Public Document Pack

Local Pension Board

Date:	**Tuesday, 12 December 2023**
Time:	**1.00 p.m.**
Venue:	Mann Island – Room G40

Contact Officer:	Katherine Brown
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AGENDA

1. **WELCOME AND INTRODUCTION**

2. **APOLOGIES**

3. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

   Members of the Board are asked to declare any disclosable pecuniary and non-pecuniary interests, in connection with any item(s) on the agenda and state the nature of the interest.

4. **MINUTES (Pages 1 - 4)**

   To approve the accuracy of the minutes of the meeting held on 27 September 2023.

5. **PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 JULY – 30 SEPT 2023] (Pages 5 - 8)**

6. **LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE - THE MCCLOUD REMEDY (Pages 9 - 14)**

7. **ESTABLISHMENT OF WORKING PARTY (Pages 15 - 20)**

8. **REVISED INVESTMENT STRATEGY (Pages 21 - 30)**

9. **UPDATE ON CATALYST FUND (Pages 31 - 42)**

10. **NORTHERN LGPS UPDATE (Pages 43 - 52)**

11. **MINUTES OF WORKING PARTY MEETINGS (Pages 53 - 70)**

12. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

RECOMMENDATION: That under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

13. PENSION ADMINISTRATION MONITORING REPORT [PERIOD OF 1 JULY – 30 SEPT 2023] (Pages 71 - 98)

14. REVISED INVESTMENT STRATEGY (Pages 99 - 106)

15. RISK REGISTER (Pages 107 - 114)

PENSIONS COMMITTEE

Tuesday, 26 September 2023

Present:	Councillor	J McManus (Chair)	
	Councillors	A Ainsworth B Hall B Kenny GJ Davies T Cox A Gardner	C Povall P Cleary R Molyneux C Carubia
In attendance:	Councillors	V Wilson J Aston P Lappin	
Apologies	Councillors	C Povall	

17 **WELCOME AND INTRODUCTION**

The Chair welcomed everyone and read out the webcasting notice.

18 **APOLOGIES**

Apologies were received from Councillor Cherry Povall, who was deputised by Councillor Vida Wilson

19 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Usual declarations:

Roger Bannister	Pecuniary interest by virtue of being a Member of Merseyside Pension Fund.
Councillor Helen Collinson	Pecuniary interest by virtue of her being a Deferred Member of Merseyside Pension Fund and her daughter was an active member of the Fund.
Councillor George Davies	Personal interest as his wife was a member of Merseyside Pension Fund.
Councillor Andrew Gardener	Pecuniary interest by virtue of being a Member of Merseyside

	Pension Fund.
Councillor Brian Kenny	Pecuniary interest by virtue of being a Member of Merseyside Pension Fund.
Councillor Paulette Lappin	Pecuniary interest by virtue of being a Member of Merseyside Pension Fund.
Councillor Brenda Hall	Pecuniary interest by virtue of being a Member of Merseyside Pension Fund.
Councillor Julie McManus	Pecuniary interest by virtue of being a Member of Merseyside Pension Fund.

20 **MINUTES**

Resolved – That the minutes of the Pensions Committee meeting held on 11 July 2023 be agreed as a correct record.

21 **PUBLIC QUESTIONS**

No questions, statements or petitions had been received.

22 **GRANT THORNTON – THE AUDIT FINDINGS REPORT FOR MERSEYSIDE PENSION FUND**

A representative of Grant Thornton presented this report which highlighted the key findings and other matters arising from Grant Thornton's external audit of the financial statements of Merseyside Pension Fund for the year ended 31 March 2023. Subject to the satisfactory completion of the outstanding audit work, Grant Thornton's anticipated audit opinion would be unqualified.

In response to Members' questions, Grant Thornton assured Members that there were a number of tasks within their assessment of level 3 asset valuations. Grant Thornton also confirmed that there was nothing they wanted to bring to Members attention ahead of the 2023/24 audit.

Resolved – That the report be noted.

23 **MERSEYSIDE PENSION FUND ANNUAL REPORT & ACCOUNTS 2022/23 AND LETTER OF REPRESENTATION**

The Head of Finance and Risk at Merseyside Pension Fund presented this report which provided an update on the approval of the 2021/22 Statement of Accounts, provided the Annual Report and Accounts for Merseyside Pension Fund for 2022/23 and a letter of representation prepared by Officers on behalf of the Committee. The audit work had not identified any adjustment to the financial statements' financial position; a small number of changes to the disclosure notes had been agreed.

The Fund's financial position for the year ended 31 March 2023 was reported as £10.4bn. The external auditors subject to the completion of their outstanding work, were indicating issuing an unqualified opinion with no recommendations.

Resolved – That,

(1) The update for 2021/22 be noted.

(2) The Audit Findings Report, the amendments to the accounts, the Letter of Representation and the audited Statement of Accounts for 2022/23 be approved.

(3) The recommendations above be referred to the Audit and Risk Management Committee.

The Annual Report of Merseyside Pension Fund for 2022/23 be approved for publication.

24 LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION: NEXT STEPS ON INVESTMENTS

The Director of Pensions introduced the report to the Committee. The report provided the Committee with details of a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) which sought views on the Local Government Pension Scheme's (LGPS) "next steps on investments" and sought comment on and approval of the proposed response which had been prepared by officers.

A Member commented on the difficulty of finding investable local levelling up opportunities and suggested that the response should make the point that support to address this was needed. He also questioned whether the definition of levelling up was too broad and did not bring out the need for a focus on areas of particular deprivation. . Officers confirmed that the response could be expanded to propose incentives to stimulate levelling up investments but noted that there were wealth disparities within as well as between geographical areas which made any definition difficult to frame.

Resolved - That the report be considered and a response to the consultation be approved subject to any additional suggestions from the Local Pension Board to which the Director of Pensions may agree.

25 NORTHERN LGPS UPDATE

The Director of Pensions introduced the report to the Committee. The report provided Members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS Investment Pool. Minutes of the previous Northern LGPS Joint Committee meeting were appended for noting.

Resolved - That the minutes of the Joint Committee meeting be noted.

26 PENSION BOARD REVIEW 2022-23 AND WORK PLAN 2023-24

The Chair of the Local Pension Board introduced the report to the Committee. The purpose of the report was to provide Members with a review of the work and performance of the Board and its members between 1 April 2022 to 31 March 2023 and included a proposed Work Plan for 2023-2024.

Members thanked the independent Chair of the Local Pension Board for a detailed and positive report and for the Board's involvement in raising the issue of trade union representation on the NLGPS Joint Committee.

In a response to a Member query regarding what resources are required to continue to high quality work of the Fund, the Chair explained staff retention is difficult due to a national shortage of pension fund officers, therefore the maintaining and recruiting of staff should be a priority for Committee and the administering authority, Wirral Council.

Resolved – that the report be noted.

27 WIRRAL LOCAL PENSION BOARD MINUTES

The Chair introduced this report which provided Members with the draft minutes of the previous meeting of the Wirral Local Pension Board.

Resolved - That the minutes of the Wirral Local Pension Board be noted.

28 MINUTES OF WORKING PARTY MEETINGS

The Chair introduced this report which provided Members with the minutes of meetings of Working Parties held since the previous Committee meeting.

Resolved - That the minutes of the working parties be approved.

WIRRAL

PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**PENSION ADMINISTRATION MONITORING REPORT** **[PERIOD OF 1 JULY – 30 SEPT 2023]**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The report provides the Pension Board with monitoring information on the key performance indicators in respect of work undertaken by the administration team during the period:

1 July 2023 to 30 September 2023.

The report appendix contains exempt information. This by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. information relating to the financial or business affairs of any person, including the authority holding that information.

RECOMMENDATION

That the Pension Board be recommended to consider and note the report and the exempt appendix.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 The Pension Board assists the administering authority in its role as Scheme Manager in the scrutiny of the performance of Fund's administration function.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report as The Pension Regulator (TPR) Code of Practice contains a requirement for the Pension Board to be supplied with a schedule of Key Performance Indicators (KPIs) to monitor administration and internal control of the Fund.

3.0 BACKGROUND INFORMATION

Background and Overview

3.1 Merseyside Pension Fund (MPF) provides a pension administration service to its active, deferred and pensioner membership base in conjunction with its constituent employers.

3.2 The Administration team comprises three distinct service areas namely Employer Compliance & Membership (ECM), Benefits & Payroll and Operations. The functions of each team are measured against performance standards documented within the Pension Administration Strategy.

Robust Governance Framework - Key Performance Indicators (KPIs)

3.4 In line with TPR Code of Practice there is a requirement for the Pension Board to be supplied with a schedule of KPIs to monitor administration and internal control of the following areas:

1. Membership Movements
2. Workflow Statistics / Section & Industry Activity
3. Performance Standards
4. Pensions in Payment
5. Employer Base
6. Contribution Monitoring
7. Complaints
8. Internal Dispute Resolution Procedure (IDRP)
9. Communications
10. Member Web Portal (MyPension)
11. Cybersecurity

3.5 The exempt appendix to this report contains the narrative and statistical data to be considered by members of the Local Pensions Board.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 Merseyside Pension Fund is a part of the statutory Local Government Pensions Scheme. The Fund is regulated by the Department Levelling Up, Housing and Communities (DLUHC), the Pensions Regulator and is required to operate within the legislative requirements of the Local Government Pension Scheme (LGPS) pension regulations.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The Pension Board assists the administering authority in its role as Scheme Manager in the scrutiny of the performance of Fund's administration function. An important element of that assessment is the adequacy and availability of resources and the efficiency and effectiveness of their deployment.

