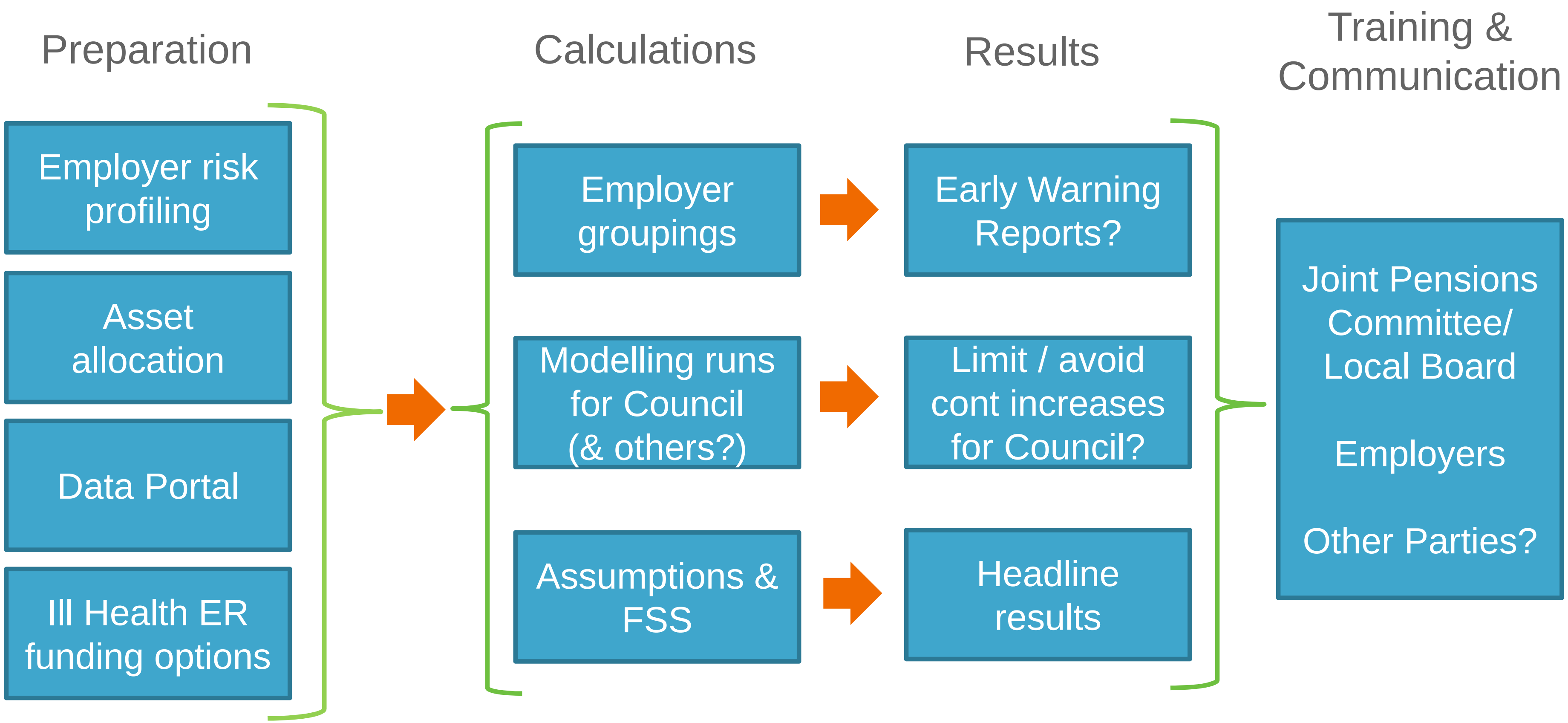
HYMANS ROBERTSON

LB of Haringey Pension Fund
31 March 2016 valuation process & principles



Risk-based approach at all stages

HYMANS ROBERTSON

Possible 2016 valuation timeline

2015 & early 2016
Employer risks profiling and conversations with Fund

30 April 2016
Data submitted by employers.

May/June 2016
Data cleansed and submitted by Fund to actuaries.

July – September 2016
Actuarial calculations processed.

October 2016
Initial results and assumptions discussed and agreed with Fund.

November 2016
Individual employer results calculated and issued. FSS consultation.

December 2016
Employer results and funding strategies agreed in principle.
Employer forum and surgeries held.

February 2017
End of employer consultation.
Final employer results and FSS agreed.

March 2017
Final valuation report signed off by 31 March 2017.

1 April 2017
New contributions start to be paid.

Agenda Item 8

Report for: Pensions Committee 14th January 2016

Item number: 8

Title: Low Carbon Investing

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & Pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 The fund has a passive approach to equity investing using market capitalised based indices. Concern has been raised as to the future performance of carbon intensive industries as Government's world wide take action to manage the risk of climate change. The Council is a supporter of reducing carbon emissions and the Pensions Committee has been asked to consider the implication of the Paris summit on its investments in carbon intensive industries. This paper considers alternative approaches to managing carbon exposures and reducing the associated risks within the fund's investments.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That an implementation plan to switch one third of passive equities into the MSCI Low Carbon Target Index is developed for the next Committee meeting.

4. Other options considered

4.1 The paper discusses alternative options.

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5. Background information

Introduction

5.1 At the September meeting the Committee requested an opportunity to discuss calls for disinvestment from coal related businesses. This was followed up with a training session on 19th October when a presentation was received from a representative from Healthy Planet who discussed the health implications of burning fossil fuels and the rational for their call to freeze and disinvest from fossil fuels.

5.2 The sentiment expressed by Committee Members at the training session is that active engagement will have more effect on corporate behaviour than disposing of investments. Recognising the pressure to be seen to be considering alternatives, there was also a request that additional information be provided on investing via low carbon indices.

5.3 This note is a follow up to the debate at the October training session.

5.4 Subsequently, a petition has been received from approximately 2,500 residents calling for disinvestment from businesses involved in exploration and production of coal and tar (oil) sands and to freeze any new investments in fossil fuel companies. The resolution (appendix 1) will be debated at Full Council, who can request that the Pensions Committee consider changing its investment policy but cannot instruct the Committee to do so.

5.5 This paper mainly considers the options around low carbon investing, including complete disinvestment from coal and oil sands. Reference is also made to the engagement activities being carried out by the LAPFF and the scale of current fossil fuel investments.

Current Investments in Coal, Oil Sands and Fossil Fuels

5.6 As of mid December, the fund had equity investments of £724 million spread across six regional indices. Each of these indices has a fossil fuel sector, which varies between 1% (Japan) and 9% (UK). The aggregate monetary value of our exposures to the fossil fuel sector is £39 million. The fossil fuel definition is based on the companies with any of the following sub-sector classifications - exploration & production, integrated Oil & Gas, oil equipment & services, pipelines and coal.

5.8 The coal subsector of the fossil fuel sector is relatively small, virtually non existent outside of emerging markets, with a Haringey monetary exposure of £215,000. However, companies involved in coal production are likely to be classified elsewhere e.g. mining, due to their wider business activities.

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5.9 Estimating the exposure to oil sands is more difficult as there is no oil sands sub-sector. The Rainforest Action Network has compiled a listing of companies involved in oil sands production. Haringey's exposure to these companies is £18 million, represented in the main by the large oil companies e.g. BP, Shell, Exxon & Chevron. There are also a number of specialists, mainly Canadian based oil sands producers. Disinvesting from oil sands would in effect require disinvestment from a large part of the fossil fuel sector.

5.10 As discussed in the Mercer paper excluding a particular sector or sub-sector from Haringey's investment portfolio but retaining the current passive approach is feasible, with some cost implications. Excluding named companies across multiple sectors targeting say Coal, will be more challenging (costly).

Engagement Activities

5.11 The October training session considered the impact of engagement activities, in particular the activities of the Local Authority Pension Fund Forum, of which Haringey is a member.

5.12 Of particular relevance is the support that the LAPFF has given to resolution seeking companies to develop strategic plans consistent with action being taken to manage climate change. Samples of the shareholder resolutions supported by the LAPFF are listed in appendix 2. Of particular interest is the Chevron resolution in which increased flexibility of dividend policy is called for to enable income and assets that can no longer be invested profitably to be returned to shareholders.

5.13 The above resolutions have been developed and supported by investors in the USA, UK and globally and indicate the positive role that engagement should play in directing corporate activity. Although Haringey is not able to vote on these resolutions due to the structure of our investments we are discussing with L&G to ensure that they support the resolutions.

5.14 Research into actions by other local authorities (appendix 5) indicates that engagement remains the most common approach to managing carbon risks, with measurement of carbon 'footprint' and plans to reduce 'footprint' also in use.

Low Carbon Indices

5.14 The October training session also requested investigation into the use that low carbon based indices. The attached report from Mercer's (appendix 3) discussed the options.

5.15 The Mercer report recognises a range of possible options:

- Passively invest in market index excluding coal or fossil fuels.
- Passive investing in an index constructed on a low carbon basis.
- Active management in seeking to exploit value adding opportunities from a low carbon economy.

5.16 The last option will be considered in a separate paper in which an allocation to renewable energy is discussed but could also be applied to the residual equity portfolio. The Mercer paper does not examine active equity options as to date these have not been favoured by the Committee.

5.17 Neither does the Mercer paper discuss passive ex fossil fuel investments. For completeness, information will be provided at the meeting on the performance of an ex fossil fuel portfolio, noting that it will be heavily influences by recent changes in oil prices.

5.18 Mercer's preferred passive approach to low carbon investing is to utilise L&G's capacity to invest in line with the MSCI World Low Carbon Target Index Fund. This index reweights the constituents of the MSCI global (market capitalisation) index to reduce exposures to carbon emissions by 80% yet targeting a return closely correlated with the standard index. The reduced carbon exposure is achieved by a reduction in exposure to the major oil companies. Appendix 4 compares country, sector and top 10 holdings between the standard and Low Carbon indices and indicates that the changes to the sector weightings are relatively small.

5.19 The performance of the low carbon index is shown below. There is a noticeable outperformance over the 1-5 year periods for the low carbon index. In utilising this approach, the additional management and transaction costs will dampen expectations of an excess returns.

Performance of MSCI World Low Carbon Index Fund (%)			
	1 y	3y	5y
MSCI World Low Carbon Target	4.32	14.20	11.26
MSCI World	3.86	13.94	10.88

5.20 The Mercer's paper suggests that managing part of the portfolio against the Low Carbon index is a viable way to manage carbon

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related risks in the portfolio. It is not necessarily an expectation that additional value will be created, rather the risk around carbon will be managed and the portfolio will be seen to have a reduced carbon footprint.

5.21 L&G currently manage £200 million from the Environment Agency Pension Fund against this index. The EAPF is at the forefront on sustainable investing and its use of this index provides a degree of re-assurance.

5.21 It is suggested that a starting point will be to transition one third of the equity portfolio to this index. There are a number of implementation points discussed in the paper e.g. phasing of the transition, whether the CIV can support this investment, fees and costs etc. The recommendation is that an implementation plan is developed for the April meeting.

6. Comments of the Chief Financial Officer and financial implications

6.1 The Committee will need to consider carefully their duties to beneficiaries and employers before pursuing exclusionary. The proposal to utilise low carbon indices is supported by the investment consultant on the grounds that the expected returns should be consistent long term with the main index.

