THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION COMMITTEE** held on **THURSDAY, 21ST JULY, 2022** at 6.30 pm in The Council Chamber, Crowndale Centre, 218 Eversholt Street, London, NW1 1BD

MEMBERS OF THE COMMITTEE PRESENT

Councillors Rishi Madlani (Chair), Heather Johnson (Vice-Chair), Jenny Mulholland, Will Prince and James Slater

MEMBERS OF THE COMMITTEE ABSENT

Councillors Anna Burrage, Gio Spinella and Shiva Tiwari

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 Committee and any corrections approved at that meeting will be recorded in those minutes.

MINUTES

1. GUIDANCE ON HYBRID MEETINGS

RESOLVED –

THAT the Council's procedure rules for hybrid meetings be agreed.

2. APOLOGIES

Apologies for absence were received from Councillors Anna Burrage and Gio Spinella

Apologies for lateness were received from Councillors Heather Johnson and Jenny Mulholland.

3. ELECTION OF VICE-CHAIR FOR THE 2022-2023 MUNICIPAL YEAR

RESOLVED –

THAT Councillor Heather Johnson be elected as Vice-Chair of the Pension Committee for the 2022-2023 Municipal Year.

4. TERMS OF REFERENCE OF THE PENSION COMMITTEE

The Chair, Councillor Madlani, said that the Council's Constitution had been updated to reflect its commitment to Environment, Social and Governance (ESG) issues and that all Pension Committee reports now included a section on ESG issues. He suggested that, given this, the Terms of Reference of the Pension Committee should also be updated to reflect this commitment to ESG issues. It was agreed that the Terms of Reference should be amended in the normal course of action rather than sending a separate reference to Council.

ACTION BY: Executive Director Corporate Services

RESOLVED –

(i) THAT the Terms of Reference of the Pension Committee be noted; and

(ii) THAT the Terms of Reference be amended to reflect the Pension Committee's commitment to Environment, Social and Governance (ESG) issues

ACTION BY: Executive Director Corporate Services

5. DECLARATIONS BY MEMBERS OF STATUTORY DISCLOSABLE PECUNIARY INTERESTS, COMPULSORY REGISTERABLE NON-PECUNIARY AND VOLUNTARY REGISTERABLE NON-PECUNIARY INTERESTS IN MATTERS ON THIS AGENDA

There were no declarations.

6. DEPUTATIONS (IF ANY)

Councillor Madlani, Chair of the Committee, accepted a deputation from Luca Salice on behalf of the Camden branch of the Palestine Solidarity Campaign in respect of whether there were explicit ethical criteria or ESG rankings which (amongst other consideration) influenced the Pension Fund's investment decisions and that were binding on the Council's investment managers.

Luca Salice summarised the main points as set out below:

- As background he said that the Campaign's ultimate aim was to persuade the Council to divest from companies that were complicit with Israeli human-right violations.
    - They believed that Israel was a state that practices apartheid, as had been recognized by various human-rights organizations including Amnesty International; also by the UN's Special Rapporteur for Human Rights in the Occupied Palestinian Territories, Michael Lynk.

  - Camden had been at the forefront of the international movement of solidarity against apartheid in South Africa and ought not to be complicit with apartheid in Israel.
  - “Apartheid” was the crime of apartheid as defined in 2002 by Article 7 of the Rome Statute of the International Criminal Court.
- The Campaign wanted to request that the Council adopted explicit ethical criteria that were binding on its investment managers, in addition to the usual criteria such as investment performance, risk management and balancing liabilities.
- These criteria should exclude investments in companies that have a large involvement in fossil fuels, tobacco, armaments, oppression of LGBT people but also human-rights violations, in the UK and abroad. They were not singling out Israel.
- They accepted that the Pension Fund had a fiduciary duty vis-à-vis its current and future members, but maintained that plan members were in support of an ethical policy. Unison was preparing a campaign. They asked if the views of plan members were being sought.
- The recent Russian attack on Ukraine led many countries to impose economic sanctions against Russia. Some of its members supported those sanctions, some did not. But the fact remained that Western sanctions against Russia led to huge write-downs of investments. This had highlighted the investment risk of holding unethical investments. The investment community in the UK and abroad had underestimated the political risk to valuations in countries like Russia and Israel that systematically violated democratic norms.
- They believed that the Council applied a policy of Engage not Divest when confronted with unethical investments. They opposed such a policy in principle, but if the Council believed that such a policy was effective it needed to provide evidence of its effectiveness and achievements through engagement.
- They appreciated that investment managers needed clear criteria, as they could not query the council each time they were planning to make an investment. But those criteria needed to be binding on managers and be made publicly available for scrutiny by plan members and by voters.
- Many companies had realized that the success of their business required them to uphold values that were in tune with the feelings and aspirations of their customers. Both customers and job applicants were attracted to companies whose values they shared. Nike’s share price did well after supporting one of their athletes who took the knee in protest against racism and Ben & Jerry did well after refusing to sell their ice-creams in illegal Israeli settlements.
- There was now a whole ESG industry that provides ratings of funds and companies. It was feasible to adopt clear, measurable, verifiable and binding criteria for ethical investments. Camden should be at the forefront of ethical capitalism.
- The Campaign won a Supreme Court case against the Government in 2020. The Government had sought to ban boycotts, divestment and sanctions against foreign nations and UK companies, other than where such sanctions have been put in place by the Government itself. That endeavour was ruled unlawful by the Supreme Court.