7.0 RELEVANT RISKS

7.1 Merseyside Pension fund (MPF) is one of the largest local government pension schemes with more than 149,000 members. A failure to fulfil its statutory requirements would bring significant financial and reputational risks to the administering authority.

8.0 ENGAGEMENT/CONSULTATION

8.1 Any relevant consultations are set out in the attached exempt appendix.

9.0 EQUALITY IMPLICATIONS

9.1 Any relevant implications are set out in the attached exempt appendix.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

REPORT AUTHOR: **Yvonne Murphy**
(Head of Pensions Administration)
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BACKGROUND PAPERS

The Public Service Pensions Act 2013
LGPS Guidance on the creation and operation of Local Pension Boards

in England and Wales

TERMS OF REFERENCE

This report is being considered by the Local Pension Board in accordance with Section 13.2 of its Terms of Reference:

(b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

(f) Monitor complaints and performance on the administration and governance of the scheme.

In addition, also Section 13.3 of the Terms of Reference:

(b) Monitor performance of administration, governance and investments against key performance targets and indicators.

APPENDICES

Exempt appendix of ‘Pension Administration Monitoring KPI Report’

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LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE - THE MCCLOUD REMEDY**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides an update on legislation related to the ‘McCloud Remedy’, and the guidance that has been published to support implementation by the Fund’s Administration Team.

RECOMMENDATION/S

That the Local Pension Board be recommended to note the legislative change to remove the age discrimination from the Local Government Pension Scheme (LGPS), and that implementation of the revised regulations is a major resource intensive project to ensure the Fund’s continued compliance in delivering the ‘McCloud Remedy’.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

1.1 There is a requirement for the Local Pension Board to be fully informed of national directives and legislative developments to ensure the appropriate governance and stewardship of the Fund in its role of assisting the Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

2.1 This is the most appropriate option for informing the Local Pension Board of regulatory, legislative and industry developments.

3.0 BACKGROUND INFORMATION

Consultation outcome and issuance of Regulations

3.1 The 'McCloud Case' arose as a consequence of the wider reform of the public service pension schemes, when all contributing members were moved across from a "final salary" to a "career average" benefit structure in 2014 and 2015.

3.2 Transitional "grandfathering" protections were extended to those members closest to retirement as part of the reforms. The protection in the LGPS takes the form of a statutory underpin where members receive the better of benefits calculated on the new career average basis or the old final salary basis during the period of 1 April 2014 to 31 March 2022.

3.3 In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' pension schemes had been discriminated against based on age because the protections did not apply to them. The government accepted that the Court's ruling had implications across all public service pension schemes with similar transitional protections.

3.4 The ruling is called the McCloud judgment and consequently all public service pension schemes that provided protection, including the LGPS, have been changed by virtue of the 'McCloud Remedy' which extends the statutory underpin to those who,

- were a member of the LGPS or another public service pension scheme before 1 April 2012, and

- were a member of the LGPS any time between the remedy period of 1 April 2014 and 31 March 2022, without a continuous gap of more than five years membership of a public service pension scheme.

The Legislative Framework

3.5 The Public Service Pensions and Judicial Offices Act 2022 provides the enabling provisions to make regulations for protected members to receive an automatic uplift to their benefits for the remedy period.

3.6 On 8 September 2023, following a number of statutory consultations on the proposed remedy, the Department for Levelling Up, Housing and Communities (DLUHC) laid the Local Government Pension Scheme (Amendment) (No.3) Regulations 2023, under the enabling provisions of the 2022 Act which take effect from 1 October 2023.

3.7 The amendment regulations implement the 'McCloud Remedy' for the LGPS, extending the underpin rules to all members who meet the criteria regardless of age.

3.8 The statutory instrument also makes a number of related changes to the underpin to ensure it works in line with the government's policy intent for aggregation, transfers, flexible retirement and divorce case work. The legislation provides scope to enable administering authorities to check past benefit calculations for events that happened between 1 April 2014 and 30 September 2023.

Statutory Guidance for Administering Authorities.

3.9 As the regulations are now in force, administering authorities will need to consider a range of McCloud affected cases. In supporting Funds to take a broadly consistent approach DLUHC has issued initial statutory guidance on how authorities should prioritise this work.

3.10 DLUHC is also in the process of setting up a McCloud implementation group to decide what other statutory guidance is needed for Funds to administer the remedy and the Government Actuary's Department is updating actuarial guidance to reflect the changes for publication as soon as it is available.

Communication Materials for Members and Employers

3.11 The Local Government Association in conjunction with the Communications Working Group (on which the Fund has representation) has created materials to explain the impact of McCloud on members' pension entitlements which can be accessed on the Fund website here: https://mpfund.uk/mccloud

3.12 The resources include:

- A short video
- Frequently asked questions
- An interactive 'Am I affected?' tool
- Examples of how members might be affected
- Detailed information about how the remedy will affect different types of members
- Factsheet summarising the McCloud Remedy

3.13 The factsheet advises members that they do not need to anything to be assessed for the underpin. If they qualify for underpin protection and are either an active or deferred member, they will receive an estimate of the underpin amount in their 2025 benefit statement.

3.14 Members already in receipt of their pension benefits will receive any increase due, including arrears of pension, following a review of pensions in payment. This process will extend over a long period of time due to the material volume of records to review.

3.15 It is noteworthy that despite the substantial task of implementing the McCloud remedy, most members will not see an increase in benefits. This is because the pension they built up in the career average scheme during the protection period was higher than the pension they would have built up in the final salary scheme. Where there is an increase to a member's benefits, it is likely that this will be a small amount.

4.0 FINANCIAL IMPLICATIONS

4.1 The cumulative cost of McCloud across employers participating in the Fund has been assessed by the actuary to be in the region of £100 million, representing 1% of the total Fund liabilities of £10.3 billion, as calculated at the 31 March 2022 triennial valuation. The costs have been incorporated within the results of the employers' balance sheet and have been reflected in contribution schedules for the period 1 April 2023 to 31 March 2026.

4.2 Whilst the valuation allowance will not precisely reflect the final implemented position, for most employers it is expected to substantially cover the cost of the McCloud remedy. Overall, the differences coming through at 31 March 2025 valuation and in subsequent contribution rates are not expected to be material, although individual employer impacts will vary.

4.3 The Fund has implemented a service delivery review to consider the capacity of the Administration team. Whilst this took the form of a holistic assessment, the additional requirements of delivering the McCloud remedy was a key consideration in increasing staff resources.

4.4 The business case for additional resources was approved by the Director of Pensions and agreed by Wirral Corporate HR, and a recruitment exercise is underway.

4.5 The overall increase to the establishment cost of the Administration Team was £233,577 per annum, but this also related to other changes necessary to meet service demands, including the modernisation of the service, and national initiatives including McCloud and the national Pensions Dashboard Programme

5.0 LEGAL IMPLICATIONS

5.1 The administering authority solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.

5.2 Failure to comply with regulations may lead to sanction by the Pensions Regulator, including the possibility of financial penalties and reputational damage.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Given the complexity of the 'McCloud Remedy' and the material volume of additional work that will need to be undertaken, the statutory guidance will be key to ensuring the new regulations are implemented on a consistent basis across all Funds.

6.2 As the regulations present additional administrative challenges linked to policies on aggregation and determining membership in other public service pension schemes, the national McCloud implementation group will be vital in ensuring the views of administering authorities, and software suppliers are reflected in the final guidance.

6.3 It is noteworthy that the Judicial review in relation to McCloud and the cost management process will be heard in February 2024. There is potential that the outcome will results in further benefit improvements for LGPS members with associated additional employer costs and administration implications for Funds.

6.4 The administrative requirements of the McCloud remedy have required the system supplier to incorporate changes to the Funds administration system. Costs incurred to date have been £25,000 with a further £6,000 anticipated for completion of works.

7.0 RELEVANT RISKS

7.1 There is a risk of miscommunication and incorrect payment of pension benefits to members if the legislative changes are not implemented in accordance with the revised regulations with an associated impact on employer costs.

7.2 Failure to comply with regulations may lead to sanction by the Pensions Regulator, including the possibility of financial penalties and reputational damage.

8.0 ENGAGEMENT/CONSULTATION

8.1 The changes to administration and governance of the LGPS are consulted on at national level by the relevant government department.

9.0 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: https://mpfund.uk/lgpsequalitystatement

DLUHC and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

Scheme Developments -Scheme Advisory Board Website
https://lgpsboard.org/index.php/structure-reform/mccloud-page

The McCloud Remedy Factsheet
https://mpfmembers.org.uk/pdf/LGPS_McCloud_Factsheet_EW_5p.pdf

TERMS OF REFERENCE

This report is being considered by the Local Pension Board in accordance with Section 13.2(b) of its Terms of Reference:

(d) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Standing Agenda Item	**27 September 2023**

LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**ESTABLISHMENT OF WORKING PARTY**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board members with a copy of the report taken to Pensions Committee regarding the establishment of a Responsible Investment Working Party.

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 To fulfil its role in supporting the Scheme Manager, it is important that the Local Pension Board is informed of changes to the Fund's governance and operation.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options. It is imperative that changes to the Fund's governance arrangements are reported to the Local Pension Board for its consideration.

3.0 BACKGROUND INFORMATION

3.1 There is an increasing emphasis on responsible investment-related activities for pension funds with Taskforce on Climate-related Financial Disclosure requirements, Environmental, Social and Governance issues to be addressed and demands arising from stewardship and engagement activities.

3.3 With the appointment of Redington and the Fund's ongoing change programme, the emphasis of Investment Monitoring Working Party's (IMWP) has been on responsible investment policy, investment beliefs and the management of climate risk and climate targets. To support this additional work and the Fund's compliance with the Stewardship Code, it is proposed to establish an additional working party.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the accompanying report.

