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Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Patricia Hay-Justice (Vice-Chair)
Councillors Simon Brew, Simon Hall, Maddie Henson, Yvette Hopley, Dudley Mead, Wayne Trakas-Lawlor, Gill Driver, Peter Howard and Isa Makumbi

Reserve Members: Jamie Audsley, Robert Canning, Sherwan Chowdhury, Luke Clancy, Pat Clouder, Badsha Quadir and Donald Speakman

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 5 December 2017** at **10.00 am** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

James Haywood
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www.croydon.gov.uk/meetings
Monday, 27 November 2017

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. **Apologies for Absence**

   To receive any apologies for absence from any members of the Committee.

2. **Minutes of the Previous Meeting** (Pages 5 - 8)

   To approve the minutes of the meeting held on Tuesday 19 September 2017 as an accurate record.

3. **Disclosure of Interests**

   In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. **Urgent Business (if any)**

   To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. **Adoption of Risk Management Policy** (Pages 9 - 22)

6. **Review of Risk Register** (Pages 23 - 28)

7. **Annual Report on the Progress of Asset Transfer to the London CIV** (Pages 29 - 32)

8. **MiFID II Compliance Requirements** (Pages 33 - 36)

9. **Forward Plan** (Pages 37 - 40)

10. **Progress Report for Quarter Ended 30 September 2017** (Pages 41 - 50)

11. **Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

PART B

12. Part B Minutes of the Previous Meeting (Pages 51 - 52)

To approve the Part B minutes of the meeting held on Tuesday 19 September 2017 as an accurate record.

13. Part B Progress Report for Quarter Ended 30 September 2017 (Pages 53 - 86)

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Pension Committee

Meeting held on Tuesday 19 September 2017 at 10:00am in the Council Chamber, the Town Hall, Katharine Street, Croydon CR0 1NX

DRAFT
MINUTES - PART A

Present:	Councillor S Brew, Ms. G Driver, Councillor S Hall, Councillor P Hay-Justice (Vice Chair), Councillor M Henson, Councillor Y Hopley, Mr. P Howard, Mr. I Makumbi, Councillor D Mead, Councillor A Pelling (Chair), Councillor J Wentworth
In attendance:	Elizabeth Jackson (Grant Thornton), Matthew Hallett (Pension Fund Investment Manager), Nigel Cook (Head of Pensions and Treasury), Mike Ellsmore (Chair, Local Pension Board), Daniel Carpenter (Aon Hewitt), Richard Simpson (Executive Director, Resources).
Apologies:	None received.

MINUTES - PART A

A1 Minutes

The minutes of the last meeting held on Tuesday 20 June 2017 were approved as a correct record of that meeting.

A2 Disclosure of Interest

Councillor Hay-Justice disclosed that her husband paid into an academy pension scheme.

A3 Urgent Business (if any)

There was no urgent business.

A4 Exempt Items

The allocation of business between Part A and Part B of the agenda was agreed as stated.

A5 Progress Report for Quarter Ended 30 June 2017

The Head of Pensions and Treasury introduced the report to the Committee. The Committee discussed the recent meeting held with Legal and General. Arising from that meeting the committee had a detailed discussion regarding a new, larger pooled fund that it was proposed the scheme's investments were moved to. By the nature of the larger pooled fund, low cost fx hedging would be available on that fund, if so required. After a detailed consideration of the relevant factors, there was consensus among Committee Members that the investments should be moved to the Legal and General pooled ex-tobacco fund.

The Committee also discussed whether to use Wells Fargo for the Fund's emerging markets investments, particularly in the context of further new fraud scandals at the company. After lengthy questioning on the issue, the Committee noted that officers had previously been given discretion to fulfil the Committee's asset allocation strategy as regards to emerging markets investments. The Committee agreed that an opportunity for all members to meet with Wells Fargo would be useful ahead of a further discussion at the next Committee meeting on the matter. The Chair of the Committee confirmed that a formal letter would be written to Wells Fargo to receive assurances over their governance arrangements in relation to the recent scandal.

The Committee **NOTED** the contents of the report.

A6 **Scheme Advisory Board Consultations**

The Head of Pensions and Treasury introduced the report and the Committee **RESOLVED** that:

1.1 The objectives set out in paragraph 3.4 of the report should be those adopted by the project that the Board will undertake;
1.2 The arrangements relating to the forum set out in paragraph 3.8 of the report are agreed.
1.3 That a session, such as set out in paragraph 3.9 of the report, would be helpful.

A7 **Changes to State Retirement Age**

The report for the item was introduced by the Head of Pensions and Treasury and the Committee **NOTED** the contents of the report.

A8 **Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

The Head of Pensions and Treasury introduced the report to the Committee.

The Committee **RESOLVED**:
1.1 To note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018;

1.2 To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;
1.3. That, in electing for professional clients status, the Committee acknowledges and agrees to forgo the protections available to retail clients attached at Appendix A;
1.4 To delegate to the Executive Director of Resources (Section 151 Officer) the authority to make applications for elected professional client status on the authority's behalf and to determine the nature of the application on either a full or single service basis.

A9 **Annual Report and Local Pension Board Report**

The Pension Fund's auditor from Grant Thornton introduced the audit finding report at Appendix B. The Chair of the Pension Board introduced the Board's annual report, attached at Appendix C, and the Committee requested that the Board's work on costs transparency would be made available to Committee Members.