The Head of Treasury and Financial Services responded to the points made by the deputation as follows:

- The Fund preferred engagement to divestment and it lobbied its investment managers and funds very hard on those issues.
- The Fund had been recognised for its responsible investment work winning a Pension Fund award in 2018 and was nominated for the same award again in 2021.
- The Fund was an active member of the Local Authority Pension Fund Forum (LAPFF) which had assets worth over £300bn and 91 members. Of the 110 companies listed on the UN Human Rights Committee the Fund did invest in 18 of them via the passive equity manager L&G which owned most of the stocks globally and were trying to replicate the return index. The Fund’s investment in these 18 companies were estimated at £11m, the Fund’s size was £2.2bn which represented 0.5% of the Fund. Most of that sum, approximately £10m, was invested in Booking.com and was held by all 3 of the Fund’s equity managers – Baillie Gifford (active equity), Harris (active equity) and L&G (passive equity). Booking.com had only around 40 of its premises in the occupied territories with the remaining hundreds of thousands around the world so it was a very small percentage of their turnover.
- Camden had raised the issue with LAPFF following which they had been engaging with all companies on the UN watch list, which was an achievement for Camden. LAPFF had met twice with Booking.com and pointed out they did not have a human rights statement. As a result Booking.com published a human rights statement in April, which was another achievement.
- In May 2021 LAPFF issued a voting alert and the London Collective Investment Vehicle (LCIV) as part of that alert, voted against the re-election of the CEO because of the human rights issues. The Fund had engaged with both active equity managers on this issue and both had met recently with Booking.com so there was pressure there.
- Booking.com realised that they had a way to go but were moving forward.

The Chair said that, with regard to engaging with the Trade Unions, the Committee did have active Trade Union observer representatives on the Committee. Unfortunately they were not present at this meeting, but they had been helpful in providing contributions at previous meetings. The Committee had engaged with the Trade Unions when working on the investment strategy review and on responsible investments in particular. The Committee had also welcomed deputations from Unison and the divestment movement to previous meetings.

Councillor Madlani continued saying that this issue had been a huge area of focus for the Pension Committee. Regular meetings were held with Pension Committee Members and managers and part of the agenda focused on ESG, gender and equality issues. If the fund managers were not good at the divestment level then the Committee did not want them to make decisions on its behalf.

Furthermore, the Fund’s Policies were available to the public. The Committee set out Investment Beliefs 4 years ago with sustainable development goals, including climate action, gender equality and economic growth. These would be revisited as part of the triennial valuation. Every year the Committee reviewed its voting policies to take on a range of issues like pay, equalities and climate change. This in turn was communicated to the fund managers to ensure that its voting policies were adhered to. The primary engagement was carried out through LAPFF and some through the LCIV. ESG was a key part of engagement with all its managers. Camden had been seen as industry leading and had won award for our approach.

Councillor Madlani added that with regard to Palestine, it was not easy as the Fund had a geographic exposure to a bit of everything through passive equities which track the market. It had not invested in emerging markets and needed to look at geo-political uncertainty. A small proportion of the Fund was invested in Russian assets, but at this current point in time it was not clear how much they were worth.

The Chair thanked and welcomed the deputation stating that it was useful to know that the Committee was supported in its approach.

7. ANNOUNCEMENTS (IF ANY)

Broadcast of the meeting
The Chair announced that "In addition to the rights by law that the public and press have to record this meeting, I would like to remind everyone that this meeting is being broadcast live by the Council to the Internet and can be viewed on our website for twelve months after the meeting. After that time, webcasts are archived and can be made available upon request.

If you are seated in the Chamber or participating via Teams, you are deemed to be consenting to having your contributions recorded and broadcast, and to the use of those sound recordings and images for webcasting and/or training purposes."

