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Agenda

Camden

PENSION BOARD

TUESDAY, 17 MARCH 2020 AT 4.00 PM
COMMITTEE ROOM 3, CROWNDALE CENTRE, 218 EVERSHOLT STREET, LONDON, NW1 1BD

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MEMBERS

Employer Representatives
Councillor Richard Olszewski (L),
Steve Worrall

Employee Representatives
Vinothan Sangarapillai
(One vacancy)

L = Labour

Issued on: Monday, 9 March 2020

Jenny Rowlands
Chief Executive
Town Hall
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www.camden.gov.uk/democracy

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PENSION BOARD - 17 MARCH 2020

THERE ARE NO PRIVATE REPORTS

PLEASE NOTE THAT PART OF THIS MEETING MAY NOT BE OPEN TO THE PUBLIC AND PRESS BECAUSE IT MAY INVOLVE THE CONSIDERATION OF EXEMPT INFORMATION WITHIN THE MEANING OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972, OR CONFIDENTIAL WITHIN THE MEANING OF SECTION 100(A)(2) OF THE ACT.

AGENDA

Wards

1. APOLOGIES

2. DECLARATIONS BY MEMBERS OF PECUNIARY, NON-PECUNIARY AND ANY OTHER INTERESTS IN RESPECT OF ITEMS ON THIS AGENDA

3. ANNOUNCEMENTS (IF ANY)

4. NOTIFICATION OF ANY ITEMS OF BUSINESS THAT THE CHAIR DECIDES TO TAKE AS URGENT

5. MINUTES

To approve and sign the minutes of the meeting held on 10th October 2019. (Pages 7 - 14)

6. PENSION BOARD UPDATE REPORT **All Wards**

Report of the Executive Director Corporate Services (Pages 15 - 30)

The Pension Board has responsibility for assisting the Pension Committee in ensuring compliance with the Scheme Regulations, other legislation relating to governance and administration, and the requirements of the Pension Regulator. The Pension Board must also ensure the effective and efficient governance and administration of the scheme. This report summarises the items presented and decisions made at the Pension Committee meetings on 26 November 2019 and 3 March 2020.

7. CLIMATE CHANGE FUNDING IMPACTS

All Wards

Report of the Executive Director Corporate Services

(Pages 31 - 58)

This report updated Pension Committee on the analysis of the actuary on the Fund's liabilities and funding level for differing climate change scenarios and demonstrates the significant impact climate change can have on the Fund. Pension Committee noted the contents of the report.

8. PREPAYMENT OF SECONDARY CONTRIBUTIONS

All Wards

Report of the Executive Director Corporate Services

(Pages 59 - 68)

This report to Pension Committee followed on from a report in November 2018 and sets out phase two of a proposal from the Council, as the major employer in the Fund, to prepay its secondary contributions early for 2020-2023. Pension Committee agreed the recommendations of the report and agreed a further recommendation on the night to delegate authority to the Executive Director Corporate Services in consultation with the Chair of Pension Committee to determine which asset class to invest these monies into after taking advice from the Investment Consultant and Independent investment adviser.

9. FUND MATURITY

All Wards

Report of the Executive Director Corporate Services

(Pages 69 - 80)

This report to Pension Committee presented the results of an exercise to estimate the Fund's maturity (the balance between benefits paid and contributions received). When payments exceed receipts the Fund is considered to be mature. The Pension Committee noted the contents of the report.

10. DATES OF FUTURE MEETINGS

The provisional dates for meetings of the Pension Board in the 2020-2021 Municipal Year are set out below:

Thursday, 8th October 2020
Tuesday, 16th March 2021

These meeting are scheduled to start at 4.00 p.m.

The Council will be asked to formally agree the Calendar of meetings for the 2020-2021 Municipal Year at its meeting on 15th May 2020. All meeting dates avoid major religious holidays and party conferences.

11. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

AGENDA ENDS

The date of the next meeting will be Thursday, 8 October 2020 at 4.00 pm in Committee Room 4, Crowndale Centre, 218 Eversholt Street, London, NW1 1BD.

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THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION BOARD** held on **THURSDAY, 10TH OCTOBER, 2019** at 4.00 pm in Committee Room 3, Crowndale Centre, 218 Eversholt Street, London, NW1 1BD

MEMBERS OF THE BOARD PRESENT

Councillor Richard Olszewski (Chair), Paul Dunphy, Vinothan Sangarapillai and Steve Worrall

The minutes should be read in conjunction with the agenda for the meeting. They are subject to approval and signature at the next meeting of the Pension Board and any corrections approved at that meeting will be recorded in those minutes.

MINUTES

1. APOLOGIES

The Chair opened the meeting and proposed, and the Pension Board agreed, that the meeting should be adjourned for 20 minutes to enable all relevant parties to be present.

The meeting reconvened at 4.20 p.m.

There were no apologies.

2. DECLARATIONS BY MEMBERS OF PECUNIARY, NON-PECUNIARY AND ANY OTHER INTERESTS IN RESPECT OF ITEMS ON THIS AGENDA

Vinothan Sangarapillai, Employee representative, declared for the sake of transparency that he was a member of the pension scheme.

Steve Worrall, Employer representative, declared for the sake of transparency that he worked for Veolia which was an admitted body.

3. ANNOUNCEMENTS (IF ANY)

The Chair reminded Board Members that the next meeting would be held on Tuesday, 17th March 2020 at 4.00 p.m.

There were no other announcements.

4. NOTIFICATION OF ANY ITEMS OF BUSINESS THAT THE CHAIR DECIDES TO TAKE AS URGENT

There were no urgent items.

5. MINUTES

RESOLVED –

THAT the Part I minutes of the meeting held on 13th March 2019 be approved and signed as a correct record.

6. PENSION BOARD UPDATE REPORT

Consideration was given to a report of the Executive Director Corporate Services.

It was noted that the dates referred to in the summary of the report were incorrect and should read "18th July 2019 and 12th September 2019".

The Head of Treasury and Financial Services presented the report which summarised the items presented and decisions made at the Pension Committee meetings on 18th July 2019 and 12th September 2019.

With regard to paragraph 2.15 of the report, the Pension Board noted that Mark Thompson, who had recently been appointed as Chief Investment Officer (CIO) at the London CIV had left the position as he felt it was not appropriate for him.

The Chair referred to paragraph 3.17 of the report regarding the ESG report. He suggested that, given Councillor Rishi Madlani, Chair of the Pension Committee would be attendance, an item should be included on the agenda for the next Board meeting in March 2020, in respect of what was being done with regard to ESG and climate change issues. It was also suggested that the London CIV should be asked to request similar information from its member local authorities the results of which could also be fed back to the March Board meeting.

ACTION BY: Executive Director Corporate Services

The accountability of London CIV was also raised by Board Members, particularly its remoteness and lack of accessibility for the public. The Board agreed that this concern should be referred to the Pension Committee with the possibility of the Chair of the Pension Committee raising it with the London CIV.

With reference to paragraph 3.11, the Board noted that the London CIV had put CQS on watch last month due to concerns around staff key changes, underperformance and investment strategy. The Fund's independent consultant investigated these issues by first speaking to London CIV to better understand their concerns and

subsequently to CQS. Whilst the change in leadership was generally concerning, the remainder of the concerns by London CIV were deemed to be a technical interpretation of regulation and/or a misunderstanding around investment process. Following these discussions, the independent advisor was of the view that these were unlikely to have a significant impact on the fund's performance. It was, therefore, likely that the situation with CQS was not as negative as the London CIV believed, but she recommended close monitoring over coming months.

At its meeting on 12th September 2019, the Pension Committee agreed that a decision should be delayed until the end of October to enable the London CIV to continue to monitor and work with CQS. In the meantime, officers were asked to carry out a cost benefit analysis on whether or not the transition of funds from Insight to CQS should continue. It was also agreed that authority should be delegated to the Executive Director Corporate Services to enable him to take this decision, in consultation with the Chair of the Pension Committee at the end of this period and when an update from the London CIV and the results of the cost benefit analysis were available. The Pension Board asked to be kept informed on progress in respect of this issue.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the contents of the report be noted.

7. TRIENNIAL VALUATION ASSUMPTIONS

Consideration was given to a report of the Executive Director Corporate Services.

The Head of Treasury and Financial Services outlined the report which provided an update on the assumptions underpinning the triennial valuation for salary growth and the discount rate (asset outperformance assumption).

It was noted that the Fund's Actuary, Hymans Robertson had prepared two reports based on the salary increase assumption and the discount rate assumption, which were two of the most significant financial assumptions affecting the valuation. These were attached to the report as Appendices 1 and 2 respectively.

Based on the results of these exercises, the Executive Director Corporate Services agreed that the Fund should maintain its asset outperformance assumption of 1.6% above gilts. This was acceptable in all scenarios, albeit in the last scenario it narrowly missed the prudent level by 1%. It was noted that this alternative strategy had a 19.5% allocation to gilts and 16.5% allocation to fixed interest. Given the current 3% level of gilts and no fixed income assets this might not happen for quite a few years so the fund had time to adjust this margin if required in future valuations.

The Board noted that the Pension Committee had noted the contents of the report at its meeting on 18th July 2019.

It was also noted that Camden's Fund was one of the few funds which took decisions by Committee in public. Councillor Olszewski supported this and confirmed that he wanted the Pension Board to be as transparent as the Pension Committee when considering items.

The Chair asked what would be considered as significant in terms of the number of employers leaving the scheme. The Head of Treasury and Financial Services replied that the largest employer was IDEA which made up 10% of the Fund, and if they were to leave it would be a concern. Most of the other employers were small, and the concern with them was not about them leaving but about their financial viability.

RESOLVED –

THAT the contents of the report be noted.

8. DIVERSIFIED GROWTH FUND REVIEW

Consideration was given to the report of the Executive Director Corporate Services, which reviewed the Fund's Diversified Growth Funds (DGFs) and made recommendations about the future of these mandates.

Board Members were reminded that at the February Pension Committee meeting a strategic decision was taken to invest £80m in the London CIV's Infrastructure sub fund managed by StepStone. This report presented the work of the Investment Consultant, KPMG, which analysed the options for funding this mandate and also reviewed all three of the Fund's DGF managers.

The Pension Board noted that the KPMG report was split into two appendices. Appendix 1 presented the KPMGs Review of the DGF Portfolio and Appendix 2 contained details about individual fund managers and KPMG's judgements about each manager's capabilities, which was not available to the public (Part II). Board Members confirmed that they had read the appendix and would take it into account when taking its decision.

It was noted that the Pension Committee, at its meeting in July, agreed that:

1. The mandate with Standard Life would be terminated first to match funding requirements of the Infrastructure mandate;
2. The mandate with Ruffer would be terminated secondly to match funding requirements of the infrastructure mandate;
3. Any residual left with Ruffer would be used to over-allocate to the infrastructure mandate;
4. The mandate with Barings would be retained;

5. A further review of the London Collective Investment Vehicle's Diversified Growth Fund mandates would be undertaken when the next strategic review of the fund occurs in 2020;
6. The £18.6m prepayment of secondary contributions would be used to Fund the Multi Asset Credit fund with CQS (a CIV sub-fund).

It was noted that there would be no penalty to pay with regard to the termination of the mandates with Standard Life and Ruffer, but some costs would be incurred including a switching cost. The Board asked that an update on the disinvestments from Standard Life and Ruffer be submitted to its March 2020 meeting.

ACTION BY: Executive Director Corporate Services

RESOLVED -

THAT the contents of the report be noted.

9. EMPLOYER CONTRIBUTION STRATEGY

Consideration was given to a report of the Executive Director Corporate Services, which set out the contribution strategy for the Council as the major employer in the Pension Fund, amongst 26 other much smaller employers. At its September meeting, the Pension Committee considered the current stabilisation strategy that was applied to the Council and presented analysis from the Pension Fund's Actuary, Hymans Robertson, for four different contribution strategies to be applied from 1st April 2020.

It was noted that the Pension Committee agreed that the Council should continue to use the current stabilisation approach which limited contribution changes to +/- 1% of pay per annum and that contributions would increase by 1% of pay per annum for each of the next three financial years (2020/21 to 2022/23).

In response to a question, the Head of Treasury and Financial Services confirmed that the Council had made a pre-payment of £18m for 2019/20 and would consider a report in February regarding payments for the next 3 years.

The Pension Board noted that the Fund's Actuary, had provided an analysis, which discussed combined contribution rates that included the primary rate (for future service accrual and ignoring deficit recovery) and the secondary rate (for deficit recovery), which was attached at Appendix A to the report. This was a Part II appendix, as it contained commercially sensitive and confidential information and was, therefore, not available to the public. Board Members confirmed that they had read the appendix and would take it into account when making the decision.

RESOLVED –

THAT the contents of the report be noted.

10. TRIENNIAL VALUATION

Consideration was given to a report of the Executive Director Corporate Services, which presented the initial whole fund results of the triennial valuation from the Pension Fund's Actuary, Hymans Robertson.

The Board noted that Hymans Robertson had provided an initial valuation report of the Fund's assets and liabilities as at 31st March 2019, which was attached at Appendix A to the report. This was a Part II appendix, as it contained commercially sensitive and confidential information and was, therefore, not available to the public. Board Members confirmed that they had read the appendix and would take it into account when making the decision.

It was noted that the Pension Committee, at its meeting on 12th September 2019, had agreed the assumptions made as part of the initial valuation report and the that the report should be adopted for the purposes of the 2019 triennial valuation.

The Actuary would now proceed to assess each individual employer's contribution rates for the coming three financial years. In the coming months the actuary and officers would be meeting collectively and individually with employers to set out the results of the triennial valuation and what this means for each employer and their contribution rates. Once a set of final contribution rates had been agreed for all employers Hymans Robertson would issue a final valuation report with the official rates and adjustments certificate detailing individual employers' contributions. This must be issued by 31st March 2020.

RESOLVED –

THAT the contents of the report be noted.

11. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was no urgent business.

12. LOCAL GOVERNMENT ACT 1972 - ACCESS TO INFORMATION

RESOLVED –

THAT the press and public be excluded from the proceedings of the Pension Board on 10th October 2019 during consideration of Items on the agenda on the grounds that it is likely, in view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 (as amended) and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Specifically –

Publicity in respect of Item 13 would be likely to lead to the disclosure of information relating to the financial or business affairs of any particular person (including the authority holding that information) by virtue of Category 3 of Schedule 12A of the Local government Act 1972 (as amended).