The annual report (Appendix A) was circulated to Committee Members and introduced by the Head of Pensions and Treasury. Committee Members debated how best to communicate such Fund documents to scheme members who were not able to access the internet. The Committee agreed that the next time the membership were communicated with via letter, information on how to access such documents would be provided as part of the correspondence.

The Committee **RESOLVED** to:
1.1 Approve the submitted 2016/2017 Pension Fund Annual Report for publication on the Croydon Pension Fund's website.
1.2 Note the contents of the Audit Findings Report from the Fund's auditors.
1.3 Note the Annual Report of the Croydon Local Pension Board.

A10 **Election of Pensioner Representatives to the Pension Committee**

The Chair opened the item by congratulating those candidates who had been elected. A concern was raised regarding the requirements to submit voters' national insurance numbers on ballot papers. The Committee were assured that the information was needed to prove eligibility to vote and the information was destroyed after validation of the election.

The elected pensioner-side members thanked Councillors and officers for obtaining the constitutional amendments required to provide a vote on the Committee for the representatives.

The Committee **RESOLVED** to endorse the result of the ballot and to co-opt the two candidates with the greatest number of votes onto the Committee as members for a period of four years.

A11 The Local Government Pension Scheme Advisory Board Code of Transparency

The item was introduced by the Head of Pensions and Treasury and the Committee **NOTED** the contents of the report.

A12 Local Government Pension Scheme Investment Pooling: Spring 2017 Progress Review

An update was provided to the Committee by the Head of Pensions and Treasury. Members discussed the London Collective Investment Vehicle (CIV) and the Committee requested that further information on the CIV's proposed environmental, social and governance (ESG) sub-funds be provided at the next Committee meeting.

The Committee **NOTED** the contents of the report.

A13 Exclusion of the Press & Public

Councillor Pelling proposed, and Councillor Henson seconded, that the meeting move into Part B of the agenda and thus exclude the press and public from the remainder of the meeting.

The Committee **RESOLVED** to exclude the press and public for the remainder of the meeting.

The meeting finished at 12.03pm.

Croydon Council

REPORT TO:	**Pension Committee** **5 December 2017**
SUBJECT:	**Adoption of the Risk Management Policy**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: This report recommends that the Pension Committee formalises the arrangements relating to risk management by adopting a risk management policy.

FINANCIAL SUMMARY:

Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1. RECOMMENDATIONS

1.1 The Committee is asked to adopt this policy.

1.2 The Committee directs the Executive Director of Resources (Section 151 Officer) to commission a review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

2. EXECUTIVE SUMMARY

2.1 This report deals with the background to the requirement for the Pension Committee to adopt a Risk Management Policy. Adoption of this policy ensures that governance arrangements are in line with best practice and compliant with the requirements of the Pensions Regulator.

3 DETAIL

3.1 The Croydon Pension Board commissioned Aon Hewitt to undertake a review of the governance of the Pension Fund in December 2015. The final report from Aon Hewitt was presented to the Board at its meeting of 21 April 2016. The brief for the review was to document and review the governance arrangements relating to the London Borough of Croydon Pension Scheme. The areas to be documented covered the role of the Pensions Committee and the effectiveness of its decision making; and the extent to which the Committee takes proper advice on those matters which require specialist input. The review additionally covered the suite of policy documents that relate to the administration of the LGPS. The overall conclusion of the review is that the governance of the Fund is of a good level in many areas, and meets legal requirements on the whole.

3.2 However, the report did identify certain areas which could potential be improved, including:

- developing a Fund business plan, to be approved and monitored by the Pension Committee;
- developing a Fund risk register, with summary data to be regularly fed back to the Pension Committee;
- expanding the terms of reference for the Pension Committee so that their responsibilities are more clearly articulated;
- formalising Fund strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework;
- undertaking a detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

3.3 The Fund Business Plan and Risk Register are considered by reports elsewhere on this agenda. The Committee's Terms of Reference, Conflicts of Interest policy and Training policy have been the subject of review by this Committee. A review of compliance against the Pension Regulator's Code of Practice should be undertaken by an independent and qualified party by the end of March, 2018.

3.4 This report considers the Risk Management Policy which is attached. The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

3.5 By adopting this policy Croydon Council, the Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

3.6 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions and Treasury is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee. However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

3.7 This policy will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.

6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.

6.3 The proposed Risk Management Policy details the risk management strategy for the Pension fund and will assist the Committee with its statutory responsibilities.

6.4 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None

Appendix

Appendix A: Risk Management Policy

The London Borough of Croydon Pension Fund

Risk Management Policy

[Fund logo or formatting as required]

Risk Management Policy

Introduction

This is the Risk Management Policy of the London Borough of Croydon Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by the London Borough of Croydon ("the Administering Authority"). The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions and Treasury.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication and
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

Risk Management Philosophy

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. For example, the Fund's investment strategy shows a preference for growth assets, which involves accepting a level of risk. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and The Pensions Regulator's Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

> ***"249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> > *(a) in accordance with the scheme rules, and*
> >
> > *(b) in accordance with the requirements of the law.*

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code (Code of Practice number 9) in which they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator is also required to issue one or more codes of practice covering specific matters relating to public service pension schemes. The Pensions Regulator has issued such a code (Code of Practice number 14), which includes guidance on internal controls. This recommends scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data is managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, 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 internal controls are not being adhered to.