7. Comments of the Assistant Director of Corporate Governance

7.1. The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and makes the following comments.

7.2. Whilst the Pensions Committee has the Constitutional authority to adopt the Recommendations contained in this report within its terms of reference, it is under a legislative duty to take "proper advice in relation to the appointment [of an investment manager]". The objective to be achieved, is – in summary - to illicit an assurance that there are reasonable grounds to believe that the proposed investment manager has the requisite level of ability and practical experience to make decisions on behalf of the administering authority.

7.3. The duty is discharged by reference to the terms of paragraphs 5.18 – 6.1 and 8.4 of the report.

8. Comments from the Independent Advisor

8.1 The Fund currently has a Strategic Allocation of 60% to Listed Equities. At present the Fund invests in Listed Equities utilising what might be described as a "pure" market capitalisation approach. Utilising this approach the Fund is invested in companies solely in proportion to their size within the indices utilised. As the Committee will be aware I

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have reservations regarding the appropriateness of utilising this approach on its own particularly given that the majority of the Fund's assets (£658m as at 30 November 2015) are invested in this manner. This traditional or "pure" market capitalisation weighted approach has a clear tendency to become biased towards speculative over-hyped stocks and is over dependent on mega-cap stocks.

8.2 This report proposes that one third of the Funds investment in Listed Equities is potentially moved to the MSCI Low Carbon Target Index. From a diversification perspective this approach has clear merits. The MSCI Low Carbon Index while still based on a market capitalisation approach reweights the MSCI global (market capitalisation index) to reduce exposures to carbon emissions by 80%. The MSCI Low Carbon Index due to its construction will perform differently than "pure" market capitalisation indices which do seek to reduce or exclude exposure to particular factors. For example in periods of declining oil prices market capitalisation based indices with a bias to low carbon are likely to outperform traditional or "pure" market capitalisation indices while in periods of rising oil prices the opposite would be the more likely consequence. In order that utilisation of a low carbon market capitalisation index may make a material impact in terms of the Fund's approach to Listed Equity investing the proposal that a third of the Fund's Listed Equity allocation is invested utilising such an approach is appropriate.

8.3 The outcome of the international discussions, held in Paris from 30 November to 12 December 2015, involving negotiators from nearly 200 countries that resulted in an international accord to limit greenhouse gas emission clearly indicates that limiting exposure to companies involved in emitting high levels of carbon based emissions is potentially sensible from an investment viewpoint. The idea that in future significant levels of fossil fuel reserves may in effect be "stranded" in the ground has become clearly more likely as a result of the 2015 Paris accord. The outcome of the 2015 Paris climate management discussions support the view that the Fund amend its approach to Listed Equity investment to include an approach where a third of the Fund's Listed Equities are managed utilising the MSCI Low Carbon Target Index.

8.4 There are clear long term economic/investment arguments for restricting the Fund's allocation to companies with exposure to activities which result in high levels of carbon emissions (such as coal, oil sands and general fossil fuel activity). Such an approach can be achieved easily and at low cost by adopting use of the MSCI Low Carbon Target Index. Reducing but not eliminating the Fund's exposure to investments in fossil fuels means that the Fund can still seek, from an "owners perspective" to engage in engagement activities to persuade those companies involved in producing significant carbon emissions to consider whether, from an long term investment perspective, they might move away from their current activities towards less potentially environmentally damaging activities.

9. Equalities and Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Head of Procurement Comments

10.1 Not applicable.

11. Policy Implications

11.1 None applicable.

12. Use of Appendices

12.1 Appendix 1: Residents petition

12.2 Appendix 2: Sample LAPFF engagement activities

12.3 Appendix 3: Mercer's Report – Low Carbon Passive Equity Approaches

The information contained in Appendix 3 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

12.4 Appendix 4: Comparison on MSCI World and Low Carbon Indices.

12.5 Appendix 5: Carbon policies from other Local Authorities.

13. Local Government (Access to Information) Act 1985

13.1 The information contained in Appendix 3 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

Appendix 1

Residents Petition

We the undersigned call on Haringey Council to divest its own financial holdings and those of its pension fund from any business which is involved in the exploration or production of coal or tar sands within two years; and immediately to freeze any new investment in fossil fuel companies; because

1. Climate change is the gravest threat to our future and to the future of the natural world
2. We cannot burn more than a fifth of existing fossil fuel reserves and stay within safe limits, so these fuels are increasingly being seen as being unburnable (as recognised by Shell and the Governor of the Bank of England) and therefore investment in these fuels is becoming financially risky as well as morally indefensible
3. Coal and tar sands are the worst sources of carbon dioxide that causes climate change, and so the most risky financially
4. There is a growing movement to divest, particularly from coal and tar sands, supported by Ban Ki-Moon, Archbishop Desmond Tutu and World Bank President Jim Yong Kim; and including the Norwegian sovereign wealth fund, the Church of England, Oxford City Council and Oxford and Edinburgh Universities.

Appendix 2

Climate Change Resolutions Supported by the Local Authority Pension Fund Forum

Glencore: May 2016 AGM
Anglo American: April 2016 AGM
Rio Tinto: April 2016 AGM

Special resolution – strategic resilience for 2035 and beyond

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2017 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change.

This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company's Annual Report and Sustainability Report.

Chevron: May 2015

Requests (1) requests the board adopt a dividend policy increasing the amount authorised for capital distribution to shareholders in light of the growing potential for stranded assets and decreasing profitability associated with capital expenditures on high cost, unconventional projects, and (2) that the board adopt long-term, quantitative company-wide targets for reducing greenhouse gas emissions in products and operations that take into consideration the global commitment to limit warming to 2°C and to issue a report by 30 November 2015 on its plans to achieve these targets.

Shell & Statoil May 2015

Further information to be provided on operational emissions management; asset portfolio resilience to the International Energy Agency's scenarios; low carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change.

To give the company time to consider these issues in reporting on fundamental business strategy, it was asked that these elements be included in routine annual reporting from 2016.

Anadarko Petroleum May 2015

Asks for a scenario analysis report by September 2015, omitting proprietary information, on the Company's strategy to address the risk of stranded assets presented by global climate change and associated demand reductions for oil and gas, including analysis of long and short term financial and operational risks to the company.

It is requested the report evaluate a range of low-carbon, low-demand scenarios, including a scenario in which two thirds of reserves cannot be monetised; provide an assessment of different capital allocation strategies for the low-demand scenarios including diversifying capital investment or returning capital to shareholders and provide information on carbon price and crude oil price assumptions used in each scenario.

BP: April 2015 AGM

Special resolution – strategic resilience for 2035 and beyond

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2016 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change. This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company's Energy Outlook, Sustainability Review and Annual Report.

Appendix 4

Comparison of MSCI World and MSCI Low Carbon Target

Sector weights	MSCI World	MSCI Low Carbon
Financials	20.8	22.5
Information tech	14.3	14.8
Consumer discretionary	13.3	12.7
Health care	13.1	12.2
Industrials	10.7	11.8
Consumer staple	10.2	10.4
Energy	6.7	5.3
Material	4.5	3.5
Telecommunications	3.4	4
Utilities	3	2.8
	100	100

Country weights	MSCI World	MSCI Low Carbon
United States	59.0	53.2
Japan	8.8	7.9
United Kingdom	7.5	7.0
France	3.8	3.4
Switzerland	3.5	
Germany		3.2
Other	17.4	25.3
	100.0	100.0

Top Ten Constituents	MSCI World	MSCI Low Carbon
Apple	2.08	1.91
Microsoft	1.27	1.19
Exxon Mobil	1.04	
General Electric	0.86	0.86
Johnston & Johnson	0.86	0.82
Wells Fargo	0.82	0.79
Amazon	0.8	0.74
JP Morgan Chase	0.75	0.73
Nestle	0.73	0.69
Alphabet	0.7	1.28
	9.91	9.01

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Pension Fund	Policies on fossil fuels	Decision Making	Future Approach
Bedfordshire Pension Fund	• Statement regarding fossil fuels	• **<u>Statement regarding fossil fuels</u>** • Recognises investment implications of climate change, "significant risk factor for our pension fund investments" • Within the structure of the fund, it is not possible for beneficiaries to opt out of a particular type of investment. • Engagement with companies is the preferred strategy. This is done through the LAPFF. • Fund also a member of the IIGCC.	• Continued engagement with companies.
Cheshire Pension Fund	N/A	• ESG factors taken into account where they impact on returns. • Policy of engagement with companies to improve best practice, through membership of LAPFF.	• Continued engagement with companies, no explicit reference to fossil fuels.
Derbyshire Pension Fund	• SIP – Fund has **"an ethical/ environmental bias"**	• SIP – Proportion of the fund is allocated for investment in ethical unit trusts and other funds specialising in environmental matters. These must meet the following criteria: 1) Long term benefit to the community 2) Environmental improvements and pollution control 3) Associated with the enhancement of human health and safety 4) Conservation of energy and natural resources 5) Good relations with customers and suppliers 6) High employee welfare standards 7) Strong community involvement 8) Good equal opportunities record 9) Openness about activities 10) Support for the local economy • Fund does not disinvest as Investment Regulations require diversification. If companies do not meet the above criteria, shareholder engagement to encourage improvements.	• Continued engagement. • Screening of investments for a certain portion of the fund, as described.
Essex Pension Fund	N/A	• SIP (March 2015) – investment managers' primary consideration is financial. • Non-financial factors can be considered providing this	• Business as usual.

		is not financially detrimental to the fund, or represents a significant opportunity cost if not held. • Decisions based on a significant degree of non-financial factors are expected to be extremely rare.	
Environment Agency Pension Fund (Best Practice)	• Policy to address the impacts of climate change	• **Policy to address the impacts of climate change** (Oct 2015) – contains targets and principles for investment which considers the risks of climate change. • Pension funds must help the transition to a low-carbon economy; this will be a slow process. • Selective risk based divestment is appropriate but engagement is preferred.	• By 2020: • 15% of the fund in low carbon, energy efficient and carbon mitigation opportunities. (End target of 25% of fund invested in clean, sustainable companies) • Decarbonise equity portfolio, reducing exposure to coal by 90% and oil and gas by 50%, from 2015. • Active working with asset owners, fund managers, companies, academia, policy makers and others to move to a low carbon economy.
Greater Manchester Pension Fund	N/A	• Ethical investment inconsistent with legal duties. • Policy of engagement with companies, rather than divestment or a detailed ethical investment policy. • This does not stop ethical investment choices e.g. fund does not invest in South Africa	• Continued engagement.
Kent Pension Fund	• ESG policy refers to climate change risk	• Exclusion policies incompatible with fiduciary duty. • **Environmental, Social and Governance Policy** – investment managers expected to vote at AGMs and engage with companies, monitor climate risk through membership of the IIGCC.	• Monitor climate risk through IIGCC. • Continued engagement.
Leicestershire County Council Pension Fund	N/A	• ESG factors taken into account where it is in the long-term economic interests of the fund.	• No explicit reference to fossil fuels.
London Borough of Hackney	N/A	• Non-financial factors should not drive the investment process at the cost of return but companies who act responsibly are more likely to have long-term investment returns. Investment managers encouraged to take a positive view of companies with good ESG. • Also subject to a petition.	• Petition to be discussed at a Council meeting in January (date TBC).

