

Merton Council

Pension Fund Investment Advisory Panel Agenda

Membership

Councillors:

Cllr Philip Jones (Chair)
Cllr Adam Bush (Vice Chair)
Cllr Mark Allison

Officers:

Tina Pickard (Pensioner Rep)
Gwyn Isaac (GMB Union Rep)
Caroline Holland (LBM)
Roger Kershaw (LBM)
Paul Audu (LBM)

Date: Wednesday 6 December 2017

Time: 7.00 pm

Venue: Merton Civic Centre

This is a public meeting and attendance by the public is encouraged and welcomed.
For more information about the agenda please contact
Merton.PensionFund@merton.gov.uk or telephone [020 8545 3458](tel:02085453458).

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Pension Fund Investment Advisory Panel Agenda

6 December 2017

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	7 th March 2018	

Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

Attendance:

Cllr Philip Jones (Chair)
Cllr Adam Bush (Vice Chair)
Cllr Mark Allison
Caroline Holland (Director of Corporate Services LBM)
Roger Kershaw (Interim Assistant Director of Resources)
Paul Audu (Interim Head of Treasury and Pensions)

Additional Attendees: Simon Mathers, External Auditor (Ernst & Young)
Suresh Patel, External Auditor (Ernst & Young)

1. MEETING

- 1.1 Welcome and Introduction by Chair
- 1.2 Apologies for lateness: None
- 1.3 Apologies for absence: Tina Pickard (Unison); Gwyn Isaac (GMB Union Rep)
- 1.4 Members Declaration of Interest – Adam Bush (Employee of BDO who are tendering for Council business)

2. PRESENTATION OF MINUTES OF LAST MEETING (8 March 2017)

- 2.1 The minutes were agreed as a correct record of the PFAP meeting held on 8th March 2017.

3. DRAFT LB MERTON PENSION FUND ANNUAL REPORT AND ACCOUNTS 2016/17

- 3.1 The Chair explained that this was a special meeting arranged to allow the PFAC to review the Draft LB Merton Pension Fund Annual Report and Accounts 2016/17 and consider the external auditors draft report prior to the Standards and General Purposes Committee (SGPC) taking place about an hour after this Panel meeting. The Chair invited PA to present the Pension Fund Annual Report.
- 3.2 PA gave a potted overview of the LB Merton Pension Fund Annual Report and Accounts 2016/17 mindful of E&Y's attendance and the imminent SGPC meeting.
- 3.3 As at 31 March 2017, total assets of the Merton Pension Fund were at £651m representing an increase of £120m from the previous year, due largely to favourable markets and investment income.
- 3.4 The Pension Fund is 94% funded (89% in 2013) and remains cashflow positive. The Fund achieved a total return of 22.7% relative to the benchmark return of 23%. The marginal -0.3% underperformance was against the background of volatile global markets in the twelve months to 31st March 2017. Similar margins of relative performance between the Fund and the

benchmark on a 3yr (10.7 v 11.4%) and 5yr (10.1% v 10.7%) basis respectively. Average employer contribution rate is 15.2%.

- 3.5 The Pension Fund's financial statements have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17', based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

4. PRESENTATION BY ERNST & YOUNG

- 4.1 The Chair welcomed Simon Mathers (SM), Senior Manager and Suresh Patel (SP), Executive Director from EY to the meeting and invited them to present their Draft Audit Report.
- 4.2 SM began by outlining the objectives of the external audit review and EY's approach to the exercise. He said that as at 30th August 2017, EY had almost completed their audit on Merton Pension Fund's 2016/17 financial statements in line with EY's audit plan. EY used a materiality of circa £10.3million. However, the materiality estimate changed to £13million when measured against actual year-end figures. Accordingly, the threshold for reporting audit discrepancies had changed from £530K to £650K.
- 4.3 There was some discussion about the basis of the materiality estimates. The Panel sought clarity on the approach and method of determining materiality. SM advised that the basis of EY's assessment had remained consistent at 2% of net assets.
- 4.4 SP gave an overview of the procedures performed by EY. He said there were a few outstanding matters to be finalised before an unqualified opinion could be issued on the Pension Fund financial statements. SM cautioned that there was the remote possibility of further amendment.
- 4.5 There was some further discussion on materiality and audit process. SM advised that the final Executive Director review of EY audit work was essentially done. Review of the final version of the annual report and accounts and subsequent events was almost complete. EY were awaiting receipt of the signed management representation letter.
- 4.6 SM advised the Panel that as at the end of August 2017, there no issues (unadjusted misstatements) they were required to notify the Panel. EY also did not expect to uncover any misstatements. SM concluded that from EY's perspective, there were no issues they wished to alert the SGPC.
- 4.7 There was some discussion about the new general ledger migration. CH advised that preparations were in hand to ensure the deadlines for 2017/18 are met.
- 4.8 The Panel resolved to recommend the LB Merton Annual Report and Accounts 2016/17 for approval by the Standards and General Purposes Committee at their meeting on 7th September 2017.

Action: The Panel requested that CH (Director of Corporate Services) convey the Panel's decision to the SGPC at their meeting on 7th September 2017.

4.9 The Chair thanked SM and SP for the presentation.

5.0 ANY OTHER BUSINESS

5.1 None

5.2 The Chair declared the meeting closed at 7:10pm

Date of Next Meetings:

6th December 2017

7th March 2018

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Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 3

Wards: All

Subject: Pension Fund Performance (1st July - 30th September 2017)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

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RECOMMENDATIONS

- a) Panel members are asked to note the content of this report, in particular, the market values and performance of the total Fund and component portfolios for the quarter ending 30th September 2017, attribution of the results and the market environment during the period.

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance at total Fund level, and of the individual fund managers, for the quarter to 30th September 2017.
- 1.2 The report gives the Panel a consistent basis on which to review the performance of the Fund as at 30th September 2017 and provide information to support future actions including implementation of the investment strategy, monitoring of the management arrangement and periodic rebalancing.