5.0 LEGAL IMPLICATIONS

5.1 Working parties are not decision-making bodies but minutes, recommendations and action points arising are reported to Committee. Advice taken from the Council's Legal and Committee officers indicate no constitutional or procedural issues arising.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The additional working party will place additional demands on officers in relation to its organisation and operation.

7.0 RELEVANT RISKS

7.1 A failure to increase capacity to support the Fund's responsible investment activities could result in attention being taken from the oversight of the Fund's investment strategy and investment performance.

8.0 ENGAGEMENT/CONSULTATION

8.1 As set out in the accompanying report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Responsible Investment Working Party (RIWP) will monitor progress on the Fund's climate targets and support the Fund's sustainability agenda.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

Appendix 1& 2 Pensions Committee report and appendix.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.2 (b) & 13.3 (g) of its Terms of Reference:

(b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

(g) Assist with the development of improved management, administration and governance structures and policies.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Responsible Investment Working Party

Role

To increase its capacity for the consideration of responsible investment issues, Merseyside Pension Fund has established a Responsible Investment Working Party (RIWP). The RIWP comprises a subset of the Pension Fund's committee members, officers and investment advisors. The RIWP will consider responsible investment (RI)issues and take forward development work in relation to the Fund's responsible investment policy, climate change and stewardship activities, making recommendations to the Pensions Committee.

Terms of reference

- **I.** Oversee the development of and make recommendations to the IMWP/Pensions Committee regarding the Fund's RI strategy;
- II. To review and consider any changes to the Fund's responsible investment policy and make recommendations to the IMWP/Pensions Committee;
- III. To monitor progress on the Fund's climate targets and initiatives and to report to the IMWP/Pensions Committee;
- IV. To consider and develop the Fund's reporting in respect of the Taskforce for Climate-related Financial Disclosure (TCFD);
- V. To support the Fund's stewardship and engagement activities including the Fund's compliance with the UK's Stewardship Code 2020;
- VI. To monitor regulatory and wider developments in the environmental, social and governance arena and consider the implications for the fund and any actions required.

Representation

It is proposed that the Responsible Investment Working Party (RIWP) is subset of Pension Committee members comprising the Chair, Vice Chair and a representative from each political group. A further place will be available for a non-Wirral Committee member to be determined by ballot, if necessary. Officers and the Fund's Investment Advisor will also provide advice and support.

Frequency

As required. Anticipated to be quarterly initially, reducing to biannually as the working party becomes established.

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WIRRAL

LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**REVISED INVESTMENT STRATEGY**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Board members with a copy of a report on proposed revisions to the Fund's strategic asset allocation recently taken to Pensions Committee.

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 To fulfil its role in supporting the Scheme Manager, it is important that the Local Pension Board is informed of the governance of the Fund's investment activities.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report. This is the most suitable option to provide the Local Pension Board with this information.

3.0 BACKGROUND INFORMATION

3.1 Last year, MPF relet its contract for strategic investment advice. The tender specified MPF's strategic investment objectives and extended to include support for a major programme of change. The change programme is intended to deliver the objectives previously approved by Committee in relation to investment strategy, climate risk, sustainability and responsible investment. The attached report sets out progress to date and recommendations for further actions.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 As set out in the accompanying report.

7.0 RELEVANT RISKS

7.1 A failure to provide the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Board in fulfilling its statutory duties.

8.0 ENGAGEMENT/CONSULTATION

8.1 The views of the Pension Board were sought in the surveys used in the development of the Pension Risk Management Framework.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund's responsible investment policy has regard to the environmental, social and governance implications of its investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 As set out in the accompanying report.

REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
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APPENDICES

Appendix 1-3 Investment Strategy report to Pensions Committee.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.2 (b) of its Terms of Reference:

(b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL

PENSIONS COMMITTEE

11 DECEMBER 2023

REPORT TITLE:	**REVISED INVESTMENT STRATEGY**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to seek approval from Members for a revised investment strategy for Merseyside Pension Fund (MPF).

The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That the Pensions Committee be recommended to consider and approve the investment strategy and strategic asset allocation.

That the Pensions Committee be recommended to consider and approve the actions and recommendations set out in appendix 1.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Following a review of the Fund's investment beliefs, risk, return and income requirements, and consideration by the Investment Monitoring Working Party, a revised strategic asset allocation has been formulated.

2.0 OTHER OPTIONS CONSIDERED

2.1 The option not to revise the strategic asset allocation was considered but dismissed as LGPS Investment Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State and 7(7) kept under review and revised from time to time.

3.0 BACKGROUND INFORMATION

3.1 Last year, MPF relet its contract for strategic investment advice. The tender specified MPF's strategic investment objectives and extended to include support for a major programme of change. The change programme is intended to deliver the objectives previously approved by Committee in relation to investment strategy, climate risk, sustainability and responsible investment. Following a thorough and detailed procurement process, Redington's submission was successful.

3.2 Summary objectives are:

Strategic Objectives

The strategic adviser will be accountable to the Director of Pensions (as Head of MPF's management team) for providing the service in support of the Fund's strategic objectives. MPF will require the full range of services set out in Lot 1 of the Framework, inclusive but not limited to:

i. Advice on investment strategy review & strategic asset allocation, in line with the triennial funding strategy cycle;
ii. Liaison as appropriate with the Fund's actuarial advisors;
iii. Advice & support on strategic progression to the quarterly Investment Monitoring Working Party meetings;
iv. Advice and support on MTAA and risk management strategies, including quarterly review.

Change Programme 2022

Merseyside Pension Fund seeks an investment consultant to work with the Investment Team as Strategic Adviser; and through a partnership model, to support a major programme of change to the Fund's investment strategy to achieve the objectives of:

i. Maintain full funding position, reduce risk and achieve target returns.
ii. Implement changes to strategic benchmark, including portfolio restructuring & streamlining of governance.
iii. Target and implement a Net Zero climate plan over short, medium and long term.

3.3 Members will be aware that Redington have undertaken surveys of stakeholders regarding investment beliefs in order to develop a Pension Risk Management Framework; a dashboard which captures the principal strategic objectives of the Fund's investment strategy and progress towards them. At this stage, the revised strategic asset allocation (SAA) is intended to assist MPF in maintaining a full funding position, reduce risk and achieve investment returns consistent with actuarial assumptions.

3.4 Approval of the revised SAA will enable officers and advisors to move ahead with the later phases of the change programme. Further details of the change programme and recommended actions are set out in the accompanying appendix. It is recognised that the new strategy will take time to implement particularly in view of the illiquid nature of private market assets. Consequently, it is recommended that relatively wide ranges are set within the ISS around the asset classes to enable the transition to be undertaken in a measured way. Officers will also need to take into account impending guidance from the Department for Levelling Up, Housing and Communities following the Next Steps consultation which, in particular, may affect allocations to private equity. The table below sets out the changes recommended by Redington.

3.5 Strategic asset allocation

Asset Class	Current Strategic Benchmark	Detail of current arrangements	Revised Strategic Benchmark	Recommended Control Range
Equities	**43**		**34**	29 - 49
UK equities		15.2		
Overseas equities	27.8			
US		4.3		
Europe		6.5		
Japan		3.2		
Asia Pacific		3.2		
Emerging markets		4.9		
Global		5.7		
Fixed income	**17**		**25**	14 - 29
UK gilts		4		
Index-linked gilts		9		
IG Corporate bonds		4		
Property	**11**		**11**	8 - 14
Alternatives	**28**		**29**	24 - 34

Private equity		6	4*	
Hedge funds / liquid alternatives		4	4	
Private credit		7	7	
Infrastructure		11	14**	
Cash	1		1	0 - 6
Total	**100**		**100**	

*ambition to include an allocation to impact
**ambition to include an allocation to Natural Capital solutions

4.0 FINANCIAL IMPLICATIONS

4.1 The revised investment strategy is forecast to provide MPF with improved risk adjusted returns.

4.2 The need to reallocate assets geographically and between asset classes will incur transition costs; these principally relate to explicit costs such as transaction fees, brokerage, taxes and exchange fees; and implicit costs such as spread, FX and market impact.

4.3 By retendering mandates and increasing assets under internal management, management fee savings are anticipated. Nonetheless, performance is generally a much more significant consideration relative to fees.

5.0 LEGAL IMPLICATIONS

5.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Although the investment strategy review and change programme is being supported by the Fund's strategic investment advisors and its independent advisors, it is placing considerable demands on officer time and resources.

7.0 RELEVANT RISKS

7.1 The revised investment strategy is forecast to provide MPF with improved risk adjusted returns.

7.2 The continuing work on sustainability and climate risk is being undertaken with a view to informing and developing the Fund's Net Zero ambitions.

8.0 ENGAGEMENT/CONSULTATION

8.1 Members attending recent IMWPs have been involved in surveys, training and discussions on investment strategy and responsible investment.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The implementation of the revised investment strategy will take into account the Fund's climate targets and sustainability agenda.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The revised investment strategy includes aspirations and ambitions in relation to investments in levelling up, local and impact opportunities.

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APPENDICES

Appendix 1 Investment Strategy recommendations.
Appendix 2 Investment Strategy report.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section A of its Terms of Reference:

(a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance of the Fund.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**UPDATE ON CATALYST FUND**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Board members with a copy of a report on the Catalyst Fund recently taken to Pensions Committee.

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 To fulfil its role in supporting the Scheme Manager, it is important that the Local Pension Board is informed of the governance of the Fund's investment activities.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report. This is the most suitable option to provide the Local Pension Board with this information.