London Pensions Fund Authority	N/A	• Divesting from fossil fuels is against fiduciary duty. • March 2015 – only 1% of the fund is invested directly in fossil fuels, none in coal. • Healthy pension fund needs to diversify risks across sectors, which will include fossil fuels.	• Continued engagement with companies.
South Yorkshire Pension Authority (Good Practice)	• Report on Responsible Investment Policy	• <u>**Report on Responsible Investment Policy**</u> - (Sept 2015) concluded that divestment should not occur on ESG reasons. • Policy of active engagement. • **No future investment in coal and tar sands.**	• Carbon footprint of the fund to be produced by an external contractor, at an expense of approx. £4000. • Fund to become a signatory to the Carbon Disclosure Project. • Engagement with pressure groups and fund members. • Divestment to be revisited after the Paris Summit and the Carbon Footprint of the fund has been completed.
West Midlands Pension Fund	N – engagement rather than exclusion	• Divestment would lose the ability for funds to engage with and influence the behaviour of companies.	• Continued engagement.

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Agenda Item 9

Report for: Pensions Committee 14th January 2016

Item number: 9

Title: Conflicts of Interest Policy

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & Pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 This report introduces the proposed Conflict of Interest Policy.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee adopt the Conflicts of Interest Policy at Appendix 1.

4. Other options considered

4.1 N/A.

5. Background information

5.1 From April 2015 certain public sector pension schemes must be governed and administered under the Public Service Pensions Act. Therefore managers and Pensions Committee members must comply with a number of legal requirements. One of the requirements is ensure that no individual has a Conflict of Interest.

5.2 A Conflicts of Interest Policy has been established to guide Pensions Committee members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that they do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimizing the risk of any matter prejudicing decision making or management of the Fund

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5.3 A copy of the Conflict of Interest Policy can be found at Appendix 1.

5.4 A copy of this policy has been sent to all Pensions Committee members, senior Managers and advisors, who then completed 'Conflicts of Interest Declaration Form. This process will be repeated annually.

5.5 A Register of Interests has been established and will be updated when required. It will be available for inspections before all meetings of the Board, and any material interests will be disclosed on the annual report.

6. Comments of the Chief Financial Officer and financial implications

6.1 There are no financial considerations.

7. Comments of the Assistant Director of Corporate Governance

7.1 The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and makes the following comments.

7.2. The Assistant Director of Corporate Governance supports the recommendation made in the report, as a key tool in ensuring good governance in decision making.

7.3. It is also noted that the policy follows guidance issued by the LGPS, and in so saying, the Assistant Director of Corporate Governance can confirm that the policy does contain what the guidance stipulates as being the 3 minimum aspects to what a policy should contain, namely:

- examples of scenarios giving rise to conflicts of interest
- examples of scenarios how conflicts may arise specifically in relation to a member of the Board;
- how to deal with such conflicts when they arise

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Conflicts of Interest Policy and Declaration of Interests Form.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

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Appendix 1

London Borough of Haringey Pension Fund
Conflicts of Interest Policy

1. Introduction

1.1 Conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an Elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. In addition, they may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

1.2 It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interests of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

1.3 This is the Conflicts of Interest Policy of the London Borough of Haringey Pension Fund (LBHPF), which is managed by London Borough of Haringey (LBH). The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the LBHPF whether directly or in an advisory capacity.

1.4 This Conflicts of Interest Policy is established to guide the Pensions Committee, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that they do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimizing the risk of any matter prejudicing decision making or management of the Fund otherwise.

2. Aims and Objectives

2.1 In relation to the governance of the Fund, the Administering Authority's objectives are to ensure that:

- All members of the Pensions Committee and staff charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
- The Fund is open in all its dealings and readily provides information to interested parties.
- All relevant legislation is understood and complied with.
- The Fund is at the forefront of best practice for LGPS funds.

- All Conflicts of Interest are managed appropriately.

  The identification and management of potential and actual conflicts of interest is therefore integral to the Administering Authority achieving its governance objectives.

3. Application of this policy

3.1 This Conflicts of Interest Policy applies to all Pensions Committee members including employee and employer representatives, whether voting members or not. It applies to all staff supporting the LBHPF.

3.2 This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

3.3 Head of Finance – Treasury & Pensions will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as appropriate.

3.4 This Policy also applies to all advisers and suppliers to the Fund, in relation to their role in advising or supplying the Fund.

3.5 In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

3.6 In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this policy provide a framework for each individual to meet these requirements.

4. Legislative and related context

4.1 There are a number of requirements relating to the management of potential or actual conflicts of interest for those involved in LGPS funds which are included in legislation or guidance. These are summarized in Appendix 1.

5. Other administering Authority Requirements

5.1 Individuals to whom this policy applies may also be required to adhere to other requirements in relation to conflicts of interest. This includes:

- Pensions Committee members who are required to adhere to the LBH Members' Code of Conduct.
- Employees who are required to adhere to the LBH Staff Code of Conduct.
- Advisers who are expected to have their own policies or protocols.

Further information is provided in Appendix 2.

6. What is a Conflict or potential Conflict and how will it be managed?

6.1 The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions. Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LBHPF, and
- at the same time, has:
  - a separate personal interest (financial or otherwise) or
  - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter. Some examples of potential conflicts are included in Appendix 3.

6.2 LBH encourages a culture of openness and transparency and encourages individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

6.3 LBH will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Pension Fund operations and good governance were an actual conflict of interest to materialize.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue.
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue.
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen).

Provided that the Administering Authority (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, LBH shall endeavor to avoid the need for an individual to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from their role.

7. Responsibility

7.1 The Administering Authority for the LBHPF must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Assistant Director Corporate Governance is the designated individual for ensuring the procedure outlined below is adhered to. However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

8. Operational procedures

8.1 Declaration at Appointment

8.1.1 On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest form. See Appendix 4. The information contained in this declaration will be collated into the Pension Fund's Register of Conflicts of Interest.

8.2 Declaration at Meetings

8.2.1 At the commencement of any Pensions Committee or other formal meeting where pension fund matters are to be discussed, the Chair will ask all those present who are covered by this Policy to declare any new potential conflicts.

8.2.2 These will be recorded in the Fund's Register of Conflicts of Interest. In addition, the latest version of the register will be made available to the Chair of every meeting prior to that meeting.

8.2.3 Any individual who considers that they or another individual has a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chair should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.

8.2.4 If such a conflict is identified outside of a meeting the notification must be made to the Assistant Director Corporate Governance and where it relates to the business of any meeting, also to the Chair of that meeting. The Assistant Director Corporate Governance, in consultation with the Chair where relevant, will consider any necessary action to manage the potential or actual conflict.

8.2.5 Where information relating to any potential or actual conflict has been provided, the Assistant Director Corporate Governance may seek such professional advice as he or she thinks fit on how to address any identified conflicts.

8.2.6 Any such potential or actual conflicts of interest and the action taken must be recorded in the Fund's Register of Conflicts of Interest.

8.3 Annual Declaration

8.3.1 Every 12 months all individuals will complete a new Declaration of Interest confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration.

8.4 Conduct at Meetings

8.4.1 There may be circumstances when a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pensions Committee meeting, and that this will be recorded in the minutes.

9. Operational procedures for advisers

9.1 Although this policy applies to all of the key advisers, the operational procedures outlined in 8.1 and 8.3 above relating to completing declarations do not apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information as to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to LBH as Administering Authority
- notify the Assistant Director Corporate Governance immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of Conflicts of Interest.

10. Monitoring and reporting

10.1 The Fund's Register of Conflicts of Interest may be viewed by any interested party by appointment during normal business hours. In addition information relating to conflicts of interest will be published in the Fund's Annual Report and Accounts.

10.2 In order to identify whether the objectives of this Policy are being met the administering authority will review the Register of Conflicts of Interest on an annual basis and consider whether there has been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

11. Key Risks

11.1 The key risks to the delivery of this Policy are outlined below all of which could result in an actual conflict of interest arising and not being properly managed. Head of Finance – Pensions & Treasury will monitor these and other key risks and consider how to respond to them, taking advice from the Assistant Director Corporate Governance as appropriate.

The key risks are:

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters.
- Insufficient training or failure to communicate the requirements of this Policy.
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputizing or failure of that individual to carry out the operational aspects in accordance with this Policy.
- Failure by the Chair of the Pensions Committee to take appropriate action when a conflict is highlighted at a meeting.

12. Costs

12.1 All costs related to the operation and implementation of this Policy will be met directly by LBHPF. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Appendix 1

Legislation, Regulation and Guidance on Conflicts of Interest

The requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a local pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires local pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose. **Haringey Pensions Committee carries out the functions of the local pension board.**

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).” Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue.

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that local pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to administering authorities and local pension boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of local pension boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is established and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance. The guidance can be viewed at: www.lgpsboard.org/index.php/about-the-board/board-guidance

The Pensions Act 2004

The Public Service Pensions Act 2013 added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code. The code can be viewed at www.thepensionsregulator.gov.uk/guidance/guidance-conflicts-ofinterest.aspx

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

The Localism Act 2011

Chapter 7 of this Act requires councillors to comply with the code of conduct of their local authority and that code of conduct must be consistent with the Seven Principles of Public Life (set out below). In addition the Act requires that the code of conduct must include provisions requiring the disclosure and registration of pecuniary interests and interests other than pecuniary interests.

The Seven Principles of Public Life

Otherwise known as the ‘Nolan Principles’, the seven principles of public life apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally, and all staff in:

- the civil service
- local government
- the police
- the courts and probation services
- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services. Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership.

Advisers’ Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Information about these requirements can be viewed at:
www.actuaries.org.uk/regulation/pages/conflicts_of_interest

Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Appendix 2

Other Administering Authority Requirements

In addition to the requirements of this Policy, Pensions Committee members and co-opted members (including non-voting co-opted members) are required to adhere to the LBH Members' Code of Conduct or the LBH Code of Conduct for Staff.

Pensions Committee Members

In addition to the requirements of this Policy, Pensions Committee members are required to adhere to the Terms of Reference of the Pensions Committee.

Employees

In addition to the requirements of this Policy, officers of LBH are required to adhere to the LBH Code of Conduct for Staff.

Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to LBH or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters.

Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the LBHPF and on which advice is required. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pension Board decides to appoint an adviser, this can be the same person, or organization as is appointed to advise the Investment advisory Panel or joint advisory Group or Fund officers as long as there is no conflict of interest between the two roles.

The key advisers are all expected to have their own policies or protocols on how conflicts of interest will be managed in their relationships with their clients, and these must be shared with the Fund.

Appendix 3

Examples of potential Conflicts of Interest

a) An elected member on the Pensions Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pensions Committee is on the board of a Fund Manager that is being considered for appointment.

c) An officer of the Fund or member of the Pensions Committee accepts a dinner invitation from a service provider who has submitted a bid as part of a tender process.

d) An employer representative on the Pensions Committee is employed by a company to which the administering authority has outsourced its pension administration services and the Pensions Committee is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An employer representative employed by the administering authority and appointed to the Pensions Committee to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

g) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, providing assistance with monitoring the covenant of employers.

h) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pensions Committee. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Committee.