Vote of thanks
Councillor Madlani informed the meeting that Lorraine Jones, committee officer, was retiring after working for Camden Council for 49 years. She had been clerk to the Pension Committee for most of the time he had been Chair and he appreciated the advice and support she had given him over those years. Lorraine had been born in Camden and had grown up and lived in Bloomsbury. The Chair, on behalf of the Committee, thanked Lorraine for her incredible service to the borough. Lorraine thanked the Chair and Committee saying that 49 years was a long time, but it had been an enjoyable time. It had been a pleasure and an experience working with Councillor Madlani, Committee Members and officers and everyone else associated with the Committee. She had clerked the Pension Committee for the last 7 years and she knew that her pension was in good hands.

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

There were no urgent items of business.

9. MINUTES

RESOLVED –

THAT the minutes of the meeting of the Pension Committee held on 3rd March 2022 be approved and signed as a correct record.

10. PERFORMANCE REPORT

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

The Committee noted the performance of the Camden Pension Fund investment portfolio and the individual investment managers for the quarter ended 31 March 2022 (quarter 1 of 2022) and since manager inception.

The Committee noted in particular that:

- The portfolio had a market value of £2.27bn at 31 March 2022, which represented a decrease of 3.2% over the quarter. However, this figure included the prepayment of secondary contributions by Camden Council, so excluding this, the overall return on the Fund's investments was -3.0%.
- Following the sale of the Harris portfolio, the current weight of equity had decreased to 57% from 65%. The substitution of funds following the move of the IDeA to Merseyside would also take equity down to 50% so the Fund would achieve its target equity allocation thus eliminating its overweight to that asset class. This happened in April so was not reflected in these figures but should be reflected in the report for next quarter.
- The Fund sold out of Insight and had moved those funds into the CQS (LCIV) blended fund.
- The Actuary (Hymans Robertson) valued the liabilities at 31 March 2019 at £1.613bn. This gave a theoretical estimated funding ratio in March 2022 of 120.8% (£1.845m of liabilities) and was based on the investment strategy returning in-line with the Actuary's estimations for the coming years and decades. Long-term asset performance was considerably above the Actuary's historic expectations.
- Comparative benchmarking data from a universe of 64 other local authority pension funds (valued at £230bn) indicated that median Local Government Pension Scheme (LGPS) fund growth was -1.1% in the quarter to 31 March 2022. This represented the first negative quarter for the LGPS as a whole since the start of 2020. The Fund's returns for this quarter were below this benchmark return.
- Over 12 months the universe of PIRC funds delivered 9.2% with the Camden Fund under-performing this with a return of 7.0%. However, over three years the comparison with the PIRC universe was positive with the Fund returning 9.4% and the PIRC universe 8.6%.
- The under-performance of Baillie Gifford had been the main cause of the Fund's under performance.

- The PIRC annual statistics showed that in one year the Fund ranked 61 but over three years had ranked 23rd. The Equity results of the PIRC analysis confirmed that the Fund had not moved out of the bottom half of all funds' performance in the last 20 years.
- The Fund ranked 4th best in England and Wales for alternative investment classes and had also performed strongly in the Diversified Growth Fund asset class performing in the top third of funds in 1, 3, and 5 years.

With regard to Table 7 "Manager Performance" on pages 40-41, it was noted that an error had occurred in respect of the "Future World Global Equities". The index for this asset had been reported incorrectly. A corrected version was circulated at the meeting.

It was noted the Fund had disinvested from Ruffer and Standard Life during the quarter and the substitution of funds happened just after the quarter end. Last July substitution of funds in the sum of £185m was earmarked for assets in Baillie Gifford, but when the time came to sell the assets it was discovered that Baillie Gifford had had such a stark under-performance (-11% this quarter and -23% in the year). The Actuary looked at the alignment of the funds and the £185m had increased to £201m so the fund had to find another £46m. The second largest employer (IDeA) had now transferred to Merseyside so that risk had gone. The transfer had taken place at a very difficult time, and it was not clear what officers could have done to mitigate risk around the timing. The Committee was reminded that Baillie Gifford had been the Fund's best manager over the last 4 years, but had recently experienced their worst quarter and year. The alternative would have been to take the funds from a number of different managers, but that would have complicated the situation.

Reference was made to Table 3 "Asset Class Allocations" on page 36 of the agenda and that the cash allocation weight was 7% although the target was 0. It was noted that cash had now decreased to £30m, as £80m had been used to top up the CQS fund, £50m had been disinvested from Ruffer and some cash had been used to fund revenue activities. Details of this was contained in the Cash Flow report at item 15 on the agenda.