3.0 BACKGROUND INFORMATION

3.1 The Catalyst Fund was established in 2016 with the strategy of supporting development and refurbishment projects in the Merseyside area with the aim to create jobs, promote Building Research Establishment Environmental Assessment Method (BREEAM) excellent space, brownfield regeneration and environmental measures, contributing to the improvement of the region whilst delivering a commercial return in line with Fund's target return.

3.2 The Fund seeks returns commensurate with its broader strategies. However, it is recognised that local investments can bring a greater degree of risk in terms of counterparties, contractors and project scale. The Fund can invest both via equity and debt; however, at inception it was assessed that market conditions were such that lending was preferred due to better risk adjusted returns and opportunities to recycle capital.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are no implications arising directly from this report. Guidance to the Local Government Pension Scheme (LGPS) Investment Regulations states that the pursuit of financial return should be the predominant concern but investment may be made into projects that deliver a social impact where administering authorities have good reason to think scheme members share the concern for social impact and there is no risk of significant financial detriment to the Fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 As set out in the accompanying report.

7.0 RELEVANT RISKS

7.1 A failure to provide the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Board in fulfilling its statutory duties.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund has regard to the environmental, social and governance implications of the local investments which are made.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 As set out in the accompanying rebuilding port.

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APPENDICES

Appendix 1 Catalyst Report to Pensions Committee

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.2 (b) of its Terms of Reference:

(b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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PENSIONS COMMITTEE

11 DECEMBER 2023

REPORT TITLE:	**CATALYST FUND UPDATE**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Members with an update on the progress of the Fund's local investment activities.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The Catalyst Fund aims to support development and refurbishment projects in the Merseyside area that are additive to the regeneration of the Liverpool City Region, align with the economic plans for the area whilst producing a commercial return for the Fund.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report as elected members have requested regular updates on the Fund's local investments.

3.0 BACKGROUND INFORMATION

3.1 The Catalyst Fund was established in 2016 with the strategy of supporting development and refurbishment projects in the Merseyside area with the aim to create jobs, promote BREEAM excellent space, brownfield regeneration and environmental measures, contributing to the improvement of the region whilst delivering a commercial return in line with Fund's target return.

3.2 The Fund seeks returns commensurate with its broader strategies. However, it is recognised that local investments can bring a greater degree of risk in terms of counterparties, contractors and project scale. The Fund can invest both via equity and debt; however, at inception it was assessed that market conditions were such that lending was preferred due to better risk adjusted returns and opportunities to recycle capital.

3.3 The Catalyst Fund currently has three committed loans, totalling £103.3m, across three sectors in and around the Liverpool City Region. Catalyst debt investments are typically for shorter term, from 18 months to 48 months with an individual investment range of £5 million to £35 million to ensure greater support for local projects.

Summary of Committed Loans

Loan Name	Sector	Expected Repayment	Loan Facility	Principal Drawn
Mersey Heat	Infrastructure	Q2 2026	£19.7m	£10.8m
Legacie	Residential	Q4 2027	£56.5m (Peak facility not increasing from £32m)	£0.34m
Royal Albert Dock	Mixed	Q2 2026	£27.2m	£24.1m
Croft Retail Park	Industrial	Q3 2025	£5.7m	£0
		Total	£103.4m	£35.24m

3.4 **Mersey Heat Network (District Heating)**

In 2021, Catalyst Fund provided an unsecured corporate debt of £13.17 million to a district heating project. The project is being developed by Mersey Heat Ltd (a subsidiary of Peel Group). This investment will accelerate the delivery of an important regeneration project in the Liverpool City Region, as well as facilitate low carbon heat and energy in keeping with the UK Government's clean growth strategy. This project will be able to provide a district heating facility to around 9,000 homes and 4 million sq ft of commercial units.

District heating is the supply to multiple buildings of heating and hot water from a centralised generation source, typically Combined Heat & Power plant via insulated underground pipes. Buildings collectively served by the same central heating plant are widely developed and mostly implemented in Europe (specifically in the Nordics), although not largely implemented in the UK. Mersey Heat Ltd initially aimed to serve residential and commercial units in the Liverpool Waters area, but this project has the potential to expand to serve adjoining developments.

In 2022, MPF committed to funding the next phase of the Mersey Heat Network and increased the existing commitment to £20m.

3.5 **Wirral Waters**

In September 2020 MPF committed a £8.53 million unsecured corporate facility to Wirral Waters Finance Ltd which is a wholly owned subsidiary of Peel Holdings Land and Property (UK) Limited. This investment helped to accelerate the delivery of an important regeneration project in the City Region, facilitating creation of new employment space outside of Liverpool City Centre.

This commitment from the Catalyst Fund was used to fund a Grade A 30,000 sq ft office (Tower Road South) and a 70,000 sq ft light industrial Unit (MEA Park). The Development is part of the Mersey Waters Enterprise Zone, meaning Wirral Borough Council can retain 100% of the business rates generated by tenants at MEA Park and Tower Road South. There was also a £4.50 million Grant Funding in place for this project which was invested alongside the Fund's Loan. This funding was provided by the Liverpool City Region Combined Authority (£3.00 million in support of Tower Road South) and the Wirral Waters Investment Fund (£1.50 million in support of MEA Park).

3.6 **Royal Albert Dock**

In 2023, MPF committed £27 million in senior loan to fund the acquisition and refurbishment of the Royal Albert Dock in Liverpool. The Borrower – General Projects aims to proactively manage the asset to improve occupancy and grow rents by investing in hard costs in fitting out vacant food and beverage, leisure, and office space and significantly increasing the marketing budget to achieve the full potential of the Albert Dock.

This project has been selected for the Catalyst Fund not only due to its iconic location and the status of a UNESCO World Heritage Site so important for the city's tourism but also due to its excellent ESG credentials. The business plan focuses on improving the energy efficiency and performance ratings of the units. Social initiatives include free workspaces for local businesses, youth mentoring for pupils at local schools, using only local supply chains, and developing a programme of skills and training with lectures hosted at the Royal Albert Dock.

Those initiatives aim to promote the city on a global scale, making it an attractive location for businesses and tourists, consequently boosting local growth, job creation, and entrepreneurship.

3.7 **Legacie**

Another new addition to the Catalyst Fund was a senior loan of £ 56.5 million to fund the construction of five residential blocks in Liverpool's Baltic Triangle by Legacie. The development will create 633 high-quality residential units, with the majority pre-sold and secured with large deposits of around 33%. The project has strong ESG credentials incorporated into the design: air source heat pumps and MVHR systems (Mechanical Ventilation with Heat Recovery). High-quality amenities such as rooftop terraces, swimming pool, gym, sauna, and spa will position the development in the premium sector.

The Borrower has an extensive proven track record in Liverpool and across the UK, including the development of Hotel Indigo – a brand new boutique style hotel and Reliance House – the restoration of an Edwardian building located within Water Street.

This investment is forecasted to enhance the city's residential offering and provide attractive returns to MPF with the risk minimised thanks to the pre-sale of the units and high deposits.

3.8 Croft Trade Park, Bromborough – Development loan

The development will include a self-storage unit, a Starbucks Drive-Through unit, four trade counter units and two further industrial units.

The borrower is an experienced developer. Founded in 2008, thye have delivered over1m sq ft of commercial floorspace with significant experience in commercial property development from inception, through to delivery and completion.

3.9 **Foresight NW Regional Fund:**

Since inception of the local investment strategy and considering the inherently risky nature of small-scale local investments, the Fund invested in debt instruments favouring property backed investments. However, the Fund has been looking at ways of investing in regional Small and Medium Enterprises (SMEs), providing equity capital in order to help these viable local businesses grow with positive impact on the local economy and job creation.

In May 2021, MPF committed £10m to the Foresight Northwest Regional Investment Fund III enabling it to take equity stakes in local SMEs. The Foresight Regional Fund III held a first closing on 21 May 2021 with £66.33m of capital commitments. The Fund is focused on making investments in established, profitable, small cap companies with operations in the Northwest region of the UK.

To date, Foresight Investment Funds I and III created over 1,600 high-quality, sustainable jobs and supported c. 1,200 hospitals and institutions.

Completed Developments

3.10 **Ropewalks (The Eight Building - Iliad) – Development Loan**

Ropewalks was the first successful exit from the Catalyst Portfolio. The Fund had committed £10.25 million of senior debt to provide for the construction costs to deliver a 120-unit residential development at this 0.70-acre site in the Rope Walks area of Liverpool. This project was delivered by Iliad Group and created 12 jobs. The development is a 10-minute walk from Liverpool City Centre, Liverpool One and Liverpool Central Station.

The Project is now complete with 120 residential units (a mix of 1-, 2- and 3-bedroom apartments), 2,519 Sq. ft of commercial space (the long leasehold already pre-sold for £250k to Liverpool City Council) and 19 car parking spaces.

The Fund benefited from a first charge over the property and a full senior debt security package. The development was refinanced in November 2021 with the Fund receiving repayment of £11.45m, a strong return for this debt investment.

3.11 **North Western Hotel:**

North Western Hotel is another exit from the Catalyst Portfolio. The Fund had committed £19 million of senior debt to support the conversion and refurbishment of The North-Western Hotel. Originally built as a railway station hotel in 1871, it is located on the corner of Lime Street, adjacent to Liverpool Lime Street Station.

The Project is now complete with 202 rooms that have been pre-let to the Radisson Hotel Group and are operating under their Radisson Red brand. Thanks to this redevelopment 67 new jobs were created.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the report.