Appendix 4

London Borough of Haringey Pension Fund

Declaration of Interests relating to the management of London Borough of Haringey Pension Fund

I, [insert full name], am:

- an officer involved in the management
- Pensions Committee Member

of London Borough of Haringey Pensions Committee and I set out below under the appropriate headings my interests, which I am required to declare under LB Haringey Pension Fund Conflicts of Interest Policy. I have put “none” where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I declare that I understand my responsibilities under the LB Haringey Pension Fund Conflicts of Interest Policy. I undertake to notify the Head of Finance – Treasury & Pensions of any changes in the information set out above.

Signed Date

Name

Agenda Item 10

Report for: Pensions Committee 14th January 2016

Item number: 10

Title: Pooling Consultation and Revisions to Investment Regulations

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & Pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 The Government have published two documents that will have a profound impact on the management of LGPS investments. This note discusses these documents and the actions required to meet the new requirements.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee is invited to:

(a) Note the actions required and timetable to comply with the revised investment regulations,
(b) Approve the draft response to the pooling criteria, and
(c) Delegate authority to the Chair to submit a response to the investment regulations consultation on behalf of the Committee if she considers it appropriate to do so.

4. Other options considered

4.1 As discussed in the paper. In particular choices and options will emerge as to selection of pools, timing of transfers and assets to be managed outside of pools.

5. Background information

5.1 The Government has published two documents concerning the management of Local Authority Pension Scheme investments. These relate to:

a) Consultation on revisions to the investment regulations and new Government powers of intervention.

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b) Timetable for submission and content of plans for pooling investments and criteria for judging acceptability of pooling proposals submitted.

5.2 The attached note (appendix 1 to 3), which was circulated earlier to the Committee discussed the proposed changes to the management of pension scheme investments. Actions required are discussed below.

Investment Regulations

5.3 The revised draft investment regulations are attached (appendix 4). In essence they replace hard limits with a decision framework based around an Investment Strategy Statement that replaces the Statement of Investment Principles. The changes have been welcomed by all commentators and will provide increased flexibility when developing strategy.

5.4 If the Committee wish to comment, these should be submitted by 19th February 2016. If as expected the regulations come into force on 1st April 2016, the first Investment Strategy Statement will be required six months later, 1st October 2016.

5.5 Within the draft regulations are new government powers of direction over the management of investments. These proposed new powers are discussed in appendix 1. The Committee may wish to leave open the possibility of a consultation response on the intervention powers or the proposed guidance on exclusionary policies as views emerge from the LGPS community. If so, it is suggested that the Committee delegate authority to the Chair to submit a response on behalf of the Committee if she considers it appropriate to do so.

Pooling Criteria

5.6 Each Administering authority is required to submit proposals for pooling, which the Government will assess against the criteria in this document (appendix 3). The Government is looking for up to six funds, each with assets of at least £25bn with statements on the capacity to invest in infrastructure.

5.7 Initial responses on the approach being taken to pooling are required by 19th February 2016 with fully developed responses required by 15th July 2016. As set out in appendix 3 the level of detail required to be submitted is substantial and will take time to gather.

5.8 Haringey's participation in the London CIV if extended to all or virtually all of our investments will most likely be consistent with the pooling criteria. The CIV has indicated that it will provide much of the detail for the response and will offer a group response with some additional statements from individual authorities. If this approach is followed, the effort required to respond will be minimized.

5.9 LGPS funds outside of London are currently considering how to meet the requirements of the pooling criteria with groupings (not all regional) starting to emerge with participation offers being made to all other funds. It is expected that the London CIV will be the core of the Haringey pooling response, but it appears unlikely that the CIV can offer best in class arrangements for all assets classes. Thus there are benefits to maintaining a watching brief over the other pools being developed and including within the initial response a preference for flexibility in selection of pools. The deadline for submitting detailed pooling proposals (15th July 2016) is insufficient to allow time for pools that emerge to be assessed and compared, which is another possible comment within the first response.

5.10 The proposed first response on pooling, to be submitted by 19th February 2016, is attached (appendix 5.)

6. Comments of the Chief Finance Officer & financial implications

6.1 The Government's proposed changes to the management of LGPS investments has a central goal of improved financial outcome through lower fees and better performance at its heart. The proposals will curtail the powers of the Committee to select investment managers and potentially to set strategy. Implementation of strategy will be through investments pools and the selection of pools will determine implementation choices. The Committee may have difficult choices when (not if) it is forced to pool its actively managed assets.

7. Comments of the Assistant Director of Corporate Governance Implications

7.1 The Assistant Director of Governance has been consulted on the content of this report. There are no specific legal implications arising from this report

8. Comments from the Independent Advisor

8.1 As stated at Section 5 of this report the Government has produced two documents, on revisions to the Investment Regulations/powers of intervention and the Pooling of Investments.

8.2 The proposal in the Investment Regulations Consultation to remove Schedule 1 is very welcome. The existing Schedule 1 (to the LGPS (Management and Investment of Funds) Regulations 2009 (As amended)) places arbitrary restrictions/limits on the investment options of LGPS Funds and is more restrictive than the approach applied to private sector Defined Benefit Schemes. In addition given the current Regulations specifically "list" some types of investment but not others there was some question as to the extent that LGPS Funds could legitimately utilise certain vehicles such as derivatives. The current consultation proposes the removal of Schedule 1 and its replacement by a prudential risk based approach.

8.3 A move to a risk based regime similar to that applicable to private sector Pension Funds will place a duty on LGPS Funds to base investment decisions on risk assessment with a requirement to manage their investment risks and meet their long term objectives without limits on particular investment approaches. Under the new draft Regulation 7 each LGPS Fund will be required to produce an **Investment strategy statement** which sets out its approach to investment (and will replace the existing requirement for a "Statement of Investment Principles"). This is an extremely positive proposal which LGPS Funds should clearly welcome in any response.

8.4 The draft 2016 Regulations include as draft Regulation 8 **Directions by the Secretary of State.** This draft regulation introduces a power for the Secretary of State to take control of the investment functions of a Fund if the Fund fails to have regard to guidance issued under draft Regulation 7(1) which relates to the formulation of the Investment Strategy Statement. The Consultation document indicates that one reason for the Secretary of State to issue a Direction (under draft Regulation 8) would be where a Fund fails to participate in one of the large asset pools (which are approved by the Secretary of State) or proposes a pooling arrangement that does not adhere to the pooling criteria and guidance. While the introduction of a specific power of Direction is a retrograde step and in contrast to the investment strategy "freedoms" proposed in the Consultation and draft Regulations (see 8.2 and 8.3 above) this was inevitable given the Government's determination to move to pooling of the management of LGPS Investments. The draft Regulations do however state (Regulation 8(3)) "*Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.*" and (Regulation 8(4)(c)) that in reaching any decision the Secretary of State must have regard to *"any representations made by the authority in response to the consultation under paragraph (3.)"* In any response to this Consultation I suggest that the Fund support the proposed wording of draft regulation 8(3) and 8(4)(c). If the Fund wishes to respond to the Investment Regulations Consultation it has until 19 February 2016 to do so.

8.5 The document **"Local Government Pension Scheme: Investment Reform Criteria and Guidance"** sets out the criteria for the pooling of LGPS investments and requires each Fund to submit proposals for pooling. Initial responses are required by 19 February 2016 and *"refined and completed submissions"* by 15 July 2016.

8.6 It is interesting to note that throughout the document "Local Government Pension Scheme: Investment Reform Criteria and Guidance" reference is made to Funds and *"pool(s)"* rather than Funds and a "*pool.*" This clearly indicates that there is no expectation that any Fund will pool all its assets (required to be pooled) with only one pool. Indeed given the number of Funds (89 in England and Wales) and the multiplicity of approaches across and within asset classes amongst them it would not be surprising if any individual Fund comes to the conclusion that any one Pool is unlikely to meet all their investment requirements optimally.

8.7 It should also be remembered that Pools exist merely to meet the investment management needs of Funds. No particular Pool based in any particular region has the absolute right itself to manage assets on behalf of any Fund. Individual Funds remain the ultimate owners of their assets (even after pooling) and it should be a decision for each Fund to determine which assets are allocated to which Pool(s). Therefore taking note of the points made in 8.9 and 8.10 I strongly concur with the statement at 5.9 of this report that *"there are benefits to maintaining a watching brief over the other pools being developed and including within the initial response a preference for flexibility in selection of pools."*

8.8 It is interesting to note the proposed timetable for the transfer of assets to Pools in the Investment Reform Criteria and Guidance document. Section 2.5 clearly states that immediate transfer of assets to Pooled arrangements is neither required nor anticipated. The document states "*It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018.*" Therefore the Government do not expect pooling of assets to necessarily commence until over two years from now.

Consequently the Fund should feel no obligation whatsoever to make any rapid decisions regarding the pooling of its assets.

9. Equalities and Community Cohesion Comments

9.1 Not applicable.

10. Head of Procurement Comments

10.1 Not applicable.

11. Policy Implications

11.1 None.

12. Use of Appendices

12.1 Appendix 1: Detailed note on investment regulations and pooling criteria.

Appendix 2: Investment Regulations - Consultation Questions

Appendix 3: Detail to be contained within Pooling Response

Appendix 4: Draft investment regulations

Appendix 5: Draft response to Pooling Criteria

13 Local Government (Access to Information) Act 1985

13.1 Not applicable.

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Appendix 1

Investment Regulations Update

Summary

The Government has published two documents concerning the management of Local Authority Pension Scheme investments. The related to:

I. Consultation on revisions to the investment regulations and new Government powers of intervention.
II. Timetable for submission and content of plans for pooling investments and criteria for judging acceptability of pooling proposal submitted.

Both documents have an initial response date of 19 February. The pooling criteria require an initial response in February and final proposals by 15 July 2015. It is not necessary to respond to the draft investment regulations.

The changes to the investment regulations are welcome. The proposal is to replace specified limits with a prudent person approach based around an Investment Strategy Statement that replaced the Statement of Investment Principles.

The proposed intervention power will give the government the ability to instruct Administering Authorities on how to invest their pension fund and to appoint persons to do so. It appears mainly aimed at enforcing pooling but could be used to increase allocations to infrastructure and even to change arrangement for non investment issues.

The Government is seeking to establish around six investment pools of £25 billion each. Local authorities are required to submit plans to participate in pooled investments. The arrangements for the London CIV are consistent with the pooling criteria. The pooling plans require considerable detail (appendix 3) and even with the help of the CIV will take time to prepare.

Further details on each document are given below.

Revisions to Investment Regulations

The consultation is to replace Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The replacement regulations require the development of a prudent investment strategy.

The use of the proposed intervention powers is aimed at ensuring “that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.”

The consultation asks:

Whether the investment guidelines provide sufficient flexibility.
Whether the Secretary of State’s powers of intervention are appropriate.

Investment Regulations

The proposal is to remove the existing schedule of limitations on investments.

Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

The Statement of Investment Principles is dropped and instead there will be an investment strategy statement. This will cover:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

Apart from the change of name the ISS will be substantially similar to the SIP. It may well be shorter will some detail e.g. managers and benchmarks omitted. Of course, the regulations state the minimum inclusions and more can be added.

If the draft regulations are effective from April 2016 as expected, the ISS will be required by 1 October 2016. The current investment restrictions will apply until the ISS is approved.