2.0 PERFORMANCE REPORT

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by State Street GS Performance Services provides useful analysis and insights of the Pension Fund activity and results for the quarter to 30th September 2017.
- 2.2 The report highlights the performance of the total Fund by asset class compared to the customised benchmark. It also includes comprehensive analysis of the performance of each manager against their specific benchmark and a comparison of performance over longer periods.
- 2.3 At 30th September 2017 the total Fund was valued at £661.6m, up by £7.7m (or 1.2%) since 30th June 2017.

3.0 Market Background/Outlook

3.1 Geopolitical and policy events remained the major talking points within investment markets over the quarter, as economic data was again positive and volatility within many markets was subdued. Following dovish statements from the European Central Bank and Bank of Japan, market guidance from the US Federal Reserve (Fed) meeting was the main focus as the summer ended. The Fed's more hawkish tone following its September meeting surprised markets, as it suggested it would begin trimming its USD 4.5 trillion balance sheet in October and also signalled another interest rate hike this year.

There was no change in policy from the Bank of England (BoE) over the quarter. While it is clear that an interest rate rise should be expected in the coming months, BoE Governor Mark Carney was keen to emphasise that rate increases are likely to be limited and gradual in a speech in September.

Economic data for the Euro area economy continues to show positive signs, despite continued strength in the Euro. Unemployment again fell and Q2 2017 GDP growth was confirmed at 2.5% on a seasonally adjusted annualised basis. In August, Manufacturing PMI readings in France, Italy and Spain surpassed those in Germany for the first time in 12 years.

4.0 PERFORMANCE OF THE FUND

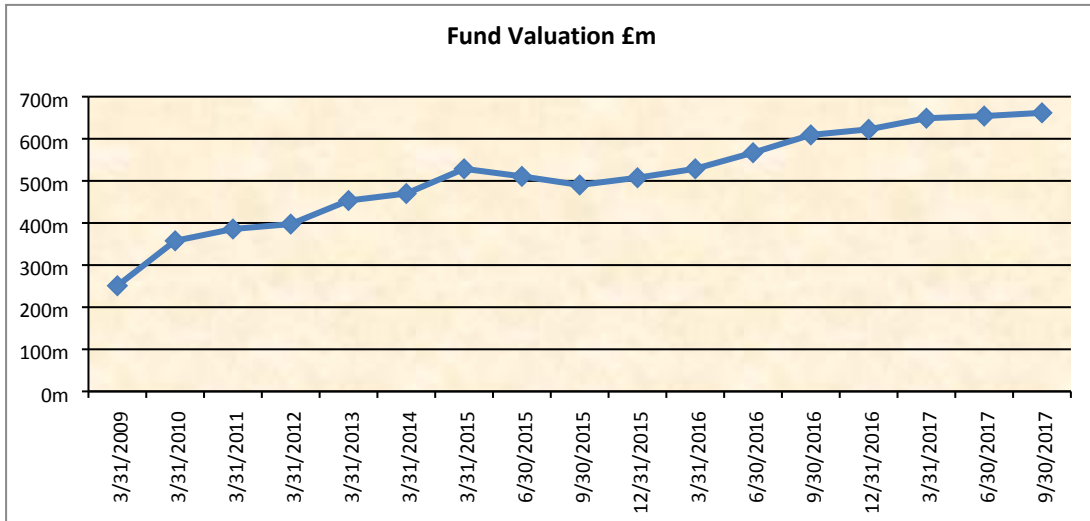
4.1 The table below shows the Fund's strategic asset allocation as at 30th September 2017 against the asset allocation of the benchmark. The Fund was overweight in Equities and underweight in Bonds and Property compared to the benchmark.

At 30/09/2017	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	73.7	22.5	0.4	3.4	100
Fund Benchmark	70.5	24.5	N/A	5.0	100
Difference overweight / (underweight)	3.2	(2)	N/A	(1.6)	-

4.2 The Fund underperformed the benchmark by 0.3% for the quarter ending 30th September 2017. It gained 1.1% compared to the benchmark return of 1.4% for the period.

4.3 The 0.3% underperformance was due to stock selection. The manager's results are discussed in more detail below in section 5.

4.4 The following graph illustrates the Fund's market value trend between 31st March 2009 and 30th September 2017. It shows that the market value of the Fund has appreciated by £411m or 164% over the 8 ½ yr. period.



4.5 The table below shows the market value of each Portfolio at the start and end of the period. The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of investments.

<i>Fund</i>	Market Value 30/06/17 £000	Capital Gain/loss £000	Income £000	Market Value 30/09/17 £000	% of Total Fund
UBS Passive Equity	290,732	4,355	1,276	296,517	45
Aberdeen Fixed Income	150,429	(2,005)	588	149,066	23
Aberdeen Active Equity	124,825	613	486	125,937	19
UBS Active Equity	65,298	1,001	581	66,950	10
UBS Property	15,581	217	121	15,919	2
BlackRock Property	7,074	111	41	7,230	1
Total External Fund	653,939	4,293	3,093	661,619	100
Internal Investments	150			150	
Total	654,089			661,769	

- 4.6 The following table provides detailed analysis of the return on the Fund's investment for the period relative to the benchmark.

Sector	Market Value	Market Value	Fund Return	Benchmark
	June 2017 £000	Sept 2017 %	Sept 2017 %	Sept 2017 %
UK Equities	282,928	287,889	1.7	2.1
Overseas Equities	196,754	199,625	1.9	2.3
• North America	67,033	67,964	1.4	1.4
• Continental Europe	54,544	56,167	3.2	3.7
• Total Far East	54,338	53,802	0.3	1.1
• Other Intl Equities	20,840	21,692	4.4	4.6
UK Bonds	37,827	37,445	(0.2)	(0.3)
Overseas Bonds	37,865	36,768	(2.0)	(1.5)
UK Index-Linked	74,599	74,713	(0.6)	(0.8)
Cash Alternatives	2,090	2,929	(0.6)	-
Property	21,876	22,250	2.3	2.4
Total	653,939	661,619	1.1	1.4

- 4.7 The Fund's assets are invested in various sectors and markets globally. During the quarter to 30th September 2017, all Equities yielded positive returns, but missed the benchmark. Property also yielded a positive return and also did not meet the benchmark. Fixed interest securities yielded negative returns

5.0 FUND MANAGER PERFORMANCE

UBS

- 5.1 UBS manages three portfolios for LB Merton Pension Fund.