Application to the London Borough of Croydon Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions and Treasury is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The London Borough of Croydon Pension Fund Risk Management Process

The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund’s past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

1. Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

2. Risk Analysis & Evaluation

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the London Borough of Croydon's Risk Matrix on the next page.

Risk Matrix

IMPACT

	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
5 Almost Certain	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Rare	1	2	3	4	5

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

3. Risk Response

The Head of Pensions and Treasury will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

4. Risk Monitoring & Review

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

5. Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Committee.

The Pension Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it would be included in the Risk Register.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

Costs

All costs related to this Risk Policy are met directly by the Fund.

Approval, Review and Consultation

This Risk Management Policy will be approved at the London Borough of Croydon Pension Committee meeting on 5 December 2017. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Nigel Cook
London Borough of Croydon
Head of Pensions & Treasury
Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

E-mail - nigel.cook@croydon.gov.uk
Telephone - 020 8726 6000

Further information on the the London Borough of Croydon Pension Fund can be found at:
pensions@croydon.gov.uk

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Croydon Council

REPORT TO:	**Pension Committee** **5 December 2017**
SUBJECT:	**Review of the Risk Register**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note the contents of the Pension Fund's Risk Register and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee to maintain a risk register. This report presents the current risk register for the Committee's consideration.

3 DETAIL

3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording all relevant risk scenarios, together with an assessment of their likelihood and impact and the appropriate mitigations. This report provides the Committee with a report covering risks relating to governance, funding, assets and liabilities, and operational risks.

3.2 The Committee is invited to comment upon whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and to comment on the adequacy of future and existing controls.

3.3 The risk register will be reviewed periodically and brought back to the Committee for its consideration twice each year – the register was most recently reviewed in December 2016. Members will be familiar with the corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously the Committee has not had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.

3.4 The main change to the register, apart from refreshing and updating the status of existing risks, is the addition of the risk around the adoption of the second Markets in Financial Instruments Directive (MiFID II). Together with Brexit and the impact of the Trump administration on US economic growth, comprise the most significant risks currently facing the Croydon Pension Fund. The register is appended to this report – it shows only those risks that are scored 12 or higher in the current year; risks are rated on a scale of 1 to 5 on likelihood and impact giving a range of potential scores between 1 and 25.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1

6.2

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: None

APPENDIX A: Pension Fund Risk Register

Pensions Risk Register

Risk Scenario			Current Risk Rating			Future controls	Future risk rating		
Risk	**Assigned to**	**Existing Controls**	**Impact**	**Likelihood**	**Risk factor**		**Impact**	**Likelihood**	**Risk Factor**
Governance Risks									
There is a current risk that academies are not abiding by their statutory reponisibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be calculated.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis.	3	4	12	Consistent monitoring and a robust approach should ensure that relationships and therefore also the effectiveness of communications will improve.	3	3	9
If other scheme employers cease for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to the Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	5	15	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.	3	4	12
Funding - Assets and Liabilities									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Nigel Cook	A formal actuarial valuation is carried out every three years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years. Although this needs to be done efficiently and in a cost effective manner.	4	2	8
Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Matthew Hallett	The Fund's contribution income is currently enough to cover the short term liablities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall. Investments have been identified that are dividend yielding.	3	2	6

There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels.	3	5	15	This is likely to be an issue requiring attention for some time.	3	5	15
Investment Risks									
There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.	Matthew Hallett	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse porfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.	4	4	16	A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.	5	2	10
In response to the requirement to pool LGPS assets Croydon has opted to join the London group and invest in certain assets through the London CIV. As this is an untried investment route there are inevitably risks and areas of uncertainty.	Nigel Cook	Extensive due diligence has been undertaken by the consultants involved in establishing the CIV.	4	3	12	As a second wave investor the Pension Fund will have the opportunity to learn from others' experiences. Progress towards funding the CIV will be carefully monitored.	3	2	6
Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.	Matthew Hallett	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.	4	3	12	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18	4	3	12

There are a number of current specific geopolitical risks. The administration of US President Trump can be considered an unknown factor in so far as its impact on the US economy. To date this has been largely benign and the US markets have reacted positively. Other ongoing concerns include the impact of Brexit, the Euro crisis, the growth of the Chinese economy and the impact of populist movements.	Matthew Hallett	Equities have performed well to the extent that the Fund is currently over-weight in the asset class. This is being addressed by moving cash into alternate asset classes. Currency hedging is an option to address potential volatility as is some form of synthetic hedging.	4	3	12	By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.	3	2	6
Operational Risks									
The introduction of the second Markets in Financial Instruments Directive (MiFID II) this year presents a grave challenge to local authorities. As things stand all Local authorities including Croydon will be reclassified as retail clients from January 2018 under the terms of this Directive. Croydon will have to opt up to professional status otherwise there will be a fundamental impact on the team's ability to manage the Fund. The final criteria for opting up will be set by the FCA and each investment manager will need to assess Croydon against criteria before allowing Croydon to invest. As yet it is unclear whether or not Croydon will initially meet the criteria and what needs to be in place to meet it on an ongoing basis.	Nigel Cook	Applications have been made to all counter-parties affected by the Directive. By the end of November half had been accepted. Counter-parties have only asked for minor clarifications and officers have received positive feedback suggesting that the process is working smoothly and there is a high likeihood of a positive outcome for this exercise.	4	3	12	In the long-run the process that has been developed in-house should allow the Pension Fund to be treated as a professional investor.	3	2	6