Other details removed from the regulations include frequency of monitoring investment managers, specified terns for appointing fund managers and the need to report compliance with the Myners principles. There remains a statutory requirement to take and act on proper advice.

Exclusionary Policies

The Government has said that it is inappropriate to use pensions and procurement policies to pursue boycotts, divestments and sanctions against foreign nations and the UK defence industry other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. In this respect **Guidance on how ESG policies should reflect UK foreign policy will be published ahead of the new Regulations coming into force.** This will make clear to authorities that in formulating these policies their predominant concern should be the pursuit of a financial return on their investments, including over the longer term, and that, reflecting the position set out in the paragraph above, they should not pursue policies which run contrary to UK foreign policy.

Quite what the impact will be of the above statement and whether it impacts beyond foreign and defensive industries will depend on the wording of the guidance. The consultation also included a further paragraph on the application of investment powers, by restating guidance given in 1983:

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

Those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it.

In essence the requirement is that any policies in selecting investment must have regard to the implications for those who contribute and benefit from the fund.

Government Powers of Intervention

To ensure that the new flexible investment regulations are used ‘appropriately’, the consultation also proposes to introduce a power to intervene in the investment function of an administering authority if the Secretary of State believes that a Council has not had regard to guidance and regulations.

Intervention will require evidence that a Council is ignoring information on best practice, for example, by not responding to advice provided by the scheme advisory board to local pension boards, is not following the investment regulations or has not had regard to guidance e.g. has not participated in investment pooling to the extent required. In addition the use of inappropriate actuarial valuation methods may give rise to intervention.

In applying the powers, if Government suspected there was an issue, they would carry out a review, probably using external ‘expects’ and invite the Council to participate and would be required to provide data. Following this review the Government would determine the extent of the intervention required. The forms of intervention are broad and could include:

- Requiring an administering authority to develop a new investment strategy statement.
- Directing an administering authority to invest all or a portion of its assets in a particular way that more closely adheres to the criteria and guidance, for instance through a pooled vehicle.
- Requiring that the investment functions of the administering authority are exercised by the Secretary of State or his nominee.
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body.

Any council presented with an intervention plan would be given him to comment and presumably to propose alternative arrangements e.g. take action to address the government’s concerns. The period of intervention will be set, monitored and at some point ended. All costs will be paid from the pension fund.

These powers have never been exercised before by the Government and go beyond those of the Pensions Regulator in the private sector. Although assumed to relate mainly to pooling, their application could be much wider, including non investment issues if these are seen to be below best practice. As the process involves a number of steps, any Administering Authority will have the time to make proposals to address the issues raised.

Conclusion / Impact on Haringey

The relaxation of the investment restrictions are mostly technical and will not require change to the investment strategy. They do offer some additional flexibility but that was not a great concern for Haringey.

The intervention powers are aimed at compulsory pooling, but with much wider application. Haringey is already committed to the CIV in respect of passive equities. We may be required to pool other asset classes, including changing investment managers even if we deemed the new arrangements are inferior.

Criteria on Pooling

Each Administering authority is required to submit proposals for pooling which the Government will assess against the criteria in this document. The Government is looking for up to six funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are:

Asset pool(s) that achieve the benefits of scale
Strong governance and decision making
Reduced costs and excellent value for money
An improved capacity to invest in infrastructure

Additional detail is contained in the consultation as to content of each administering authority's response (see appendix 3). Considerable supporting detail is required e.g. 15 year estimate of saving. Although the London CIV will be able to provide some of the response detail for the London Boroughs, we will need to consider our own asset allocation and what might remain outside the CIV and for how long. In addition, we will be required to report on investment governance structures that retain democratic accountability.

Significant comments included in the criteria include:

- Active fund management should only be used where it can be shown to deliver value.
- Response to discuss current and future capacity for direct infrastructure (outside of funds).

An initial response is required by 19 February 2016. This comprises a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document.

The submission may include arguments for maintaining any assets outside of pools, acknowledging that some illiquid asset classes e.g. private equity, may take time to pool. The Government expects that asset transfers will seek to minimise transaction costs.

Each authority will receive a response from the Government setting out the extent to which the proposal meets the pooling criteria and any areas inadequately addressed and enter into a dialogue on any deficiencies. Should the Government not be satisfied after discussion it may use its powers of intervention. Prior to pooling administering authorities must continue to manage their strategies and investments. The Government expects that asset transfers to pools will commence by April 2018. The London CIV is well ahead of this timetable.

Next Steps

A discussion on the two consultations will be included in the agenda for the January 2016 meetings together with draft responses.

Appendix 2

Investment Regulations - Consultation Questions

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?

2. Are there any specific issues that should be reinstated? Please explain why.

3. Is six months the appropriate period for the transitional arrangements to remain in place?

4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

Appendix 3

Detail to be contained within Pooling Response

The full criteria expected to be contained within each Administering Authorities Pooling response is set out below:

(a) **Asset pool(s) that achieve the benefits of scale**: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

• The size of their pool(s) once fully operational.

• In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

• The type of pool(s) they are participating in, including the legal structure if relevant.

• How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.

• The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B **Strong governance and decision making**: The proposed governance structure for the pools should:
i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

• The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.

• The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.

• Decision making procedures at all stages of investment, and the rationale underpinning this.

• The shared objectives for the pool(s), and any policies that are to be agreed between participants.

• The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.

• How any environmental, social and corporate governance policies will be handled by the pool(s).

• How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

• How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

• The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. **Reduced costs and excellent value for money**: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.
As part of their proposals, authorities should provide:

• A fully transparent assessment of investment costs and fees as at 31 March 2013.

• A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.

• A detailed estimate of savings over the next 15 years.

• A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.

• A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. **An improved capacity to invest in infrastructure**: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

• The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".

• How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.

• The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

• for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and • for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

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STATUTORY INSTRUMENTS

2016 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Made - - - -	*2016*
Laid before Parliament	*2016*
Coming into force - -	*2016*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**a**).

In accordance with section 21 of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st April 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

"the 2000 Act" means the Financial Services and Markets Act 2000(**b**);

"the 2013 Regulations" means the Local Government Pension Scheme Regulations 2013(**c**);

"the Transitional Regulations" means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(**d**);

(**a**) 2013 c. 25
(**b**) 2000 c.8.
(**c**) S.I. 2013/2356.
(**d**) S.I. 2014/525.

"authority" means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

"fund money" means money that is or should be in a pension fund maintained by an authority;

"proper advice" means the advice of a person whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters;

"the Scheme" means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011(**a**) (local authority's general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004(**b**) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations "investment" and related expressions have their normal meaning.

(2) But the following provisions of this regulation specify things which count as investments for these Regulations, although they might not otherwise do so, and exclude things which might otherwise count.

(3) A contract entered into in the course of dealing in financial futures, traded options or derivatives is an investment.

(4) A contract of insurance is an investment if it is a contract of a relevant class, and is entered into with a person within paragraph (5) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(**c**).

(5) The persons within this paragraph are—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to effect or carry out contracts of insurance of a relevant class;

(b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule(**d**) to effect or carry out contracts of insurance of a relevant class; and

(c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(6) A contract of insurance is of a relevant class for the purposes of paragraphs (4) and (5) if it is—

(a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or

(b) a contract to manage the investments of pension funds, whether or not combined with contracts of insurance covering either conservation of capital or payment of minimum interest.

(7) It is an investment to contribute to a limited partnership in an unquoted securities investment partnership.

(8) For the purposes of this regulation—

"limited partnership" has the meaning given in the Limited Partnerships Act 1907(**a**);

(**a**) 2011 c. 20.
(**b**) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.
(**c**) Section 22 was amended by section 7(1) of the Financial Services act 2012 (c.21).
(**d**) Paragraph 15 was amended by S.I. 2007/126.

"recognised stock exchange" has the same meaning as in section 1005 of the Income Tax Act 2007(**b**);

"traded option" means an option quoted on a recognised stock exchange; and

"unquoted securities investment partnership" means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(**c**), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

(a) the amounts payable by it or payable to it under regulations 15(3), 67 and 68 of the 2013 Regulations (employer's contributions and further payments);

(b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);

(c) all income arising from investment of the fund; and

(d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the reference in paragraph (1) to the authority's pension fund is to the fund which is the appropriate fund(**d**) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(**e**) (charges in relation to pension sharing costs)(**f**).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

(a) paying benefits due under the Scheme; or

(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

(**a**) 1907 c. 24.

(**b**) 2007 c.3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c.8).

(**c**) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.

(**d**) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the "appropriate administering authority" in relation to a person.

(**e**) 1999 c. 30.

(**f**) See S.I. 2000/1047 and S.I. 2000/1049.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) "Deposit-taker" for the purposes of paragraph (1) means—

(a) a person who has permission under Part 4A(**a**) of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(**b**);

(b) an EEA firm of the kind mentioned in paragraph 5(b)(**c**) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(**d**) to accept deposits;

(c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or

(d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

(2) The authority's investment strategy must include—

(a) a requirement to invest fund money in a wide variety of investments;

(b) the authority's assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(**e**).

(5) The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.

(**a**) Part 4A was inserted by section 11 of the Financial Services Act 2012 (c. 21).
(**b**) S.I. 2001/544; article 5 was amended by S.I. 2002/682.
(**c**) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.
(**d**) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906 and 2013/1881.
(**e**) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st October 2016.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to have regard to guidance issued under regulation 7(1) (investment strategy statement).

(2) Where this regulation applies in relation to an authority the Secretary of State may issue a direction requiring all or any of the following—

- (a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within a period of time specified in the direction;
- (b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;
- (c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;
- (d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

- (a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under section 62 of the 2013 Regulations (actuarial valuations of pension funds);
- (b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board(**a**);
- (c) any representations made by the authority in response to the consultation under paragraph (3);
- (d) any other evidence available that the Secretary of State regards as relevant to whether the authority has been complying with these regulations or acting in accordance with guidance issued under regulation 7(1) (investment strategy statement).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must co-operate with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

(**a**) The Local Government Pension Scheme Advisory Board is established under regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(2) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(3) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961(**a**) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(a) (pension fund annual report) substitute—

> "(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;".

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

> "(b) the statement of the administering authority's investment strategy published under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

> "(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

Revocations and transitional provision

12.—(1) Subject to paragraph (2), the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009(**b**) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013(**c**) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority publishes its investment strategy statement under regulation 7(1) (investment strategy statement).

(3) For the period starting on 1st April 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7 (investment strategy

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(**a**) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).
(**b**) S.I. 2009/3093.
(**c**) S.I. 2013/410.

statement), or 30th September 2016, Regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

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Appendix 5

Draft Response to Pooling Criteria

To: LGPSReform@communities.gsi.gov.uk

Dear Sirs

Investment Reform Criteria and Guidance

The criteria issued last November by the Department of Communities and Local Government requires local authorities to respond by 19th February 2016 including a commitment to pooling and a description of progress towards formalising arrangements with other authorities.

Haringey's progress towards Pooling

Haringey Council Pension Fund has made considerable progress towards pooling a majority of our assets working with the London CIV. We are a shareholder in the London CIV and for the last two years have contributed to the CIV's establishment costs.