13. MINUTES - PART II

RESOLVED –

THAT the Part II minutes of the meeting held on 13th March 2019 be approved and signed as a correct record.

The meeting ended at 5.15 pm.

CHAIR

Contact Officer: **Lorraine Jones**
Telephone No: **020 7974 5721**
E-Mail: **lorraine.jones@camden.gov.uk**

MINUTES END

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LONDON BOROUGH OF CAMDEN	WARDS: ALL
REPORT TITLE: Pension Board Update Report	
REPORT OF: Executive Director Corporate Resources	
FOR SUBMISSION TO: Pension Board	**DATE:** 17 March 2020

SUMMARY OF REPORT:

The Pension Board has responsibility for assisting the Pension Committee in ensuring compliance with the Scheme Regulations, other legislation relating to governance and administration, and the requirements of the Pension Regulator. The Pension Board must also ensure the effective and efficient governance and administration of the scheme. This report summarises the items presented and decisions made at the Pension Committee meetings on 26 November 2019 and 3 March 2020.

Local Government Act 1972 – Access to Information
No documents were used in the preparation of this report which are required to be listed.

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RECOMMENDATION:

The Pension Board is asked to note the contents of this report.

Signed by

Director of Finance ………..…**Approved** …………….

Date **06.03.2020** …….……..

1. **INTRODUCTION**

1.1. The Pensions Board has responsibility for assisting the Pension Committee (known as the 'Scheme Manager') to ensure the effective and efficient governance and administration of the scheme.

1.2. This report aims to summarise the reports and decisions made at the preceding Pension Committee meetings. Individual reports and the web pages on which they are published can be accessed through the links included in this report.

2. **PENSION COMMITTEE 26 NOVEMBER 2019**

Deputation

2.1. A deputation was received and noted from Divest Camden predominantly calling for the Fund to divest from the top 200 fossil fuel companies and that there should be no new investment in fossil fuels over the next five years. UNISON made a similar deputation request at the same meeting.

2.2. Reponses from Members included that the Council had taken climate change forward and had adopted an active approach through LAPFF. It was continuing to reduce investment in fossil fuels and 5% of the fund was being invested in infrastructure with a 25% minimum in renewable energy. The Fund has a fiduciary duty and it was important to reach full funding. A lot of work on environmental matters had already been conducted such as the Carbon Footprint report, the Investor Belief Statement, the Climate Change Funding Impact report and the standing item on Engagement.

Investor Belief Statement

2.3. The United Nations Principles for Responsible Investment describes Investor Belief Statements as setting direction for investment policy, investment practice and organisational culture. They define how asset owners, such as this Fund, will create investment value and help asset owners make practical decisions about their investment style. These Investor Belief Statements are becoming increasingly popular to link more comprehensive policy documents with overarching principles and a framework which is high-level and helps to succinctly guide the Committee.

2.4. There are some beliefs which the fund will hold that have a financial focus and others will be about responsible investment (Environmental, Social and Governance related or ESG for short). Following a workshop in October, members considered both sets of investor beliefs. Evidence now suggests that ESG integration can improve risk adjusted returns and some asset managers argue that it can drive outperformance in inefficient markets.

2.5. The Fund's Investor Belief Statement was presented to committee in November. Some of the **financial beliefs** agreed were that equal weight should be placed on both passive and active management, long-term investment is favoured over short-term and asset mix is important. When considering **responsible investment**, the committee agreed to adopt the UN's Sustainable Development Goals with, amongst other goals, the priorities being: climate action (SDG 13), decent work and economic growth (SDG 8) and gender equality (SDG 5). These beliefs will be communicated to the fund

managers and advisors. The Fund expects investment managers to ensure that they select investments that help transition to the net-zero carbon economy and do not invest in stranded assets.

Engagement report

2.6. This report summarised the LAPFF Business Meeting. Topics and meetings held related to:

- Reliable accounts – the extent to which auditors are providing assurance for material climate risks; and the UK government's proposals for extended reporting with regards to the Modern Slavery Act
- Climate Action 100+ - a report was published on this and company commitments were highlighted, such as BHP Billiton targeting a goal of net-zero emissions by 2050 (including scope 3 emissions). Only 9% of the company commitments highlighted met the Paris agreement targets. Mining companies were the weakest sector at setting targets and oil and gas companies have still not shown how they can achieve net zero emissions.
- LAPFF set out that engagement priorities with companies are: science-based climate targets and the implementation of Task Force on Climate-related Financial Disclosures (TCFD).
- Technology and governance risks – LAPFF will produce a further report on governance structures and practices to safeguard against cyber security and disruptive technologies.
- A voting alert calling for BHP to withdraw from industry bodies (like the Minerals Council of Australia) who have been shown to undermine publicly stated climate change goals .

2.7. There were 2503 resolution votes cast in the quarter, at 172 meetings. 72.9% of votes cast were for the resolutions and 26.8% against. The majority of meetings attended were in the UK & British Overseas with a total of 2,312 votes cast at these meetings. The notable categories of voting that recorded the greatest opposition as a percentage of overall votes cast were: election/re-election of directors (36%), share issues/ repurchases (24%), annual reports (21%), and auditor reappointment (8%).

2.8. Tessa Younger from PIRC (on behalf of LAPFF) was present at the meeting and summarised the main points in the report in respect of the work undertaken during the last quarter. She said that the strongest action aimed at making change was via voting alerts, attending AGMs and speaking to Board members.

Carbon Footprint Report

2.9. Camden declared a climate crisis earlier in the year and over the summer the first UK Citizens' Assembly on the climate crisis took place in Camden. The key points extracted from the report are outlined below.

2.10. The Pension Fund included a specific risk in its risk register, risk 53, that "Fossil Fuel linked investments suffer losses due to stranded assets and reputational damage". The mitigations of this risk and actions are that the Fund will continue to work with LAPFF to engage on this issue, direct engagement with Fund managers on their portfolios, continued use of our

voting policy to reinforce our policies and finally to carbon footprint the Fund's investments to better understand our exposure and measure progress.

2.11. The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment. It also believes that companies conforming to high ethical and social standards will produce shareholder returns that are at least comparable to those produced by other companies.

2.12. When engaging, LAPFF encourages companies to align their business models with a 2°C scenario to push for an orderly transition to a low-carbon economy. For some oil and gas companies, a focus has been on value at risk, particularly from high-cost projects and support has been given to returning capital to investors where appropriate.

2.13. LAPFF is a member of the Ceres Investor Network on Climate Risk and Sustainability, is a participant in the Climate Action 100+ initiative and is in partnership with the Climate Majority Project. LAPFF recognises the issue of stranded assets and continued fossil fuel extraction as a collective investment risk for all asset owners and as an engagement and policy priority.

2.14. The Pension Fund is bound by law in respect of Socially Responsible Investment (SRI) policy. The Fund should, in all circumstances, act in the best financial interests of the members of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to have active regard to the impact that SRI issues might have on the returns of companies in which they invest on the Fund's behalf.

2.15. The Transition Pathway Initiative assesses how companies are preparing for the transition to a low-carbon economy. It was established in 2017 and is led by asset owners and supported by asset managers.

2.16. The first step is to evaluate the quality of companies' management of their carbon emissions and the risks and opportunities related to the low-carbon transition, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It then assesses how companies' planned or expected future carbon performance compares with international targets and national pledges made as part of the 2015 Paris Agreement on climate change.

2.17. The TPI has initially looked at 274 companies within 14 high-impact sectors. Two of our fund managers, Aberdeen Standard Investments and Legal & General, are closely aligned to the Transition Pathway Initiative and enable research behind reports by acting as Research Funding Partners. One company in which we are invested via Baillie Gifford, BHP Billiton, in the oil and gas sector, is in a list of 4* companies which satisfy all TPI management quality criteria.

2.18. A recent TPI report on the state of transitions showed that 30% of companies assessed are, or will be, aligned with the Paris pledges benchmark in 2030. However, the report demonstrates that there are wide differences within sectors in how companies are responding to the climate emergency. Other key findings were:

- **46%** of companies are not adequately integrating climate change into their business decisions
- **25%** of companies do not disclose their own carbon emissions

- **84%** of companies do not disclose an internal carbon price; and **86%** are yet to undertake and disclose climate scenario planning – a critical part of TCFD reporting
- **Only 16%** of companies assessed for their current and planned GHG emissions are aligned with the 2°C benchmark**.**
- **Only 12.5%** of companies assessed for their current and planned GHG emissions are aligned with the most ambitious below 2°C benchmark.

2.19. Carbon footprints are measured with reference to 3 scopes: scope 1 (direct greenhouse gases), scope 2 (indirect greenhouse gases), scope 3 (indirect emissions not directly owned or controlled by the organisation). Fewer than 40% companies in the MSCI All Country World Index actually report their carbon footprints, which are not audited or reviewed by third parties.

2.20. Equity manager **Bailie Gifford** had a carbon footprint that was 37% lower than the benchmark ("yourSRI" benchmark) but **Harris** were 34% above the same benchmark, caused mostly by stocks Glencore and Larfarge. Harris had engaged with these companies and Glencore agreed to a coal production cap and LaFarge were looking to use additives to reduce their energy input.

2.21. The remaining equity manger, **Legal and General**, provided limited carbon footprint data but as they track the MSCI index. They were likely to be on benchmark given the tracking nature of their mandate. L&G introduced their Climate impact pledge two years ago in order to use their rights as major shareholders to put pressure on companies to accelerate their transition to a low-carbon economy.

2.22. Many of the non-equity managers have taken steps to report their footprints but there is still some way to go before all assets in the portfolio can be footprinted.

Climate Change Funding Impacts

2.23. This report is considered in full

2.24. The Committee noted that the results of the modelling showed that the "green revolution" involving a rapid policy response from Government gave the best result of the three modelled and gave an outcome similar to the results of the triennial valuation.

2.25. The Committee found it helpful to look at climate change in the context of investment strategy and would ask that KPMG, the Fund's investment advisor, to look at the results.

Performance report

2.26. This report presented the performance of the Pension Fund up to 30 September 2019. The fund's overall return that quarter was positive, at 1.9% but below target of 2.5%. Overall, the pension fund continued to outperform the long-term target set at the triennial valuation in 2016 by 8.5%.

2.27. Global equity markets in Q3 were mixed, with developed markets enjoying modest growth but emerging markets experienced a slight fall in stock prices. The US-China trade war hit confidence, which triggered the Federal Reserve Bank to lower interest rates by 0.25%. Uncertainty over Brexit hampered the growth in UK equities. Despite weak economic data coming out of European markets, they generally outperformed global indices, perhaps encouraged by

the European Central Bank taking further measures to boost economic activity.

2.28. Worsening economic data in general and ongoing trade tensions caused global government bond markets to perform strongly. UK (Consumer Price Index) inflation was the lowest since January 2017, falling to 1.7% in September 2019.

TABLE 7: MANAGERS' PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	2.8	2.1	1.5	10.4	10.5
Custom Global Equities (Gross) + 2.5%	4.0	10.6	13.4	15.1	16.8
Excess Return	-1.3	-8.5	-12.0	-4.7	-6.3
Baillie Gifford (London CIV)	0.7	4.9	9.5	13.3	12.9
Custom Global Equities (Gross) +2.5%	4.0	10.6	-	-	13.4
Excess Return	-3.4	-5.7	-	-	-0.5
L&G UK Equity	1.3	2.8	4.4	7.0	11.2
FTSE All Share + 0%	1.3	2.7	4.3	6.8	11.0
Excess Return	-0.0	0.1	0.1	0.2	0.2
L&G Global Equity	3.5	7.8	10.6	12.2	13.7
FTSE All-World + 0%	3.5	7.8	10.6	12.2	13.7
Excess Return	-0.0	-0.0	0.0	0.0	0.0
Insight Investment	-0.5	-2.7	-3.1	-1.4	0.3
3 month LIBOR + 4%	1.2	4.9	4.8	4.6	4.5
Excess Return	-1.6	-7.5	-7.8	-6.0	-4.2
L&G Passive ILG	8.7	20.3	10.5	5.4	10.0
FTSE Over 5yr Index Linked Gilts + 0%	8.6	19.7	9.9	4.8	9.8
Excess Return	0.1	0.6	0.6	0.6	0.2
CBRE	-0.4	3.3	6.0	6.7	8.3
All Balanced Property Funds + 1%	0.6	3.2	6.5	7.8	8.7
Excess Return	-1.1	0.0	-0.6	-1.1	-0.4
Partners Group 2009 Euro Fund	3.4	1.7	4.2	3.8	9.4
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-0.2	-13.3	-10.8	-11.2	-5.6
Partners Group 2013 USD Fund	3.8	10.1	11.1	15.6	18.7
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	0.3	-4.9	-3.9	0.6	3.7
Partners Group 2017 USD Fund	4.3	21.1			7.0
Absolute 15%	3.6	15.0			6.3
Excess Return	0.7	6.1	-	-	0.7
HarbourVest	6.9	23.0	21.6	27.9	26.4
Absolute 8%	1.9	8.0	8.0	8.0	7.8
Excess Return	4.9	15.0	13.6	19.9	18.6

Barings	1.6	2.7	2.7	4.1	4.3
3 month LIBOR + 4%	1.2	4.9	4.8	4.6	4.6
Excess Return	0.4	-2.2	-2.1	-0.5	-0.2
Ruffer (London CIV)	2.9	1.7	-	-	2.3
3 month LIBOR + 3%	0.9	3.8	-	-	3.8
Excess Return	2.0	-2.1	-	-	-1.5
Standard Life	1.3	4.3	1.1	1.4	1.2
6 month LIBOR+5%	1.4	6.0	5.9	5.7	5.7
Excess Return	-0.1	-1.7	-4.8	-4.3	-4.5
Total Fund	**1.9**	**4.8**	**5.9**	**8.1**	**10.0**
Total Fund Composite Target	**2.5**	**7.3**	**8.3**	**9.3**	**11.9**
Excess Return	**-0.5**	**-2.5**	**-2.5**	**-1.2**	**-1.9**

2.29. **Harris** generated an absolute return of 2.8% in Q3 (2019) underperforming target by 1.3%. Stocks that were detractors were Daimler who issued two profit warnings in 2019 and Glencore. Harris continued to significantly underperform target in the 2 year period with negative relative returns to target of 12.0%. This impacted the manager's long term performance trailing target by 6.3% since inception.