The current weight of bonds was shown in the table as 11%, but would probably now have increased to 15% and that imbalance would remain at that level as there was no strategic plan to change it at present.

It was noted that a report on the Investment Strategy will be taken after the Triennial Valuation later in the year so the balance of equities will be looked at as part of that.

The Committee noted Appendix A, which presented a more comprehensive overview of the financial markets by the Independent Investment Advisor and reported the performance of the individual Investment Managers in more detail. Karen Shackleton, Independent Investment Advisor, added that apart from the transfer of funds, this quarter had been affected by geopolitical risks, Covid was in China which restricted supply, the tightening of monetary policy, and the increase in interest rates which affected the performance of the Fund. Karen Shackleton then highlighted the salient points as follows:

(a) **London CIV - Baillie Gifford** – This sub-fund was disappointing this quarter delivering a return of -13.2% in Q1, underperforming Harris by -14.62% for the quarter and by -18.37% for the 12-month period. They also underperformed the MSCI World Growth Index by -9.8% and was behind the target over 3 years by -4.3% which was more concerning. She would expect the growth and value to vary but to give a smooth return over the longer term. She had met with Baillie Gifford recently when they admitted that they had made some poor stock selections, for example they had invested in Peloton which they thought would become mainstream, however, it had not and they exited that fund. Their investment thesis had not changed and they were waiting for performance to become positive again which was not helpful in the short term due to the serious price moves against them.
The Global Alpha Fund had now been transitioned across the Paris Aligned Fund, although this had not worked in the Fund’s favour due to high oil prices resulting from the Russian crisis and Ukraine war.
LCIV monitored Baillie Gifford and were confident that they would continue with the investment policy which had served them well previously. They felt that they had learnt from their mistakes and they urged investors to sit tight as they believed that returns would recover. LCIV had not put Baillie Gifford on close watch and she was comfortable with that. She would, however, be keeping a close dialogue with Baillie Gifford over the coming quarter to monitor their progress and hoped to see an improvement.

(b) **Harris –** Harris was a value manager and their portfolio had been reduced. Their outperformance was due to picking good stocks delivering a quarterly return of +1.4%. However, they had underperformed their performance target for the last 12 months by -5.1%. A concern was that they lacked conviction about what they were doing mainly around ESG decisions, for instance they did not have a strong thesis around stock selection, for instance Glencore had ESG issues. She had met with them and considered ongoing dialogue around that issue was necessary.

(c) **Insight** – This fund was fully redeemed by quarter end. They had a good Q1 performing positively in absolute terms (+1.52%) and in relative terms, outperforming the performance target of +1.18% in Q1 2022.

(d) **Legal & General –** This was a passive manager**.** The observed tracking errors on the pooled index funds were within expected ranges during the quarter. There were no concerns. The manager no longer allocated to the UK Equity Index Fund, with the £65m investment being switched into the Future World global equity index fund. This was a sustainable passive fund which was more closely aligned to the Fund’s investment beliefs. In Q1 the sustainable Solactive Index, against which the Future World global equity index fund was benchmarked, delivered a return of -3.76% compared with the full global equity market capitalisation index which returned -2.42%. This reflected the sharp rise in energy prices amid the Russian/Ukraine crisis, to which the Future World fund had less exposure.

(e) **CBRE** – CBRE was a UK commercial property manager. The most positive returns for the quarter came from the investments in Industrial Property Investment Fund and Airport Industrial Property Unit Trust, which delivered returns of +14.3% and +7.5% respectively. They were downgrading their forecast for property over 5 years from 5.5% per annum to 5.3% per annum.

(f) **Partners** – This was the global property manager. There had been no change in the 2009 Fund which was in its distribution phase and had distributed 122% of the invested money since inception. The 2013 Fund which was reaching the end of its investment phase, had made 42 investments as at 31 March 2022, with 16 having been realized. The 2017 Fund had drawn 58.0% of commitments as of quarter end and had 52 investments, with 2 having now been realized.

(g) **Aberdeen Standard Life –** the position in Standard Life GARS was exited during Q1 2022.This was part of the strategic allocation moves approved by the Pension Committee last quarter.

(h) **London CIV - Ruffer** – was a diversified growth manager. The fund delivered a return of +4.4% in Q1 2022. This mandate had now been invested since 21st March 2018, and the fund had returned +7.1% per annum since inception, compared with the target return of 3.5% per annum. LCIV had concerns about staff changes but had now felt more comfortable with that as the new staff at senior were starting to bed down. Ruffer was less strong on carbon intensity and discussions had taken place their engagement with Royal Dutch Shell and BP.