Currently 75% of our assets are passively managed equities and index linked gilts. The CIV will offer from early 2016 a facility for passively managed equities and we have agreed in principle to transfer our developed market equities (50% of the fund) to the CIV. We anticipate that the CIV will soon offer a facility for passive index linked gilts that we are likely to utilise. Thus we have a reasonable expectation, based on our current investment policy, that 65% of our investments will be invested through the London CIV by the end of 2016.

Delivery of Cost Savings through Pooling

Parts A and C of the criteria focus on the ability of pooled funds to reduce investment fees and other costs. During 2015, Haringey renegotiated our passive investment management fees. The outcome is that we achieved fee levels for equities that are broadly consistent with those available from the London CIV. Moving our developed market equities is anticipated to deliver £113,000 of fee annual savings through favourable tax treatment and minimal transition costs, with the assets remaining with the current fund manager.

When considering switching passive emerging market equities to the London CIV, we identified that due to less favourable tax treatment, this class of assets will incur additional annual costs of £98,000 and one off transition costs of at least £350,000. For this reason we have decided for the moment not to transfer emerging market equities to the CIV.

We would appreciate confirmation from the Secretary of State that our rational for not transferring this class of investment (higher costs with no scope for performance improvement) is consistent with criteria C, reduced cost and value for money.

Pooling of Actively Managed Investments

Haringey Pension Fund has 25% of its assets managed actively in property, multi sector credit, private equity and infrastructure debt. We are currently considering additional investments in renewable energy and long lease property. We recognise that working in tandem with other pension schemes will be beneficial for these asset classes. Although our main pooled provider will be the London CIV, we anticipate that other pools will offer different opportunities and we intend for the moment to be flexible in selecting partners for the remainder of our assets.

Pooling Timetable and Achieving Optimum Arrangements

The Government has asked that final proposals for pooling are submitted by 15 July 2016. Should Haringey simply opt for using a single pooled provider this could potentially be an achievable timetable, although it will depend on the London CIV's ability to provide considerable detail to support a group response, a point on which I am sure they will respond.

As mentioned above, Haringey considers there to be potential merits in a multi pooled solution. Local authorities across England and Wales are developing plans and inviting participation from other authorities. Haringey best interests are served by keeping a watching brief on these combinations for our actively managed assets and discussing opportunities with the various pools. However, the details of each pool's offering e.g. mandates, fund managers, performance targets, fees etc are not going to be available by summer 2016. Therefore carrying out an evaluation of the alternative pools for our actively managed assets is not going to be possible by July 2016. Unless that the Government is prepared to extend the deadline for fully evaluated pooling proposal, Haringey and other funds will be forced into a single pool probably regional solution that may be sub-optimal in delivering savings and performance.

Investment in Infrastructure

The Government has made reference to the tiny percentage of LGPS funds invested in infrastructure. Haringey has committed approximately 5% of our fund to UK infrastructure debt, with funds expected to be drawn down within 12-24 months. Initially investments are a road improvement scheme and student accommodation. We are currently searching for a manager for a renewable energy infrastructure mandate of a similar size, bringing our infrastructure allocation to 10%, which compares favourably in international comparisons. We recognise the potential cost savings from LGPS collaboration however would remind the Government of our responsibilities to manage risks when selecting investments and that we must ensure that the returns and risks are superior or at least comparable with other opportunities and the requirements for diversification.

I will be happy to discuss Haringey's response.

Yours sincerely

Councillor Clare Bull

Chair, LB Haringey Pensions Committee

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Report for: Pensions Committee 14th January 2016

Item number: 11

Title: London Collective Investment Vehicle

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & Pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 This paper was discussed at the 19th October 2015 training meeting. As no decisions can be made at a training meeting, the paper is resubmitted so that a formal decision can be made.

1.2 The London CIV has been established to facilitate the collective management of London LGPS investments. Almost all the London Boroughs, including Haringey, have contributed £75,000 towards the set up costs. Boroughs have now being asking if they wish to invest through the CIV and estimates of the impact on investment management costs have been provided.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the Committee:

(a) Agree to transfer the management of listed equities excluding emerging markets to the London CIV noting that ultimate management will remain with Legal & General, and

(b) Delegate authority to the Chief Operating Officer (CFO) or in their absence the Head of Finance – Treasury & Pensions authority to execute any documents required to complete the transfer of assets to the London CIV.

4. Other options considered

Haringey LONDON

4.1 The paper considers the two options of investing through the London CIV or maintaining the current direct relationship with Legal & General.

5. Background information

5.1 The Committee has supported the establishment of the London CIV through a contribution of £75,000 towards its establishment costs and at the September 2015 meeting agreed to contribute share capital as required to a maximum value of £150,000.

5.2 The CIV has now received regulatory approval from the FCA to act as a collective manager. It has reached fee agreements with four fund managers - Legal & General, BlackRock, Allianz (active equity) and Baillie Gifford (DGF). It is now asking boroughs to indicate their willingness to transfer assets to the CIV.

5.3 Of these four managers, only one is relevant to Haringey, L&G, and only in respect of equities. However, that does represent over 60% of the fund, circa £600 million. Initially the Index Linked Gilts (ILG) gilts will remain directly invested with L&G, who have confirmed that the current 3 bps fees will remain.

5.4 In considering whether to switch assets to the CIV, the Committee should consider:

- The financial implications, balancing ongoing fees and one of initial costs.
- The impact on the quality of the fund management and the anticipated returns.
- The ability to have a dialogue with the fund manager and influence its behaviour e.g. voting and corporate engagement.
- Whether investing through the CIV will add to or reduce future investment options.
- Meeting the expectation of government.

Each of these issues is considered below.

<u>Financial Implications</u>

5.5 The fee and cost schedules prepared by the CIV and verified with L&G indicate an initial annual net benefit of £15,000 from using the CIV based on its assumed starting asset base. The savings largely arise from enhanced tax recoveries within the CIV structure. The CIV fees will also fall as its asset base grows. There will be a one off cost linked to the transfer of assets and that is estimated as £360,000 to £400,000. The transition costs are substantial and will take many years to recoup from annual fee savings.

5.6 An alternative to improve the financial outcome will be to retain Emerging Market equities in the current direct ownership structure and only move developed market equities to the CIV. This will lead to annual fee savings of £113,000 and reduce one off transition costs to £26,000, a clear financial benefit, which justifies utilizing the CIV.

Changes in anticipated returns and the quality of investment management

5.7 The equities will remain invested passively with Legal & General and therefore the anticipated returns will be unaffected. However, the CIV will not permit bespoke regional allocations to non UK developed equities, instead will be using an ex UK world index. This will result in small changes to the non UK equity allocations, the largest being a £10 million increase in the US equity allocation. Using a world equity index rather than fixed regional allocations will introduce a little more volatility into the portfolio.

Dialogue and Influence with Fund Managers

5.8 Investing though the CIV will mean that L&G will be appointed by and report to the CIV. Major decisions regarding changing asset classes or manager will remain with Haringey, but our ability to influence L&G e.g. in voting or corporate engagement will be reduced.

Impact on future investment options

5.9 The CIV is in the initial stages of development and over time can be expected to increase its range of asset classes. Should the Committee wish to consider changes to the current equity structure e.g. alternative indices such as those omitting particular industries (tobacco) that will not initially be available through the CIV. This will reduce future flexibility but with the option to remove assets from the CIV if necessary at minimal cost.

Meeting the Expectations of Government

5.10 The recently issued pooling criteria (separate item on the agenda) requires all LGPS funds to submit proposals aimed at forming collective pools each with approximately £30 billion of investments. Funds that do not pool assets voluntarily are likely to be forced to do so. Haringey pooling developed market equities through the CIV, which represent over 50% of our total assets, will be seen as positively responding to the Governments wishes and create some room to work out the best arrangements for the remainder of the fund.

Conclusion

5.11 Taking into consideration all these factors, the balance favours transferring listed equities excluding emerging markets to be invested in L&G through the CIV.

6. Comments of the Chief Financial Officer and financial Implications

6.1. The proposal to use the London CIV to manage passive developed equities will result in a small fee savings without materially disturbing the current management arrangements. More challenging decisions will follow when pooling arrangements for the other asset classes have to be considered.

7. Comments of the Assistant Director of Corporate Governance

7.1 The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and makes the following comments.

7.2. Whilst the Pensions Committee has the Constitutional authority to adopt the Recommendations contained in this report within its terms of reference, it is under a legislative duty to take "proper advice in relation to the appointment [of an investment manager]". The objective to be achieved, is – in summary - to illicit an assurance that there are reasonable grounds to believe that the proposed investment manager has the requisite level of ability and practical experience to make decisions on behalf of the administering authority.

7.3. The duty is discharged by reference to the terms of paragraphs 5.2 - 5.3 and 8.1- 8.5 of the report.

8. Comments of the Independent Advisor

8.1 In the July 2015 Budget the Chancellor of the Exchequer announced that "The Government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance." In November 2015 the DCLG issued a document entitled "Local Government Pension Scheme: Investment Reform Criteria and Guidance." This paper sets out the Government's criteria and guidance for the establishment of Asset Pools to undertake the investment of Scheme assets on behalf of the 89 individual LGPS Funds in England and Wales. The Government envisages the creation of up to six Pools each with assets of at least £25billion.

8.2 London LGPS Funds have been working together to develop a Pool known as the London CIV (Collective Investment Vehicle). The London CIV has now reached agreement with four asset managers for the voluntary transfer to the CIV of certain assets managed by those managers should an individual London LGPS Fund so wish. In the case of Haringey this option is available in respect of its Listed Equities managed by L&G.

8.3 In addition to the expectation of Government that individual Fund assets will be progressively transferred to collective investment arrangements there is a clear financial case for the transfer to the London CIV, at this stage, of the Funds Listed Equities but excluding its Emerging Market Equities. Based on costings that I have examined there would be a potential £113,000 per annum saving in transferring the Funds non Emerging Market Equities to the London CIV. I have been informed that the associated one off transition costs are only £26,000.

8.4 If the Emerging Market Equities were also transferred, at this time, the potential annual saving could be only £15,000 in total. This is because of both the CIV fee structure and adverse tax implications associated with the management of the Emerging Markets Listed Equities portfolio by the CIV. Also, I understand, there would be a total one off transition cost (for the entire Listed Equity portfolio) of £360,000 to £400,000.

8.5 Therefore there are clear financial grounds for transferring the Listed Equities portfolio, with the exception of the Emerging Markets element, to the London CIV.

8.6 With regard to future transfers of other Fund assets to a Pooling arrangement it should be noted that other Pools are under development across the LGPS including some involving the large internally managed LGPS Funds who have significant existing in house expertise in both the direct management of assets and the appointment and monitoring of a wide range of asset managers including significant experience of alternative assets

9. Equalities and Community Cohesion Comments

9.1 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Local Authority to participate. There are no impacts in terms of equality from the recommendations contained within this report.

10. Head of Procurement Comments

9.1 Not applicable

11. Use of Appendices

11.1 None.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

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Report for: Pensions Committee 14th January 2016

Item number: 12

Title: Investment Quarterly Update

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & Pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 To report the following in respect of the three months to 30th September 2015:

- Investment asset values & allocation
- Investment performance
- Income & Expenditure
- Communications
- Late payment of contribution

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 30th September 2015 is noted.

4. Other options considered

4.1 None.

5. Background information

5.1 This update report is produced quarterly. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers. The report covers various issues on which the

Committee or its predecessor body have requested they receive regular updates.