5.0 LEGAL IMPLICATIONS

5.1 There are no implications arising directly from this report. Guidance to the Local Government Pension Scheme (LGPS) Investment Regulations states that the pursuit of financial return should be the predominant concern but investment may be made into projects that deliver a social impact where administering authorities have good reason to think scheme members share the concern for social impact and there is no risk of significant financial detriment to the Fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Local investments are often more resource intensive in the sourcing, structuring and ongoing monitoring of opportunities. Conducting very detailed due diligence and effective monitoring of the investments requires adequate staffing resources in place for a successful and effective roll out of the strategy.

7.0 RELEVANT RISKS

7.1 Local investments are inherently risky due to their direct nature, a more limited opportunity set and exposure to sometimes less financially credible, smaller-scale counterparties. Under or non-performance of one investment may have a significant influence on the overall performance of the portfolio.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund has regard to the environmental, social and governance implications of the local investments which are made.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The Catalyst Portfolio directly supports economic growth of the region and its objectives cover local employment creation, regeneration, floor space and carbon savings all of which contribute towards collective community wealth enhancement.

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APPENDICES

There are no appendices to this report.

BACKGROUND PAPERS

Local Government Pension Scheme: Guidance on preparing and Maintaining an Investment Strategy Statement
Impact Investing Institute: Place based impact investing

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section a of its Terms of Reference:

(a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee.	**22 February 2022**
Pensions Committee.	**29 March 2021**

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LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**NORTHERN LGPS UPDATE**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides Board members with an update on pooling arrangements in respect of Merseyside Pension Fund (MPF) and the Northern LGPS. Minutes of the previous Northern LGPS Joint Committee meeting are appended for noting.

RECOMMENDATION/S

The Local Pension Board be recommended to note the minutes of the Joint Committee meeting.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Pooling is resulting in fundamental changes to the oversight and management of Local Government Pension Scheme (LGPS) assets and it is important that Board members are informed of all developments affecting the Fund.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other suitable options. It is an audit recommendation that minutes of the Northern LGPS joint committee meetings are reported to Pensions Committee and, by extension, the Local Pension Board.

3.0 BACKGROUND INFORMATION

3.1 The Northern LGPS Investment pool was established between Merseyside, Greater Manchester and West Yorkshire Pension Funds in response to the revised LGPS Investment Regulations 2016 which were, in part, designed to facilitate the pooling of assets between LGPS funds and improve access to infrastructure investments.

3.2 Minutes of the previous Northern LGPS joint committee meeting are attached at appendix 1.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. The operating costs of the Pool are reported annually and shared equitably between the participating funds.

5.0 LEGAL IMPLICATIONS

5.1 LGPS funds are required to pool their assets in order to comply with Regulation 7(2)(d) of the 2016 Investment Regulations. The regulation requires administering authorities to set out their 'approach to pooling investments, including the use of collective investment vehicles and shared services' in their Investment Strategy Statement.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report. The Joint Committee provides monitoring and oversight of the operations of the Northern LGPS Pool.

7.0 RELEVANT RISKS

7.1 Pooling has resulted in fundamental changes to oversight and management of LGPS assets. It is essential that Pensions Committee exercises its governance responsibilities in accordance with the Council's constitution.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no environment and climate implications arising from this report. The NLGPS has a Responsible Investment policy explicitly addresses environment and climate implications as financially material to long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

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APPENDICES

Appendix 1 Minutes of Joint Committee meetings.

BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.2 (b) of its Terms of Reference:

(b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The Northern LGPS update is a standing agenda item on the Local Pension Board.	

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NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

5 October 2023

Commenced: 11:00am **Terminated: 12.20pm**

Present:	**Cllr Gerald P Cooney (Chair)**	**Chair, Greater Manchester Pension Fund**
	Councillor Andrew Thornton	**Chair, West Yorkshire Pension Fund**
	Councillor Julie McManus	**Chair, Merseyside Pension Fund**
	Councillor Cherry Povall	**Vice Chair, Merseyside Pension Fund**
	Elizabeth Bailey	**UNISON**
	Ken Drury	**UNITE**
	Alan Flatley	**GMB**
In attendance	**Sandra Stewart**	**Director of Pensions, GMPF**
	Peter Wallach	**Director of Pensions, MPF**
	Euan Miller	**Managing Director, WYPF**
	Tom Harrington	**Assistant Director of Pensions, Investments, GMPF**
	Steven Taylor	**Assistant Director of Pensions, Special Projects, GMPF**
	Neil Cooper	**Head of Pension Investment, GMPF**
	Michael Ashworth	**Principal Investments Manager, GMPF**
	Alex Jones	**Investment Officer, GMPF**
	Mushfiqur Rahman	**Investments Manager, GMPF**
	Owen Thorne	**Merseyside Pension Fund**
	Adil Manzoor	**Merseyside Pension Fund**
	Greg Campbell	**Merseyside Pension Fund**
	Leandros Kalisperas	**Chief Investment Officer, WYPF**
	Simon Edwards	**Assistant Director, Alternative Investments, WYPF**
	Robert Hulme	**West Yorkshire Pension Fund**
	Alan McDougal	**PIRC**
	Janice Hayward	**PIRC**
	Tom Powdrill	**PIRC**
	Conor Constable	**PIRC**

Apologies for Absence: **Councillor Jacqueline North – GMPF**

11. DECLARATIONS OF INTEREST

There were no declarations of interest.

12. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 6 July 2023 were agreed as a correct record.

13. COMMON CUSTODIAN UPDATE

The Assistant Director of Pensions Investments, GMPF submitted a report, which provided details of key performance indicators and key milestones and deliverables for the quarter to 30 June 2023 in relation to Northern Trust (NT) in their capacity as the common custodian to the Northern LGPS pool, as attached in an appendix to the report.

RESOLVED
That the report and presentation be noted.

14. POOLING UPDATE

Consideration was given to a report of the Managing Director (WYPF), providing an update on pooling activity since the previous Northern LGPS Joint Committee meeting and summarised relevant national pooling developments.

It was reported that, on 3 January 2019 MHCLG released new draft statutory guidance on LGPS asset pooling for 'informal' consultation. Parties that were consulted include pools, administering authorities and local pension boards. The guidance was intended to replace previous pooling guidance, in particular the LGPS Investment Reform Criteria and Guidance issued in November 2015 ('the 2015 guidance').

As per discussion at previous meetings, the draft statutory guidance appeared to blur the original four criteria in the 2015 guidance. In its place the guidance had 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting. Government was yet to publish a response to the consultation (it appeared that it would be superseded) and therefore the 2015 guidance remained in force.

DLUHC civil servants had been indicating for some time that a consultation on several key policy areas for the LGPS was expected to be issued in the near future. The consultation was expected to cover LGPS pooling as well as other related matters such as the implementation of TCFD ('Task-force on Climate-Related Financial Disclosure') requirements for LGPS funds and investing LGPS assets to support the levelling-up agenda. However, a consultation on implementation of TCFD requirements was released separately on 1 September 2022.

At a speech on 9 December 2022, the Chancellor of the Exchequer announced that Government would also consult on requiring LGPS funds to ensure they were considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy. It was once again reiterated that Government would be releasing new pooling guidance for consultation.

Members were advised that the Chancellor of Exchequer delivered his Budget on 15 March. It was stated that the Government was challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets. A forthcoming consultation would propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling had delivered substantial benefits so far, progress needed to accelerate to deliver and the Government was ready to take further action if needed. The Government would also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets. On 11 July 2023 the long-awaited consultation, titled 'LGPS: Next Steps on Investments', was finally released, with a closing date for responses of 2 October 2023.

A summary of consultation proposals was provided in the report. A draft NLGPS Pool response was also attached to the report.

Members were advised that the draft NLGPS Pool response repeated many of the messages from the response to the 2019 consultation, in particular:

- Government needed to focus on delivering successful outcomes;
- LGPS funds are diverse – one size fits all not appropriate; and
- Funds' fiduciary duty was paramount.

In addition, the draft response made the following points:

- Consistent reporting was much more difficult than it sounds;
- NLGPS Pool was supportive of greater cross-pool collaboration;
- Long-term benefits of pool merger unlikely to outweigh short term disruption;
- Pools must deliver funds' strategic asset allocation; and
- Concerns regarding Pools advising funds and individual funds' ability (or lack of) to influence Pools.

It was not known when Government would respond to the consultation or make the regulations changes and issue the guidance proposed. However, it was widely expected that the Chancellor would announce that he was pressing ahead with the proposals regarding levelling-up and investment in private equity, in his Autumn Statement.

Both the Pool and individual funds would need to consider whether any changes to their reporting of pooling activity was required in light of the consultation proposals. The consultation also indicated that DLUHC would monitor fund annual reports whilst preparing further guidance.

At the most recent NLGPS Directors' meeting the idea of preparing a Pool Business Plan for 2024 was discussed. This may cover areas such as enhancing reporting, exploring the creation of further vehicles to make collective investments in private markets (for example a private credit equivalent of NPEP) and reviewing the Pool RI policy and voting arrangements. Further details will be provided at the next Joint Committee meeting.

RESOLVED
That the report and the Northern LGPS Pool response to the recent consultation on LGPS Investments, be noted.

15. SCHEME ADVISORY BOARD UPDATE

Consideration was given to a report of the Director of Pensions, MPF, providing an update on the last meeting of the Investment, Governance & Engagement (IG&E) Sub-Committee that had taken place.

Actions & Agreements from the meeting on 15 May 2023 were appended to the report.

The Director of Pensions, GMPF, attended the meeting on 3 July 2023 and provided a verbal update on the principal items on the agenda as follows:

- Code of Transparency Update;
- Sharia Compliance Report;
- RIAG Report; and
- DLUHC Regulatory Update.