(1) UBS Active Global Equity

- 5.2 The market value of the active equity portfolio managed by UBS was £67.0m (£65.3m in June 2017). During the quarter the manager's performance of 2.4% underperformed the benchmark of 2.5%.

The table below shows the movement during the period within the portfolio.

UBS Active Equity	30/06/2017		Purchases	Sales	Gain/Loss	Income	30/09/2017	
	£000	%					£000	£000
Total Equities	64,724	99	9,224	8,465	1,001	652	66,484	99
Cash & Cash Alternatives	574	1	9,117	9,224	-	-	466	1
Total	65,298		18,341	17,690	1,001	581	66,950	100

The manager's mandate is summarised in the following:

- For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the benchmark by 1% p.a.
- For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the benchmark by 2.0% p.a.

Performance of the UBS Active Equity over various time periods

<i>Period</i>	Manager %	Benchmark %	Variance %	Comment
Last 3 months	2.4	2.5	(0.1)	underperformed
Last 12 months	11.4	12.6	(1.2)	underperformed
Last 3 years	7.7	8.9	(1.2)	underperformed
Last 5 years	9.4	10.2	(0.8)	underperformed

(2) UBS Global Equity (Passive)

- 5.3 The passive equity portfolio was valued at £296.5m (£290.7m in June 2017). During the quarter the manager's performance of 1.9% underperformed the benchmark of 2.0%.

The table below shows the movement of assets during the quarter.

<i>UBS Passive</i>	30/06/2017		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/09/2017	
	£000	%					£000	%
UK Equities	160,223	55	4,670	3,380	1,973	1,312	163,486	55
North America	60,304	21	-	-	843	-	61,147	21
Continental Europe	35,373	12	-	-	1,308	-	36,681	12
Japan	17,438	6	-	-	155	-	17,592	6
Total Pacific (ex Japan)	17,736	6	-	-	76	-	17,812	6
Cash & Alternatives	(341)	-	4,810	4,670	-	1	(202)	-
Total	290,732	100	9,480	8,050	4,355	1,276	296,517	100

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	1.9	2.0	(0.1)	underperformed
Last 12 months	13.8	14.0	(0.2)	underperformed
Last 3 years	11.6	11.7	(0.1)	underperformed
Last 5 years	12.6	12.6	-	In-line

(3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £15.9m (£15.6m in June 2017). During the quarter the manager's performance of 2.2% underperformed the benchmark of 2.4%.

The table below shows the movement during the period within the portfolio.

<i>UBS Triton (Property)</i>	30/06/2017		Purchases	Sales	Gain/Loss	Income	30/09/2017	
	£000	%					£000	£000
Property	14,802	95	-	-	217	121	15,019	94
Cash & Cash Alternatives	779	5	121	-	-	-	900	6
Total	15,581	100	121	-	217	121	15,919	100

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager	Benchmark	Variance	Comment
	%	%	%	
Last 3 months	2.2	2.4	(0.2)	underperformed
Last 12 months	8.9	9.3	(0.4)	underperformed
Last 3 years	9.0	8.9	0.1	outperformed
Last 5 years	7.7	9.5	(1.8)	underperformed

Aberdeen Asset Management

- 5.5 Aberdeen manages two portfolios for the LB Pension Fund.

(1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £125.9m (£124.8m in June 2017). During the quarter the manager's performance of 0.9% underperformed the benchmark of 2.5%.

The following below shows the movement during the period within the portfolio.

<i>Aberdeen Active Equity</i>	30/06/2017		Purchases	Sales	Gain/ Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
UK Equities	66,516	53	4,386	3,720	69	571	67,251	54
North America	6,728	5	-	2	91	-	6,817	5
Continental Europe	19,171	15	714	815	416	49	19,486	16
Japan	10,722	9	-	342	(41)	-	10,339	8
Total Pacific (ex Japan)	8,443	7	-	342	(41)	-	8,059	6
Other Intl Equities	12,305	10	-	65	120	-	12,360	10
Cash & Alternatives	940	1	10,442	9,757	-	1	1,625	1
Total	124,825	100	15,541	15,043	613	486	125,937	100

- 5.7 Although this portfolio is an active mandate, 35% is held in pooled funds. The Manager is required to outperform the benchmark by 1.25% p.a over rolling 3yr periods.

This table shows the performance of the portfolio

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	0.9	2.5	(1.6)	underperformed
Last 12 months	12.7	14.8	(2.1)	underperformed
Last 3 years	9.5	11.2	(1.7)	underperformed
Last 5 years	9.8	11.6	(1.8)	underperformed

(2) Aberdeen (Bonds)

- 5.8 The market value of the bonds portfolio was £149.1m (£150.4m in June 2017). During the quarter the manager's performance of (1.0%) underperformed the benchmark of (0.9%).

The table below shows the movement during the period within the portfolio.

<i>Aberdeen (Bonds)</i>	30/06/2017		Purchases	Sales	Gain/ Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
UK Bonds	37,827	25	421	341	(462)	392	37,445	25
Overseas Bonds	37,865	25	-	329	(769)	-	36,768	25
UK Index Linked	74,599	50	912	25	(773)	308	74,713	50
Cash & Alternatives	138	0	1,374	1,373	-	-	139	0
Total	150,429	100	2,708	2,067	(2,005)	588	149,066	100

The manager is required to outperform its benchmark by 0.75% p.a. over a rolling three year period.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	(1.0)	(0.9)	(0.1)	underperformed
Last 12 months	(4.1)	(4.5)	0.4	outperformed
Last 3 years	9.4	9.7	(0.3)	underperformed
Last 5 Years	7.7	7.7	-	In-line

BlackRock (Property)

- 5.9 The market value of the property portfolio managed by Blackrock was £7.2m (£7.1m in June 2017). During the quarter the manager's performance of 2.2% underperformed the benchmark of 2.4%.