5.2 At the time of writing the report, equity markets have been highly volatile due to concerns with the slowing growth of the Chinese economy and the impact that this will have on commodities, commodity producers and exporters. Equity prices have declined sharply over the course of the year, particularly in Asia, but also USA and Europe.

5.3 Information on communication with stakeholders has been provided by officers in Human Resources and included in section 17.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 The investment performance figures in section 14 show the impact of the introduction of passive fund managers in that generally the variance from target has reduced. The negative performance over three and five years reflects mainly the loss of value from the European property portfolio.

7. Comments of the Assistant Director of Corporate Governance

7.1 The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and makes the following comments.

7.2 Council as administering authority for the Haringey Pension Fund ("Fund") has an obligation to keep the performance of its investment managers under review. In this respect the Council must, at least every three months review the investments made by investment managers for the Fund and any other actions taken by them in relation to it;

7.3 Periodically the Council must consider whether or not to retain the investment managers. In particular members should note the continuing negative performances compared with the target benchmarks and the reason stated in this report as to why this is the case;

7.4 In carrying out its review proper advice must be obtained about the variety of investments that have been made and the suitability and types of investment;

7.5 All monies must be invested in accordance with the Council's investment policy and members of the Committee should keep this duty in mind when considering this report and have regard to advice given to them.

8. Comments from the Independent Advisor

8.1 The total value of the Fund at 30 September 2015 was £976m. At 30 June 2015 the total value of the Fund was £1,012m. This reduction of £36m equivalent to approximately 4% was due to a worldwide retreat in equity markets which experienced their worst Quarter since the 2011 Euro zone

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Crisis. The value of the Fund's Listed Equities fell by 7% (from £659m to £616m) between 1 July and 30 September 2015.

8.2 Weaknesses and issues in China (including major stock market losses, emergency Central Bank action to devalue the Renminbi and disappointing economic data) all weighed on Equity prices across the world. UK, European, North American, Japanese, Asian/Emerging Markets all saw falls over the Quarter July to September 2015. These falls were particularly pronounced in Japan and Asia/Emerging Markets.

8.3 By 30 November 2015 however the value of the Fund's Listed Equity investments was £658m only £1m below their value at 30 June 2015. Emerging Market Equities stabilised and the overall Equity portfolio recovered the previous Quarter's losses during the months of October and November 2015. Better than expected US corporate earnings and economic data clearly helped United States Equities increase in value over the period. European Equities were boosted by both macro economic data and statements from the European Central Bank in respect of potential further loosening of monetary policy.

8.4 The overall performance of the Fund over the last Quarter (to 30 September 2015), Year and Three Years is close to benchmark (see section 14.1) primarily due to the fact that the majority of the Fund is managed on a passive basis.

9. Equalities and Community Cohesion Comments

9.1 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Council to participate. There are no impacts in terms of equality from the recommendations contained within this report.

10. Head of Procurement Comments

10.1 Not applicable

11. Policy Implications

11.1 None.

12. Use of Appendices

12.1 Appendix 1: Investment Managers' mandates, benchmarks and targets.

13. Local Government (Access to Information) Act 1985

13.1 Not applicable

Total Portfolio Allocation by Manager & Asset Class

	Value 30.06.2015 £'000	Value 30.09.2015 £'000	Value 30.11.2015 £'000	Allocation 30.09.2015 %	Strategic Allocation %
Equities					
UK	164,665	154,691	162,900	15.8%	15.0%
North America	251,755	229,907	250,342	23.6%	21.7%
Europe	75,406	74,440	78,954	7.6%	7.4%
Japan	35,603	35,843	39,398	3.7%	3.5%
Asia Pacific	32,319	34,583	36,961	3.5%	3.4%
Emerging Markets	99,393	86,649	89,343	8.9%	9.0%
Total Equities	**659,141**	**616,113**	**657,898**	**63.1%**	**60.0%**
Bonds					
Index Linked	**143,215**	**146,405**	**146,547**	**15.0%**	**15.0%**
Property					
CBRE	**100,225**	**99,061**	**104,378**	**10.1%**	**10.0%**
Private equity					
Pantheon	**35,911**	**41,939**	**40,476**	**4.3%**	**5.0%**
Multi-Sector Credit					
CQS	**46,108**	**46,052**	**46,425**	**4.7%**	**5.0%**
Infrastructure Debt					
Allianz	**19,731**	**20,624**	**22,648**	**2.1%**	**5.0%**
Cash & NCA	**7,949**	**5,840**	**3,152**	**0.6%**	**0.0%**
Total Assets	**1,012,280**	**976,034**	**1,021,524**	**100%**	**100%**
Fund Managers					
Legal & General	277,690	762,511	804,438	**78.1%**	**75.0%**
BlackRock	524,668	7	2	**0.0%**	**0.0%**

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The value of the fund decreased by £36 million between July and September June 2015 as equity markets gave back some of their previous gains due mainly to concerns with slowing growth in China. Volatility has continued with November valuations recovering.

The equity allocation exceeds target by 3%. This is mostly the unfunded Allianz mandate. It is anticipated that the Infrastructure debt mandate will be fully funded in 2016, this is later than originally anticipated.

14. Investment Performance Update: to 30th September 2015

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2015 and for the 1, 3 and 5 years.

14.1 Whole Fund

	Return	Benchmark	(Under)/Out	WM LA average
Jul - Sep 2015	-3.66%	-3.49%	(0.17)%	-3.3%
One Year	2.93%	3.46%	(0.53%)	2.7%
Three Years	9.29%	9.79%	(0.50%)	8.4%
Five Years	7.89%	8.29%	(0.38%)	7.3%

One year	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average(%)
Equities				
UK	-2.26	-2.30	0.04	-1.4
Developed Europe	-0.78	-0.80	0.02	1.3
North America	4.72	4.62	0.10	5.9
Japan	6.10	6.18	-0.08	4.9
Asia ex Japan	-11.30	-11.41	0.11	-9.4
Emerging	-12.75	-12.66	-0.09	-12.3
I L gilts	11.89	11.80	0.09	11.0
Property	12.17	14.41	-2.23	13.4
Private equity	19.15	5.77	13.38	14.8
Multi-sector Credit	2.34	6.19	-3.85	n/a
Total	**2.93**	**3.46**	**-0.53**	**2.7**

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Five years	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average(%)
Equities				
UK	6.55	6.69	-0.14	7.6
Developed Europe	7.45	5.80	1.64	6.8
North America	13.07	13.14	-0.07	13.2
Japan	7.31	6.38	0.93	7.8
Asia ex Japan	-0.85	1.15	-0.30	2.0
Emerging	-0.76	-2.10	1.34	-0.8
Index linked gilts	9.65	9.34	0.31	8.8
Property	7.88	9.71	-1.83	9.0
Private equity	12.54	13.58	-1.04	10.5
Total	**7.89**	**8.27**	**-0.38**	**7.3**

- Despite the negative returns in the last two quarters, investment returns in aggregate over the last five years have been in line with long term expectation. WM report that the ten year average local authority return to September 2015 is 6.0% p.a.
- Compared to benchmark the fund's returns have underperformed the benchmark by approximately 0.5% over 1, 3 and 5 years.
- Equity and index linked gilts, which are passively managed, show some variability compared to the benchmarks, but not significant differences.
- The main detractor from performance is property in particular overseas and more recently the overweight position in equities. Individual manager's performance is discussed below.

14.2 Legal & General Investment Management

	Return	Benchmark	Variance
Apr - Jun 2015	(7.90)%	(7.85)%	(0.05%)
One Year	(2.29)%	(2.27)%	(0.32%)
Three years	5.33%	5.90%	(0.57%)
Since inception (May 2012)	6.64%	7.18%	(0.54%)

- Total Value at 30/09/15: £762.5 million
- Variances at regional level are minimal, varying between +0.12% (Asia Pacific ex Japan) and -0.09% (UK) over the last year.
- The underperformance is due to the allocation of assets between markets being out of balance with the benchmark.

14.3 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Jul - Sep 2015	1.71%	3.00%	(1.29%)
One Year	12.17%	14.41%	(2.24%)
Three Years	10.65%	12.24%	(1.59%)
Five Years	7.88%	9.71%	(1.83%)

- Total Value at 30/09/15: £105.6 million (including cash)
- The relative performance of the property portfolio over the longer term has been driven by two European holdings that have suffered significant capital loss. The UK element of the portfolio, in particular the retail element has struggled in the last 12 months.
- The two European funds have been unsuccessful. With an aggregate cost of £9.7 million, they are now valued at £0.2 million, a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings have suffered during the Euro crisis and the impact has been magnified on unit holders by the high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value.
- The portfolio will lag the benchmark for many years until the impact of the two European funds passes through.

14.4 Pantheon

	Return	Benchmark	(Under)/Out	Distributions Less drawdowns
Jul - Sep 2015	8.16%	-3.90%	12.06%	-£1.99m
One Year	19.15%	5.77%	13.38%	£2.09m
Three Years	16.51%	15.43%	1.08%)	£5.87m
Five Years	12.54%	13.58%	(1.04%)	-£5.05m

- Total Value at 30/09/15: £41.9 million
- Following the first calls against the two new commitments, drawdowns exceeded distributions in the quarter, a reversal of the recent flow of cash. The 2006 / 7 vintage funds continue to distribute cash and record valuation gains as exits are achieved.
- The performance target is the MCSI Worlds plus 3.5%. The three 2006/7 vintage funds are reaching a stage when valuation gains can be expected. On average the three funds are 90% invested and 60% of the original cost has been returned. Private equity valuations tend to underestimate exit prices. It is only when the fund is substantially realised will an accurate picture of performance emerge.
- The first drawdowns have been made to the Global Secondaries and Global Select funds – total commitments $75 million.

14.5 CQS (multi sector credit)

The CQS mandate was funded in Q3, 2015. The portfolio increased in value by £1.1 million to £46.1 million as at September 2015. Returns of 2.34% in the last year are behind the benchmark of 3 month libor plus 5.5% (6.2%).

14.6 Allianz (infrastructure debt)

The initial drawdown of £17 million was completed in Q4, with a further £3 million subsequently drawn. It is anticipated that most of the allocation will be drawn during 2016.

14.7 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/09/15	£0.2M	AA	1	0.45%
At 30/06/15	£0.2M	AA	1	0.45%
At 31/03/15	£3.92M	AAA	1	0.38%
At 31/12/14	£2.25m	AAA	1	0.39%

15. Budget Management – 3 months to 30TH September 2015

	Prior year 2014-15 £'000	Current year 2015-16 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	4,470	4,566	96
Employer Contributions	16,790	16,839	49
Transfer Values in	1,529	884	(645)
Total Income	22,789	22,289	(500)
Expenditure			
Pensions & Benefits	(21,548)	(21,803)	(255)
Transfer Values Paid	(1,843)	(1,214)	629
Administrative Expenses	(412)	(162)	250
Total Expenditure	(23,803)	(23,179)	624
Net of Contributions & Benefits	(1,014)	(890)	124
Returns on investment			
Net Investment Income	2,105	2,146	41
Investment Management Expenses	(1,206)	(399)	807
Net Return on Investment	899	1,747	848
Total	**(115)**	**857**	**972**

The fund continues to have a small surplus of income over expenditure, although that is likely to diminish later in the year.