(i) **HarbourVest –** was an equity fund manager. They were looking at Camden topping up the allocation to bring it in line with 5% which needed to be discussed and included in the strategy review. They were performing relative to expectations, 49% of the remaining investments were above expectations, 39% met expectations, and 12% were below expectations (as a % of commitment dollars). There was no concern.

(j) **London CIV – CQS** – This was LCIV's Multi Asset Credit (MAC) sub-fund. The fund returned -2.02% in Q1 2022 which was below the performance target return of +1.3%. The one-year return for the fund was also behind the target by -2.64%. LCIV had moved the monitoring of the fund from enhanced to normal monitoring. They did have a lower carbon intensity than a benchmark comparison and had signed up to the zero net managers initiative

(k) **London CIV – Infrastructure Fund** –Stepstone Camden's Pension Fund committed £106 million of capital to this fund as at the end of December 2021. The total fund value was £155.9 million, although in total there are commitments of £399 million. Camden's valuation as of 31 December 2021 was £41.4 million and represented 26.6% of the Fund. The fund was 39% deployed as end of December 2021.This transition fund was doing well.

(l) **London CIV – Inflation Plus Fund** – Aviva the Camden Pension Fund committed £95 million of capital to this fund, in August 2021. The total fund value as at end December 2021 was £164.3 million, although in total there were commitments of £202 million. Camden's valuation as of December 2021 was £59.2 m and represented 36% of the fund. It has an average triple B credit rating and 14 assets. They did try to select tenants who were less exposed to recession including Hertsmere University and Premier Inn. A lot of the rental contracts had inflation adjustments bedded into them and therefore had inflation protection.

(m) **London CIV – Diversified Growth Fund – Baillie Gifford –** The pension fund made a new investment into this fund in March 2022. Camden's valuation as at 31 March 2022 was £96.3 million and represents 10.1% of the fund. The objective is to achieve long term capital growth at lower risk than equity markets, targeting an annualised return over rolling 5 year periods that is at least 3.5% more than the UK base rate, whilst maintaining annualised volatility below 10% over the same period. The fund invested across a broad array of asset classes, and derivatives were used to help dampen the volatility of the fund. As at March-end 2022, the fund had an allocation of 56.9% to Alternatives, 22.73% to Equities, and 20.38% to Fixed Income. They have had a poor return as they are linked to equities

A summary of the concerns of the Independent Advisor were set out on page 66 of the agenda.

In response to a question, it was noted that the decision to transfer the funds to Baillie Gifford was taken in July 2021 and after much discussion the figures were agreed by the Actuary and the funds were moved over in April 2022. Unfortunately the transfer had coincided with a difficult performance period for Baillie Gifford which officers were not aware was going to happen.

Some Committee Members were of the view that the manager meeting they had with Baillie Gifford was not satisfactory and they were concerned that they did not meet the required standard. It was noted that Karen Shackleton would meet them ahead of the next Pension Committee meeting and would raise the Committee's concerns. She would ask them about their investment thesis and when they expected their performance to improve. She would report back to the next meeting. If Committee Members were still concerned they could ask to meet with them again. Karen Shackleton added that Baillie Gifford had had a decade of fantastic performance and those LGPS funds that included Baillie Gifford had performed the best. They had not changed the way they operated, the current market conditions were not playing to their strengths.

It was noted that this was LCIV's most popular fund with the most assets and most clients so their performance would affect other London funds. It was agreed that the Committee's concern should be raised formally with the LCIV and that they should be to put Baillie Gifford under special monitoring.

ACTION BY: Executive Director Corporate Services

Committee Members also noted Appendix B on page which detailed Camden's exposure as clients to the overall fund or strategy managed by Investment Managers. Where Camden represented more than 5% of each fund and there was a material increase, due to client outflows, this would be reported to Committee on an exceptions basis.

RESOLVED –

THAT the contents of this report be noted.

11. TRIENNIAL VALUATION ASSUMPTIONS

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

The Committee noted the update on the assumptions underpinning the triennial valuation for salary growth, discount rate (asset outperformance assumption) and other assumptions used in calculating the triennial valuation of the Pension Fund liabilities. The report built on thinking and prudent practice embedded in previous valuations and was part of the Fund's transparent, evidence based and well documented approach to setting these assumptions. It reviewed the following assumptions:

- future investment returns
- the discount rate (used to price liabilities at today's prices)
- CPI inflation
- salary increases
- baseline longevity
- future improvements in longevity
- demographic assumptions – withdrawals, ill-health retirements, commutation (how much members choose to take as a lump sum versus conversion to a pension at retirement).