RESOLVED
That the report be noted.

16. UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a report and presentation of representatives of PIRC, which set out the Q2 2023 Northern LGPS Stewardship Report (attached at Appendix 1 to the report).

Mr Powdrill and Mr Constable presented the Q2 2023 Northern LGPS Stewardship report, which focused on and explored as follows:

- Anti-ESG rhetoric directed at passive managers;
- ESG – rebalancing, retreating or rebadging;
- Just Transition challenges and supply chain issues; and

- Company engagement, including the challenges of decarbonisation and human rights issues.

Discussion ensued in respect of the content of the report and presentation, in particular, the engagement versus divestment challenge/debate and the importance of long term engagement in order to bring about significant/efficient change and positive outcomes.

RESOLVED
That the content of the presentation and the Q2 2023 Northern LGPS Stewardship report, be noted.

17. PERFORMANCE MEASUREMENT

Consideration was given to a report of the Director of Pensions (GMPF), the provided members of the Northern LGPS Pool Joint Committee with an update on performance measurement.

It was explained that, at the Shadow Joint Committee meeting of 10 January 2019, Members endorsed the appointment of Portfolio Evaluation Ltd as the common performance measurement provider for the Pool.

An extract from the Northern LGPS reporting for periods to 30 June 2023 was attached as an appendix to the report. The reporting assisted in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

As previously reported, earlier this year, Portfolio Evaluation Ltd notified clients of their intention to cease trading in September 2023.

At the Joint Committee meeting of 6 July 2023, it was agreed that the Directors would finalise arrangements for a common performance measurement provider for Northern LGPS before the next meeting of the Joint Committee, such that a provider was in place for reporting periods commencing 30 September 2023.

It was noted that the Northern LGPS Directors approved the appointment of Hymans Robertson as the common performance measurement provider for the Pool for reporting periods commencing 30 September 2023 at the September meeting of the Northern LGPS Directors.

RESOLVED
That the performance reporting for periods to 30 June 2023 be noted.

18. GLIL UPDATE

Consideration was given to a report of the Assistant Director for Local Investment and Property (GMPF) updating members on progress with the Northern Pool's direct infrastructure investment platform (GLIL).

The Director of Pensions advised that GLIL had progressed well and had one external investor, NEST. There had been some engagement with other pools but this had not progressed as well as hoped. Officers had reflected on this and sought to analyse why; and to review the operation of GLIL to ensure that it served the objectives of current owners. An external consultant had been engaged to review the consult with stakeholders and a timetable was agreed with the Joint Committee to review options.

The feedback from stakeholders had been substantive and constructive and required a significant revision of proposals. Pending asset allocation reviews, the outcome of which may also have had a significant impact on what a future GLIL should look like to best serve Northern LGPS Funds. At the last meeting it was reported to Members that advisors were considering a report from GLIL Executive Committee before presentation to the Joint Committee. A copy of which was appended to the report.

Members were advised the exercise was complete and a summary was provided in the report.

The GLIL report to investors for the period ending June 2023 was appended to the report.

The core priorities for GLIL over next quarter and 12 months were reported as follows*:*
- Implementation of revised management arrangements
- Management of investors' current allocations in accordance with the mandate.
- Continue to implement ESG strategies in line with investee Funds' objectives.
- Continued Engagement with other LGPS Funds and Pools and potential aligned non LGPS investors.

RESOLVED
(i) That the content of the report be noted; and
(ii) That the Directors be approved to make arrangements for revision of GLIL management arrangements and approve any resulting changes to Partnership Agreements subject to those remaining consistent with principles agreed within the report.

19. DATE OF NEXT MEETING

RESOLVED
It was noted that the next meeting of the Northern LGPS Joint Oversight Committee was scheduled to take place on 1 February 2024.

CHAIR

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LOCAL PENSION BOARD

12 DECEMBER 2023

REPORT TITLE:	**MINUTES OF WORKING PARTY MEETINGS**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Board members with the minutes of meetings of Working Parties held since the previous Board meeting.

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the minutes.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The approval of working party minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27th June 2011.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report. The Pension Board has requested that minutes of the Working Parties be reported to it.

3.0 BACKGROUND INFORMATION

3.1 The Investment Monitoring and Governance & Risk Working Parties (IMWP & GRWP) enable Committee members and their advisors to consider pension matters relating to Merseyside Pension Fund in greater detail. They are not decision-making bodies but minutes and action points arising are reported to Committee. The minutes provide Board members with assurance that investment matters receive due consideration by Pensions Committee.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report. The working parties ensure scrutiny by elected members of the performance of the Fund's investments and administration functions.

5.0 LEGAL IMPLICATIONS

5.1 The Board must assist the Scheme Manager with the primary core function in securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report. The working parties ensure the oversight of the Fund's activities by elected members.

7.0 RELEVANT RISKS

7.1 A failure to provide the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Board in fulfilling its statutory duties.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Environmental, Social and Governance matters are a standing item on the IMWP agenda.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising from this report.

REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
telephone:
email: peterwallach@wirral.gov.uk

APPENDICES

Appendix 1& 2 Working Party minutes

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pension Board in accordance with Section 13.3 (b) of its Terms of Reference:

(b) Monitor performance of administration, governance and investments against key performance targets and indicators.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP and GRWP meetings are brought to the subsequent Pensions Committee and Local Pension Board.	

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Minutes of IMWP held on 6th September 2023

Attendees

Name	Initials	Organisation
Councillor Julie McManus(Chair)	CP	WBC
Councillor Andrew Gardner	AG	WBC
Councillor Ruth Molyneux	RM	WBC
Councillor George Davies	GD	WBC
Councillor Brian Kenny	BK	WBC
Councillor Brenda Hall	BH	WBC
Councillor Pat Cleary	PC	WBC
Councillor Cherry Povall	JM	WBC
Councillor Ann Ainsworth	AA	WBC
Councillor Chris Carubia	CC	WBC
Councillor Peter Norris	PN	LCC
Councillor Tom Cardwell	TC	LCC
Jill Davys	JD	Redington
Tom Pilcher	TP	Redington
Edina Molnar	EM	Redington
Paul Watson	PWa	Independent Advisor
Peter Wallach	PW	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AA	MPF
Emma Jones	EJ	MPF
Greg Campbell	GC	MPF
Allister Goulding	AGa	MPF
Ciaran Sharp	CS	MPF
Dan Proudfoot	DP	MPF
Susanna Friar	SF	MPF
Roksana Klapkowska	RK	MPF
Yu-Jhu Lin	YL	MPF

1. Apologies

Councillor Paulette Lappin

2. Minutes of IMWP 7 June 2023

Noted, no amendments.

3. Market Commentary - Paul Watson (PWa)

In Q2 2023 equity performance was strong while government bonds underperformed with rising bond yields. A few key trends have been driving the overall market including artificial intelligence (AI), contributing to the outperformance of US tech stocks.

4. MPF Investment Update - Peter Wallach (PW)

Overall, the Fund's mandates are delivering on performance but there are several mandates, highlighted in the monitoring report which are failing to meet expectations. No significant actions have been taken prior to Redington's strategic review. MPF continue to monitor the mandates closely.

Cherry Povall (CP) asked if a granular monitoring of the mandates is required and for how long. PW advised that there is no specific timeline for escalation. Managers may underperform due to the market environment. Concerns will be more significant when managers deviate from their investment philosophy, there is style drift or turnover of staff. Factors that are monitored in addition to performance include turnover, change in style of investment and change in managers.

CP sought for assurance that the board does not need to be concerned about the mandates highlighted in red in the report. PW responded that there are ongoing concerns regarding the Unigestion and Newton mandates. The Fund has been reducing the capital allocated to them. Several changes to the mandates are expected after the strategic review is completed.

Paul Watson (PWa) requested more attributions around the internal UK equity performance in the next IMWP meeting. PW confirmed that this would be provided.

Chris Carubia (CC) questioned what criteria is used to measure investment performance. PW responded that market benchmarks are used based on the performance achieved by managers over the quarter, 1-year, 3-year and 5-year periods. MPF's focus was on longer-term performance i.e. 3-year and 5-year numbers which allow for short-term performance deviations to be smoothed and seen in context. He cited Unigestion as an example, where their minimum variance factor philosophy was out of favour with the market.

CC further asked how long an investment is allowed to underperform before change of managers. PW advised that an immediate change or divestment can occur if there is a serious concern over underperformance, change in managers or personnel.

5. Responsible Investment - Owen Thorne (OT)

OT discussed the report from PIRC and their focus on governance around the systemic risks in supply chains. He continued to discuss LAPFF engagement programmes and the support for shareholder resolutions and effective exercise of voting rights. OT also mentioned the FCA proposals to change the listing rules at the London Stock Exchange, and MPF as well as other pension funds are preparing a proposal to FCA regarding this.

Ann Ainsworth (AA) asked how excess pay is measured. OT replied that it can be defined in several dimensions. Companies in the UK are required to publish remuneration policy and remuneration reports to shareholders which present the metrics and the best practice in terms of issues like gender pay gap.

CP was concerned whether companies are taking actions to tackle the pay issue or are simply acknowledging it. OT responded that companies are required to respond to such concerns and that is how investors can engage with them. It is investors' responsibility to establish expectations and manage how these expectations are met through engagement.

Julie McManus (JM) asked if MPF invests in those organisations mentioned in the report and how effective it is in terms of engagement. She further expressed her concern if MPF supports businesses involved in issues such as child labour and modern slavery. OT confirmed that MPF is exposed to some if not all of the businesses, at least through index investments. In terms of the effectiveness of engagement and stewardship, investors are taking more actions to deal with relevant issues across sectors and industries.