The income shown is virtually all from property as income from other asset classes is automatically re-invested and shown within the change in market value.

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16. Late Payment of Contributions

16.1 The table below provides details of the employers who have made late payments during the last quarter. These employers have been contacted and reminded of their obligations to remit contributions on time.

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Lunchtime UK	1	1	8,200

17. Communication Policy

17.1 Two sets of regulations govern pension communications in the LGPS: The Disclosure of Information Regulations 1996 (as amended) and Regulation 67 of the Local Government Pensions Scheme (Administration) Regulations 2008 as amended.

17.2 In March 2011, the Council approved the Pensions Administration Strategy Statement (PASS). The PASS sets out time scales and procedures which are compliant with the requirements of the Disclosure of Information Regulations. The PASS is a framework within which the Council as the Administering Authority for the Fund can work together with its employing bodies to ensure that the necessary statutory requirements are being met.

17.3 In June 2008 the Council approved the Policy Statement on Communications with scheme members and employing bodies. The Policy Statement identifies the means by which the Council communicates with the Fund members, the employing bodies, elected members, and other stakeholders. These cover a wide range of activities which include meetings, workshops, individual correspondence and use of the internet. In recent times, the Pensions web page has been developed to provide a wide range of employee guides, forms and policy documents. Where possible, Newsletters and individual notices are sent by email to reduce printing and postage costs.

17.4 The requirement to publish a Communications Policy Statement recognises the importance that transparent effective communication has on the proper management of the LGPS.

Appendix 1 – Investment Managers mandates, benchmarks and targets

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	75%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	5%	Multi Sector Credit	3 month libor + 5.5% p.a	Benchmark
Allianz	5%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	10%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5%	Private Equity	MSCI World Index plus 3.5%	Benchmark
Total	**100%**			

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Asset Class	**Benchmark**	**Legal & General Investment Management**
UK Equities	FTSE All Share	15.0%
Overseas Equities		45.0%
North America	FT World Developed North America GBP Unhedged	21.7%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	7.4%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	3.4%
Japan	FT World Developed Japan GBP Unhedged	3.5%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	9.0%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.0%
		75.0%

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Agenda Item 13

Report for: Pensions Committee 14th January 2016

Item number: 13

Title: Work Plan and Meeting Reflections

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & Pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 The purpose of the paper is to identify topics that will come to the attention of the Committee in the next twelve months and to seek Members input into future agenda's. Suggestions on future training are also requested.

1.2 The Committee is invited to reflect on the conduct of the meeting and identify any areas for improvement.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee is invited to identify additional issues & training for inclusion within the work plan.

4. Other options considered

4.1 None.

5. Background information

5.1 It is best practice for a Pension Fund to maintain a work plan. This plan sets out the key activities anticipated in the coming twelve months in the areas of governance, members/employers, investment and accounting. The Committee is invited to consider whether it wishes to amend agenda items.

6. Comments of the Chief Finance Officer & financial implications

6.1 There are no financial implications arising from this report.

7. Comments of the Assistant Director of Corporate Governance

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7.1 The Assistant Director of Corporate Governance has been consulted on the content of this report. There are no specific legal implications arising from this report.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 Appendix 1- future agenda's

12 Local Government (Access to Information) Act 1985

12.1 Not applicable.

Appendix 1

Pension Committee - Meeting Plan

	Apr-16	Jul-16	Sep-16	Jan-17
Governance	External Audit Plan Work Plan & Meeting Reflections Internal Audit Report Progress on compliance with TPR Code of Practice	Governance Review Work Plan & Meeting Reflections	Accounts & Auditors report Work Plan & Meeting Reflections	Work Plan & Meeting Reflections
Investment	Quarterly Report - val & perf Pooling Update Annual review of SIP Long lease property and renewable energy	Quarterly Report - val & perf Pooling Update Investment Strategy Update Presentation from WM State Street Social & Impact Investments	Quarterly Report - val & perf Pooling Update Investment Strategy Update	Quarterly Report - val & perf Pooling update Investment Strategy Update
Funding	Annual Valuation Update		Triennial valuation - agreement of assumptions and FSS update.	Triennial valuation - final results and schedules of
Administration	Administration Report	Administration Report	Administration Report	Administration Report
Training	Corporate Engagement (L&G) Web site demonstration	Corporate Engagement (LAPFF)		

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Report for: Pensions Committee 14 January 2016

Item number: 14

Title: Administration Report

Report authorised by : Jacquie McGeachie Assistant Director Human Resources

Lead Officer: Janet Richards 0208489 3824
janet.richards@haringey.gov.uk

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration
Pensions Administration Report

2. Cabinet Member Introduction
N/A

3. Recommendations

That members note :
3.1.1 A report to the Pensions Regulator was sent regarding a 'non-material' breach and the actions being taken to rectify the position.

3.1.2 The Section 151 Officer agreed on behalf of the Pension Committee the entry of Lunchtime Company Limited as an Admission Body into the Council's Pension Scheme in respect of their catering service contract with the Governing Body of Earlsmead School starting on 1 January 2016.

3.1.3 The new web address of the pensions website.

3.1.4 The impending launch of the new 'Tell Us Once' service.

That members agree :

3.2.1 That the catering contractor Pabulum Catering Limited be admitted to the Council's Pension Scheme as an Admission Body in relation to the provision of catering under contracts with the Governing Bodies of each of the following schools :-

(a) Tetherdown School

(b) Lea Valley Primary School

(c) St Peter in chain RC Infants School

(d) Belmont Infant School

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(e) Belmont Junior School

(f) Alexandra Primary School

(g) St Martin of Porrs RC Primary School

(h) Earlham Primary School

(i) St John Vianney School

(j) South Harringay School

subject in each case to the contractor entering into an admission agreement with the Council in respect of the particular contract. The reason being Pabulum Catering Limited is entering into catering service contracts with the Governing Bodies of the above schools

3.2.2 That admission agreements satisfactory to the Council be entered into in respect of each of the above contracts, and that the agreements are closed agreements, such that no new members can be admitted.

3.2.3 That the catering contractor Absolutely Catering Limited be admitted to the Council's Pension Scheme as an Admission Body, in relation to the provision of catering under a contract with Trinity Primary Academy, subject to the contractor entering into an admission agreement with the Council in respect of the contract. The reason being Absolutely Catering Limited is entering into a catering service contract with Triniity Primary Academy.

3.2.4 That an admission agreement satisfactory to the Council be entered into in respect of the contract, and that the agreement is a closed agreement ,such that no new members can be admitted

4. Reasons for decision

Under the Local Government Pension Scheme Regulations 2013, if a body is an admission body as defined by the Regulations, then if the administering authority makes an admission agreement with that body, the body's employees will be eligible for membership of the Scheme if designated under the terms of the agreement. A body will be an admission body if, inter alia, it is providing or will provide a service in connection with the exercise of a function of a Scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.

5. Alternative options considered

n/a

6. Background information

6.1 Annual Benefit Statement reporting Breach for committee

6.1.1 The Local Government Pension Scheme (LGPS) Regulations required the Administering Authority, Haringey Council, to issue Annual Benefit Statements for 2015 to members by 31 August 2015.

6.1.2 Almost all of the 89 LGPS fund administrators experienced problems and were unable to fully comply with this deadline. Haringey Council did issue the benefit statements to the deferred beneficiaries within the timescales.

6.1.3 The reasons for the delay in the production of the annual benefit statements for active members included the following:

- the implementation of the changes to the LGPS from April 2014 meant siginificant amendments being made to the employer reporting for both the Final Salary and Career Average Revalued Earnings sections of the scheme. Obtaining accurate and timely data and information from employers to meet the requirements of the new scheme proved difficult.
- The implementation of a new administration system which will allow us to upload pay data to the pensions administration system has had teething problems and has taken some time to resolve.

6.1.4 Having reviewed the Guidance, this was reported to the Pensions Regulator as a non-material breach due to "teething problems" as referred to in paragraph 257 of the Regulator's code of practice.

- Statements have now been issued to members.
- Work is continuing with the pension software system to upload the new format annual returns from all employers in the scheme

6.1.5 We are working closely with payroll providers and the software providers in order to prevent these problems recurring next year

6.2. Delegated Authority New Employer seeking Admission Body Status

6.2.1 On 18th September 2014 the Committee granted delegated authority for the Section 151 Officer to agree the entry of Lunchtime Company Limited into the Council's Pension Scheme as an Admission Body in respect of their catering service contract with the Governing Body of Earlsmead School starting on 1 January 2016.

6.2.2 The new employer Lunchtime Company Limited requested Admission Body Status, the reason being it entered into a catering service contract with the Governing Body of Earlsmead School with effect from 1 January 2016.

6.2.3 The employer contribution rate is 29.7% . As an alternative to carrying deficit liability and providing a bond the contractor has the option to and will pay an additional 5% employer contribution. The staff are required to work no less than 50% of their time on the contract. The admission agreement is closed and only the TUPE transferred staff can participate in the LGPS.

6.3 Pensions Website

We will shortly be launching the new look pensions website www.haringeypensionfund.co.uk. It will incorporate the pension administration system member self service.

6.4 Tell us Once / NI Database

The DWP in conjunction with the LGA is onboarding all local authorities to the Tell Us Once service. Where a next of kin / informant agrees to the registration of death being part of the Tell Us Once Service we will be formally notified of the death and in these cases we will not require sight of a death certificate.

6.5 New Employers seeking Admission Body Status

6.5.1 The following schools, Tetherdown School, Lea Valley Primary School, St Peter in Chain RC Infants School, Belmont Infant School, Belmont Junior School, Alexandra Primary School, St Martin of Porres RC Primary School, Earlham Primary School, St John Vianney School, South Harringay School will be outsourcing their catering functions on 1 April 2016 to Pabulum Catering Limited under separate contracts between each school's Governing Body and Pabulum Catering Limited.

6.5.2 In total 31 staff will be tupe transferred, they are members of the LGPS. The admission agreements in respect of all the contracts will be closed and only the TUPE transferred staff can participate in the LGPS. The contract length is initially 3 years with a possible extension of two years, staff are required to work no less than 50% of their time on the contract. The actuary has been asked to calculate the contractor's individual employer contribution rate and bond value in respect of each contract.

6.5.3 Trinity Primary Academy will be outsourcing their catering function on 22 February 2016 to the catering contractor Absolutely Catering Limited. The actuary has been asked to calculate the contractor's employer contribution rate and bond value in respect of the contract.

6.5.4 Five staff will be tupe transferred, they are members of the LGPS. The admission agreement will be closed and only the TUPE transferred staff can participate in the LGPS. The contract length is for 3 years, staff are required to work no less than 50% of their time on the contract.

7. Contribution to strategic outcomes

N/A

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

<u>Finance and Procurement</u>

The proposed new admitted bodies represent a small proportion of the membership. Although they are fully funded at inception the contribution rates are generally higher that the Council reflecting the low risk approach to calculating employer contribution rates for admitted bodies.

There are no financial implications arising from the other matters discussed in the report.

Assistant Director of Corporate Governance

The legal implications are contained in the body of the report

9. Use of Appendices

10. Local Government (Access to Information) Act 1985

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Agenda Item 19

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of the Local Government Act 1972.

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