2.30. Despite having the Investment management meeting with Harris in November and listening to their presentation on Carbon Footprint, Committee Members still had some concerns over their performance and gender diversity. It had been agreed that quarterly meetings would be held with Harris to discuss these issues.

2.31. **Baillie Gifford (London Collective Investment Vehicle)** in Q3 (2019) produced a below target return of 0.7% resulting in a relative underperformance to target of 3.4%. Stocks that were hit by the US-China trade war were AIA and Prudential. The manager was slightly behind target by 0.5% since inception.

2.32. **Insight** delivered another negative return of 0.5% in Q3 which equated to a 1.6% underperformance relative to target. Over the year, the manager underperformed against its cash plus 4% target by 7.5% and by 4.2% since inception (2014). The manager's continued underperformance underscores the Committee's decision terminate Insight and transition assets away from this manager to the London CIV CQS multi asset credit Fund. The process of transitioning assets between the two managers has been put on hold following the LCIV putting CQS on watch.

2.33. **CBRE** had an absolute negative return of 0.4% underperforming target by 1.1%. The Nuveen shopping centre and Retail warehouse funds suffered significant negative performances of 4.6%and 7.2%. This manager matches target for the year, but slightly behind target by 0.4% since inception.

2.34. The **Partners Group** funds' performance in Q3 (2019) were considered individually.

i. The 2009 Euro fund was up 3.4% over the quarter resulting in a slight underperformance of 0.2% below the quarterly target for the investment and trails by -5.6% against target since inception.

ii. The 2013 US fund returned a positive absolute return of 3.8% in the quarter resulting in the fund outperforming by 0.3% against a target of 3.6% - the fund was ahead of target by 3.7% since inception.

iii. The 2017 US fund achieved a positive absolute return of 4.3% in the quarter, outperforming target by 0.7% - the manager was ahead of target by 0.7% since inception.

2.35. **HarbourVest** had another strong quarter outperforming target by 4.9% by delivering returns of 6.9% against target of 1.9%. The private equity manager had outperformed target on all other time horizons; over a one year time horizon by 15%, 19.9% over 3 years and by 18.6% since inception.

2.36. **Barings** – had a strong quarter with positive absolute return of 1.6% which was 0.4% ahead of target. Equities in the Fund had dropped from 46% last September (2018) to 39% at the end of that quarter. High yield fixed income had performed well (half of the overall contribution to return) and had increased from 15% last September to 23% now. The manager was trailing target by 2.2% for the year, but only slightly lagging target (by 0.2%) since inception.

2.37. **Ruffer**, had a good quarter, delivering positive absolute return of 2.9% outperforming target by 2%. The manager lagged target in the one year period by 2.1%.

2.38. **Standard Life**, delivered a positive absolute return of 1.3% in Q3 (2019) against a target of +1.4% underperforming target by 0.1%. The manager trailed its target over all other time horizons at present and is behind since inception by 4.5%.

2.39. **CQS** returned absolute return of 0.60% performance against target in Q3 2019. The London CIV continues to put CQS on watch due to concerns around key staff changes, underperformance and investment strategy. When the manager was put on watch in August 2019, the Fund's independent consultant investigated these issues by speaking to London CIV to better understand their concerns and subsequently to CQS. Whilst change in leadership is generally concerning, the remainder of the concerns by LCIV were deemed technical interpretation of Regulation/misunderstanding around investment process. Given the CIV's concerns the planned quarterly transition from Insight to CQS has been put on hold.

LCIV Progress Report

2.40. The value of the London CIV's assets directly invested stood at £9bn (see Table 1 below) as at September 2019. The CIV also oversaw £10.6bn in passive assets. The CIV was then running at 51% (£19.4bn) of London's assets under management. The London CIV aims to achieve a pooling level of 70% by 31 March 2023 with the pooled passive amount to remain largely unchanged during this period, and forecast net savings of £60.4m by this date

2.41. Progress is below target with the rate of growth of AUM declining. Net inflows have been slow and the 2019/20 new business forecast range is £200m to £1.5bn, below the target of £2.5bn. Fund launches were delayed in 2019 and some were launched with little or no investment.

2.42. Property and Private Equity were asset classes still not available and proposals on a low carbon fund were under development

2.43. It was agreed that the planned quarterly transition from Insight to CQS continue to be put on hold pending scrutiny and to enable the London CIV to continue to monitor and meet with CQS.

Business Plan

2.44. This report updated the Committee on future business items and training attended and opportunities

3. PENSION COMMITTEE 3 MARCH 2019

3.1. PIRC Corporate Governance Annual Review 2019

3.2. The Camden Pension Fund employs a corporate governance advisor (PIRC) to review company voting resolutions and execute the proxy votes of the Fund in accordance with its policy. This report reviewed and analysed the voting that has been undertaken by the Fund during the calendar year, as executed by PIRC.

3.3. During 2019, the Fund voted on 11,099 resolutions at 767 meetings. AGMs formed 82.1% of these votes. and 91.8% of the meetings were in the UK. Oerall the Fund supported 72% of the resolutions it voted on. The Fund supported 76% of all Directors who sought election. In the UK, in the case of remuneration reports, the Fund supported 42% of these. In the case of remuneration policies, the Fund opposed 70%. The Fund opposed 62.8% of the resolutions in the UK concerning the appointment of an auditor.

PIRC's Camden Voting Guidelines 2020

3.4. The policy was last reviewed in March 2019 to take account of changes in the shareholder voting environment, and notably PIRC's revised remuneration scoring. As with the previous year, the 2020 voting policy also fully incorporates the Local Authority Pension Fund Forum (LAPFF) voting guidelines, which the Fund is an active member of.

3.5. Some of the main changes to the 2020 voting policy template are to:

- Oppose when no or inadequate policy regarding Climate Change, including targets in line with Paris Agreement; no or inadequate reporting on climate in general
- Oppose the Remuneration Committee Chair where serious concerns are identified with the remuneration policy or report. This will include at least one E, or two Ds in the rating for either the Remuneration Policy or the Report
- Opposition to share buybacks will be recommended unless the board has made out a clear, cogent and compelling case demonstrating both how the authority would benefit long- term shareowners (for example by actually reducing discount), and also that the directors are not conflicted in recommending the authority
- Oppose Companies in the FTSE100 with excessive misalignment between actual and reported ratios between tangible and intangible assets

3.6. Appendix C of this report also links the UN SDG goals to ESG considerations when PIRC evaluate companies.

Performance Report

3.7. The portfolio had a market value of £1.822bn at 31 December 2019, compared with £1.786bn at 30 September 2019. The Fund returned 16.8% in the year (Table 7 below) ahead of the universe return and 2.3% for the quarter which again outperformed the PIRC universe which averaged 13.2% in 2019 and 0.5% for Q4.

3.8. The performance of global equity markets in Q4 was better than expected. Emerging markets and the UK were the best performing regions in that quarter and on an annual basis, North America performed best amongst the developed markets, as US stocks enjoyed their best year for six years.

3.9. Promises of a “phase 1” trade deal between the USA and China, helping to reduce and prevent tariff rises, along with reasonable US GDP growth in Q1-Q3 2019, helped to inflate US stocks but caused bond prices to fall. In October, slowing global growth and weak inflation prompted the Federal Reserve Bank to cut interest rates for the third time in three months, which also fuelled stock market gains there.

3.10. Growth in UK equities performed worse than European equities in Q4 (when measured in local currency) owing largely to the political uncertainty that weighed heavily on the nation throughout most of the period. Sterling Index Linked Gilts fell the most over the quarter as “No Deal” scenarios over Brexit were taken off the table, for at least a year. GDP was forecast to be only 0.1% in Q4, which would make 2019 the worst performing year since the financial crisis.

3.11. The European Central Bank cut rates to -0.5% and announced a revival of quantitative easing in response to poor Eurozone growth

3.12. The LCIV Infrastructure Fund launched this quarter and had its first call of £159k. Infrastructure will make up to 5% of the Fund eventually.

3.13. The performance of the Fund is summarised below:

TABLE 8: MANAGERS’ PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	3.7	24.2	2.5	7.1	10.8
Custom Global Equities (Gross) + 2.5%	2.1	25.4	11.5	13.2	15.1
Excess Return	1.6	-1.2	-9.0	-6.2	-4.3
Baillie Gifford (London CIV)	4.9	27.8	-	-	10.0
Custom Global Equities (Gross) +2.5%	2.1	25.4	-	-	12.7
Excess Return	2.8	2.3	-	-	-2.7
L&G UK Equity	4.1	19.2	3.9	7.0	11.4
FTSE All Share + 0%	4.2	19.2	3.9	6.9	11.2
Excess Return	-0.0	0.0	0.0	0.2	0.2
L&G Global Equity	1.5	22.3	8.7	10.4	13.5

FTSE All-World + 0%	1.5	22.3	8.7	10.4	13.4
Excess Return	-0.0	0.0	0.0	-0.0	0.0
Insight Investment	4.1	2.7	-1.6	-0.7	0.9
3 month LIBOR + 4%	1.2	4.8	4.8	4.6	4.5
Excess Return	2.9	-2.1	-6.4	-5.4	-3.6
CQS (LCIV)	1.3	-	-	-	2.5
3 Month GBP Libor +4.5%	1.3	-	-	-	-
Excess Return	0.0	-	-	-	-
L&G Passive ILG	-9.4	6.8	3.2	3.0	8.8
FTSE Over 5yr Index Linked Gilts + 0%	-9.5	6.3	2.7	2.4	8.5
Excess Return	0.1	0.5	0.5	0.5	0.2
CBRE	-0.1	1.7	4.9	6.2	8.0
All Balanced Property Funds + 1%	0.2	2.3	4.9	7.0	8.5
Excess Return	-0.4	-0.7	-0.1	-0.8	-0.4
Partners Group 2009 Euro Fund	2.1	-3.5	-0.3	2.3	8.5
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-1.4	-18.5	-15.3	-12.7	-6.5
Partners Group 2013 USD Fund	-4.4	1.6	9.8	8.1	16.8
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-7.9	-13.4	-5.2	-6.9	1.8
Partners Group 2017 USD Fund	-4.9	9.0			5.6
Absolute 15%	3.6	15.0			15.0
Excess Return	-8.4	-6.0	-	-	-9.4
HarbourVest	4.0	21.6	17.9	18.8	25.7
Absolute 8%	1.9	8.0	8.0	8.0	7.8
Excess Return	2.0	13.6	9.9	10.8	17.9
Barings	1.5	12.1	2.4	4.8	4.4
3 month LIBOR + 4%	1.2	4.8	4.8	4.6	4.6
Excess Return	0.3	7.3	-2.3	0.2	-0.2
Ruffer (London CIV)	1.0	8.6	-	-	2.5
3 month LIBOR + 3%	0.9	3.8	-	-	3.8
Excess Return	0.1	4.8	-	-	-1.3
Standard Life	0.7	7.2	0.5	1.2	1.3
6 month LIBOR+5%	1.4	5.9	5.9	5.8	5.7
Excess Return	-0.8	1.2	-5.4	-4.6	-4.5
Total Fund	**2.3**	**16.8**	**5.3**	**7.5**	**10.0**
Total Fund Composite Target	**2.0**	**15.1**	**7.4**	**8.6**	**11.8**
Excess Return	**0.3**	**1.7**	**-2.1**	**-1.1**	**-1.8**

2.26. **Harris** generated an absolute return of 3.7% in Q4 (2019) outperforming target by 1.6%. Harris continued to significantly underperform target in the 2 year period with negative relative returns to target of 9.0%. This impacted the manager's long term performance trailing target by 4.3% since inception, although this is an improvement from last quarter when it was trailing by 6.3%. When viewed against other value managers, Harris is in the top quartile over

the three-year period to Q1 2019, have ranked highly in applications to manage LCIV funds, and are fund managers to the Brunel Pension Partnership and the Border to Coast LGPS. This gives some reassurance in their capabilities. The independent investment advisor and Head of Treasury and Financial Services met with Harris in January where they discussed their good Q4 performance and previous good year to date. They admitted 2018 had been a poor year mainly due to the rotation in markets in Q4 of that year. They explained that they still had conviction in the stocks in their portfolios and the underlying strong cash flows of these businesses.

2.27. **Baillie Gifford (London Collective Investment Vehicle)** produced a return of 4.9% this quarter resulting in a relative out performance of target by 2.8%. The manager is behind target by 2.7% since inception. It is worth noting that Baillie Gifford, like Harris, is also overweight in financials (Prudential, Moody's, Mastercard, AIA). It has a lot of exposure to US stocks. The Independent investment adviser and officers met Baillie Gifford in February and they discussed how a wide range of ideas had contributed to their success. They still back their growth style and think that disruptor firms will continue to succeed which suits their style.

2.28. **Insight** delivered better quarterly results than last time, with returns at 4.1% compared to a target of 1.2%. However, they are still 3.6% behind target since inception (2014). The manager's overall underperformance again underscores the Committee's decision to terminate Insight and transition assets away from this manager to the London CIV CQS multi asset credit Fund. The process of transitioning assets between the two managers has been put on hold following the LCIV putting CQS on watch.

2.29. **CBRE** have produced slightly below target across all periods measured. This last quarter, they were 0.4% below target, with absolute performance of -0.1%, and are 0.4% below target since inception. The UK commercial property market returns have slowed on an annual basis, returning 2.3% in the year to November 2019, a fall compared to recent years, with the retail sector particularly badly hit with the worst still to come. Furthermore, property transactions have been very low and this will have skewed the benchmark. CBRE are hopeful for the future, seeing income growth and the industrial sector as being the areas to deliver better future portfolio returns.