It was noted that, in order for the triennial valuation to progress, prior to the meeting a non-key executive decision was taken by the Executive Director Corporate Services, to increase the discount rate used in these assumptions, from 1.6% to 2.1%. It was estimated that this would equate to savings in the region of 1.0% to 1.5% of pay which equated to £1.9 - £2.9m reduced employer contributions (from the Council's perspective).

Barry Dodds of Hymans Robertson, the Actuary, was in attendance at the meeting and summarised the main points contained in the 2022 Valuation: Actuarial Assumptions as set out in Appendix A to the report. He explained that this was part of the initial stages of the 2022 Triennial Valuation. The main purpose of which was to come up with the appropriate contribution rates for the main employers to pay. He said that:

- The Actuary had looked at the investment returns which might be achieved by the Fund going decades into the future and that formed the basis of the discount rate. The assets were projected forward to see what the Fund might hold in 20 years time together with the value of the benefits that might be paid over the coming decades. The discount rates were, therefore, needed because not all of that money was needed immediately. This was the most key value assumption.

- The other two important assumptions were
  - CPI inflation as the benefits paid out by the Fund were linked to CPI and pensions increase by that level every year; and
  - Salary increases but these did not have as much of an impact as they previously did as pensions were now linked to career average rather than final salary based.
- Demograpgic assumptions affected the timing of the payments and of which longevity (life expectancy) was the most important and presented the greatest uncertainty to a LGPS fund. The two components for setting longevity were "Baseline" a snapshot of how long people currently live, this was based on data held by Club Vita. The second was Future Improvements, that was how life expectancy increased over time. The Actuary recommended that no weight should be placed on the data from the last couple of years as there was little evidence of the impact and long term effects of Covid 19 at this stage. Other assumptions included dying or leaving the pension scheme before retirement and the health of the employee.
- With regard to Investment return and discount rate (page 82), the Actuary looked at 5,000 different scenarios ranging from very bad to very good and analysed the discount rate compared to the risk free return. The model had an inflation element with different and sufficient volatility levels and ranges to give risk coverage. As mentioned above it had been agreed to increase the discount rate used in these assumptions, from 1.6% to 2.1%. It was estimated that this would equate to savings in the region of 1.0% to 1.5% of pay which equated to £1.9 - £2.9m reduced employer contributions (from the Council's perspective). This would give a 70% prudence level.
- The same model was used for CPI inflation which resulted in a 2.7% median inflation rate at the end of March 2022. It was noted that the current inflation rate was around 9% but this lower figure was the estimate assumption of the level in decades into the future, although the model did allow for the current higher inflation rate. Mini calibrations to this model occurred every month and it was looked at every quarter in case more substantial calibrations were required.
- The Salary increase assumption was CPI inflation rate plus 0.5%
- The other assumptions would be tweaks to make them fit better to Camden's specifics and data and experience as set out in table 5 on pages 87-88

The Chair said that not all Pension Committee take these decisions in public, but Camden chooses to be transparent. It was noted that the decision had already been made on a slightly lower prudence rate which would save the Council £2-3m and would be revisited every 3 years.

RESOLVED -

THAT the contents of the report be noted.

12. RISK REGISTER

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

The Committee noted an update to the risk register for the Pension Fund, with an action plan stating how risks would be managed. The Risk Register identified key risks that the Pension Fund faces in achieving its objectives. By considering risks and assessing their likelihood and impact the Fund could focus on what action was needed to manage them. The Fund's Independent Investment Adviser and Actuary had been consulted and had fed into the register.

The risks were categorised under the following headings: Financial, Demographic, Regulatory, Governance and Administration. The updated Risk Register was presented in Appendix 1. Changes had been 'tracked' so new text or risks were shown underlined. Scores that had changed were also shown with tracked changes to help to identify new changes and show old text crossed through.

It was noted that the Employer risk (30) had reduced. This reflected the fact that the second largest employer in the Fund, the Improvement and Development Agency, had left and so no longer presents a risk to Fund.

The Committee also noted that the Inflation risk (5) had increased. This reflected the fact that all major economies and in particular the UK economy was experiencing extremely high levels of inflation in the short-term. The Actuary had commented on this in the Triennial Valuation Assumptions paper and the Fund would keep the inflationary impacts under review given all liabilities were linked to inflation.

In general, if risks changed from quarter to quarter then this would be reported at the next quarterly meeting, if significant.