The following table below shows the movement in the portfolio during the period.

<i>Blackrock</i>	30/06/2017		Purchases £000	Sales £000	Gain/Loss £000	Income £000	30/09/2017	
	£000	%					£000	%
Property	7,074	100	45	-	111	59	7,230	100
Cash & Cash Alternatives	-	-	45	45	-	-	-	-
Total	7,074	100	90	45	111	41	7,230	100

The manager is required to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial/warehouse sectors.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	2.2	2.4	(0.2)	underperformed
Last 12 months	7.3	9.3	(2.0)	underperformed
Last 3 years	6.4	8.9	(2.5)	underperformed

6. OTHER ISSUES AFFECTING THE FUND

- 6.1 Update on the implementation of the pension fund investment strategy, introduction of MiFID II and Training Plan for the Pension Fund Advisory Panel and Merton Pension Board are the subjects of separate reports to this meeting.

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 All relevant implications are included in the report.

8. LEGAL AND STATUTORY IMPLICATIONS

8.1 All relevant implications are included in the report.

9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

9.1 N/A

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

11. BACKGROUND PAPERS

11.1 StateStreet Analytics performance report and individual Fund Managers investment reports.

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Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 4

Wards: All

Subject: Update on Pension Fund Investment Strategy Implementation

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

This document is a public document

Recommendations:

- a) To note the content of this report. Members of the Pension Fund Advisory Panel (PFAP) are asked to read this report in conjunction with the separate reports titled "Update on London CIV" and "Markets in Financial Instruments Directive (MiFID II)" to this Panel.
- b) To note the glacial pace in implementing the Pension Fund investment strategy approved by PFAP on 8th March 2017 primarily due to the delay in suitable products being developed by the London CIV.
- e) To agree to officers, in consultation with JLT, pursuing collaboration with other London Boroughs to develop alternative solutions to access (illiquid) asset classes, including Private Debt, Multi Asset Credit and Infrastructure, to mitigate the risk of London CIV further delaying or failing to make (suitable) products available in line with LB Merton investment strategy implementation plans.
- f) To note that Aniket Bhaduri (JLT) will attend this meeting to discuss their latest thinking around the investment strategy implementation in addition to providing training to the Panel.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Pension Fund Advisory Panel on the implementation of the Pension Fund investment strategy agreed by the Panel at their meeting on 8th March 2017.
- 1.2 Officers and JLT, the Pension Fund advisers, are continuing to explore options for selecting suitable fund managers either via the London CIV or through a competitive OJEU (or Non-OJEU) process alone or jointly with other London LGPS Funds, giving regard to the required practice under the pooling regime.

- 1.3 This report charts progress to date and seeks the Panel's decisions in the changed environment. This report also discusses latent issues with the London CIV and the impact on Boroughs to implement their own pension fund investment strategy quickly via the CIV.

2. PROGRESS TO DATE

- 2.1 The Council published its Investment Strategy Statement (ISS) on 30th March 2017, ahead of the statutory 1st April 2017 deadline, following the Panel's decision to adopt a new strategy on 8th March 2017. Officers and JLT have been seeking to implement the agreed strategy as follows:

- (i) Review the CIV's offering on fixed income and preferably select from their sub-funds. If products are unavailable or deemed unsuitable for LB Merton then go to the market
- (ii) Review the CIV's product in infrastructure investment and assess whether it meets the requirement of the Merton Fund
- (iii) Look to the CIV for Property and assess their offer before making a decision
- (iv) Review the CIV's other illiquid sub-funds including Private Debt, Multi Asset Credit and other alternative investments before making any decision to invest
- (v) Select active funds from the CIV as appropriate; and
- (vi) Procure passive products directly

- 2.2 Generally, implementation of the investment strategy has been slow due to the delay in London CIV developing suitable products. However, there has been significant progress in reviewing Equity and other liquid products offered by the CIV whilst clarifying the CIV's proposals around the more complex illiquid investments. Officers are continuing to work with JLT to review products offered by the CIV against those available elsewhere to determine their suitability for L.B Merton. This is also to ensure that the CIV's approach and product design are compatible with Merton's investment objectives and risk appetite and that there is strategic fit with the Council's arrangement.

- 2.3 Also, there has been the additional challenge of asymmetry of information with respect to the design and suitability of some of the products offered by the CIV, for example, multi factor investing being an efficient alternative that is more of an absolute return approach rather than designing portfolios relative to benchmarks.

- 2.4 In addition, options to reflect environmental, social and governance (ESG) in the Council's segregated and pooled investments in public and private markets in a prudent manner have been evaluated to ensure compliance with current

regulations. For clarity, the new investment strategy will deliver a low carbon arrangement when implemented.

- 2.5 Officers and JLT met with the existing fund managers (Aberdeen, UBS and BlackRock) in July 2017 to review current mandates, evaluate their capabilities, fee proposals, typical transition costs, ability to transfer assets in-specie and knowledge and experience of LGPS pooling.
- 2.6 In August 2017, JLT conducted a review of the Diversified Growth Fund products offered by London CIV including combination analysis of the four fund managers (Baillie Gifford, Ruffer, Pyrford Global and Newton) used by the CIV.
- 2.7 It remains the objective to recommend and secure PFAP approval to a specific transition programme by Spring 2018.
- 2.8 The following mix of broad and targeted sub-funds are currently open on London CIV:
 - Global Equity Alpha - Allianz Global Investors
 - Diversified Growth – Baillie Gifford
 - Global Alpha Growth – Baillie Gifford
 - Global Total Return – Pyrford International
 - Absolute Return – Ruffer LLP
 - Real Return – Newton Investment Management
 - UK Equity Fund – Majedie Asset Management
 - Global Equity – Newton Investment Management
 - Global Equity – Longview Partners (Guernsey) Ltd (**Note:** This is now closed)
 - Income Equity – EPOCH Investment Partners, Inc
- 2.9 Currently, London CIV have no illiquid investment products such as Private Debt, Multi Asset Credit, Infrastructure and Property.
- 2.10 There are other issues such as complementarity of fund managers and available capacity to consider and in this respect, it is worth mentioning that the Global Equity product managed by Longview has already reached capacity with just a few Boroughs investing in the product. The pattern of investing varies amongst London Boroughs. It means that other Boroughs seeking to invest in the Longview sub-fund will not be able to do so.