2.30. The **Partners Group** funds' performance in Q4 (2019) were considered individually.

iv. The 2009 Euro fund was up 2.1% over the quarter, resulting in an underperformance of 1.4% below the quarterly target for the investment, and trails by -6.5% against target since inception. This fund is in its realisation phase and is near fully committed and so is unlikely to meet its overall target. That quarter, the strengthening pound against the euro hampered returns of euro denominated assets when converted into sterling (and the same is true with dollar denominated assets). The fund has now distributed 120% of committed capital. There are 28 investments left in the fund and there was strong exit activity that quarter.

v. The 2013 US fund returned a negative absolute return of 4.4% in the quarter resulting in the fund underperforming by 7.9% against a target of 3.6% - however the fund was ahead of target by 1.8% since

inception. This fund is still in its value creation phase with a portfolio of 30 active investments. The Fund is 85% invested.

vi. The 2017 US fund also achieved a negative absolute return of 4.9% in the quarter, underperforming target by 7.9% - the fund is still relatively young however and is only 45% committed. The fund is still in its value creation phase with 36 active portfolio investments. During the quarter the fund made 5 new commitments (4 in the US and 1 in Asia-Pacific). The Fund is 83% invested.

2.31. **HarbourVest** had yet another strong quarter outperforming target by 2% by delivering returns of 4% against target of 2%. The private equity manager has outperformed target on all other time horizons: over a one year time horizon by 13.6%, 10.8% over 3 years and by 17.9% since inception. The fund is now 63% called with a net multiple of 1.32 x and an Internal Rate of Return (IRR) of 24.2%.

2.32. **Barings** – performed slightly above target for the quarter at 1.5%, above the target of 1.2%. They were 0.2% below target since inception but have had a very good year, showing 12.1% returns against a 4.8% target. The strong growth in equities across the globe has aided their position and they have roughly doubled their UK equity allocation in Q4, in the belief that the UK has become "too cheap". Barings increased their overall equity exposure during the quarter by 7% of the fund's value.

2.33. **Ruffer**, outperformed target by 0.1% over the quarter and despite a good year (4.81% above target) they were still 1.3% below target since inception. Ruffer acknowledge a difficult 2018 but are happier with their performance in 2019.

2.34. **Standard Life**, delivered a positive absolute return of 0.7% in Q4 (2019) against a target of +1.4% underperforming target by 0.8%. The manager trails its target over all other time horizons (apart from the last year) at present and was behind since inception by 4.5%. Looking forward, they have tilted their portfolio towards higher risk/ higher return assets in the belief that downside risks to global economic growth have faded for the time being.

3.14. **CQS** returned absolute return of 1.3% performance that matched against target in Q4 2019. High yield and US loans contributed most significantly to returns this quarter and they are seeing investors seek higher quality credit and for longer durations, which they look to take advantage of looking forward. The London CIV continues to have CQS on watch due to concerns around key staff changes, underperformance and investment strategy.

<u>LCIV Progress Report</u>

3.15. Their assets under management (AUM) growth had been less than projected. For instance, six LLAs have still to commit any funds to the LCIV platform. The late launch of funds and the lack of fund range, particularly in relation to passive funds, were also cited as factors behind the flat growth of AUM. By March 2020, 52% of total London LGPS assets (active £8.1bn and passive £11bn) is forecast to be on the CIV platform: almost unchanged from last year and short of the £2.6bn growth forecast in AUM. This has prompted the CIV to increase fees by £20k per London Local Authority (LLA) from £90k to £110k. The London CIV aims to achieve a pooling level close to 70% by 31 March 2023. The CIV expects to hit most objectives in its MTFS apart from the funds under management target.

3.16. The CIV is on track to make a £525k adjusted loss this year and will not make a profit until 2024, they forecast. Their projected cash flow balances still seem stable and large however. One key sensitivity is if the appetite for passive funds increases over active funds: every £1bn of assets switched to passives is a fee reduction of £200k per annum for the CIV.

3.17. The "ESG stocktake report" – commissioned by Dawn Turner previously from Brunel Pensions Partnership – was completed. It concluded positively on the LCIV's engagement on ESG matters.

Funding Strategy Statement

3.18. The FSS governs how employer liabilities are measured, the pace at which these liabilities are funded, and how employers, or pools of employers, pay for their own liabilities. It must be reviewed and issued for consultation during each triennial valuation.

3.19. The only major changes are revisions for the McCloud judgement, an age discrimination court case that stemmed from when the government reformed public sector pensions in 2015, but offered "transitional protection" to some members of the judges' and firefighters' schemes. As a result, the LGPS benefit structure is currently under review, which may mean the benefit structure needs to change, and revisions to update for trapped surpluses. These occurred where employers had paid contributions over the life of their contract that were more than required to fund liabilities at cessation i.e. a surplus of contributions. Previously any credit amounts could not be paid back to employers. The Government has now introduced new regulations allowing Funds to pay back surplus money.

3.20. The draft FSS was circulated to employers in the Fund for consultation from 4 to 28 February. No comments were received back in response

Employer Register

3.21. This report contains key data about each employer including the admission body's status, admission agreements and bonds, as the Fund has sought to address the risks that a failing admitted body would pose.

3.22. The main point to note is that IDeA (the Improvement and Development Agency) has indicated that it will be transferring out of the Fund in 2020-21 to Merseyside's Fund. They will have to apply to the Secretary of State for a direction to substitute Merseyside Pension Fund for Camden Pension Fund in respect of the pension obligation for their employees. There are many things to do before this transfer can take place: all parties including our actuary, Merseyside's actuary, both Funds administration teams and IDeA are working to try and make this process work.

3.23. There were no additions of Employers to the Fund and three cessations since last year: Caterlink, Mears and Westminster Society. It is expected that there will be an agreement reached in 2020 for Ridge Crest Cleaning Services, who are engaged as cleaners of Camden School for Girls, to be admitted to the Pension Fund.

Prepayment of Secondary Contributions

3.24. This report is considered in full

Funding Maturity

3.25. This report is considered in full

Longevity

3.26. Longevity (how long pensioners live and future expectations) is a key determinant of pension fund liabilities. The higher pensioner life expectancy is, the greater a Fund's liabilities are (pensions paid over a longer timeframe from retirement).

3.27. Club Vita (a sister company of Hymans Robertson our actuarial consultant) looks at our own membership's expected longevity and not just the national experience. Data is drawn from 235 funds' experiences with 3 million members. The total fund liabilities are built up by analysing data on individual members of the Fund to build an overall picture

3.28. Based on the results of Club Vita's most recent work our liabilities are assessed to increase by 0.4%. This equates to £6.4m and was shown in the table analysing the change in deficit for the Fund in the triennial valuation report

3.29. The Fund has concentration risk that 50% of the liabilities stem from 12% of the membership. The report also sets out that the lowest paid 50% of members account for 7.5% of liabilities.

Engagement Report

3.30. A summary of the LAPFF Business Meetings and Quarterly Engagement Report Q4 are detailed below.

3.31. LAPFF considers how best to engage with infrastructure investments; and how best to deal with the link between stock lending and reduced voter turnout.

3.32. LAPFF will collect asset manager votes at all companies where LAPFF issued Voting Alerts during 2019 and will collect asset manager votes at FTSE 100 companies to assess their voting profiles. This is in response to a previous brief review of votes back in July that found significant differences between managers' voting records on issues where LAPFF Alerts had been issued.

3.33. Other business meeting reports concerned LAPFF's issues with International Financial Reporting Standards, that do not present the resilience of balance sheets well enough in their opinion. They are also behind the Brydon Review that calls for a separation between the auditing and accounting profession.

3.34. LAPFF will develop an approach to working with policymakers and update their climate change policy framework in response to their Climate Change Survey.

3.35. Engagement by PIRC that quarter saw LAPFF members file shareholder resolutions at Chevron, Amazon, Alphabet, Eli Lilly, Citigroup and Honeywell. This will put pressure on companies to improve their strategies on climate resilience. There are new proposed rules on filing shareholder resolutions in the USA that will soon make it harder to do so. LAPFF also had detailed engagement with high profile companies like National Grid, Southern, National Express and many others emphasising environmental matters.

3.36. The report also tracked the exposure the Fund has to the top 200 fossil fuel companies and the engagement managers have had with them. The exposure was small, with the largest being Royal Dutch Shell, at 3.35% of Camden's equity portfolio at Legal and General.

Business Plan

3.37. This report updated the Committee on future business items and training attended and opportunities

4. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

4.1. The finance comments of the Executive Director Corporate Services are included in the report.

5. COMMENTS OF THE BOROUGH SOLICITOR

5.1. The Borough Solicitor has been consulted and has no comments to add.

Agenda Item 7

LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Climate Change funding impacts	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Board	**DATE:** 17 March 2020

SUMMARY OF REPORT:

This report updated Pension Committee on the analysis of the actuary on the Fund's liabilities and funding level for differing climate change scenarios and demonstrates the significant impact climate change can have on the Fund. Pension Committee noted the contents of the report.

Local Government Act 1972 – Access to Information
No documents requiring to be listed were used in the preparation of this report:

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RECOMMENDATIONS:

The Pension Board is asked to note the contents of the report.

Signed by

Director of Finance ……………**Agreed** …………...

Date ……6 March 2020…….

1. SUMMARY

1.1. Climate change is one of the biggest risks facing the world in environmental and financial terms. Governments across the globe are reacting to the climate crisis and the impact of global warming will be felt in all regions and all climates.

1.2. Almost 200 countries recognise the need to reduce greenhouse gas emissions and the Paris agreement limits rises in temperatures well below 2°C and to aim for 1.5^{o}C. In the UK the Government has recently committed to cut greenhouse gas emissions to net zero by 2050 recognising this would benefit public health.

1.3. The Bank of England has recognised the financial risks which threaten the economy and have considered how to support an orderly market transition. Closer to home, the Council recently declared a climate crisis and held a Citizens' Assembly. Many other Councils have recognised the urgency of the situation.

1.4. The Pension Fund recognises the risk that climate change poses in its risk register. In particular it identifies that fossil fuel linked investments may suffer losses due to stranded assets and reputational damage. However, climate change could have much broader impacts on funding and investment strategies. Not only are assets at risk but also factors such as inflation and longevity which affect the Fund's liabilities.

1.5. Our actuary, Hymans Robertson, has offered the Fund some analysis and modelling based on different climate related scenarios and this is set out in Appendix A. The scenarios tested were:

> **Green Revolution**: Rapid policy response from government creates the absolute necessity for change which is matched by the deployment of green technologies and ongoing investment in adaptation;
>
> **Challenging times**: Challenging times reflects delayed policy action. Change is likely to be intermittent at first but is assumed to become more severe in response to growing environmental feedbacks;
>
> **Head in the Sand**: Policy responses do not prioritise environmental change with corporates largely continuing business as usual type approaches.

1.6. The results of the modelling show that the green revolution gives the best result of the three modelled and gives an outcome similar to the results of the triennial valuation. Challenging times gives the second best result but with a volatile trajectory. Head in the sand gives the worst outcome with funding levels not reaching 100% funding over the 20 year time horizon modelled.

1.7. The Hymans report sets out that the Fund should not just focus on assets and how they may be impacted but also to focus on impacts to the Fund's liabilities.

2. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

2.1. There are no finance comments to add.

3. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

3.1. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the administering authority must include in the investment strategy statement its policy on social, environmental and corporate governance when making decisions regarding investments. This report demonstrates that the administering authority is discharging its responsibility.

APPENDICES

APPENDIX A - Hymans Climate Emergency risk analysis

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APPENDIX A

London Borough of Camden Pension Fund

Climate emergency risk analysis

Barry Dodds FFA
Douglas Green FFA

4 October 2019

Hymans Robertson LLP is authorised and regulated
by the Financial Conduct Authority

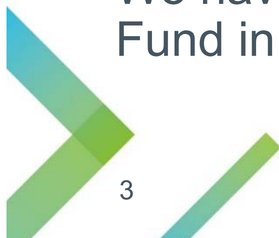
Background

- This paper is addressed to the London Borough of Camden in its capacity as Administering Authority (in effect the trustee) to the London Borough of Camden Pension Fund ("the Fund"). The Fund is part of the Local Government Pension Scheme ("LGPS"), and its assets are held separately from the Council;
- The Fund has obligations under LGPS Regulations to pay benefits to members as and when they retire, and to their dependants as and when members die, details being defined in those Regulations;
- The Fund holds assets to pay those benefits, although the benefits are not affected by market movements. The assets are derived from contributions paid in by the employers (mainly the Council) and members (set by Regulations), plus investment returns achieved;
- A shortfall in the assets available (i.e. a funding level below 100%) means that, all other things being equal, the employer will need to pay more into the Fund to ensure the Fund can pay the benefits;
- Hymans Robertson is the actuary to the Fund, and one of our Regulatory responsibilities is to advise how much employers need to pay in to the Fund to ensure there are sufficient assets available in the future to pay benefits.

Climate emergency: a hot topic

- Climate emergency has the potential to affect the benefits which the Fund needs to pay:
  - if it affects the longevity of members in retirement, then it needs to pay more if members live longer, and less if members die sooner;
  - if it affects price inflation, then members' pensions in payment will rise faster (meaning higher payout needed) or slower (meaning lower payout needed).
- Climate emergency also has the potential to affect the assets available to meet these benefits, if it affects:
  - economic growth and inflation,
  - shares & property values,
  - interest rates,

  then this can speed up or slow down the growth in the Fund's asset values (or even reduce the Fund's asset values).
- See slide 10 for details of some of these potential impacts, which we have modelled.
- We have measured how some of these potential impacts might affect the Fund in the short, medium and long term.



Professional notes

- This paper is addressed to, and has been requested by, the London Borough of Camden in its capacity as Administering Authority (in effect, trustee) to the Fund. The paper is being made available publicly as part of the Fund's Pension Committee meeting pack for 28 November 2019;
- The paper is not formally addressed to, or intended to be taken as advice by, any other party such as Fund employers, members of the Fund, or Council tax-payers;
- The purpose of the paper is to identify to the Fund some of the potential long term funding impacts of different climate emergency scenarios. It is not intended to be part of the contribution-setting decisions in the 31 March 2019 formal funding valuation;
- Hymans Robertson does not accept responsibility for, nor can be held liable for, this paper being used by any other party than the Administering Authority or for any other purpose.