Croydon Council

REPORT TO:	**Pension Committee** **5 December 2017**
SUBJECT:	**Annual Report on the Progress of Asset Transfers to the London CIV**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: **Sound Financial Management**: The pooling of LGPS Pension Fund assets is meant to drive out savings and allow for greater flexibility and responsiveness in the investment process.	
FINANCIAL SUMMARY: The Croydon LGPS Pension Fund is valued at £1.1 BN. Prudent stewardship and sound investment are essential to ensure current and future liabilities can be met.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note this report.

2. EXECUTIVE SUMMARY

2.1 This report summarises the progress achieved towards pooling Pension Fund Assets in the London CIV. Over half of the current assets can be treated as being pooled with another 30% being considered for transfer to sub-funds in the future.

3 DETAIL

3.1 The Department for Communities and Local Government (DCLG) has prepared guidance to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Pension Committee adopted its Investment Strategy Statement at its meeting on 20 June 2017, (Item A8 refers).

3.2 Regulation 7(2)(d) covers the approach to pooling investments, including the use of collective investment vehicles and shared services

3.3 It states that all authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue. For Croydon and indeed all London Boroughs, this is the London CIV (a Collective Investment Vehicle).

3.4 The Regulations require that each administering authority should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account. These details have been published by the London CIV.

3.5 The Regulations then go on to state that the authority must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board.

3.4 The Croydon Fund comprises three asset classes plus an allocation to cash. These asset classes are: equities; fixed income; and alternates.

3.5 **Equities**: The Fund's allocation to listed equities is managed by Legal and General Investment Managers (LGIM) and invested in the L&G World Developed (Ex Tobacco) Index Fund. This represents 53.4% of the Fund. LGIM count all LGPS administering authorities invested in this fund as pooled and it is understood that DCLG accept this aggregation for the purposes of this regulation.

3.6 **Fixed Income**: The Fund's allocation is invested with Wellington and Aberdeen Standard Life. The London CIV has a plan to open a number of sub-funds for this asset class and this was described in a report to this Committee's 19 September 2017 report (Item 13). The timeline for opening these sub-funds was from December 2017 to May 2018 with a number of dates yet to be confirmed. This asset class represents 17.1% of the Fund.

3.7 **Alternates**: This asset class comprises Infrastructure, Private Equity and Property, and makes up 29.4% of the Fund. As described in the report referenced above, the London CIV does not currently have any plans to open for these sub-funds, save a reference to infrastructure in the summer of 2019. These investments are characterised by their illiquidity, the length of their duration and the fact that their legal structures do not readily lend themselves to this pooling approach.

3.8 In summary therefore, the Croydon Fund has currently over half of its assets in some sort of pooling arrangement. Nearly a third of the assets will be available for pooling when the appropriate sub-funds are established. The balance may not be suitable for pooling in the short to medium run.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.

6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

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Croydon Council

REPORT TO:	**Pension Committee** **5 December 2017**
SUBJECT:	**The Markets in Financial Instruments Directive: Compliance and Requirements**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report deals with the regulatory framework allowing the Pension Committee to be treated as a professional investor.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report details the tests applied under the Markets in Financial Instruments Directive with particular reference to the role of the Pensions Committee in decision making.

3 DETAIL

3.1 The Committee decided to opt to elect to professional investor status under the Markets in Financial Instruments Directive (MiFID II) at its September meeting (Item A9 refers).

3.2 In order to comply with the requirements of the Directive, the authority has to past two tests. The first relates to the size of the Fund and is a simple hurdle. The second test is qualitative and it is that test that is the subject of this report.

3.3 The Qualitative Test comprises 5 sections: the decision making body; expertise, experience and knowledge; investment history and strategy; understanding risk; and support for investment decisions.

3.4 There are four decision making models described. This Committee fits into the third category, being ‘Decisions delegated to committee … with partial delegation to an officer.’ The constitution of the Council describes the arrangements in detail.

3.5 Expertise, experience and knowledge refers to members of the committee. There are 8 questions:

1. Are members provided with a written brief on joining the committee?
2. Are members provided with training on investment matters?
3. Is the attendance of members at training monitored and recorded?
4. Average hours of training over a 12-month period?
5. Average hours at investment conferences over a 12-month period?
6. Are members required to complete a self-assessment with regard to their knowledge of investments?
7. Average number of years on this committee?
8. Any other information?

It is difficult to know how high the hurdle has been set, although the return provided for this committee has been widely deemed sufficient, but these questions are helpful in understanding what the Directive, and by extension investment managers and counter-parties, are looking for in the composition of the committee.

3.6 Investment history and strategy is an analysis of the asset classes that the team has invested in over a period of time. The Pension Fund investment team are able to demonstrate a breadth of experience over a substantial length of time.