3. UPDATE ON ASSET CLASSES

3.1 Passive equity:

Passive equity investments will remain outside the London CIV. JLT are awaiting responses/clarifications from UBS on specific matters to enable JLT to

determine the best way forward and make a firm recommendation to the Panel in March 2018.

3.2 Active equity:

Implementation of the active equity mandate will be via London CIV. JLT will make their final recommendation on manager selection to the Panel in March 2018.

3.3 Fixed Income:

It was considered prudent to wait for the CIV to launch Fixed Income by no later than September 2017. Unfortunately, the CIV is way behind schedule and some Boroughs including LB Merton are actively pursuing collaboration to develop solutions in the illiquid space to mitigate the risk of protracted delay or possible failure to deliver suitable products by Spring 2018.

3.4 Property:

London CIV plan to develop high return real estate products. However, the timescale for this is unclear at the moment. The Council currently has a good arrangement for Property so there is no urgency in this area. Notwithstanding, JLT and officers will share their thinking on Property with the Panel at this meeting.

3.5 Infrastructure:

There is mounting pressure on London CIV to engage effectively with Boroughs to develop suitable Global Infrastructure products. To mitigate the risk of further delay by the CIV, some authorities led by LB Merton are actively considering collaborating to develop solutions. High level update on the implementation of this asset class will be provided by JLT and officers at this meeting.

3.6 Multi Asset

High level update on the implementation of this asset class will be provided by JLT and officers at this meeting.

3.7 Comprehensive discussions have been taking place amongst Boroughs to understand each others strategy, between Boroughs and their respective advisers to agree their position prior to evaluating CIV's offering. Meetings have also been held between advisers and London CIV and between the CIV and Boroughs. Under pooling, the risk of underperformance remains with the Boroughs so it is the case of 'buyer beware' when selecting products on offer by the CIV.

4. NEXT STEPS

4.1 The next steps and proposed timeline for activity is given below:

Activity	Date	By Whom /Dependency
Provide training on investment strategy asset classes to the Panel	6th December 2017	JLT/Officers
Update the Panel on Investment Strategy implementation work so far	6th December 2017	JLT/Officers
JLT to make final recommendation on CIV products to the Panel	7th March 2018	JLT/Officers
Presentation of transition proposal to the Panel	7th March 2018	JLT/Officers
Preparatory work for transition (transfer of assets) to London CIV	Mar – April 2018	JLT/Officers/CIV

5. ADVICE OF THE HEAD OF COMMERCIAL SERVICES

5.1 Discussion is ongoing about which of the procurements detailed above, not done via the CIV, would be caught fully by the EU rules and hence require a full tendering process. However in any event, the Council's constitution would require something essentially as rigorous for this scale and profile of contract.

5.2 Internal procurement resources can manage the procurement process itself, but investment consultants will be required to assist with the evaluation of technical aspects of the bids received. A tender process will be required whereby the consultants are appointed by the Director of Corporate services.

6. CONSULTATION UNDERTAKEN OR PROPOSED

6.1 N/A

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

7.1 The investment strategy chosen will affect the return on the Fund, its actuarial valuation and the cost to the Council.

7.2 There will be a one-off cost in procuring investment consultants to support the procurement process, estimated to be under £100k. This will be charged to the pension fund

8. LEGAL AND STATUTORY IMPLICATIONS

8.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. It makes investment via LGPS Pools compulsory and the Secretary of State has reserved powers of intervention where authorities are deemed non-compliant.

8.2 Contracts resulting from the proposal chosen will have legal implications for the Fund. Whichever procurement route is followed and whether any of the procurements fall within the EU regulations, or not, there is still the need to demonstrate fairness and transparency. There will also be a need for Legal input in drafting or approving contract terms and conditions. If use of a framework is pursued, then there is likely to be an Access Agreement required, which will also necessitate Legal input. Legal comments on the use of frameworks will be sought if required and the position on EU requirements will be resolved prior to tendering.

9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

9.1 N/A

10. CRIME AND DISORDER IMPLICATIONS

10.1 N/A

11. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1 Use of the CIV (if possible) would enable a quicker, simpler process. However, delay in the CIV providing suitable products will undermine the Council's ability to implement its pension fund investment strategy.

12. APPENDICES

1. L.B Merton Pension Fund Investment Strategy Review – Report by JLT
2. L.B Merton Pension Fund Draft Investment Strategy Statement (ISS)

13. BACKGROUND PAPERS

1. Report to PFAP on 8th March 2017 and in-house material
2. Various information regarding London CIV and discussions with the CIV

Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 5

Wards: All

Subject: UPDATE ON LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

This document is a public document

Recommendations:

- a) Note the content of this report. The report is related to the separate reports to this Panel titled "Update on Pension Fund Investment Strategy Implementation" and "Markets in Financial Instruments Directive (MiFID II)".
-

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Pension Fund Advisory Panel on the progress of the London CIV including its activity, key personnel, fund management arrangement and other developments since the last update to the Panel in March 2017.
- 1.2 Pooling LGPS assets is compulsory under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force on 1st November 2016 and the London CIV is the vehicle through which London boroughs seek to comply with the regulatory requirement.
- 1.3 To date, the CIV has launched a range of Global Equity, UK Equity and Multi-Asset/Total Return products. All sub-funds are open for investment except for one Global Equity mandate managed by Longview which has already reached capacity (fully subscribed).