Climate, economy and pension funds are linked

Climate emergency → Corporates, Governments, People

Corporates → Covenant; Corporates → (Real) investment returns

Governments → (Real) investment returns

People → Demographics

Covenant → Funding requirements

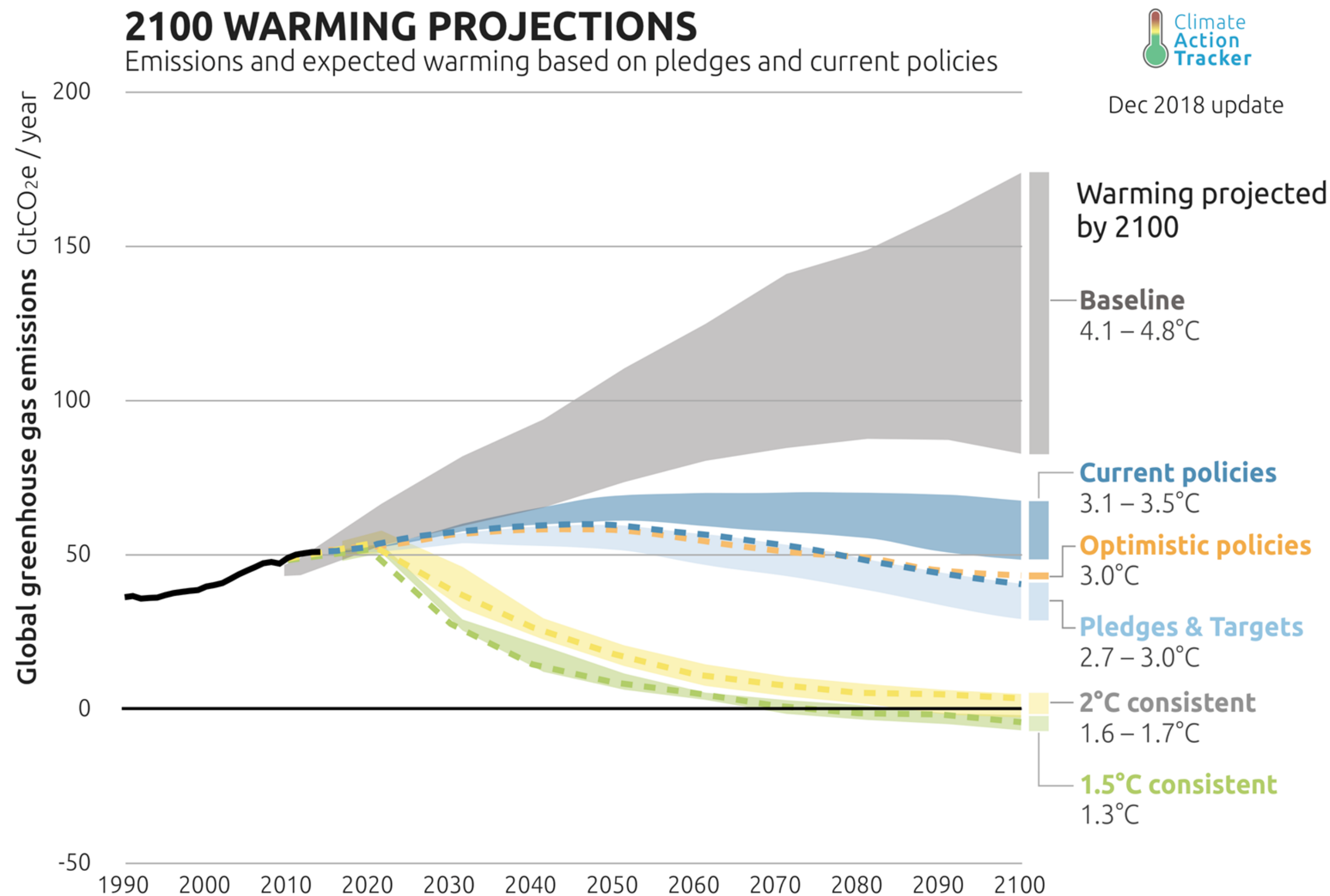
(Real) investment returns → Funding requirements; (Real) investment returns → Cost of providing pensions

Demographics → Funding requirements; Demographics → Cost of providing pensions

Cost of providing pensions → Funding requirements

Policy and market responses controlled by Corporates and Governments

Measuring climate emergency risk



Pension impact will depend more on Government policy and market reactions, rather than on degree of warming

APPENDIX A

Two parties matter most for the impact on pension funds

Governments (Policy Response)		Carbon tax, cap and trade, behavioural change, infrastructure investment
Corporates (Market/Technology Response)		Evolve business practices, reduce carbon dependencies, develop new technologies
People (Societal Response)		Press for change, but ultimately act through others
Environment (Climate Emergency)		Climate feedbacks provide signals that inform others

Responses from Governments/Corporates will affect pension funding

APPENDIX A

Scenarios modelled

Building on longevity impacts

Head in the sand

A range of disastrous outcomes resulting from a total lack of response to climate risk.

Global crop failures, influx of new diseases, severe temperature fluctuations resulting in harsh flu epidemics. Antibiotic resistance rises as new discoveries are limited.

Challenging times

Some adaptation achieved. "Peak oil flow" is reached constraining economies of the future.

Increasing fuel prices, constrained government finances, difficulty obtaining access to imported foods. More/less severe for lower/higher socio-economic groups.

Green revolution

Rapid technological advances leading to positive adaptation to climate change.

Healthier lifestyles prevail (walking, cycling etc), diets improve with less processed food consumption, homes protected against extreme temperatures.

Club Vita analysed the impact on longevity (and hence on liability values: reduced longevity means higher liabilities and vice versa) under these three scenarios

Source: Club Vita- Hot and Bothered?: https://www.hymans.co.uk/media/uploads/ClubVita_Booklet_UpdatedStats.pdf

Economic, financial and longevity impacts

Markets impact

Longevity impact

Head in the sand

GDP growth & equity returns continue to rise in short term but then fall significantly.
Inflation stable in short term then rises.
Gilt yields rise short term then fall significantly.
Credit spreads widen significantly.

Challenging times

GDP growth & equity returns flat in short term then fall (especially in medium term).
Inflation stable in short term then rises.
Gilt yields fall significantly in medium term.
Credit spreads widen significantly (especially in medium term).

Green revolution

GDP growth & equity returns fall in short term but then improve.
Inflation continues to rise then stabilises long term.
Gilt yields rise short term then stabilise long term.
Credit spreads widen significantly then stabilise long term.

Source for longevity impact: Club Vita- Hot and Bothered?

Modelling approach

5000 scenarios projected over 20 years

Filter scenarios to identify those which look like the climate scenario

Constraints based on scenario expectations applied at different points in the projection period

Results presented based on filtered output

Outcomes filtered by each scenario's parameters

We have used the existing modelling data/parameters for the Council

APPENDIX A

Modelling results

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Format of results:
(shown separately per scenario on next three slides)

200%
150%
100%
50%
0%
Funding level
0
5
10
15
20

(light grey lines)
Original projections

(dotted line)
Average of all 5,000 projections

(solid colour lines)
Projections relevant to this one of the three scenarios

(dashed line)
Average of projections relevant to this one of the three scenarios

All figures relate to funding level
(based on discount rate of prevailing gilt yields + 1.6%)

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APPENDIX A

Results:

Head in the sand

Funding level

200%
150%
100%
50%
0%

0 5 10 15 20

Fund expected to have appreciably poorer funding level throughout

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Results:

Challenging times

Funding level

200%
150%
100%
50%
0%

0
5
10
15
20

Fund expected to do better than in “head in the sand” scenario, but still struggle in the long term

Results:

Green revolution

Funding level

200%
150%
100%
50%
0%

0 5 10 15 20

Fund outcomes expected to be similar on average as currently expected

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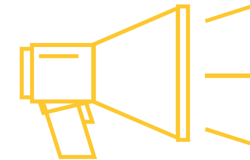
High level comments

- The Fund is exposed to climate risk on the asset **and** liability side
- This modelling illustrates the range of future funding outcomes we might see as a direct result of government/business action and inaction
- Some of these outcomes are very negative
- What could be done to reduce the impact on the Fund?

a) Lobby government to take action against adverse scenarios

But may not want to make positive allowance for this in funding plans



b) Ask employers to pay higher contributions

But affordable increases may be not make much of a difference

c) Reduce exposure to investments at risk

Or invest more in assets expected to perform well in adverse climate scenarios

APPENDIX A

Next steps – becoming climate friendly

Action	Requirements
Beliefs	• Review your current investment beliefs
Governance	• Consider your climate emergency policy
Asset allocation	• Can you bias towards prevailing opportunities?
Carbon risk exposure	• Review your equity portfolio and frame appropriate targets
Manager benchmarks	• Look at different types of index benchmark
Engagement programmes	• Speak to your fund managers & London CIV about actions they are taking to drive change
Reporting	• Think about summary reports including objectives, actions taken and results achieved

Draw up a plan of action and speak to your advisors

APPENDIX A

Appendix – Reliances, limitations & additional details

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Reliances, limitations and additional details (1)

Climate emergency scenarios – purpose

The purpose behind the modelling is to show the impact of three preconceived climate emergency scenarios and to promote engagement and discussion around the possible outcomes and impacts for the Fund around these scenarios. The modelling does not provide a framework for testing different courses of action by the Fund (via its funding and investment strategy) to mitigate against the risks discussed in this paper, due to the way in which the analysis has been constructed.

Climate emergency scenarios – method

We have used the previous modelling exercise (see our paper entitled "Council Contribution Modelling" dated 12 September 2019, discussed at the Committee Meeting on that date) as the basis for this exercise: both use our proprietary tool "ComPASS". Note that, whilst technically both exercises relate to the Council as opposed to the whole Fund, the results can be taken as suitably relevant to the Fund as a whole given the very large majority of the Fund which the Council occupies.

The climate emergency scenario modelling assumes that economic and financial relationships are not broken and that climate outcomes exist within the extremes of the 5000 scenarios modelled for ComPASS (as generated by our Economic Scenario Service (ESS)). Although the ESS captures a wide range of future financial conditions, it has not been calibrated to allow for climate emergency explicitly. **Importantly, this modelling does not place a likelihood of each of these scenarios occurring and the number of simulations captured under each scenario should not be used as such.**

The longevity impact has been included approximately by scaling the liabilities linearly such that by year 20 the full impact is realised. In each year of the projection, this means that the liabilities are being adjusted to reflect updated beliefs about future longevity but the projected cashflows being paid out are not being modified away from the base ALM scenario. The longevity impacts are assumed to be the same in 20 years' time as they are today.

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Reliances, limitations and additional details (2)

Data – Cashflows

In projecting forward the evolution of the Scheme, we have used estimated cash flows generated using our actuarial valuation system, based on information provided as at 31 March 2019 by the Fund.

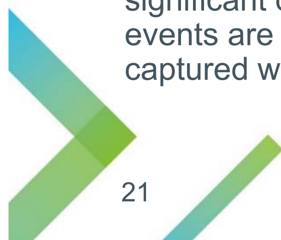
Data – ESS

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.



Reliances, limitations and additional details (3)

Assumptions

We have used the Council's membership (actives, deferred and pensioner) and assets in the Pension Fund, all as at 31 March 2019, as the starting point for our modelling.

For calculation of the funding level under each of the 5,000 future projections we assume:

- Discount rate based on prevailing gilt yield plus 1.6% (i.e. this is not as per the presentation as at 31 March 2019, but is adopted consistently throughout the 20 year projection for ease of consideration);
- Other financial assumptions (e.g. salary growth, CPI inflation of benefits in payment) as per 31 March 2019 actuarial formal valuation;
- Demographic assumptions other than longevity (e.g. rates of withdrawal and ill-health early retirement) as per 31 March 2019 actuarial formal valuation;
- Longevity assumptions in retirement as per 31 March 2019 actuarial formal valuation but adjusted for the each scenario as identified earlier in this paper.

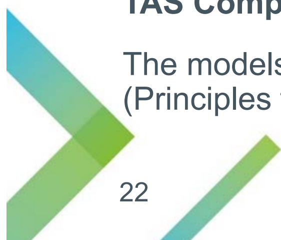
We have estimated future service benefit cash flows and projected salary roll for new entrants after the valuation date such that payroll remains constant in real terms (i.e. full replacement).

There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members

A judgement always has to be made as the most appropriate assets from the ESS to model the strategy under consideration. We have agreed this with yourselves during the scoping stage and further details are in the appendices.

TAS Compliance

The models used to carry out this modelling, and this presentation, comply with Technical Actuarial Standards 100 (Principles for Technical Actuarial Work) and 300 (Pensions).



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General risk warning

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LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Prepayment of Secondary Contributions	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Board	**DATE:** 17 March 2020

SUMMARY OF REPORT:
This report to Pension Committee followed on from a report in November 2018 and sets out phase two of a proposal from the Council, as the major employer in the Fund, to prepay its secondary contributions early for 2020-2023. Pension Committee agreed the recommendations of the report and agreed a further recommendation on the night to delegate authority to the Executive Director Corporate Services in consultation with the Chair of Pension Committee to determine which asset class to invest these monies into after taking advice from the Investment Consultant and Independent investment adviser.

Local Government Act 1972 – Access to Information
No documents required to be listed were used in the preparation of this report.

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Head of Treasury and Financial Services
Finance and Procurement
Dennis Geffen
Camley Street
London. N1C 4DG.

Telephone: 0207 974 1904
Email: nigel.mascarenhas@camden.gov.uk

RECOMMENDATIONS:

The Pension Board is asked to note the contents of this report

Signed by

Director of Finance ……………**Agreed** …………...

Date …………**6 March 2020**…………

1 INTRODUCTION

1.1 All employers in the Fund pay for the ongoing benefits accruing to staff (known as primary contributions). The Fund’s actuary, Hymans Robertson, sets this rate and for the Council and it is currently 18.2% for 2018/19. Services within the Council are charged an ‘on-cost’ on each and every employee in the Fund to collect these contributions.