3.7 Understanding risks relies on the Risk Management Policy and corporate and Pension Fund Risk Registers.

3.8 The final section relates to the support for investment decisions taken by the committee. This relies on the experience and qualifications of the Pension Fund investment team and the investment advisory and consultancy team retained by the Council. Currently this is AON Hewitt.

3.9 This test needs to be repeated periodically and each time the makeup of the Committee changes, key personnel change, or new investments are considered. It is not immediately clear how approaches from fund managers will be affected by this change.

3.10 In total, and to date, officers have applied to opt up to 17 bodies covered by the Directive. This comprises 14 fund managers, plus the Fund’s investment advisors, the London CIV and the Fund’s custodian. At the time of writing 10 of these counter-parties had agreed to the election to opt up. The deadline for this process is effectively the end of December 2017.

3.11 In summary therefore, the Committee is invited to consider the 8 questions outlined in paragraph 3.5 above, and how an adequate level of expertise, experience and knowledge can be maintained.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.

6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.

6.3 The Markets in Financial Instruments Directive II (MiFID II) is due for implementation on 3 January 2018. The policy statement from the Financial Conduct Authority (FCA) in respect of the MiFID II sets out rules for the implementation of the Directive.

6.4 The re-classification of local authorities under the MiFID II is at odds with the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016. The FCA has recognised that the reclassification of local authorities may not be in the best interests of their pension funds and has given the Council an option to opt up to "elective professional" client status subject to satisfying certain criteria. To enable the Council to obtain the best possible investments for the Pension Fund the Committee has taken up the option to opt up to "elective professional" client status. The MIFID II sets out certain tests with which the Council must comply. This report relates to the qualitative assurance test.

6.5 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: None

Croydon Council

REPORT TO:	**Pension Committee** **5 December 2017**
SUBJECT:	**Forward Plan**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Ensuring that the pension fund is being given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL SUMMARY: There are no direct financial consequences to this report. However the implications of decisions taken by this Committee can be significant for the Revenue Account of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 That the Committee note the business plan for the next year.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee (the Committee) to regularly review the forward plan. This report proposes a revised 2017/2018 forward plan which forms a business plan for the Committee and a draft for the year 2018/2019.

3 DETAIL

3.1 The forward plan below sets out an agenda for each quarterly meeting to be held in 2017/2018 and 2018/2019; however, further items may be added as required by senior officers in consultation with the Chair. There may be a need to add items in response to changing circumstances, such as any issues thrown up by the government's decision to require funds to pool assets, changes to the investment regulations or if there are further global market events requiring actions from the Committee.

3.2 As a separate matter, the Committee has decided to visit each of the portfolio's fund managers over a twelve to fifteen month cycle. This schedule will be refreshed and reported to this Committee; the list below represents the visits that have been arranged.

Wellington (Fixed interest)	29th November, 2017
Schroders (Commercial property)	14th December, 2017
Pantheon (Private Equity)	24th January, 2018
Equitix (Infrastructure)	21st February, 2018
Knightsbridge (Private Equity)	21st March, 2019

3.3 The Committee has committed to a programme of training and in part, this can be delivered by sessions following on from or preceding the business part of the meeting. The content of training will be informed by the direction of future legislation; and the choice of investment vehicles.

3.4 With the introduction of the Local Pensions Board, some issues that previously were considered by the Committee are also being addressed by that body. This includes:

- Review of strategy and policy documents such as the Funding Strategy Statement and Investment Strategy Statement;
- Key Performance Indicators;
- Engagement with stakeholders;
- ESG (Ethical, Social and Governance) and voting matters;
- Assessment of the performance of professional advisors;
- Consideration of Myners principles;
- Matters relating to fees; and
- Other matters of topical interest.

3.5 Matters relating to admission agreements, schools converting to academies and other scheme employers will be reported to the Committee on an ad hoc basis.

3.6 **The Pension Committee 2017-2018 Business Plan**

3.6.1 **13 March 2018**

- Progress report quarter ending December 2018 performance
- KPIs
- Award of contracts under the National LGPS Framework for legal services and investment advice consultancy services
- Report back from Pensions Board

3.7 **The Pension Committee 2018 – 2019 Business Plan**

3.7.1 **5 June 2018**

- Progress report quarter ending March 2018 performance
- Risk Register review
- Forward Plan review
- Review of the Investment Strategy Statement

- Review and adopt:
  - Discretion's policy for the Council;
  - Training policy for the Committee, Board and officers;
  - Communications Policy; and
  - Terms of Reference for the Committee.
- To consider the Pension Fund Audit Plan

3.7.2 **18 September 2018**

- Progress report quarter ending June 2018 performance
- KPIs
- Draft Annual Report
- External Auditors Report
- Local Pension Board Annual Report
- Report back from Pensions Board
- Review and adopt:
  - Policy for Employers leaving the Fund;
  - Internal Disputes Resolution Policy;
  - Breaches of the Law policy;
  - Administration Strategy;
  - Conflicts of Interest Policy (for the Pensions Board); and
  - Local Pension Board Annual Review.

3.7.3 **4 December 2018**

- Progress report quarter ending September 2018 performance
- Risk Register review
- Forward Plan review
- Review London CIV against Investment Strategy Statement (ISS) guidance (regulation (7) (2) d)
- Review of ESG investment principles for inclusion in ISS

3.7.4 **12 March 2019**

- Progress report quarter ending December 2018 performance
- Risk Register review
- Forward Plan review
- Report back from Pensions Board
- Review the ISS

3.8 This forward plan forms the business plan for the Committee. The Committee are asked to consider any changes necessary to the forward plan and subject to these, agree its adoption.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.