2. CIV UPDATE

- 2.1 London CIV is set to launch 3 new sub-funds; Henderson Emerging Markets, Epoch Global Equity Income and RBC Sustainable Equity before the end of December 2017. The proposed offering will be seeded by LB Lambeth, LB Hillingdon and LB Hackney respectively. The new sub-funds will be in addition to the aforementioned product managed by Longview.

- 2.2 The CIV believe there is significant appetite amongst Boroughs for core and low carbon investment sub-funds and will accelerate plans for delivering suitable products as soon as possible.
- 2.3 On 13th September 2017, the CIV held their second Global Equity Information Day and attendees met with Henderson, Epoch and RBC. Unfortunately, the event was not well attended.
- 2.4 The CIV is making some progress on Fixed Income and Cashflow Strategies with discussions and work on the investment fund design based on boroughs' priorities at an advanced stage. The Fixed Income Working Group (FIWG), in which LB Merton is actively involved, has been assessing the CIV's preferred fund manager list and presentations from the shortlisted Liquid managers are scheduled to take place on 1st and 4th December 2017 and it is anticipated that the final selection could be recommended to the Board for sign-off by mid-December.
- 2.5 The CIV is pushing to make available some Fixed Income products on the more liquid end of the spectrum early in 2018 with additional sub-funds developed as soon as possible thereafter. The offering will include; Global Bonds, Liquid Loans and Multi Asset Credit (Liquid).
- 2.6 The more illiquid Fixed Income products require the CIV to obtain the Financial Conduct Authority's (FCA) approval, which in turn requires the agreement of all London Boroughs as shareholders. The proposal for the FCA extension of permissions has been sent to all Shareholder Representatives. At the time of writing, it was understood that all Boroughs had consented to allow initial work on the FCA application process to commence. The CIV expect the FCA process will take three months.
- 2.7 In response to pressure from some Boroughs including Merton, the CIV are trying to dedicate internal resource to develop Infrastructure products. The CIV will seek to scope the project and unveil the medium-term strategy for addressing this asset class over the coming months. The first meeting of the Infrastructure Working Group (IWG) was held at the end of September 2017. The meeting involved Boroughs (including Merton) seeking immediate access to the asset class. There was consensus for global unlisted, income focussed products that concentrated on core/core-plus assets with open-ended and closed-ended options to cater for Boroughs' different approaches and financial circumstances.
- 2.8 The slow pace in developing products is of concern to many Boroughs seeking to implement their strategy via London CIV. Delay in launching sub-funds is the result of lack of resources (personnel and systems/processes) to support timely delivery of new products. To mitigate the risk of the CIV failing to deliver illiquid investment products, some Boroughs are seeking to collaborate on Private Debt and Infrastructure solutions (fund manager procurements) outside the CIV with LB Ealing and LB Merton leading respectively.

- 2.9 There have been significant changes in personnel in the last few months. Following the departure of the Clients Relations Director and the Chief Executive replacements have been hired, the latter on an interim basis. Other recent appointments include Head of Equities, Interim Director of HR and Fund Accountant. The CIV is also actively recruiting to a number of vacant roles in the organisation including Chief Risk Officer and Investment Team Assistant.
- 2.10 The process for London Boroughs opting-up as Professional clients with London CIV is in progress with almost all Boroughs already having submitted the necessary documentation to the CIV for assessment. The opt-up process must be completed before the 3rd January 2018 deadline.
- 2.11 Following a procurement exercise, Willis Towers Watson have been appointed to carry out a governance review. A survey has been sent to over 100 'stakeholders' and responses will inform the findings and recommendations to be discussed and finalised before the end of December 2017.

3. LONDON BOROUGH OF MERTON'S ACTIVITY WITH LONDON CIV

- 3.1 LB Merton is yet to transfer assets to London CIV. The outcome of on-going work with the CIV and other collaboration effort amongst Boroughs detailed above in this report will help the Panel to develop a pragmatic approach to pooling assets to ensure the right balance between maintaining a strong risk management, performance, cost and governance on the one hand and demonstrating commitment to pooling on the other.

4. CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 N/A

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 5.1 The investment strategy chosen will affect the return on the Fund, its actuarial valuation and the cost to the Council.

6. LEGAL AND STATUTORY IMPLICATIONS

- 6.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. The new Regulations clarify how LGPS funds should manage and invest their assets and their relationship with investment pools. The Regulations give the Secretary of State power of Direction to intervene in an administering authority's investment function if it failed to bring forward credible proposals for pooling

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 7.1 N/A

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 9.1 The use of the CIV would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on the Council's ability to have the new allocations and fund managers in place during 2017/18.

10. APPENDICES

None

11. BACKGROUND PAPERS

1. Notes from LB Merton/London CIV officers' meetings
2. London CIV communication

Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 6

Wards: All

Subject: IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MiFID II)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

This document is a public document

Recommendations:

- a) To note the content of this report and in particular, the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.
- b) To agree to the immediate commencement and progress of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
- c) To acknowledge and agree that the Authority, in electing for Professional Client status, will forgo the protections available to retail clients attached as **APPENDIX 1**.
- d) To agree to give the Director of Corporate Services delegated retrospective responsibility for the purposes of completing and lodging applications and determining the basis of the application as either full or single service.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report outlines the impact of the implementation of the Markets in Financial Instruments Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018 and that this report recommends that the Pension Fund Advisory Panel (PFAP) at this meeting agree, albeit retrospectively, that elections for professional client status should be made by the Director of Corporate Services on behalf of the authority immediately.
- 1.2 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they

satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

- 1.3 Following the introduction of the Markets in Financial Instruments Directive 2014/65 ("MiFID II") from 3rd January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a 'per se professional client' or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.
- 1.4 Furthermore, the UK Financial Conduct Authority (FCA) has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

2. POTENTIAL IMPACT

- 2.1 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.
- 2.2 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- 2.3 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases fund managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