JM requested a closer monitoring on how companies are truly acting on those issues rather than merely paying attention to them. OT confirmed that an engagement framework can be used to prioritise actions.

AA asked how MPF avoid investing in companies involved in issues like child labour and modern slavery in the passive index funds without active management. OT confirmed that some regulations at the EU level have been incorporated into UK regulations, for instance, disclosure requirements for index providers to report on minimum sustainability standards, screening of human rights risks, controversial weapons, and decisions on climate. In the meantime, MPF is reviewing the passive mandate and the existing index providers are planning to introduce this screening at the product level to address the relevant issues in the UN Global Compact. The key is to address and mitigate these risks instead of removing them from MPF portfolio which does not improve the real-world situation.

CC commented that it would be great to know what influences pension funds have on corporations.

Brian Kenny (BK) expressed concerns over forced labour issue and would like to see MPF uses its voice and influence for the right practice.

https://lapfforum.org/engagements/q2-quarterly-engagement-report/

https://northernlgps.org/assets/pdf/stewardq2_2023.pdf

6. Strategic Asset Allocation Update - Redington

Recap

Tom Pilcher (TP) restated Redington's ROSIE (Research, Objectives, Strategy, Implementation and Evaluation) process to assess and establish the new strategic asset allocation (SAA) which is strongly referenced to MPF's Pension Risk Management Framework (PRMF).

In the current PRMF, MPF has a 106% funding level based on the latest valuation. Some changes may be required to adjust MPF's strategic asset allocation.

Pat Cleary (PC) pointed out that the 106% funding level is out of date. TP confirmed that the number dated back to 2022 valuation and the current liability level would be higher considering the inflation level. A slightly higher expected return will be required to accommodate the pension payments.

The long-term goal of MPF SAA is to retain the funding level with target return and lower risk within 13% budget while increasing cashflows to cover 60% of the average projected cashflow deficit. To achieve this the required asset income is more than £140m compared to current liquidity of £107m. In addition, the MPF ESG target is to incorporate net zero by 2050 into the investment strategy alongside the increase in environmental as well as social impact, and levelling up investments in the local Merseyside area.

TP recapped the proposed SAA to increase return drivers in fixed income with contractual cashflows and geographical diversification. Additionally, another change is to reduce climate risks by adopting investment strategy to increase impacts along with returns.

AA asked about the expected percentage of increased cashflows. TP confirmed that the purpose is to stabilise the current cashflow deficit and reassured that it is a common practice to meet pension commitment by asset sales. The target is to increase the cashflow proportion generated from MPF assets in order to cover 60% of the average projected cashflow deficit.

Peter Norris (PN) questioned how confident Redington is that the assets can generate the long-term target return of CPI+4.9%. TP responded that the expected return is based on backward looking data over a rather long period of time instead of considering the current market condition. PC stated that the long-term return is around 3% and the timeframe is key.

Fixed Income

TP presented the details in the proposed SAA, which is expected to reduce risk materially from 13.9% to 12% by increasing the target risk-adjusted return. The current weight of fixed income is 17% and is 100% exposed to the UK market in broadly two asset classes - investment grade and UK government bonds. Redington is proposing to increase the current exposure to around 30% and to add new diversifying credit exposure such as asset-backed securities, multi-class credit, absolute return bonds and structured credit. Redington also proposes to increase the geographical diversification to the wider developed market.

Equity

Redington has modelled proposals including a reduction in equity weight from 43% to 30%. Though a relatively large reduction, equity is still a major source of long-term return and provides inflation hedging. The current equity exposure overweights the UK market and underweights emerging market as well as the US. Many studies have shown that geographical diversification can produce better risk-adjusted returns over a long-term horizon. Secondly TP discussed about optimising style investing as the current strategy is tilting to value.

CC asked about the rationale of reducing equity weight if it is viewed as a good investment and the increase of emerging market exposure would expect to bring volatility. TP reinforced that the reduction in equity is to increase fixed income investments which provides contractual and predictable returns in addition to the reduction of overall portfolio risks.

Andrew Gardner (AG) asked if the major risk factor is equity. TP confirmed and further explained that equity risk contributes 12% to the overall portfolio risk of 13.9% in a 1-in-20 downside scenario. From the stress tests we can see the impact of equity on the overall portfolio, which show that a 40% reduction in equity would contribute to a 22% fall in the entire portfolio value.

CC asked what the VaR and stress tests results would be if MPF invests in emerging markets. TP emphasised that the increase in emerging markets investment will not create much difference and the purpose of emerging markets exposure is to improve the long-term risk-adjusted returns.

CC pointed out that investments in emerging markets may bring about ESG concerns. TP agreed that as at today investments in emerging markets could contribute to carbon intensity of the portfolio while forward-looking investors tend to find opportunities to invest in companies that try to improve their environmental issues, and stewardship plays a key role in helping achieve the real-world decarbonisation target.

AA expressed concerns over emerging markets investments where present more human and labour rights issues, and requested how we ensure the increase in emerging markets investments will not support human abuses and poor labour standards. Jill Davys (JD) stressed that it is a matter of how and who we invest in as there are certainly some fund managers value and exercise ESG principles. Moreover, it is important to engage with managers and make it clear that MPF does not invest in companies with human rights issues and poor labour conditions.

OT further emphasised the importance of active management and active engagement. AA raised concerns over fees of active management. OT confirmed that fees may be higher but there are more options of managers who are active in ESG.

PC commented on MPF's need to address ESG issues and is investing in weapon manufacturing, and proposed to include the description of our narrative in addressing those issues in the report. In addition, PC supported that diversifying UK investments and increasing emerging markets investments are not necessarily bad from the ESG standpoint as UK is energy intensive.

ESG

TP addressed the ESG impacts on financial materiality and the positive impacts investments can bring to environmental, social and governance. TP confirmed that the private market book is well structured and fewer adjustments are needed. A few changes are proposed including the reductions in infrastructure, private equity and property portfolios and the increase of investments in natural-based solutions which can, for example, generate profits through harvesting timber in a sustainable approach along with positive ESG impact.

Redington also proposed investments in affordable housing with a local focus such as Merseyside and impact private equity, which will contribute to levelling up and create social impact. In terms of hedge funds, Redington proposed transitioning to other investments that are also uncorrelated to the overall portfolio but are more transparent and liquid at lower costs.

CP stressed that the fiduciary duty of MPF is to generate the best returns for our pensioners before making any changes.

CC noted that in one of the survey questions about key themes to engage with investment managers, cyber security is the least option. CC asked what the reason will be and if it is due to lack of knowledge about the theme. JD responded that the ESG themes may be prioritised and pushes cyber security to the lower rank. However, it is certainly an important theme as MPF hosts and deals with large data of pensioners.

7. Responsible Investment Survey Results – JD

JD mentioned that responsible investment is an important growing area and can create value to the overall portfolio.

PC asked if ESG belief is detrimental to investment returns and how these two contribute to meet MPF's fiduciary duty. JD replied that the recognition and implementation of ESG factors in investments can provide enhanced returns.

CP asked how Redington determines ESG credentials as there are concerns over greenwashing and ESG buzz words. JD reassured that Redington conducts annual ESG survey, and it is important to set ESG beliefs clearly when engaging with managers on a regular basis.

PC noted that 35% of respondents to survey questions strongly disagree that ESG factors present financially material risks to MPF, and therefore what MPF can do to address the importance of climate risk to them. JD confirmed that further ESG training can be provided in addition to the materials included in the report.

Brenda Hall (BH) questioned if the views presented in the survey represent those of the majority. OT responded that it is the views of about 60% of the total respondents. AA further commented that the interpretation of survey questions and the options of answers may affect the survey results. CC confirmed that the survey questions cover a wide range of areas and a lack of certain knowledge in some areas would contribute to the result skewness.

CC asked about the reason why some respondents disagree with the statement that 'the Fund should set a net zero target in line with Local Authority Targets'. JD confirmed that there is more a local authority can do to achieve net zero target such as controlling buildings carbon emissions.

PC questioned how frequently the ESG surveys will be revisited. JD suggested that the review shall be in line with SAA review every 3 years.

8. Climate Target Setting - Edina Molnar (EM)

Edina Molnar (EM) discussed the climate target setting and pointed out that stakeholders agree that MPF should invest in alignment with the goals of the Paris Agreement. MPF has made several key climate-related decisions since 2017 when MPF joins IIGCC and it is important to set science-based targets and measure investment outcomes against those targets.

PC asked if any of Redington's clients has set an ambitious climate change target. EM responded that some are setting targets very early before taking any actions. OT confirmed that setting an ambitious target also has a signalling effect to the market.

CC asked about the impacts on climate change timescale if US leaves Paris Agreement again. EM confirmed that it depends on the influence of government policies on climate initiatives, for example, US Inflation Reduction Act includes some climate-related incentives which have a great impact on US renewables investments.

EM further discussed MPF's current total portfolio emissions metrics covering listed equities and investment grade bond mandates (c. 50% of MPF portfolio) prepared by S&P Global Sustainable, which serves as a baseline for climate target-setting. The results show that MPF is performing better than the benchmark in terms of carbon emissions.

CC asked that if the other 50% of MPF portfolio performed poorly compared to the benchmark. EM responded that we do not know without looking into it. OT stated that the other half portfolio sits in the private market, and it is still challenging to evaluate and validate the data quality from it. One of the metrics that MPF reports on TCFD is how we determine the data quality.

EM emphasised that it is easier to remove high carbon emitters than creating actual impacts on the real-world situation. Therefore, it is important to target net-zero real economy which will lead to portfolio decarbonisation in the long term.

