PENSIONS COMMITTEE

SUPPLEMENTARY PAPERS

Monday, 27th June, 2016

at 6.30 pm

Room 102, Hackney Town Hall, Mare Street, London E8 1EA

Membership:

Councillor Kam Adams
Councillor Robert Chapman (Chair)
Councillor Feryal Demirci
Councillor Michael Desmond (Vice-Chair)
Councillor Patrick Moule
Councillor Geoff Taylor

Co-optees:

Jonathan Malins-Smith

Chief Executive
Tim Shields

Contact:
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Governance Services
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Hackney

The press and public are welcome to attend this meeting

AGENDA
Monday, 27th June, 2016

ORDER OF BUSINESS

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ACCESS AND INFORMATION

Location

Hackney Town Hall is on Mare Street, bordered by Wilton Way and Reading Lane, almost directly opposite Hackney Picturehouse.

Trains – Hackney Central Station (London Overground) **–** Turn right on leaving the station, turn right again at the traffic lights into Mare Street, walk 200 metres and look for the Hackney Town Hall, almost next to The Empire immediately after Wilton Way.

Buses 30, 48, 55, 106, 236, 254, 277, 394, D6 and W15.

Facilities

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall.

Induction loop facilities are available in Committee Rooms and the Council Chamber

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

Copies of the Agenda

The Hackney website contains a full database of meeting agendas, reports and minutes. Log on at: www.hackney.gov.uk

Paper copies are also available from Governance Services whose contact details are shown on the front of the agenda.

Council & Democracy- www.hackney.gov.uk

The Council & Democracy section of the Hackney Council website contains details about the democratic process at Hackney, including:

- Mayor of Hackney
- Your Councillors
- Cabinet
- Speaker
- MPs, MEPs and GLA
- Committee Reports
- Council Meetings
- Executive Meetings and Key Decisions Notice
- Register to Vote
- Introduction to the Council
- Council Departments

RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

Where a meeting of the Council and its committees are open to the public, the press and public are welcome to report on meetings of the Council and its committees, through any audio, visual or written methods and may use digital and social media providing they do not disturb the conduct of the meeting and providing that the person reporting or providing the commentary is present at the meeting.

Those wishing to film, photograph or audio record a meeting are asked to notify the Council's Monitoring Officer by noon on the day of the meeting, if possible, or any time prior to the start of the meeting or notify the Chair at the start of the meeting.

The Monitoring Officer, or the Chair of the meeting, may designate a set area from which all recording must take place at a meeting.

The Council will endeavour to provide reasonable space and seating to view, hear and record the meeting. If those intending to record a meeting require any other reasonable facilities, notice should be given to the Monitoring Officer in advance of the meeting and will only be provided if practicable to do so.

The Chair shall have discretion to regulate the behaviour of all those present recording a meeting in the interests of the efficient conduct of the meeting. Anyone acting in a disruptive manner may be required by the Chair to cease recording or may be excluded from the meeting. Disruptive behaviour may include: moving from any designated recording area; causing excessive noise; intrusive lighting; interrupting the meeting; or filming members of the public who have asked not to be filmed.

All those visually recording a meeting are requested to only focus on recording councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure by someone recording a meeting to respect the wishes of those who do not wish to be filmed and photographed may result in the Chair instructing them to cease recording or in their exclusion from the meeting.

If a meeting passes a motion to exclude the press and public then in order to consider confidential or exempt information, all recording must cease and all recording equipment must be removed from the meeting room. The press and public are not permitted to use any means which might enable them to see or hear the proceedings whilst they are excluded from a meeting and confidential or exempt information is under consideration.

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

Hackney Council's Code of Conduct applies to **all** Members of the Council, the Mayor and co-opted Members.

This note is intended to provide general guidance for Members on declaring interests. However, you may need to obtain specific advice on whether you have an interest in a particular matter. If you need advice, you can contact:

- The Corporate Director of Legal, HR and Regulatory Services;
- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

i. relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;

ii. relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or

iii. affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).

ii. You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.

iii. If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

i. It relates to an external body that you have been appointed to as a Member or in another capacity; or

ii. It relates to an organisation or individual which you have actively engaged in supporting.

4. If you have other non-pecuniary interest in an item on the agenda you must:

i. Declare the existence and <u>nature</u> of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.

ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.

iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.

iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

Advice can be obtained from Gifty Edila, Corporate Director of Legal, HR and Regulatory Services, on 020 8356 3265 or email Gifty.Edila@hackney.gov.uk

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REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Supplementary Paper – Impact of the 2016 European Union referendum result **Pensions Committee** **27th June 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Appendix 1 – Hymans Robertson's Investment Perspectives** **Appendix 2 (Exempt) – Manager responses**

1. INTRODUCTION

1.1 This reports provides an overview of the implications the 23rd June 2016 European Union (EU) referendum result may have in both economic and political terms.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The UK electorate's vote to leave the EU is likely to impact on global financial markets across both the short and longer term. This has the potential to impact on both the assets and liabilities of the Pension Fund; the issue will require monitoring by the Committee to ensure that the Fund's investment strategy remains appropriate during a potentially long transitional period as well in the post-EU environment

5. COMMENTS OF THE DIRECTOR, LEGAL SERVICES

7.1 The referendum on EU membership was advisory rather than legally binding; no provision was contained within the referendum legislation to oblige the Government to invoke Article 50 of the EU Treaty, which will formally begin the process of withdrawal. However, the outcome is a mandate for the UK to end its membership of the EU. Although the process and timescales are currently uncertain, in the absence of evidence to the contrary it should be assumed that the long term outcome of the referendum will be the UK's withdrawal from the European Union.