6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.

6.3 The proposed Forward Plan accords with best practice and will assist the Committee with its statutory responsibilities.

6.4 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: None

Croydon Council

REPORT TO:	**PENSION COMMITTEE** **6 December 2017**
SUBJECT:	**Progress Report for Quarter Ended 30 September 2017**
LEAD OFFICER:	**Richard Simpson** **Executive Director of Resources**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.

FINANCIAL SUMMARY:

This report shows that the market value of the Pension Fund (the Fund) investments as at 30 September 2017 was £1,113.9m compared to £1,102.1m at 30 June 2017, an increase of £11.9m and a return of 1.27% over the quarter. The performance figures in this report have been compiled from data provided by each fund manager and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

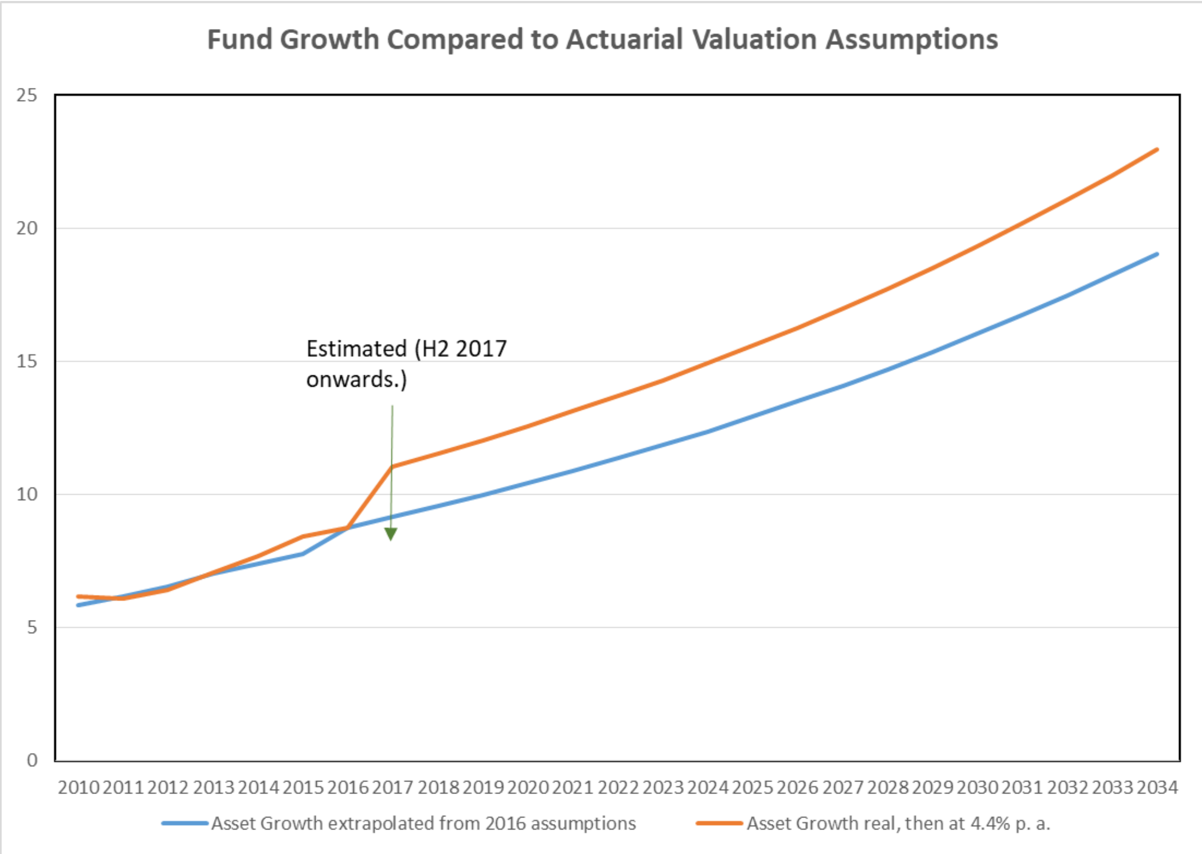
2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 September 2017. The report falls into three parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report for readers who are interested in that deeper analysis.

3 DETAIL

Section 1: Performance

3.1 The 2016 Triennial Actuarial Valuation has recommended an asset outperformance assumption of 2.2% over gilt yields, meaning an asset return assumption, otherwise described as the discount rate, of 4.4%. The valuation also assumes that the funding gap will be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and assuming other assumptions remain constant, the funding gap will reduce.

3.2 The following graph has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the 2016 valuation assumptions. This will be adjusted after subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This is a simplistic measure of the success of the strategy which does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and that does not reflect changes in cash contributions nor movements in the gilt yield curve. However it is valuable as a tool to help track whether the direction of travel is in the right direction.