3. ELECTION FOR PROFESSIONAL CLIENT STATUS

- 3.1 MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be

met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

- 3.2 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.
- 3.3 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 2**.
- 3.4 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.
- 3.5 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.
- 3.6 A flowchart of the process is attached as **APPENDIX 3** and the letter and information templates are attached as **APPENDICES 4 and 5**.
- 3.7 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- 3.8 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for

example, if the membership of the Pension Fund Advisory Panel changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

4. LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

4.1 LGPS Pools such as the London CIV will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

4.2 In some circumstances in particular where the pool only offers access to fund structures such as ACS, the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

4.3 Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

5. NEXT STEPS

5.1 In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client have been submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

5.2 This process has commenced in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.

5.3 As mentioned above in paragraph 1.1 the FPAP are asked to agree to grant the necessary retrospective delegation to the Director of Corporate Services to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

6. CONSULTATION UNDERTAKEN OR PROPOSED

6.1 N/A

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 The investment strategy chosen will affect the return on the Fund, its actuarial valuation and the cost to the Council.

8. LEGAL AND STATUTORY IMPLICATIONS

- 8.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2016 came into force on 1 November 2016 superseding the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2009 (as amended). The Regulations give the Secretary of State power of intervention.
- 8.2 MiFID II Directive imposes strict new requirements on administering authorities with potential financial consequences for loss of administering authorities' current client status.

9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 9.1 N/A

10. CRIME AND DISORDER IMPLICATIONS

- 10.1 N/A

11. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 11.1 The use of the CIV, if suitable, would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on the Council's ability to have the new allocations and fund managers in place by the end of 2017/18. Use of the CIV is also contingent upon the authority maintaining its current professional client status when MiFID II comes into effect from 3rd January 2018.

12. APPENDICES

1. Retail client protections
2. Summary of FCA policy statement
3. Opt up process flowchart
4. Opt up letter template
5. Opt up information template

13. BACKGROUND PAPERS

1. Other reports to this Board
2. SAB Guidance

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Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 7

Wards: All

Subject: PENSION FUND RISK REGISTER

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

This document is a public document

Recommendations:

- a) To note the content of this report and the Pensions risk register attached to this report and to further note the managed and unmanaged risks, control measures and responsibilities.
- b) To read this report in conjunction with the other reports titled "Update on Pension Fund Investment Strategy Implementation", "Update on London CIV", "Markets in Financial Instruments Directive (MiFID II)" and "Panel Training".
- c) To consider the attached pensions risk register by exception.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to present the pensions risk register for consideration by this Panel as part of its governance and risk management responsibilities. The Committee is required to review, consider and decide on the risks inherent in administering the Scheme and the Pension Fund both at total Fund level and individual fund managers.
- 1.2 The LGPS is continuing to experience fundamental reforms in its membership, benefits, investments and governance arrangements. The wave of regulatory changes and pressure from frequent Government reform announcements has added to the overall risk faced by administering authorities including time pressure in securing compliance with new Regulations.
- 1.3 The introduction of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to supersede Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) imposed tough new requirements on administering authorities.
- 1.4 The implementation of MiFID II from 3rd January 2018 raises the risk to administering authorities of becoming retail clients instead of their existing automatic professional client status.

2. PENSIONS RISK REGISTER

- 2.1 LGPS administering authorities are continuing to face significant regulatory, financial, economic, operational, investment and governance risks. The risk register identifies current key risks involved in administering the Scheme and managing the Pension Fund and enables the Panel to consider the risks, assess their significance, including the likelihood of occurring and severity of impact. Risks are evaluated on a consistent basis with the overall rating/score being the product of likelihood and impact values.
- 2.2 One new area of concern amongst administering authorities is the advent of Markets in Financial Instruments Directive (MiFID II) from 3rd January 2018. Imposition of challenging deadlines on authorities to secure compliance with tough new requirements based on Regulations that are not fully developed. This increases the risk of non-compliance and could also undermine service delivery and drive up costs. MiFID II is the subject of a separate report to this Panel. The report discusses amongst other things, steps to mitigate the risk.
- 2.3 Another important ongoing risk facing administering authorities is Brexit. As yet, the real (longer-term) impact is difficult to assess.
- 2.4 The risk register also highlights pooling as a major risk. This is the risk that London CIV, like any other fund manager, fails to deliver suitable investment products and or the anticipated performance or cost benefits. Update on London CIV is the subject of a separate report to this Panel. The report discusses measures to manage the risk.

3. CONSULTATION UNDERTAKEN OR PROPOSED

- 3.1 N/A

4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 4.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

5. REGULATORY AND SPECIFIC LEGAL MATTERS

- 5.1 These are contained in the report.

6. COMPLIANCE WITH COUNCIL POLICIES EXTRANEOUS TO PENSION PROVISION

- 6.1 Please see 5 above.

7. CRIME AND DISORDER IMPLICATIONS

- 7.1 N/A

8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

8.1 N/A

9. APPENDICES

1. Pensions risk register

10. BACKGROUND PAPERS

1. Pensions risk register
2. Other reports to this Panel

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Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 8

Wards: All

Subject: Panel Training

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

This document is a public document

Recommendations:

- a) To note that substantial part of this meeting will be devoted to training
- b) To read this report in conjunction with the separate reports to this meeting titled "Update on the Pension Fund Investment Strategy Implementation" and Markets in Financial Instruments Directive (MiFID II)".
- c) To note that Aniket Bhaduri (JLT) will attend this meeting to provide training
- d) To agree that officers develop a Training Policy in consultation with JLT and bring a draft to the Pension Fund Advisory Panel meeting to be held on 7th March 2018 for consideration and approval, subject to any changes.
- e) To note the outline of the proposed Training Plan for 2018/19 for consideration and approval, subject to any changes.
- f) To note that the Work Programmes for the Pension Fund Advisory Panel and Merton Pension Board will be redesigned and the Panel is asked to comment on the current 2017/18 Work Programmes appended to this report.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform the Panel that training will be delivered at this meeting by JLT the investment adviser to the Pension Fund.
- 1.2 This report also outlines the Training Plan for the Pension Fund Advisory Panel (PFAP) and Merton Pension Board (MPB) for 2018/19 for consideration and approval, subject to any changes.