6 BACKGROUND/TEXT OF THE REPORT

6.1 The EU referendum has seen a majority vote by the UK electorate in favour of leaving the EU. Though the margin of victory was small, at 51.9% to 48.1%, the result has come as a surprise to most. The result has already caused political and economic turmoil; Prime Minister David Cameron announced that he will step down in October, whilst Sterling suffered its largest fall in history with the pound reaching its lowest level against the dollar since 1985. The FTSE opened 8.7% down before rallying back to over 6,000, whilst gilt yields fell sharply; further volatility is expected over the short to medium term.

6.2 The Council's pension fund is not immune to the political and economic impact of the leave vote; this paper will provide an overview of the referendum results and the immediate aftermath in investment markets, including commentary from the Council's Fund managers. A summary of the likely wider impact on UK pension funds is also included.

7 EU REFERENDUM SUMMARY

7.2 The UK electorate has voted to leave the EU, which has been a surprise, particularly to financial markets.

7.3 The overall margin of victory of 52% to 48% masks significant regional variations, with London, Scotland and Northern Ireland all voting to remain overall, and Wales and England voting to leave.

7.4 Initial Market reaction reflects the surprise element in the decision and conditions remain volatile and fluid at this time. We expect more market swings in coming weeks reflecting the uncertainties involved

7.5 The event is generally negative for risk assets and will keep gilt and other bond yields lower than otherwise, though sterling weakness may have some impact on inflation expectations.

7.6 Over the longer term, the key question is whether and how quickly the exit process begins. As yet, there has been no decision on when Article 50 of the EU Treaty, which would formally begin a 2 year process of withdrawal ought to be invoked. A period of negotiation with the EU over the terms of the exit strategy must at some stage begin; however, significant political turmoil resulting from the vote makes the timescale impossible to predict with any certainty.

7.7 A further potential risk could arise from the significant legislative programme required to fully extract the UK from the EU and establish new trading agreements. EU membership is embedded in the devolution settlements for Scotland and Northern Ireland; it seems likely that reversing EU law in these jurisdictions will require the consent of the Scottish Parliament and Northern Ireland assembly. Scotland's First Minister, Nicola Sturgeon, has already made it clear that the SNP is likely to refuse, potentially leading to a further referendum on Scottish Independence.

7.8 A special issue of Hymans Robertson's Investment Perspectives has been appended to this report (Appendix 1); this summarises the potential impacts of the vote on UK pension funds, and sets out a suggested approach for managing these impacts.

8. INVESTMENT OUTLOOK

8.1 Much more volatility and price swings over an extended period of time can be expected – largely reflecting the uncertainty surrounding this event, which is unlikely to go away. Key uncertainties surround the impact on the European economy –

where in addition to the possibility of a period of recession in the UK, there may well be a knock to economic growth in Europe as a whole. The key concern is that the UK decision provides a slippery slope for further tensions and fragmentation within Europe and the single currency area.

8.2 Thursday's events are likely to keep pressure down on global bond yields, and there is an expectation the US will delay a further rate rise until 2017, which will prevent even the gradual upturn in yields we had earlier allowed for. For UK gilts, the impact is not clear; potentially some upward inflationary pressure will materialise from the weaker sterling, though the possibility of a Bank of England interest rate cut will work the other way.

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8.3 Some reduction in portfolio value is inevitable following Friday's set back in the markets. However, this needs to be set in the context of market movements over time; the UK equity market continues to operate within the trading range of the last 9 months.

8.4 Friday saw co-ordinated efforts to soothe markets by central banks and financial institutions, including the Bank of England (BoE), the G7 and UK regulators. Mark Carney, BoE governor, stated that the Bank would 'not hesitate to take any additional measures required' to support the functioning of markets, but warned of a period of uncertainty and adjustment whilst the economy adjusted to the new trading relationships to be put in place.

9. MANAGER RESPONSES

9.1 Responses to the vote have been provided by a number of the Fund's investment managers; these are detailed in Appendix 2

List of Appendices
Appendix 1 – Investment perspectives on the outcome of the EU Referendum
Exempt Appendix 2 – Manager responses.

HYMANS ROBERTSON

investment perspectives

on the outcome of the EU Referendum

24 June 2016

It is hard to underestimate how momentous this decision is. The UK's decision to leave the European Union leads to a huge amount of political and economic uncertainty. The ramifications are already being felt, but not just in the UK. The consequences are much wider, affecting Europe and indeed the rest of the world.