1.2 At the last valuation, in March 2016, the Council as an employer was 76% funded meaning that its assets only made up this proportion of estimated liabilities. In order to redress this all employers in the Fund also pay secondary contributions which aim to achieve 100% funding. These contributions (for the Council) are repaid over a 17.5 year deficit recovery period and are cash payments rather than a percentage of employee costs. This ensures that given a reducing headcount employers still put in the necessary funds for deficit repair.

1.3 In the latest valuation of the Fund as at 31 March 2019 the Actuary set out the following secondary contributions for the Council:

2020/21	2021/22	2022/23
£19.675m	£20.421m	£21.166m

1.4 The Council has already prepaid the 2019/20 secondary contributions early on 1 April 2019 (the last year of the current triennial valuation). It paid £18.58m versus the actuary’s assessed figure of £18.93m (assumed to be paid at the mid-point of the year). The Fund agreed to the first year and then asked to reconsider this policy for the next three years and so this report is updating committee on this proposal.

1.5 The Council is now asking to make a further prepayment on 1 April 2020 for the three financial years 2020/21, 2021/22, and 2022/23. This forms the period of the next triennial valuation cycle. Many other Councils have also taken this approach.

1.6 In exchange for the Council paying its secondary contributions early it is proposed that the Fund would discount the cash amount by the asset outperformance assumption (4.5%) the actuary has set in the latest 2019 triennial valuation for asset growth of the Fund. This prepayment would effectively be put to use early in the asset strategy and so, as long as there is growth in the Fund's assets, would accrue growth in-line with the Fund's investment strategy earlier.

1.7 The table below shows the Fund's asset returns over the recent past and shows that in only one of seven years has the Fund experienced a negative return. Obviously past experience is not a predictor of future performance:

	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Fund Value (year end)	994,269	1,123,636	1,163,975	1,265,377	1,249,295	1,516,601	1,580,215
Growth	38,588	129,275	40,339	101,402	-16,082	267,345	63,614
%	4.04%	13.00%	3.59%	8.71%	-1.27%	21.40%	4.19%

1.8 The Funding Strategy Statement which governs how employers make contributions to the Fund allows for the Council (under stabilisation) to make additional payments over and above those certified by the Actuary.

1.9 Based on this it is estimated that paying the 2020/21 – 2022/23 secondary contributions early would amount to a saving of £3.939m in the amount the Fund would accept from the Council in order to receive their secondary contributions early on 1 April 2020 (instead of accruing monthly throughout the three years).

1.10 Therefore the Fund could accept a one off payment early on 1 April 2020 of £57.323m rather than payments of £19.675m, £20.421m and £21.166m in the next three years from 2020/21to 2022/23 (which total £61.262m).

1.11 Appendix A is the Actuary's assessment of the benefits of prepayment and sets out some of the risks.

1.12 Our auditor, Mazars, have been consulted on this proposal and have made the following points:

- Any prepayment should be made on 1 April 2020 or shortly afterwards and not any earlier. The Council is planning to make this payment on the 1 April.
- The Actuary should state in the Rates & Adjustments certificate that the secondary contributions are 'payable' for each year covered in the next valuation period and can be prepaid. The Actuary will ensure the wording reflects this.
- That the prepayment represents value for money for the Council. This is not something for the Pension Committee to consider but given the £3.939m discount to the Council this can be demonstrated
- That the Council should finance this prepayment from working balances and should not borrow for a revenue purpose. Whilst this is not a consideration for Pension Committee the Council has sufficient investment balances to be able to cash flow this.

1.13 It is also worth noting that Mazars were happy with the same proposal to prepay the 19/20 contributions agreed by Pension Committee last year and this year have indicated that they will be happy to sign this off based on the above points.

1.14 If Pension Committee agrees this approach then the approach will be cleared with the Fund's Auditors, Mazars. If the auditor agrees the approach this Committee will need to agree how to deploy the assets it receives early for 2020/21-2022/23.

2 FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES The finance comments of the Executive Director Corporate Services are contained within the report.

3 LEGAL COMMENTS OF THE BOROUGH SOLICITOR

3.1 This report proposes that the Council, acts in accordance with the Local Government Pension Scheme Regulations 2013, and contributes to the fund in line with the triennial actuarial valuation. This includes making advance payments towards the pension fund deficit contribution, which has been calculated in the triennial valuation. The Council has a duty to ensure the proper administration and management of the fund. It is appropriate for the Committee to agree the recommendation to make the prepayment in order to reduce the pension deficit cost.

APPENDICES

Appendix A – Hymans Robertson paper on Contribution Options

London Borough of Camden – Contribution Options

We have been asked by the London Borough of Camden ("the Council") to report on the implications of pre-paying some of their next three years' contributions to the London Borough of Camden Pension Fund ("the Fund") as a single lump sum.

This report is addressed to the Fund but may be shared with the Council: see the professional notes below for further details of the reliance and limitations of this advice. This report replaces the previous version dated October 2018.

Summary of advice

- Assuming Fund investment returns are above 0%, there is an economic benefit to the Council in paying large contributions sooner;
- Such benefits must always be weighed against the potential alternative uses of the lump sum, and we have not considered these in this paper as this is ultimately a Council value judgement;
- We have been asked to calculate illustrative pre-payment amounts relating to the secondary monetary contributions for the three years beginning 1 April 2020, which have been calculated as part of the formal triennial funding valuation as at 31 March 2019;
- Assuming a payment date on or around 31 March 2020, the savings would apply from 1 April 2020 for the agreed pre-payment period (e.g. 3 years will start from 1 April 2020 and end 31 March 2023, at which point the contribution rates calculated as part of the 31 March 2022 valuation will apply);
- I have assumed that the pre-payment amount is paid in full on or around 31 March 2020 within my calculations. Any payment made significantly later than this date (e.g. beyond 30 April 2020) would impact the expected cost savings and I may need to revisit my calculations;
- Payment of a large lump sum brings certain risks, which should be appreciated and possibly the subject of independent advice. It would also require advance clearance with the Council's auditor;
- The Council should advise the Fund Actuary, via the Fund, as soon as possible of their intentions regarding pre-payments: this should be as early as possible as we need to finalise our formal certificate for the 2019 valuation by 31 March 2020. We will incorporate suitable notes in the Rates & Adjustments Certificate in the formal actuarial valuation report of the Fund (to be completed by 31 March 2020).

Background

- The Council rates have been assessed as part of the ‘contribution rate modelling’ for the formal actuarial valuation of the Fund as at 31 March 2019. These contributions (before consideration of any pre-payment lump sum) relate to the three years beginning 1 April 2020 as follows:

Proposed rates for:	2020/21	2021/22	2022/23
Primary contribution rate	19.0% of pay	19.0% of pay	19.0% of pay
Secondary contribution	0.2% plus £19,675k	0.7% plus £20,421k	1.2% plus £21,166k

- The Primary rate is the Council’s share of the cost of each year’s build-up of new benefits for current active members. The Secondary contribution is the additional employer contribution to ensure full funding in the long term for the past service benefits accrued to the valuation date.
- The Council wishes to explore the issues around possible pre-payment of the next 3 years’ secondary **monetary** contributions, payable as a single lump sum to the Fund around 31 March 2020;
- The rates from 1 April 2020 onwards will be certified as part of the ongoing 2019 formal valuation, so that any prepayment will need to be reflected in the formal valuation results certificate;
- The Fund has asked for advice on the potential level of financial benefits and also if there are any risks to this arrangement;
- Therefore, it has been agreed that the Fund will take advice on the pre-payment in principle, based on the proposed contribution pattern determined above, and its choice of potential pre-payment.
- The Fund requires advance notification of large lump sums being made around 31 March 2020.

General comments

1. Ultimately, funding for defined benefit pensions is a question of pace rather than amount: the same eventual benefit payments need to be paid, in accordance with LGPS Regulations and the Council’s particular membership in the Fund. This is regardless of when and how much contributions are paid by the Council.
2. However, on the assumption that investment returns are above 0% (i.e. they are adding to the Council’s asset share in the Fund), then it is also the case that contributions paid sooner rather than later will (all other things being equal) result in lower total required contributions over the longer term. This is because the (positive) investment returns received on contributions paid into the Fund, provide some of the required cash to pay benefits later. In particular, the earlier contributions are paid in, the higher the (positive) investment returns, which are therefore beneficial to the Council’s longer term pension obligations.
3. Such earlier contributions are not without cost, of course: whilst they provide gains within the Fund, they may also represent a lost opportunity outside the Fund. The Council’s request in effect seeks to identify the pension funding gain which can be measured against non-pension lost opportunity, to help the Council make its value judgement.
4. **We cannot advise the Council whether a given pre-payment proposal should be pursued or not**, as this ultimately involves the Council making its value judgement. However, we can calculate the impact of the proposal on its Fund contributions, all other things being equal, as given in the “Results” section.

Assumptions

We have been asked to illustrate the impact of pre-payment amounts relating to the secondary monetary contributions for the three years beginning 1 April 2020.

To determine the impact, we need to make two assumptions in particular:

a) Investment returns (for discounting purposes): based on the formal funding valuation assumption, i.e. 4.5% pa as at 31 March 2019, as per initial funding advice delivered to the Fund as part of the 2019 formal valuation.

This relates to the headline published funding level but does not relate to how contributions are actually determined for the Council.

In terms of contribution-setting for the Council at this valuation, we used an economic projection analysis (our "ComPASS" model) instead. Considering the three-year period covered by the contributions being pre-paid, this model uses a central expected return of a slightly different rate p.a. However, this is only a central assumption, and was not explicitly used by itself to determine the Council's contributions. Therefore, we propose to use the published discount rate above for this exercise.

In practice, the future investment returns achieved by the Fund will differ from our assumption and may be higher or lower (see "Risks" section below).

b) **Contribution rates applying until 31 March 2023:** these have been calculated as part of the formal actuarial valuation as at 31 March 2019 and are as set out in the "Background" section above.

The results tables show the secondary monetary contributions required for the Council for each of the next three years.

We have then calculated the present value of these contributions for the Council, discounted using the investment return assumption above: this is the required pre-payment lump sum, due in April 2020, as an alternative to the Council making those three years' contributions.

We have then shown the difference between the two sets of figures, being the cash saving due to pre-payment, as requested by the Fund. It must be stressed that this saving is strictly based on these assumptions, and the actual saving will prove to be lower or higher if investment returns are lower or higher than the investment return assumption above; there will be no saving (indeed, there will be a cost) if investment returns prove to be negative over the period.

Results

London Borough of Camden

Individual year	2020/21	2021/22	2022/23	**3 years total** 1 April 2020 to 31 March 2023
Secondary monetary contributions to be pre-paid (£000)	£19,675	£20,421	£21,166	**£61,262**
Secondary monetary contributions if pre-paid (£000)	£19,247	£19,116	£18.960	**£57,323**
Saving to the Council (£000)*	£428	£1,305	£2,206	**£3,939**

*Assuming a 4.5% p.a. investment return

Possible alternative treatment as an additional (not advance) payment

The results above assume that any lump sum is to be considered as an advance payment of part of future contributions. However, there is no requirement to do this, and it would be possible to treat this in an alternative way, i.e. make any lump sum payment in addition to the full calculated contributions as given earlier in order to improve the Council's funding position.

In these circumstances, the economic benefit would flow to the Council in the next actuarial valuation following the date of the payment. This alternative benefit would arise from an improved funding position at that time (due to the additional lump sum payment).

If the Council wishes to consider this alternative treatment of the payment, then it should advise the Fund accordingly.

Next steps

If the Council is considering paying this lump sum to offset future years' certified contributions then it would need to confirm the details with the following parties, in chronological order:

1. The Council's relevant decision-making group, to ensure compliance with its own governance processes in deciding to make such a large pre-payment, and to agree the timing and treatment of the payment;
2. The Council's auditor, to ensure they are satisfied with the proposed change in payments (we are aware that advance payment of future years' contributions is sometimes challenged by auditors, or at least requires careful recording and reporting).
3. The Fund officers, to ensure they are aware of the timing and treatment of the payment and amend their investment, accounting and reporting procedures accordingly;
4. Hymans Robertson LLP as Fund Actuary, to ensure that the payment is appropriately reflected in an updated Rates & Adjustments Certificate to be issued hereafter. See the "Professional notes" below for further information.

Risks

There are risks, as well as potential benefits, involved in paying a large lump sum to the Fund:

1. The economic advantages assume positive investment returns being obtained by the Fund. To the extent that returns are negative for a period, then this reduces the financial benefits of this arrangement. In the extreme case, if investment returns were negative over the whole period from 1 April 2020 - 31 March 2023, then it would prove to have been beneficial to leave contributions payable throughout the period as opposed to making a pre-payment;
2. The actual economic benefit will depend on the investment returns actually generated by the Fund. Our figures assume a 4.5% p.a. average return over the three years: a lower actual rate of return would deliver lower economic benefits, and higher actual returns would deliver higher benefits;
3. In general, the arrangement involves taking cash away from other potential uses by the Council. Such alternative uses may be considered by some to be more important or more valuable, and this will always be a value judgement for the Council to make and justify. As mentioned elsewhere in this paper, we have not advised on whether a large lump sum to the Fund would be in the Council's overall best interests, as we are only considering the pension funding aspects;
4. The Council's main contributions are paid at regular monthly intervals, and therefore "ride out" the ups and downs of the Fund's market returns. Regular contribution payments reduce the risk (and potential reward) of market losses (and gains) derived by investing at a high (or low) point in the market.

Conversely, paying a large lump sum contribution concentrates the risk on the market conditions applicable at that time: if this date proves to be at a market “high” (relatively speaking) then it will dilute the financial benefit to the Council; if instead it proves to be a relative market “low” then it will deliver a larger financial benefit.

We would recommend that the Council considers taking independent advice as to the nature and timing of a large lump sum contribution to the Fund.

Professional notes

This advice has been requested by, and is addressed to, the London Borough of Camden as the Administering Authority to the London Borough of Camden Pension Fund. The purpose of the advice is to advise on the actuarial and funding issues arising on the potential payment of a large lump sum employer contribution to the Fund, being the pre-payment of part of future years’ Council contributions arising from the 2019 actuarial valuation.

The advice is not intended for any other party, nor for any other purpose, and Hymans Robertson does not accept any liability relating to any other party or purpose. This paper may be shared with the Council (as an employer in the Fund) and its auditors; however it should not be passed further or shared with other parties, without our consent. Where it is shared it must be in its entirety, in particular including these professional notes.