Reference was made to the impact of oil prices on Fossil Fuel investment on the risk register. The Fund was invested in the Baillie Gifford Paris Aligned fund and the Future World Fund which took it away from those investments and shields from movements in fossil fuel prices. Karen Shackleton added that every risk had its counter-side and rising oil prices was an opposite risk to the fossil fuel risk which was identified here. This was about keeping the long-term strategic view for the Pension Fund and everyday shares and investment would be affected by different influences, however, the balance of evidence was climate change was strategically a threat to the Pension Fund.

It was suggested that although the Risk Register includes climate change and fossil fuel exposures, managers should be asked specifically about failure to adapt to climate change which had a knock-on effect on assets. Karen Shackleton said all engagement with managers was worth doing. One aspect that was not fully addressed was around physical climate effects, eg the increase risk of heat, flooding, fire and drought. These problems had been brought to the fore very recently. The Chair suggested that the wording for the Fossil Fuel and climate risks should be amended in due course to take account of this. In the meantime, managers should be asked what their exposures were in this area.

ACTION BY: Executive Director Corporate Services

With regard to Risk 44 “Adequate level of administration officer knowledge and skills” it was noted that there was no restructure due of the Pension Shared Service and all the key posts had been filled. That risk, therefore, needed amending.

ACTION BY: Executive Director Corporate Services

With regard to Risk 49 “Audit fail to undertake proper checks”, it was noted that Audit had been praised recently at Audit and Corporate Governance Committee for their work. It was, therefore, suggested that wording should be included to reflect the good work Audit were doing. This included internal and external audit.

ACTION BY: Executive Director Corporate Services

It was agreed that these amendments would be made and an updated Risk Register would be sent to the Chair for information.

ACTION BY: Executive Director Corporate Services

RESOLVED -

THAT the Risk Register, subject to the above changes, be agreed as set out in Appendix 1.

ACTION BY: Executive Director Corporate Services

13. ENGAGEMENT REPORT

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

This report brought Committee Members up to date with engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Committee meeting. This work was important to the Fund’s ambition to be a fully engaged investor and demonstrated its commitment to Responsible Investment and engagement in Environmental, Social and Governance (ESG) issues as a way to achieve its objectives**.**

LAPFF had 85 members and 7 pools with the London Boroughs of Bromley, Kensington and Chelsea, and the Isle of Wight Pension Funds joining recently. Membership expectations for 2022/23 currently stood at 91 (out of a total of 98 funds in the UK), with 86 paying membership and 5 non-paying pool memberships.

Members of the Pension Committee were reminded that they were welcome to attend meetings of the Forum. As a member of LAPFF the Fund was entitled to contribute to and participate in the work plan organised by the Forum around issues of common concern. The Chair urged Committee Members to attend at least one meeting and asked officers to send out dates and papers in advance of meetings.

ACTION BY: Executive Director Corporate Services

It was noted that Councillor Johnson attended these meetings on a regular basis. She found them very interesting and useful and praised the work of LAPFF.

LAPFF produce a quarterly engagement report to give an overview of the work undertaken. This was attached as Appendix A to this report and highlighted the achievements during the quarter. It also listed engagement undertaken with a number of companies. Of these companies the Fund held interests as identified in Table 1 on pages 141-143 of the report.

The companies at which LAPFF voted during the quarter were listed in Appendix B for information.

Committee Members were also reminded that the LAPFF Conference was due to be held from 7th – 9th December 2022 in Bournemouth to which the Chair encouraged them to attend.

The Chair said that “Make Your Money Matter” was running a campaign on deforestation and he had asked officers to look at how the Fund could reduce deforestation throughout its holdings and report back to a future meeting. He believed that LAPFF had signed up to it.

ACTION BY: Executive Director Corporate Services

RESOLVED -

THAT the contents of the report be noted.

14. LONDON COLLECTIVE INVESTMENT VEHICLE PROGRESS REPORT

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

This report provided a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV’s staff resource. Progress with the London CIV contributed to the Government’s pooling agenda and drive to reduce costs in the Local Government Pension Scheme (LGPS).

It was noted that the London CIV had £13.2bn of assets under management (AUM) as at 31 March 2022. Total assets pooled by Client Funds were valued at £26.67bn.

It was also noted that Councillor Madlani was Chair of the Shareholder Committee and would be involved in the appointment of the new CEO. He referred to the recent AGM and said that the LCIV was asked to publish their net zero plans and detail the steps they intend to follow.

It was noted that the LCIV annual conference would be held on 5th and 6th September in Twickenham to which Committee Members were invited to attend. Councillor Madlani said that he would be speaking at the annual conference in September and urged Committee Members to attend.