What's happened to markets?

In the run up to the vote, markets had already seen a build-up in volatility, reflecting the swings in newsflow from polls. On balance, either outcome was going to lead to further market volatility, but the decision to leave was considered the less likely of the two, and as a result financial markets have responded even more dramatically to the result than expected.

Table of market indicators

	FTSE 100	S&P 500	£/€	£/U$	10-year gilt yields
31 Dec	6,242	2,044	1.36	1.47	2.0%
11 Feb	5,537	1,829	1.28	1.45	1.3%
31 Mar	6,175	2,060	1.26	1.44	1.4%
23 Jun	6,338	2,113	1.30	1.48	1.4%
24 Jun (10:45)	6,019	2,027	1.25	1.38	1.1%

The FTSE 100 opened 8.7% down and subsequently rallied to back over 6,000 over the following couple of hours, but the implications of this decision are not limited to UK markets. There have been more widespread falls, especially on European markets. Similarly, sterling has fallen sharply against all currencies, hitting a 30 year low against the US$, before regaining some of the initial losses.

Unsurprisingly, a combination of a flight to safety in times of extreme uncertainty and volatility coupled with a mark down in growth expectations has led to the yield on Government bonds falling by around 0.25%. Index-linked yields have fallen almost as far.

It is important to put this volatility in the context of market movements over time. The UK equity market is still operating in the trading range of the last 9 months, and sterling is still above its low point earlier this year.

What is more challenging is the further fall in gilt yields, on top of what has been a fairly persistent downward journey. Lower yields will place further burden on the scale of UK pension fund deficits. The outlook for inflation expectations, and the associated implication for funding, is more uncertain.

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Chief Investment Officer

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How has this affected Defined Benefit scheme funding?

Clearly there has been an immediate impact on markets and hence on the funding positions of Defined Benefit (DB) pension schemes; but the full, longer-term impact remains to be seen.

Overall the immediate impact on the UK DB funding position is a deterioration of around £100bn to its highest level of £900bn.

What should those running DB schemes do?

In the run up to the EU Referendum, pension funds have been limited in their ability to protect themselves fully from the uncertainty of a binary outcome. Having made the decision to Leave, today is the first day in what will be a long process, with much uncertainty along the way.

Volatility will no doubt continue, and there will be periods of further pain for pension funds but also opportunities. Volatility and uncertainty is not something new, and pension funds have worked through many such periods before. We always caution against knee jerk reactions to short term market volatility. Those running DB schemes need to remember that pensions are a long-term game.

While we'd advise schemes to avoid over-reaction to short term market volatility, as the dust settles, it will be necessary to consider how well the investment strategy stacks up to the new environment. Depending upon the economic outlook, we may enter another period of lower absolute returns for all assets, with consequences for the relative attractiveness of growth dependent assets versus assets that deliver more of the return through income. Trustees and sponsors should have the right balance between growth assets, income based assets and downside protection to meet their needs.

There will also be some more immediate considerations for pension funds, in order to ensure the efficient ongoing day to day management of portfolios. In particular:

- Schemes with negative cashflow will wish to avoid being sellers of assets that have fallen in value – an issue we have identified to be of increasing relevance for clients in the last couple of years;
- Monitoring and reviewing actions around rebalancing programmes in a time when market movements will have altered the balance between growth and hedging assets;
- The fall in yields will have increased collateral pools in LDI programmes. In the case of pooled LDI funds, there may be cash paid back to schemes that could provide a buffer against other liquidity needs, reinvested or held as dry powder for buying opportunities;
- Conversely, currency hedging programmes are likely to be underwater, and may need cash for settlement.

What about members in Defined Contribution schemes?

Many members in defined contribution schemes will hold significant assets in equity markets, and will see the value of their investments fall; this will be an area of concern. However, as noted earlier, this needs to be considered in the context of markets over time and not just on a single day.

For those in the accumulation phase, contributions are now buying assets at lower prices and members have the benefit of "pound averaging" to smooth returns over time.

For those closer to crystallisation, most DC schemes have lifestyle arrangements that ensure members have a material proportion of their assets held in more defensive cash and Government bonds. The cost of annuity purchase will rise, but their pots will have been protected against the short-term downside.

Those drawing income from their DC pot need to ensure that they are not forced sellers of assets, in the same way as DB schemes, and are drawing income from the assets but not selling them down at an inopportune time.

Conclusion: The need for more resilience

The events of recent weeks highlight the need for schemes to become more resilient to risk. Specifically, schemes need to look through to the long game. This will involve a reappraisal of the likely long-term future returns in the "new world" of less political enthusiasm for maintaining global free markets. Meantime, schemes should try to avoid being caught up in making unnecessary short-term reactive decisions. For many the immediate focus will be on how to generate the cash required to meet immediate benefit payments without being forced to sell assets. With a clear plan, schemes can and will still manage their assets and their funding through these difficult times.

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

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