In particular, please note that:

- There is no conflict of interest in the contents of this paper, as this is purely factual information to assist the Council in its decision whether to pre-pay part of its future Pension Fund contributions, rather than advice one way or the other.
- This paper should not be considered advice to the Council regarding whether or not to make such a lump sum contribution.
- However, it is necessary for the Council to correspond with the Fund regarding any proposed pre-payment, as per “Next steps” above, so that appropriate arrangements can be made by the Fund.

This advice is covered by, and complies to a proportionate degree with, the following Technical Actuarial Standards applying to the professional aspects of actuarial advice:

- TAS 100 (Principles for Technical Actuarial Work); and
- TAS 300 (Pensions).

Barry Dodds FFA

For and on behalf of Hymans Robertson LLP

Fund Actuary to the London Borough of Camden Pension Fund

February 2020

LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Fund Maturity	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Board	**DATE:** 17 March 2020

SUMMARY OF REPORT:
This report to Pension Committee presented the results of an exercise to estimate the Fund's maturity (the balance between benefits paid and contributions received). When payments exceed receipts the Fund is considered to be mature. Pension Committee noted the contents of the report.

Local Government Act 1972 – Access to Information
No documents required to be listed were used in the preparation of this report.

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RECOMMENDATIONS:

The Pension Board is requested to note the contents of this report.

Signed by

Director of Finance ……………**Agreed** …………...

Date ………….**6 March 2020**…….

1. INTRODUCTION

1.1 The Fund's actuary, Hymans Robertson, periodically undertakes analysis of the receipts and payments in the Fund to identify maturity. Maturity is reached when contributions from employers and employees are less than expenditure on benefits paid out to members of the Fund (including expenses paid out). When the Fund is cash flow negative it will then become dependent on the Fund's assets and investment returns to finance benefit expenditure (as contributions will no longer cover benefit spend in any one year).

1.2 The Committee has received reports from the Actuary which modelled assumed cash flows based on data held from triennial valuations. The last report was reported to Committee in November 2016 following the last triennial valuation.

1.3 The November 2016 report showed that the Fund was expected to be slightly cash flow negative in the earlier years with cash flow varying between outflows up to £12m in the period up to 2025. After this time the gap became increasingly larger between contributions and benefits paid and showed how the Fund was predicted to become mature and increase its maturity. After 2034 net cash outflow increased significantly (c£40-50m) as payments from deficit repayment contributions stopped after the 17.5 year recovery period.

2. HYMANS FINDINGS

2.1 The modelling this time takes account of the 2019 valuation liability data and so gives the very latest information on cash flow and maturity. The actuary's report is included in **Appendix A**. Barry Dodds from Hymans Robertson will be attending Committee to present the findings and field questions.

2.2 Chart 2 in Appendix A shows that the Fund is not yet cash flow negative (or mature) and will remain broadly cash flow neutral until 2028. This is good news as it means the Fund does not have to redeem investments to fund benefit expenditure. After 2034 the results show that the deficit contributions cease (and this is shown for consistency with the November 2016 report – i.e. in 14 years' time) and so the cash flow gap increases and is significant thereafter between contributions received and benefits paid.

2.3 Chart 3 in Appendix A compares the results from last time's analysis (in 2016) with the results reported now. This shows an improved cash flow position up until 2034 as the orange bars now (2019 analysis) are much lower than the green bars from the last exercise (in 2016).

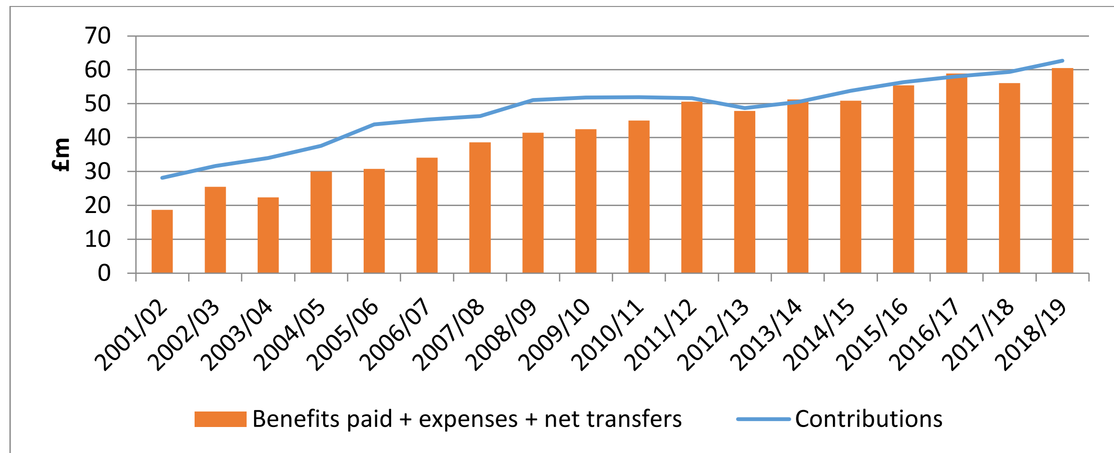
2.4 Even after 2034 when deficit repayment contributions are expected to cease, the latest cash flow analysis shows net cash flow outgoings at lower levels this time (in 2019) compared to 2016. Hymans attribute this to higher payroll figures than assumed in 2016 resulting in higher contributions (both employers and employees).

2.5 Cash flows in the Hymans report do not consider investment income which is available to fund the net cash out flows. Investment income was

£23m in 2018/19. Therefore in the short term income from investments will cover net cash out flows.

2.6 The actual cash flow experience of the Fund is shown in Table 1 below. This shows how the Fund has moved from being significantly cash flow positive (big gaps between the contribution line and the expenses bars) to a cash flow neutral position (the bars close to the line). The Hymans analysis in Appendix A shows that this will move to small cash out flows in the near future.

TABLE 1 ACTUAL PENSION FUND CASH FLOW



2.7 The cumulative impact of successive reductions in Council funding has been significant. Since 2010, the Council's like-for-like funding has reduced by 54%. As a result, over the last eight years the Council, as the main employer in the Fund, has been forced to make an unprecedented £169m of savings, which has meant that it has had to reduce its workforce by 23% (1,140 full time equivalents). The Council is projecting a significant budget deficit of between £35m and £40m by 2021/22

2.8 The reducing staff base from the savings programme has a marked effect on the maturity of the Fund. Due to volatility of cash flows on a monthly basis it is difficult to ascertain an exact point when the Fund becomes cash flow negative. Currently the Fund is broadly cash flow neutral with individual events such as transfer values in and out determining the monthly inflow or outflow.

2.9 The Fund should be prepared to fund benefit expenditure from investment income in the short and medium term. Fund Maturity will be kept under review annually as part of the administration report and re-examined formally again following the next triennial valuation in 2022.

2.10 Fund Maturity is important as when a Fund becomes cash flow negative it then must rely on its assets to fund benefits. In this scenario the investment strategy must factor in reducing assets and mandates must be structured so that assets can be withdrawn to fund benefits as and when required. The Fund has three mandates which are not liquid. The first is the Partners global property mandate which is structured as a commitment for capital calls and must be adhered to. The second is the private equity allocation with HarbourVest. Finally the Fund has a commitment to Infrastructure with the CIV's sub-fund managed by

StepStone. These mandates amount to 15% of the total assets under management and therefore their illiquidity is not considered to be an issue in the medium term.

3. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

3.1 The finance comments of the Executive Director Corporate Services are contained within the report.

4. COMMENTS OF THE BOROUGH SOLICITOR

4.1 The Pension Committee has responsibility for establishing a strategy for the disposition of the pension investment portfolio. In doing so it has a duty to monitor the performance of the Fund and to take proper advice about the suitability and variety of investments. It must consider such advice in taking any steps in relation to its investments and investment strategy. As stated in the Finance comments above the maturity of the Fund will be an important consideration for the investment strategy of the Fund.

5. APPENDICES

APPENDIX A – Fund Maturity

London Borough of Camden Pension Fund - Fund Maturity

This paper is set out in the following sections:

1 Background

2 Recap of previous modelling results

3 Updated modelling projections

4 Conclusions and next steps

5 Data summary and methodology

6 Reliances, limitations & professional notes

1 Background

This paper is addressed to the London Borough of Camden in its capacity as Administering Authority (in effect the trustee) to the London Borough of Camden Pension Fund ("the Fund"). The Fund is part of the Local Government Pension Scheme ("LGPS"), and its assets are held separately from the Council.

The Fund has obligations under LGPS Regulations to pay benefits to members as and when they retire, and to their dependants as and when members die, details being defined in those Regulations.

The Fund holds assets to pay those benefits, although the benefits are not affected by market movements. The assets are derived from contributions paid in by the employers (mainly the Council) and members (set by Regulations), plus investment returns achieved. In any one year, the amount of contributions received into the Fund may be more or less than the amount of benefits payable out: where they are more, the Fund is said to be "cashflow positive", otherwise it is "cashflow negative".

Whether the Fund is cashflow positive or negative is important because, in the latter case, it will need to divert investment income or (in more negative cases) disinvest assets to ensure it has sufficient cashflow to pay members' benefits.

The Administering Authority has asked us to analyse the projected position for the next 20 years, to help identify if investment action is required sooner or later on this point.

2 Recap of previous modelling results

The previous Fund Maturity report produced in November 2016 investigated when the Fund may become cashflow negative using the 31 March 2016 formal valuation membership data. The results of this analysis can be seen in the table below (which was "Table 2" in the November 2016 report).