2. NEED FOR TRAINING

- 2.1 Under the Regulations, the Pension Fund Advisory Panel and Local Pension Board must receive appropriate training to ensure that they have the required skills and understanding to carry out their duties effectively.

- 2.2 LB Merton as administering authority for Merton Pension Fund is committed to training for PFAP and MPB involved in the governance of the Fund to ensure they are well equipped to carry out stewardship and supporting role respectively. Training will include regular briefing on new developments in the LGPS, pension fund investment strategy and performance monitoring.
- 2.3 The Pension Fund investment strategy is being implemented. PFAP Members require knowledge and understanding to make informed and consistent decisions on complex investment and financial matters with legal and regulatory implications.
- 2.4 The Panel is required to make decisions on investment matters from time to time. Training will help Panel Members to discharge this duty and further equip them to provide effective governance and monitoring of the investment arrangement of the Pension Fund.
- 2.5 The LGPS Scheme Advisory Board (SAB) actively encourage administering authorities to support Panel and Board members to meet their knowledge and skills obligations.

3 SCOPE OF THE PROPOSED TRAINING ON 6th DECEMBER 2017

- 3.1 The proposed training on 6th December 2017 will focus on risk and return, liabilities, investment strategy and asset classes the Pension Fund invest in. The training will also cover strategy implementation including but not limited to mandate development, fund manager procurement and pension fund governance and monitoring.

4. PROPOSED TRAINING POLICY

- 4.1 The proposed Training Plan will set out how the PFAP and MPB will be supported to gain the required knowledge and skills during 2018/19 and how their level of understanding will be assessed to ensure compliance with the Regulations. Also, the advent of MiFID II puts significant importance on assessment of knowledge and skills of decision-making groups and individuals operating in LGPS investment environment.
- 4.2 The PFAP and MPB Work Programmes which form the basis of their respective agendas and framework to monitor their effective will be redesigned for 2018/19 to ensure consistency with the proposed Training Policy. The current Work Programmes for 2017/18 are appended for comment.

5. KNOWLEDGE AND SKILLS FRAMEWORK

5.1 The areas of knowledge and skills identified as core requirements for those with decision-making responsibility (PFAP) and monitoring and governance support (MPB) are:

- LGPS Regulations and governance
- Fund Accounting and auditing standards
- Procurement of pension fund services and relationship management
- Types of investments
- Investment strategy development and monitoring
- Financial markets and products knowledge
- Investment performance and risk management
- Environmental, social, governance (ESG)
- Actuarial methods, standards and practices
- Pension administration

5.2 PFAP and MPB members are expected to have a collective understanding, to support effective decision-making and scrutiny respectively, whilst senior officers should be able to demonstrate expertise in the key areas of knowledge and skills above in paragraph 5.1.

6. PENSION FUND ADVISORY PANEL SPECIFIC REQUIREMENTS

6.1 Members of the Pension Fund Advisory Panel require knowledge and understanding of:

- The Council's responsibilities as an administering authority or scheme manager of Merton Pension Fund;
- The fundamental requirements relating to pension fund investments;
- The operation and administration of the Pension Fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of Merton Pension Fund

7. PENSION BOARD SPECIFIC REQUIREMENTS

7.1 The Regulations require Pension Board members to have the capacity to carry out their role to assist the administering authority in its role as scheme manager.

7.2 Board members must comply with the statutory requirement under Section 248A of the Pensions Act 2004 to be familiar with some matters and have knowledge and understanding in other matters. Accordingly, Board members must be conversant with:

- The Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

and have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

7.3 Board members will receive training covering the role of a local pension board and understand the duties and obligations of an administering authority, including funding and investment matters.

8. CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

8.1 CIPFA Knowledge and Skills Framework sets out the skill set for those responsible for pension scheme financial management and decision-making in relation to understanding and awareness of regulations, workings and risk in managing LGPS pension fund.

8.2 CIPFA's Code of Practice encapsulates the requirements for the acquisition, retention and maintenance of appropriate knowledge and skills. It recommends that:

- administering authorities formally adopt the CIPFA Knowledge and Skills Framework
- ensure the development of appropriate policies and procedures to meet the requirements of the Framework or an alternative training programme; and publish how the arrangements have been implemented every year.

8.3 LB Merton as administering authority for Merton Pension Fund has adopted the CIPFA Code of Practice. The training policy will set out the approach the authority will take in order to comply with the Code.

9. CONSULTATION UNDERTAKEN OR PROPOSED

9.1 N/A

10. FINANCIAL, RESOURCES AND PROPERTY IMPLICATIONS

10.1 The investment strategy chosen will affect the return on the Fund, its actuarial valuation and the cost to the Council. The expenses of the Committee are regarded as part of the costs of administration of the Pension Fund. Accordingly, any costs would be charged to the Pension Fund as part of the costs of administration of the Fund.

11. LEGAL AND STATUTORY IMPLICATIONS

11.1 Under Section 248A of the Pensions Act 2004 and the Public Services Pensions Act 2013 pension fund committees are required to have knowledge and understanding of the law on pensions, the role of the committee, scheme funding and investment principles and administration of scheme benefits.

12. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

12.1 N/A

13. CRIME AND DISORDER IMPLICATIONS

13.1 N/A

14. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

14.1 N/A

15. APPENDICES

1. PFAP Work Programme 2017/18
2. MPB Work Programme 2017/18

16. BACKGROUND PAPERS

1. CIPFA Technical Knowledge and Skills Framework for Local Pension Boards
2. Public Service Pensions Act 2013
3. The Pensions Regulator (TPR) Code of Practice for Public Service Schemes
4. Local Government Pension Scheme (LGPS) Pension Board Guidance

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