TO NOTE: All

RESOLVED –

THAT the contents of the report be noted and any comments on progress be fed back to the Chair and officers.

ACTION BY: All

15. CASH FLOW AND MEMBERSHIP REPORT

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

This report detailed a quarterly analysis of the cash flow for the Pension Fund during the last year and over the longer term and analysed the movement in scheme membership. This report was received annually by the Committee.

It was noted that:

- Cash inflows in 2021/22 were £68.1m, a £2.9m decrease on the previous financial year. There was a fall in employer and employee contributions which was attributed to the exit plan of the Improvement & Development Agency (IDeA) who transferred to Merseyside from 1 April 2021.
- The total outflows rose slightly to £69,1m, although payments made to scheme members fell by £2.1m. Net cash flows prior to transfer values were negative (a £1.0m outflow), owing to higher administration and investment manager costs compared to 2020-21. There was a significant rise in the value of both transfers in and out of the scheme, and there was a net transfer value out of £4.3m, as more members transferred their pension assets out of the Fund to other funds than transferred in.
- After taking into account transfer value activity, but before investment income, the Pension Fund had a negative net cash flow of -£5.3m. This was much higher than it has been in previous years due to the high, negative, net transfer value, and higher-than-usual administrative and manager costs.

- Employer contributions was the other main determinant of cash flow position. The increased employer contributions were driven by pensionable pay and the rates set at the Triennial Valuation.
- Cash received from investment income was the final factor that had consistently increased cash in the Fund and ensured a cash flow positive position. Investment income in 2021/22 was £13.1m which was £2.8m higher, substantially stronger, than in 2020/21. This was attributed to the strong performance of assets over most of 2021/22, and corporate profits more generally.
- After investment income, the total net inflow to the Pension Fund in 2021/22 was £7.7m, slightly reduced compared to 2020/21, owing to the increased costs mentioned and the higher negative net transfer values.
- The total number of members (22,020) had decreased by over 700 mainly due to the transfer out of individuals from the Local Government Management Board, the IDeA, and Local Government Employers, to the Merseyside Pension Fund. This transfer constituted 933 former members across the active, deferred, and pensioner categories.
- There was a net decrease of 344 new active members into the Fund compared to a small increase of 1 in 2020-21.
- Deferred membership had fallen, compared to last year, due to more members than usual from this category retiring or leaving the scheme. 368 of the 769 total leavers from this category were transferred to Merseyside; if this transfer is excluded, the figures were broadly equivalent to previous years.
- Pensioner membership contracted slightly in 2021-22, with a net decrease of 137, but excluding the transfer to Merseyside had remained broadly in line with previous years.

It was noted that this was the revenue spend of the Fund and the impact of inflation would be seen in this report next year due to inflation and the benefit spend.

With regard to the 50/50 option referred to paragraph 4.3, it was noted that rather than this option had been introduced as an alternative to the “all or nothing” option to encourage people to join the scheme, but only pay half the contributions and get half the benefits. This would still be a valuable benefit for them to receive. The current take up was only about 1%, but this might increase due to the rise in inflation.

It was suggested that the Council and Trade Unions should give as much information to employees regarding the benefits of the pension scheme to encourage employees to join.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the contents of the report be noted.

16. BUSINESS PLAN

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

The Committee noted the items scheduled for future agendas of this Committee together with a record of training/meetings attended and a list of future training opportunities.

In response to a question, it was confirmed that the “TFCD” was the Task Force on Climate Related Financial Disclosures.

It was noted that the Investment Beliefs were set 3 years ago so officers were looking at arranging a workshop for Committee Members, Pension Board Members, Trade Unions and Officers to discuss if they were still appropriate or should be updated.

ACTION BY: Executive Director Corporate Services

Members of the Pension Committee were reminded that they, together with Members of the Pension Board and officers, had been enrolled on the Hymans online learning academy. Training was delivered via videos, with jargon buster crib sheets and a quiz on each module. Completion could be tracked for each user so a record would be kept of which topics had been covered and which topics users needed to focus on. The training met the requirements of the CIPFA Knowledge and Skills Framework and the Pension Regulator’s Code of Practice. It was suggested that everyone should try to do at least one module before the September Committee meeting.

TO NOTE: All

It was agreed that officers circulate details and registration link for the LAPFF conference in September together with a reminder regarding the Hymans on-line training.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the contents of the report be noted.

17. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was no urgent business.

The meeting ended at 9.12 pm.

CHAIR

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MINUTES END