Chart 1

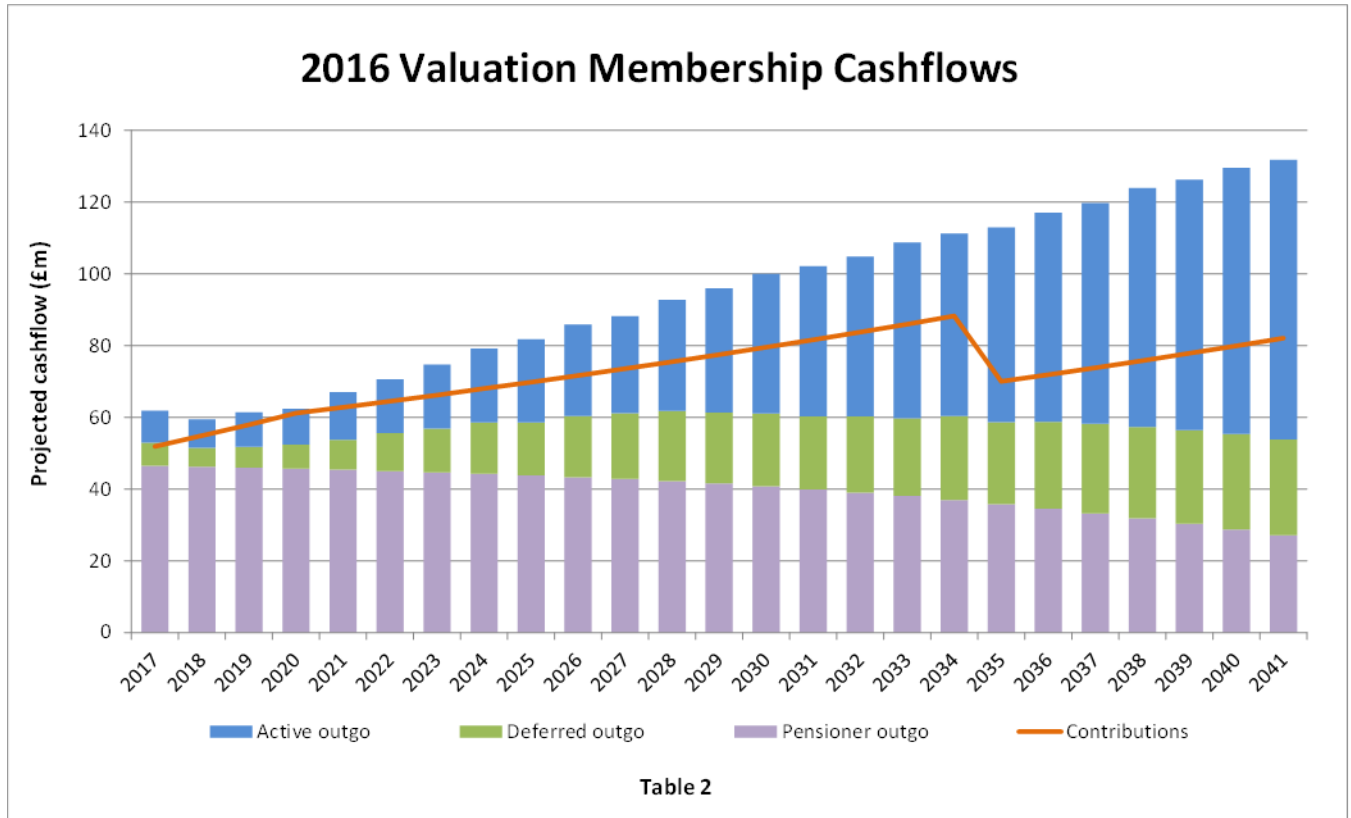


Table 2

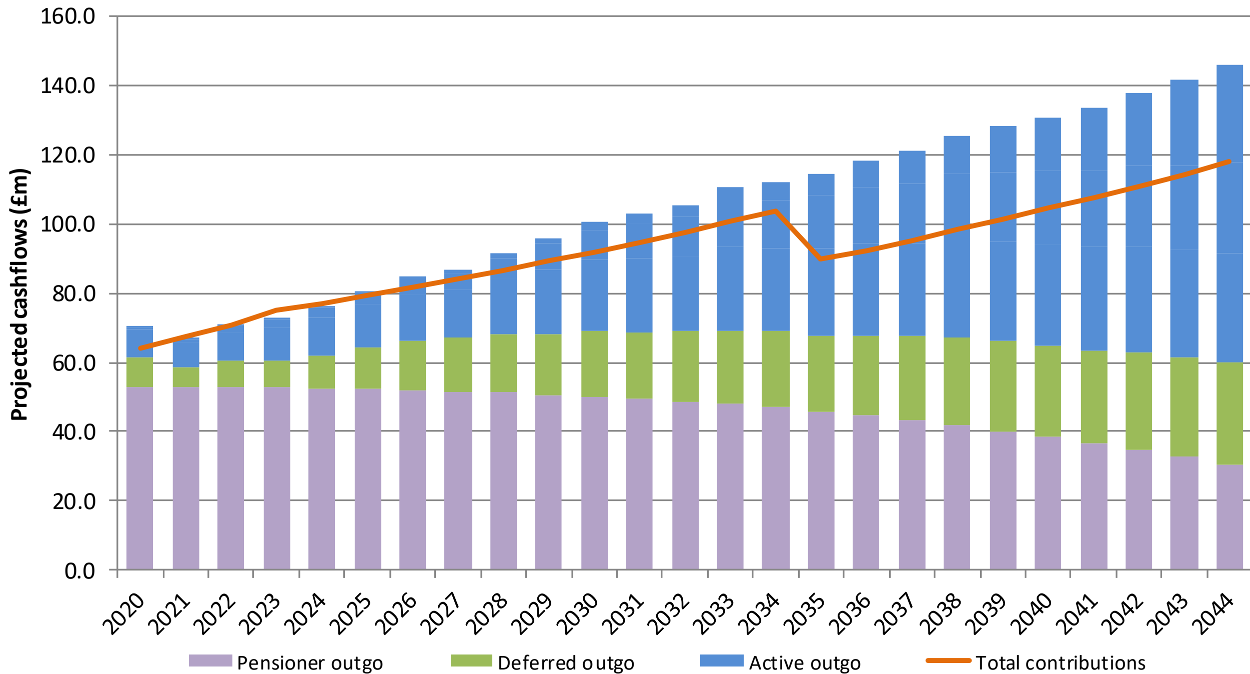
The 2016 cashflow projections showed that the Fund was expected to be slightly cashflow negative until around 2021, when the gap between contributions and benefit outgo was projected to increase considerably. The net cashflow positions in the years prior to 2020 ranged from -£1m to -£5m (ignoring the first year impact - the cashflows for the first year showed a bigger gap as we assumed that all non-retired members over pension age at the valuation date would retire immediately). In the years where the net cashflow is negative the Fund may need to use investment income to pay some of the benefit outgo.

For full details and analysis on this modelling please see the report "London Borough of Camden Pension Fund – Fund Maturity" dated November 2016.

3 Updated modelling projections

The Administering Authority has asked to update these projections using the 31 March 2019 formal valuation membership data. The results of this analysis can be seen in the table below. Using this updated membership data allows us to see how the cashflow projections have changed.

Chart 2



(NB The cashflow for the first year is more cashflow negative than normal as we assume that all non-retired members over pension age at the valuation date will retire immediately).

The updated cashflow projections show that the Fund is expected to be broadly cashflow neutral until around 2025, when the gap between contributions and benefit outgo is projected to gradually increase. The net cashflow positions in the years prior to 2025 range from -£1m to +£2m (ignoring the first year impact noted above). In the years where the net cashflow is negative the Fund may need to use investment income to pay some of the benefit outgo. See over for an analysis of projected net cash outflows each year.

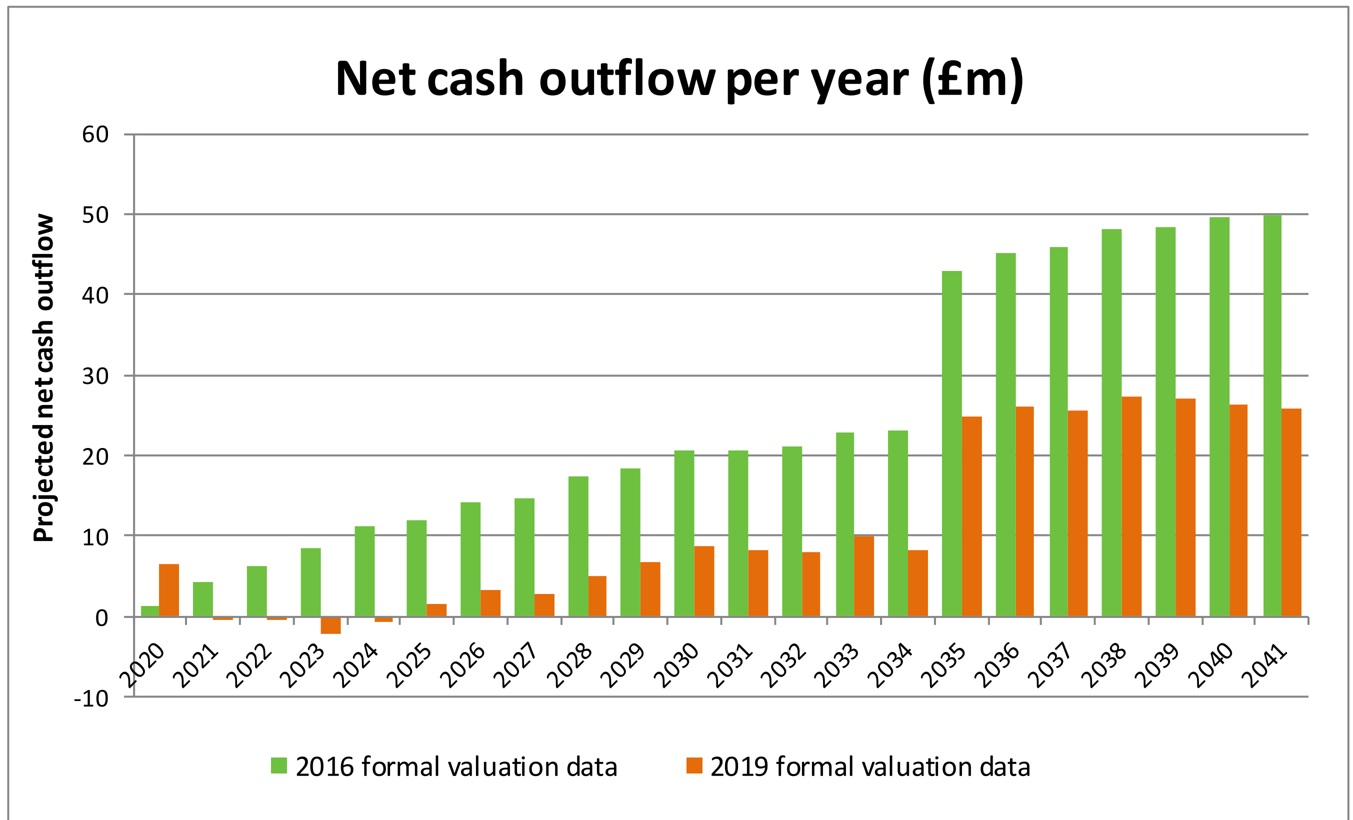
Please note, in a similar manner to previous Fund maturity reports, I have assumed the Secondary contributions (monetary amounts broadly relating to deficit repair contributions) will cease from the end of 2034. This is why there is a distinct drop in contributions in 2035. Full details of how the contribution inflows were estimated can be found in the “data summary and methodology” section below.

During the modelling period we would expect natural membership reductions through withdrawals and retirals. To keep the membership stable we have assumed new entrants would join the Fund and replace the departing members. In modelling cash flows for new entrants we define a replacement ratio as being the proportion of pensionable salary joining each year to the salary leaving each year. We have assumed a 100% replacement ratio over the next 25 years.

Comparison between 2019 and 2016 modelling projections

We can compare these 2019 results (in this section above) with the previous 2016 cashflow projections (in section 2), in particular comparing the net outflow position (i.e. a higher figure is a greater negative for the Fund, with more money being paid out in benefits than being received via contributions). These compared figures are shown in the table below.

Chart 3



There are a number of differences between the two sets of outflows:

1 The 2019 valuation projection figures (in orange) show a less negative position when compared to the 2016 projections (in green). This reflects a greater than expected increase in salary roll than had been anticipated in 2016 along with the expected rise in the contribution rate from 2020;

2 The higher contribution income gives a less negative position when compared to the 2016 projections (and even a positive position in a few years), c.£5-12 million difference per year up until 2034;

3 The difference from 2035 onwards, using either 2016 or 2019 data, noticeably grows because we assume that deficit repair contributions would cease after 2034, leaving only contributions being paid for future service.

4. Conclusions and next steps

The conclusions that can be drawn from these latest cashflow modelling projections are:

- The Fund is expected to be broadly cashflow neutral in the short term and less cashflow negative (ignoring investment income) than when this analysis was carried out at 2016 as a result of the higher salary roll and higher contributions anticipated from 2020;
- The cashflow position will turn negative around 2025, will gradually increase in cashflow negativity until 2034 to around £10m per year, when it will quickly increase to something like £25m per year.
- The cashflow position has changed since the projections performed in the November 2016 report. This is most likely due to the changed membership profile, where significant increases in the payroll of active members and increases in anticipated contributions has delayed the onset of cashflow negativity. Nevertheless, the Fund is expected to gradually move towards a cashflow negative position with that becoming more extreme from 2034 onwards.

The next steps are for the Fund to consider:

(a) Whether further analysis is appropriate (the analysis in this paper is on a single set of assumptions; cashflow negativity may arise sooner or later than indicated, depending in particular on the numbers and profile of Fund members leaving and joining). Possible further analysis could include;

1 the effect of different inflation rates on the contributions and benefit outgo;

2 the effect of members living longer than expected; and

3 allowing for known active membership changes (for example redundancy exercises), particularly at the Council.

(b) What the implications of Fund maturity will be on the investment strategy, with special consideration to:

1 Is investment income into the Fund large enough and sufficiently stable to cover any year's cash outflow?

2 Do investment mandates need to be altered to allow investment income to be paid to the Fund rather than reinvested?

3 Is the current and planned future investment strategy appropriate for the maturity profile of the Fund?

(c) How the Fund will monitor the situation in the future.

5 Data summary and methodology

2019 valuation membership details for Fund (Table 1)

Summary of 2019 formal valuation membership	Number	Average Age	Actual Pay / (£000)	Average Pay (£)
Actives	5,412	53.3	164,844	30,459
Deferred Pensioners	9,393	52.7	24,911	2,652
Pensioners	7,216	68.2	52,924	7,334

Total membership = 22,021

* Average age is liability weighted

2016 valuation membership details for Fund (Table 2)

Summary of 2016 formal valuation membership	Number	Average Age	Actual Pay / (£000)	Average Pay (£)
Actives	5,101	52.2	149,636	29,335
Deferred Pensioners	8,493	51.7	22,621	2,663
Pensioners	6,665	67.3	46,007	6,903

Total membership = 20,259

* Average age is liability weighted

Benefit outgo

The membership data used for our projections is from the provisional results of the 2019 valuation of the Fund. Therefore, any changes in the membership profile, (e.g. leavers and retirements), or data, (e.g. salaries), since 31 March 2019 have not been taken into account.

The annual cash flows are shown for each year following 31 March 2019, i.e. Fund years (so the year 1 cash flows are payable during the period 1 April 2019 to 31 March 2020). The cash flows are assumed to be paid midway through their respective period.

We have shown cash flows separately for active members (current employees), deferred pensioners (former employees who have not yet retired) and pensioners (currently receiving a pension from the Fund) at the valuation date.

Cash flows for new entrants into the Fund have been estimated assuming all leavers and retirements are replaced by new employees (across a spread of ages, 37 on average), i.e. there is no assumed increase or reduction in the active membership of the Fund in future years.

Contribution income

We have included estimates of contribution income based on the 2019 formal actuarial valuation:

- payment in all years, by employers, of Primary rate (i.e. the cost of active members continuing to build up new pension each year) estimated as 28.3% of pensionable payroll in each year;
- plus payment until 2034 (the Council's deficit recovery time horizon) of Secondary Contributions of an additional 3.7% of pensionable payroll;
- plus employee contributions in all years at an average rate of 7.0% of pensionable payroll;
- less administrative expenses, 0.6% of pensionable payroll.

Investment income

We have not included investment income in our calculation of net cashflows.

Assumptions

The financial and demographic assumptions used to project the benefit outgo from the Fund are those underlying the draft results of the 2019 actuarial valuation (details shown in preliminary results report, to be confirmed in the full formal report due by 31 March 2020). Contribution income figures have also been produced on that single set of assumptions (in particular the assumed payroll growth).

6 Reliances, limitations & professional notes

These figures have been produced for illustration purposes only at this stage.

The cash flow projections are based on a single set of deterministic assumptions, which are highly unlikely to be borne out exactly in practice. The extent of the deviations from the assumptions underpinning the cash flow projections depends on uncertain economic events as well as other factors that are not known in advance such as members' decisions, variations in mortality rates, retirement rates and withdrawal rates, fluctuations and rates of salary increase, changes in the regulatory environment and possible changes in retirement benefits. These other uncertainties are often not related to any particular investment and economic eventualities.

Two of the important uncertainties are the rate of pension increases, the vast majority of which increase at the annual increase in consumer prices inflation, and the extent of any commutation of pension benefits into lump sums at retirement. The cash flows provided assume that retiring members will opt to take 50% of the maximum permissible amount of tax-free cash (equivalent to 75% in the new post-April 2008 and 2014 schemes).

In summary, it should be noted that there is significant uncertainty in the cash flows, which are largely unrelated to investment conditions. However we are comfortable that these are suitable for long term planning purposes, and would recommend this position is updated at each formal valuation.

This paper is being made available publicly as part of the Fund's Pension Committee meeting pack for 28 November 2019.

This paper is not formally addressed to, or intended to be taken as advice by, any other party such as Fund employers, members of the Fund, or Council tax-payers. The purpose of this paper is to identify to the Fund when and by how much it is expected to become "cashflow negative" in future years. Hymans Robertson does not accept responsibility for, nor can be held liable for, this paper being used by any other party than the Administering Authority or for any other purpose.

The following Technical Actuarial Standards (produced by the Financial Reporting Council) are applicable in relation to this report:

- TAS 100 – Principles for Technical Actuarial Work;
- TAS 300 – Pensions.

This report complies proportionately with each of the above Standards where material.

Barry Dodds FFA
25 October 2019
For and on behalf of Hymans Robertson LLP