

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

MONDAY, 19TH SEPTEMBER, 2016

- Councillors Present:** Councillor Robert Chapman in the Chair
Cllr Kam Adams, Cllr Michael Desmond (Vice-Chair) and Cllr Geoff Taylor
- Co-Optee** Jonathan Malins- Smith
- Officers in Attendance:** Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Project Manager/Accountant) and Christopher Ellmore (Treasury and Banking Manager).
- Also in Attendance:** Karen McWilliam & Jayne Deeble - Aon
Andrew Johnson } Hymans Robertson
Robbie McInroy }
Claire Curtin - Trucost Plc
- Representatives of Divest Hackney

1 APOLOGIES FOR ABSENCE

- 1.1 Apologies for absence were received from Councillors Moule and Demirci and Stephen Rix.

1 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

- 2.1 Councillors Chapman, Desmond and Taylor declared a non-pecuniary interest as deferred members of the LGPS.

3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETING

- 3.1 **RESOLVED** that the minutes of the previous meeting held on 27th June 2016 were a correct record.

4 TRAINING - ACTUARIAL VALUATION

- 4.1 Rachel Cowburn introduced the training session on the 2016 actuarial valuation and the methodology employed to assist in meeting the standards set out in the CIPFA Knowledge and Skills Framework and in the Fund's training policy.
- 4.2 Robbie McInroy delivered a presentation on Active versus Passive Equity Investment and an outline of the areas covered are set out below:

2016 VALUATION TRAINING AND INITIAL WHOLE FUND RESULTS

Valuation basics

- How the Fund works
- Why do we do a valuation
- Valuing benefits for a single member
- Valuing all future benefit payments
- Liability valuation- assumptions
- Achieving the right balance
- Increased scrutiny
- 2016 valuation timeline

Valuation results

- Key assumptions
- Whole fund valuation results
- Why has the funding position changed
- Experience since 2013
- Membership data received and validated
- Membership experience
- Outlook for contributions
- Whole fund valuation results – SAB basis

Next steps

- Prepare and consult on Funding Strategy Statement
- Testing of Council contribution strategies
- Finalise valuation report

RESOLVED to note the contents of the report.

5 PENSION FUND ACTUARIAL VALUATION 2016 - INITIAL REPORT

- 5.1 Rachel Cowburn introduced the report providing a summary of the progress to date on the 2016 actuarial valuation.
- 5.2 In response to Councillor Adams questions regarding the frequency of the actuarial valuations and a review of the contribution rate, Mr McInroy stated that a valuation takes place every three years and any new contribution rate would be set in April 2017.
- 5.3 Councillor Taylor asked if the results of the European referendum had been factored into the valuation. Mr McInroy stated that the valuation had been undertaken in 2015 and therefore did not account of the referendum results.
- 5.4 Councillor Desmond asked whether any lessons could be learnt from the collapse of the BHS pension fund. Mr McInroy stressed that the public sector Pension Funds were taxpayer funded schemes and therefore more secure than private sector pensions.
- 5.5 Mr Malins- Smith enquired whether the devaluation of sterling had impacted on the Fund's assets. Mr Johnson explained that the devaluation of sterling would impact on imports and exports and as a consequence on asset classes.

- 5.6 The Chair expressed concern at the impact of lower yields on the Fund. Ms Cowburn stated that work was being undertaken to improve the Fund's funding level.

RESOLVED to note the contents of the report.

6 UPDATE ON CLIMATE CHANGE RECOMMENDATIONS AND PRESENTATION OF CARBON FOOTPRINTING RESULTS

- 6.1 Rachel Cowburn introduced the report providing an update on the recommendations approved at the January 2016 Strategy meeting in relation to the Pension Fund's approach to investment in fossil fuels and provided an update on the work undertaken to date on each recommendation.
- 6.2 Claire Curtin, Trucost covered the following areas in her presentation on the Portfolio climate change carbon risk audit:

Portfolio climate change carbon risk audit

- Summary of holdings analysed
 - Portfolio carbon footprints
 - Attribution Analysis
 - Disclosure analysis: Portfolio s & benchmarks
 - Stock & sector effects: Aggregated Equity
 - Top 10 contributors to Aggregate Equity holding Footprint
 - Findings for Underlying Funds
 - Exposure to Fossil Fuel Extractives in Portfolio
 - Exposure to Coal Mining & Power in Portfolio
 - Fossil Fuel embedded emissions in portfolio
 - Top 10 Positions with Embedded Carbon
 - Green- Brown Power exposure in portfolio
 - Transitioning to a Low Carbon Economy
- Conclusion

- 6.3 Mr Malins- Smith enquired whether the London CIV was looking into passive and active investments and whether officers were satisfied to have active management alongside passive investments. Mr Honeysett confirmed that the Council was satisfied to have active together with passive investments. Ms Cowburn confirmed that the risk register would be updated to incorporate active investments as a risk.
- .6.4 Councillor Desmond asked how the Council would ensure that the London CIV's investment approach was aligned with Hackney's strategy towards more ethical investments. Mr Williams stated that the Fund had set a clear strategy in relation to ethical investments and advised that the Chair and Hackney Officers were also members of London CIV boards.
- 6.5 Councillor Taylor asked if the Committee's statement of social responsibility including a reduction in fossil fuels was being applied by the Fund Managers. Ms Cowburn indicated that the Committee's Investment Strategy Statement had been highlighted to the Fund Managers during their review meetings.
- 6.6 A representative from Divest Hackney thanked the Committee members for their continuing work on reducing the carbon footprint and presented a petition

Monday, 19th September, 2016

of over 1,000 signatures in support of disinvesting from fossil fuels. It was argued that engagement was an ineffective tool in discouraging investments in fossil fuels. The Chair highlighted that disinvestment from fossil fuels could not be undertaken speedily as other factors had to be taken into consideration such as Members' fiduciary responsibility, the impact of legislation and other social considerations. Ms Cowburn stated that active managers had responded positively to engagement and this had impacted positively on Environmental, Social and Governance issues. The use of fossil fuels was a part of the UK economy and engagement would be necessary to encourage alternative investments in low carbon footprint.

- 6.7 Mr Honeysett advised that a report detailing a new investment strategy would be submitted at a forthcoming meeting in January 2017. Ms Cowburn indicated that officers were exploring the transfer of liquid investments to the London CIV and the Chair asked officers to consult with scheme members on this issue.
- 6.8 The Chair enquired in relation to affordable low carbon investment vehicles in the market. Mr Johnson said that the market for low carbon investments had grown significantly over the past 12 months and Ms Curtin stated that there were many low carbon indices with some having long track records.
- 6.9 Mr Malins- Smith asked whether Trucost was an international company. Ms Curtin stated that Trucost was a global company with teams based in Europe, USA, and Australia and that many international Pension Funds had encountered similar challenges as the UK Funds.
- 6.10 In response to questions from Members, Ms Curtin indicated that many listed companies had exposure to oil and coal and that a reduction in funding could discourage companies from investing in alternatives such as wind power to replace fossil fuels.

RESOLVED to note the report and the outcome of the carbon footprinting analysis as presented at the meeting

LGPS UPDATE - INVESTMENT POOLING AND GAD SECTION 13 REPORT

- 7.1 Christopher Ellmore introduced the report providing an update on the Government's pooling agenda for LGPS funds and the progress made by the London Collective Investment Vehicle. The report also provided information on the 'dry run' Section 13 analysis completed by the Government Actuary's Department (GAD) using the 2013 valuations and included a copy of GAD's S13 report and S13 briefing note from Hymans Robertson.
- 7.2 The Chair sought clarification regarding the issue causing the amber solvency measure for LBH fund at table 5. Mr Williams said that the emerging risk was a potential asset shock of +5%, which could impact on the solvency of the Fund.
- 7.3 Mr Malins- Smith asked about the LBH Fund maturity ranking based on a scale of 0-10 compared to the other 90 Funds. Mr Honeysett indicated that this information was not available at the meeting and that he would respond directly to Mr Malins –Smith. Ms McWilliam stressed that the amber and red solvency measures were useful as advance warnings of possible solvency risks to the

Monday, 19th September, 2016

Fund and to highlight areas for further investigation and if necessary for the Fund to review its approach.