3.3 Details of the performance of individual components of the portfolio are summarised in Appendix A. The returns for L&G, Standard Life, Wellington and Schroders are calculated on a time series basis. This basis negates the effect of any cash flows made to and from a manager's portfolio (the reason being that the timing of investments and disinvestments is not the manager's decision) and so allows the performance of those managers to be compared fairly with their benchmarks and peers. The returns for the other managers are calculated using the Internal Rate of Return (IRR). Using the IRR considers the effect of cash flows and this is deemed appropriate for these managers as the timing of investments is determined by the manager. Due to the nature of these investments, little attention should be paid to the performance for immature investments; Temporis, GIB, Access, Markham Rae, North Sea Capital and M&G, and more attention should be made to the performance since inception for the more mature investments; Equitix, Knightsbridge and Pantheon. The whole of fund return uses the IRR as this is in line with the Actuary when calculating the valuation. It should be noted that the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

Section 2: Asset Allocation Strategy

3.4 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). Recognising that there are a number of factors dictating the delivery timeframe for the asset allocation, namely: the selection process and time taken to undertake due diligence; the revision of the LGPS investment regulations; and the role of the London CIV; delivering the revised asset allocation remains a work in progress.

3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

Equities including allocation to emerging markets.		42%	+/- 5%
Fixed interest		23%	+/- 5%
Alternates		34%	+/- 5%
Comprised of:			
Private Equity	8%		
Infrastructure	10%		
Traditional (Commercial) Property	10%		
Private Rental Sector (Residential Property)	6%		
Cash		1%	
		100%	

3.6 **Progress towards revised asset allocation**

Since the revised asset allocation was agreed £54.2m has been disinvested from global equities and £32.2m from hedge funds. This along with new cash to the fund has been invested; £19.9m in private equity, £62m in infrastructure, £25m in PRS and £16.4m in property. A further £15m has been disinvested from equities since this reporting period.

3.6.1 **Private Equity –** During the quarter net contributions of £0.4m were paid to our existing private equity managers. Positive returns over the quarter meant the allocation increased from 8.1% to 8.2%. No further new commitments are currently required in private equity portfolio. The allocation is considered on target.

Allocation: achieved target allocation early.

3.6.2 **Infrastructure –** During the quarter a net investment of £3.9m was drawn from existing managers and £11.3m was drawn from Access Capital Partners which was appointed during the quarter following completion of legal due diligence. This along with a positive contribution to returns meant the allocation percentage increased from 7.7% to 9.0%. Post quarter end legal due diligence has been completed on our second new infrastructure manger; I-Squared. We are expecting approximately £5m to be drawn by I-Squared in the next quarter.

Allocation: We are expecting to meet our target allocation by 30 June 2018 which is ahead of the original planned date of 31 December 2019.

3.6.3 **Traditional Property –** During the quarter £10m was transferred to Schroders, who have identified opportunities to deploy the capital. This has brought the allocation back to the 10% target.

Allocation: On target.

3.6.4 **Private Rental Sector -** The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and during the quarter ending 31 December 2016 signed a commitment for a further £35m with M&G. The first tranche of £25m has now been fully drawn and the allocation increased from 1.8% to 2.2% over the quarter. We anticipate the second tranche drawn over the second half of 2018.

Allocation: on target to meet allocation by 31 December 2018 as planned.

3.6.5 **Global Equities –** The Fund's allocation to equities remained overweight at 53.4%

when compared to the previous quarter of 53.0%, a movement of 0.4 %. Equities provided the most positive gains over the quarter, although these have been much lower than experienced over the previous year. Members will be aware that the asset allocation strategy recognized that moving from the previous asset allocation would be a gradual process, driven by the availability of opportunities. It is also recognized that the preservation of returns is important. Consequently the current over-weight position in equities represents a positive benefit to the Fund. This must intentionally be a short-term position and the transfer of funds to other alternate asset classes, as described above, is part of the process of locking in some of the recent returns.

At the previous Committee meeting members agreed to transfer the equity holdings from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The reasons for doing this were to reduce concentration risk by increasing the number of stocks covered for investment, a reduction in management fee from 12bps to 6 bps and to move to a fund which is considered as fulfilling the criteria for the requirement to pool assets. In addition converting to a pooled arrangement with L&G means the passive currency hedging can be implemented fairly easily and cheaply if desired. The transfer will take place during the next quarter.

3.6.7 **Fixed Interest –** The Fund has moved below the lower end of the target range in its fixed income allocation and this is largely due to outperformance of other assets. Officers are exploring alternate opportunities to our traditional bond portfolio including debt managers. The London CIV is currently in the process of putting together a Fixed Interest offering which Officers are following closely.

3.7 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 30 September 2017

	Valuation at 30/06/2017 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/09/2017 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					**53.4%**	**42%**
Legal & General FTSE4Good	584,521	-	10,150	594,670		
Fixed Interest					**17.1%**	**23%**
Standard Life	128,656	-	-180	128,477		
Wellington	62,538	-	-210	62,328		
Infrastructure					**9.0%**	**10%**
Access	-	11,291	-241	11,049		
Temporis	9,705	2,366	-30	12,041		
Equitix	48,869	1,972	900	51,741		
Green Investment bank	25,836	-453	-140	25,242		
Private Equity					**8.2%**	**8%**
Knightsbridge	18,903	736	-424	19,215		
Pantheon	59,810	-488	1,310	60,632		
Access	10,023	89	317	10,430		
North Sea	855	-	26	881		
Markham Rae	-1	49	-49	-1		
Property					**10.0%**	**10%**
Schroders	98,944	10,000	2,456	111,401		
Property PRS					**2.2%**	**6%**
M&G	24,394	-	105	24,499		
Cash					**0.1%**	**1%**
Cash	29,008	-27,671	4	1,341		
Fund Total	**1,102,060**	**-2,109**	**13,994**	**1,113,945**	**100%**	**100%**