EM further introduced the concept of asset alignment to climate change trajectory and ensure decarbonisation at the asset level. For example, MPF has invested in a few renewables in the private market portfolio which will contribute to clean energy transition.

PWa stated the negative impacts resulting from investments and stressed MPF's ambition to create a big impact now and then bigger impacts over the longer term. He questioned the effectiveness of engagement and emphasised the importance of considering divestments at the right time.

PN asked if Redington assesses the individual investment. JD replied with confirmation and Redington evaluates if companies have set targets to address climate change and move towards net zero.

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Minutes of the Governance and Risk Working Party, 10.30, Wednesday 4 October 2023.

Microsoft Teams meeting.

Present:

Name	Initials	Organisation
Councillor Julie McManus (Chair)	JM	WBC
Councillor Pat Cleary	PC	WBC
Councillor Cherry Povall	CP	WBC
Councillor Ann Ainsworth	AA	WBC
Councillor Brenda Hall	BH	WBC
Councillor Brian Kenny	BK	WBC
Councillor Jayne Aston	JA	Knowsley Council
Councillor Christopher Carubia	CC	WBC
Roger Bannister	RB	Unison Member Representative
Councillor Peter Norris	PN	LCC
Councillor Ruth Molyneux	RM	WBC
Peter Wallach	PW	Director of Pensions
Donna Smith	DS	Head of Finance & Risk
Guy Hayton	GH	Senior Manager of Operations & Information Governance
Owen Thorne	OT	Portfolio Manager – Monitoring Responsible Investment

Invited Guests:

Name	Initials	Organisation
Jill Davys	JD	Redington
Edina Molnar	EM	Redington

Apologies were received from:

Name	Initials	Organisation
Yvonne Murphy	YM	Head of Pensions Administration
Councillor Tony Cox	RB	Unison
Councillor Tom Cardwell	TA	LLC
Councillor Andrew Gardner	AG	WBC
Councillor Paulette Lappin	PL	

In attendance: Emma Jones.

1. Approval of Minutes & Introduction

Minutes of GRWP, Thursday 9 March 2023, were reported to Pensions Committee and have been approved.

PW introduced the meeting and reported that Redington will be providing a presentation updating Members with progress on an Engagement Framework.

2. Declarations of Interest

PW advised that Declarations of Interest are reported on an annual basis and only changes need to be notified.

<u>Noting/Action points</u>

Noted.

3. Update on development of an Engagement Framework

JD and EM presented the Engagement Framework and explained this will be the first of a series of papers developing an engagement framework for the Fund. It is a key step in formalising the Fund's Stewardship approach and will enable the Fund to obtain the Stewardship Code signatory status, which is one of the Fund's objectives towards sustainable investment.

JD also presented the key outcomes from the Responsible Investment survey which is the start of putting those outcomes into a framework for action.

It was noted that a significant portion of Investment Monitoring Working Parties were being devoted to Responsible Investment and Stewardship. Hence, a proposal was made to consider the establishment of working party to focus on responsible investment matters and Stewardship.

Questions

A discussion ensued regarding the form and membership of a ‘Stewardship Group’ and the importance for progress to be made. It was proposed that officers should bring report to the next Pensions Committee setting out draft terms of reference and representation for Members to consider.

A question was posed regarding the balance between the Stewardship Group’s influence and Members fiduciary responsibility to members. PW answered that in terms of fiduciary duty the role of Members is to set aside personal preference and prejudices and to act in the best interests of the stakeholders of the Fund. As set out in the Engagement Framework, it is appropriate for Members to take into account factors that have material financial, legal or reputational risk to the Fund such as climate risk. PW advised there are short term and long-term implications to consider, but it is subjective nonetheless, and it can be difficult to determine what to prioritise.,. PW added this is only the start of the conversation, but the Fund is keen to engage members in the consideration of what these priorities should be.

OT advised that one of the activities that a Stewardship Group could provide is additional advice on how we set the materiality standards. There are frameworks which could be used to map this into the Fund’s portfolio to see how it interacts with other investment decisions. There are also the strategic objectives which have already been set for example, climate targets and an additional working group of accountable members could provide input and address how this is put into policy.

OT advised that an additional working group would be well placed to do this as the issues are quite complex and quite broad ranging. OT further advised that the Group would not be starting from a blank page as there will be guidance that can be referred to, but it would be useful to have direct input from members with the process.

JD advised that as a Pensions Committee Member, a key responsibility is to ensure that the pension liabilities are met but part of that is reflecting on the risks and opportunities which are present in every investment and issues such as climate and human right risks which can impact the value of your investments over time. The Group would take the environmental and social factors into account to see how they may impact on an investment and take actions to address this.

Party Spokespersons to look at what direction and size this Group should take with guidance taken from PW and Redington.

In principle, the Stewardship Group should consist of members from each party and across the region.

PW advised on the process to put arrangements in place.

Action Points
It was recommended that a report be taken to Pensions Committee on the 11 December 2023, for consideration, setting out the terms of reference and who should be represented on the group.

4. Administration KPI report

GH reported on the Administration KPI report which provides the Governance & Risk Working Party with monitoring information on the key performance indicators in respect of work undertaken by the MPF administration team during the period. This report was presented to the Pension Board on 27 September 2023.

GH ran through the salient points and outlined the KPI report, its key performance indicators, the internal controls which are in place within each specific area and issues which have been raised.

Questions

JM asked if there is a certain group of people who leave the scheme, and could more information be provided to see if it is more female or part time workers. Also, is there any service the Fund could provide to help them during that time.

GH advised that whilst there is not a breakdown of demographics for the optant outs within the report as it stands, it is a suggestion that he will take forward as it will improve the KPI report. GH took members through the opt out process, explaining how the opt-out forms reinforce the LGPS benefits being given up and how employees with three months of membership need to phone the Fund and speak to the communications team to obtain the relevant form. The 50/50 section of the scheme is explained as an alternative to opting out of the scheme entirely. GH also explained that every 3 years employees who have previously opted out of pension savings, are re-enrolled back into the scheme by the employer.

PN asked "what is the rate of attrition, for employees withdrawing their benefits early and is it best for them to do so?". GH answered that a 'rate of attrition' is not a measure that is used by the Fund, as there are numerous reasons why an employee could be accessing their benefits prior to normal pension age.

GH advised that the Fund are not allowed to offer financial advice, but we do communicate and provide a lot of information to members when they come to access their benefits so they can make informed decisions. GH explained that although we can pull together data in regards members accessing their pensions early, it would have to be viewed carefully to avoid making assumptions.

JA asked about the Pension Fund's liabilities. PW advised that the Fund does receive income from investments, but this is not meeting the pensions that are paid out. Assets are being sold which is not a problem in itself, but we are reviewing out investment strategy with Redington and reorientating the assets that we hold to assets which produce a greater level of income, but this has to be managed carefully to avoid selling assets which are falling in value.

JA asked are we aware how many employees are not in the scheme and could we ask the local authorities to have a push to invite their staff into the pension scheme.

GH advised that opportunities do arise, and he is visiting one statutory employer who have agreed to put on several events for non-members to explain the scheme and its benefits to them. GH further advised that it is a collaborative process, as it does need the engagement of the employer to communicate to those staff who are not members. GH advised that recently a virtual approach to delivering overview sessions has worked really well, and we do extol the virtue of scheme membership and will continue to do so.

AA stated that she agrees with JM's points on having a breakdown of members who leave the scheme and whether this is an equality issue as we do know that there are people who are living in poverty, so it is important we have that equality break down. AA continued that sometimes members do not understand the value of the employer's contribution and what they lose. AA added that it is hoped that this is emphasised and members who are in a vulnerable position are signposted to other opportunities of help. AA asked if there are sessions given to new starters on the benefits of the scheme.

GH answered that joining members and those members wishing to opt out of the scheme are informed of the employer's contribution. The Fund produces induction materials for employers including a series of short videos which explain the scheme in an easily digestible format. Employers do have a responsibility to provide information to eligible employees about the LGPS, and the Fund communications team do endeavour to work with employers in this area.

JM suggested that a current pensioner could be asked to attend inductions and explain their experience in regards the benefits of being in the scheme.

RM stated that one of the problems faced by some employees is the burden of student loans and could act as a barrier of for certain employees to join the scheme.

Action Points

GH will include a breakdown of demographics for optant outs in future Pension Board reports.

GH advised that all suggestions for engaging with non-members are welcome and will be considered.

5. Risk Register

PW presented the Risk Register and advised that it is regularly monitored and is taken to the Pension Board on a quarterly basis. Over the last quarter there were no new risks identified. The scores have been revised on a number of existing risks and no risks have been taken off.

PW added that Wirral have introduced a new format which the Fund adopted. It is provided to Members to provide assurance that the Fund does manage risks and they are kept under regular review.

Questions

PC asked about the risk around staff retention and how this is moving forward. PW replied that he is in conversation with Wirral HR and it is progressing constructively.

PW is hoping for positive indications from HR by the end of the year.   PW reported that there has been a restructure on the administration side which is nearing completion and the next phase will be to look at the Finance and Investment teams.

PN asked if the Fund's Risk Register is benchmarked against other authorities so that risks specific to the Fund could be identified. PW advised it is a private document as some of the risks and mitigations that are in place are not shared as a matter of public record. PW advised that in terms of benchmarking, he is not aware of any opportunities to compare against other risk registers. although there are some investment risks which are captured in the Funding Strategy Statement which are a matter of public record. PW explained that the Risk Register concentrates on operational and the financial controls which have been put in place.

Action Points

The Risk Register was duly noted.

Noting/Action Points

There were no noting or action points.

Date of Next Meeting – ***TBC.***

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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