RESOLVED to note the report

8 PENSION FUND ACTUARIAL VALUATION 2016 - INITIAL REPORT

- 8.1 Rachel Cowburn introduced the report detailing the role of the Pensions Committee and summarised the key activities and achievements in 2015/16 that demonstrated how the Committee has fulfilled its role effectively acting in its capacity as quasi-trustees of the Council's Pension Fund. It was noted that this report would be presented to full Council in 2016.

RESOLVED to note the report.

9 PENSION FUND ANNUAL REPORT AND ACCOUNTS 2015/16

- 9.1 Rachel Cowburn introduced the post audit annual report and accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2016. Michael Honeysett reported that the accounts has been finalised and no issues had been reported.

RESOLVED to:

- 1. Approve the Pension Fund Annual Report and Accounts.**
- 2. Approve publication and distribution to interested parties .**

RESOLVED to note the contents of the report.

10 PENSION FUND - QUARTERLY UPDATE

- 10.1 Christopher Ellmore introduced the update on the Pension Fund's key quarterly performance measures, including an update on the funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and reporting of breaches. Mr Ellmore advised as at there had been a reduction in the Fund's funding level to 66% at the end of June 2016 compared to 68% in March 2016.
- 10.2 It was noted that there had been a reported breach in August 2016 relating to the Annual Benefit Statements and failure to issue all active and deferred benefit statements by 31 August. In response to questions from Members relating to the breach, Ms Cowburn advised that the payroll provider was in the process of implementing a new payroll system and officers were liaising with the provider to ensure that the next statement was issued within the deadline.
- 10.3 The Chair noted the decline in the pension administrator's (Equinti) performance from the previous year. Ms Cowburn stated that the poor performance could be attributed to the manual work being undertaken on member records, which was due to the continued lack of an interface from the Council's payroll provider that was fit for purpose. This issue would be ongoing until the implementation of a contract with the new payroll provider.

RESOLVED to note the contents of the report.

11 THE PENSIONS REGULATOR CODE OF PRACTICE COMPLIANCE CHECKLIST

- 11.1 Rachel Cowburn introduced the report on the updated Pensions Regulator Code of Practice Compliance Checklist for the London Borough of Hackney Pension Fund. It was noted that the level of compliance had reduced from the previous year and this had been due to the member vacancies on the Pensions Board. Ms Cowburn summarised the areas of best practice that were partial or non-compliant and the further work necessary to ensure compliance.

RESOLVED to note the Code of Compliance Checklist and where further work is required and being undertaken.

12 REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION ARRANGEMENTS

- 12.1 Rachel Cowburn introduced the report in relation to the review undertaken by Aon on the Additional Voluntary Contribution (AVC) arrangements held within the London Borough of Hackney Pension Fund.
- 12.2 Ms Deeble, Aon presented the findings of the review and summarised the recommendations as set out in the report.
- 12.3 Mr Malins- Smith sought clarification with regard to a member's increase in AVC contributions that were not reflected in their account. Ms Deeble explained that the issue had arisen as a result of the Council's payroll not implementing the contribution changes through its payroll system and this issue had resolved within a few months by July 2016. Ms McWilliam added that the delay in responding to the member enquiry could have been due to the recent changes to the pension regulations.

RESOLVED to:

- 1. Note the London Borough of Hackney Pension Fund AVC Review .**
- 2. Agree the recommendations to :**
 - a. review the structure of the lifestyle strategies available through the AVC arrangement**
 - b. close the Global Equity Fund to new members**
 - c. consider using some of the additional services available**
 - d. update the Fund's website**
 - e. investigate with employers in relation to the timing of monthly payments and the auctioning of requests to change AVCs.**

13 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT

13.1 PENSIONS BOARD ANNUAL REPORT

- 13.1.1 The supplementary paper was circulated at the meeting.
- 13.1.2 Rachel Cowburn introduced the report covering the LBH Pensions Board Annual Report. Ms Cowburn highlighted that three of the four representatives had become ineligible as they were no longer Council employees and the Council was currently undertaking a recruitment process to replace these representatives.

Monday, 19th September, 2016

RESOLVED to note the contents of the report.

13.2 Mr Williams advised that the next special strategy meeting of the Pensions Committee would be scheduled in December 2016.

Duration of the meeting: 6.30-9.25pm

Contact:
Rabiya Khatun
Governance Services
020 8356 6279