3.8 The Fund remains over-weight to equities and under-weight to fixed interest to the extent that the proportion in these asset classes is outside the allowable variance. Officers believe that this over-weight position continues to benefit the Fund and this scenario will persist in the short- to medium-term. However this position is not consistent with the Fund investment strategy. Officers estimate that the commitments made in Infrastructure and PRS outlined above will result in an extra £50-70m being transitioned from equities to alternatives over the next 12 months and the pension fund will have a net cash outflow of approximately £18m as a result of the advance payment of .deficit contributions. The London CIV is being considered in order to correct the under-weight position in fixed interest.

Section 3: Risk Management

3.9 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.

3.10 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

3.11 In terms of the Pension Fund investment strategy in relation to the global picture, officers believe:

- The domestic US economy will continue to grow at a healthy rate.
- China will also continue to demonstrate strong growth and this will be critical in stoking the continued expansion of emerging markets. By and large emerging market revenue account issues have been resolved.
- The European economy is showing positive signs of growth, especially when compared to the UK.
- While the Brexit negotiations are ongoing sterling will remain at depressed levels. Officers are continually considering the merits of currency hedging.

3.12 The role of Central Banks in guiding local economies and that specific impact on the global economy remains an area for concern. Interest rates and inflation both represent significant headwinds impacting on the valuation of liabilities and the investments designed to match them. Specifically Officers are concerned by the increasing threat of inflation and all infrastructure investments the Fund has committed to have an inflation linkage built into the return profile.

3.13 At the previous meeting the Committee agreed to move the equity holdings from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The main reason for doing this was to reduce concentration risk which had been identified. The L&G World Developed (Ex Tobacco) Index Fund covers approximately 1,800 stocks compared to the FTSE4Good which covered approximately 900 stocks.

3.14 The portfolio term Brexit encompasses a number of risks. Immediate concerns that the UK economy would register a shock have not materialised. However, the outcome of the snap election has done little to quieten concerns. The fall in the relative value of sterling has masked a long term issue around productivity and actually benefitted the portfolio. Other concerns may manifest themselves in the future. One issue that seems certain to impact the fund is that of passporting and the cost of accessing investment opportunities.

3.16 AON Hewitt, the Fund's investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 30 September 2017 and a Quarterly Investment Outlook which provides context for this risk analysis. These reports are included in the closed part of this Committee agenda.

Section 4: Investment Manager Visit

3.17

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The solicitor to the Council comments.

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Quarterly reports from each fund manager (circulated under separate cover)

Appendices

Appendix A: Fund Returns

The following appendices are considered commercially sensitive:

Appendix B: AON Hewitt Manager Monitoring Report

Appendix C: AON Hewitt Market Review: 3 months to 30 September 2017

Appendix D: AON Hewitt Quarterly Investment Outlook

Appendix A

London Borough of Croydon fund returns for the period ending 30 September 2017

EQUITIES					
L&G FTSE 4GOOD	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	1.8%	16.4%			10.3%
Benchmark	1.8%	16.5%			10.4%
FIXED INTEREST					
Standard Life	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-0.1%	-0.2%	3.3%	3.8%	4.7%
Benchmark	0.0%	2.7%	4.3%	4.5%	5.0%
Wellington	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-0.3%	-3.3%	5.5%	4.1%	6.5%
Benchmark	-0.2%	-2.7%	5.8%	4.5%	6.3%
INFRASTRUCTURE					
Equitix	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	1.9%	9.6%	12.9%	21.6%	14.9%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.4%
Temporis	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%	-0.40%			-0.6%
Benchmark	1.4%	7.97%			7.4%
GIB	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-0.5%				5.9%
Benchmark	1.4%				6.9%
PRIVATE EQUTIY					
Knightsbridge	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-2.1%	4.1%	14.9%	16.9%	13.3%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.1%
Pantheon	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.2%	16.6%	18.5%	16.1%	13.1%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.2%
Access	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	3.3%	1.6%			9.3%
Benchmark	1.4%	8.0%			7.4%
Markham Rae	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%				
Benchmark	1.4%				
North Sea Capital	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%				
Benchmark	1.4%				
PROPERTY					
Schroders	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.4%	8.8%	8.2%		10.1%
Benchmark	2.4%	9.3%	8.9%		9.4%
PROPERTY PRS					
M&G	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.43%				-3.09%
Benchmark	2.25%				5.94%
Total Fund					
	Quarter	**1 year**	**3 year**	**5yr**	**inception**
Fund	1.27%	10.95%	11.50%	10.82%	8.18%
CPI + 4%	1.18%	6.97%	5.25%	5.53%	6.43%

Returns are net of fees and annualised apart from for the last quarter

Returns for Equity, Fixed Interest and Property Funds are calculated on a time weighted basis.

Returns for Infrastructure, Private Equity ,Property PRS funds and the Total return are calculated on an Internal rate of return basis.

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