PENSIONS COMMITTEE

Wednesday, 18th December, 2019

at 6.30 pm

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

Members:

Councillor Robert Chapman (Chair)
Councillor Michael Desmond (Vice-Chair)
Councillor Kam Adams
Councillor Ben Hayhurst
Councillor Polly Billington
Councillor Rebecca Rennison

Co-optees:

Jonathan Malins-Smith and Henry Colthurst

Tim Shields
Chief Executive

Contact:
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Governance Services
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Future Meetings
18 December 2019
31 March 2019 (TBC)

Quorum: 2 Elected Members

The press and public are welcome to attend this meeting

Hackney

AGENDA
Wednesday, 18th December, 2019

ORDER OF BUSINESS

	There were no exempt minutes from the previous meeting.		
	Wards Affected	**Contact Officer** ☎	

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

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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

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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 Director of Legal and Governance 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 nature 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 Suki Binjal, Director of Legal and Governance Services on 020 8356 6234 or email suki.binjal@hackney.gov.uk

Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 10TH SEPTEMBER, 2019

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Michael Desmond (Vice-Chair), Cllr Kam Adams and Cllr Polly Billington**
Co- Optees:	Jonathan Malins-Smith (Scheme Member Representative) Henry Colthurst (Employer Scheme Member Representative)
Apologies:	Councillor Ben Hayhurst and Councillor Rebecca Rennison
Officers in Attendance:	Ian Williams (Group Director of Finance and Corporate Resources), Rachel Cowburn (Head of Investment & Actuarial Services), Julie Stacey (Head of Pensions Administration) and Sean Eratt (Legal Services).
Also in Attendance:	Andrew Johnston (Hymans Roberston) Laura McInroy (Hymans Roberston)

At the start of the meeting the Chair welcomed Henry Colthurst following his appointment as a Co-optee Employer Scheme Member Representative of the Pensions Committee.

RESOLVED that the appointment of Henry Colthurst as an Employer Scheme Member Representative of the Pensions Committee be approved.

1 Apologies For Absence

1.1 Apologies for absence were received from Councillors Rennison and Hayhurst.

2 Declarations of Interest - Members to declare as appropriate

2.1 Councillor Desmond declared a non-pecuniary interest as a deferred member of the LGPS until further clarification regarding his pension status.

3 Consideration of The Minutes of The Previous Meeting

RESOLVED that the minutes of the previous meeting held on 25 June 2019 be approved as a correct record subject to the inclusion of Mr Malins-Smith within the attendance list.

4 Training - Actuarial Valuation

4.1 Rachel Cowburn introduced the report in relation to a training session on the Pension Fund's actuarial valuation.

4.2 Laura McInroy, **Hymans Robertson,** provided training on actuarial perspectives and covered the following areas:

<u>What is an actuary and the role of the Fund Actuary</u>

Introduction to the actuarial valuation

- How the Fund works
- Putting a funding plan in place
- How do you fund a scheme
- Why we do a valuation
- Who is interested in a valuation
- Valuation begins at member level
- Valuing all members
- Valuation 'health check'
- Approach to setting contributions
- The funding strategy is a balancing act
- Understanding funding risk

Setting your funding strategy

- Who participates in the Hackney fund
- Each employer tends to its own patch
- Funding strategy- three step approach
- Setting employer contribution rates
- Factors that affect the pace of funding
- Different approaches for different employers
- The end result

National hot topics

- McCloud and cost cap
- Valuation cycle
- Other LGPS related consultations
- Outlook for 2019 valuation

4.3 Councillor Billington enquired whether internal or external regulators scrutinised the Fund's performance to ensure contribution rates remained affordable. Ms McInroy replied that The Pensions Regulator (TPR) had recently been focusing more on regulating pension funds and legislation governing pensions also allowed the government to intervene and compare pension funds taking into consideration a fund's valuation and its long-term plans. Ms Cowburn stated that the Fund's previous valuation report had been issued with some caveats including data issues. This issue had been addressed this year with significant progress made in the data quality submitted.

4.4 The Chair asked when the Pension Fund was expected to clear its liabilities and be fully funded. Ms McInroy stated that it would take approximately 85 years based on the data valuation.

4.5 Mr Malins- Smith enquired why there were 5,000 scenarios. Ms McInroy indicated that this was the minimum number of scenarios required to obtain credible assumptions and outcomes in order to achieve funding success. Members sought clarification regarding the range and basis of the assumptions and Ms McInroy explained that there was a table summarising the different ranges of the 5,000 assumptions. Mr Johnston added that the assumptions were based on economic quantitative analysis and the 5,000 scenarios were individual scenarios. This model also factored in contributions plans, projection of all assets and inflation.

4.6 Councillor Billington asked whether any major financial shocks had been factored into the model and Ms McInroy stated that all factors had been included. Mr Johnston added that no specific high risk event had been included in investment strategy however an analysis would be provided for specific risks such as Brexit.

4.7 In response to a question from Mr Malins- Smith, Ms McInroy confirmed that Hymans Robertson was the sole actuary for the LBH Pension Fund.

4.8 Mr Colthurst enquired about the number of active members under 55 years old that would be impacted by the court ruling that the changes that had been made to the scheme in early 2010 amounted to age discrimination. Ms Cowburn indicated that approximately 6,500 active members were affected.

4.9 The Chair asked if the Fund continued to be in liability, how this would be addressed. Ms Cowburn emphasised that if the Fund went into deficit it would be ordered to undertake an interim valuation.

RESOLVED to note the contents of the report and presentation.

5 Quarterly Update

5.1 Ms Cowburn referred to the error in the figures for the last 3 year for Columbia Threadneedle at page 25 of the report and stated that these figures would be amended.

5.2 Rachel Cowburn introduced the report providing an update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting of breaches. Ms Cowburn stated that at the end of June 2019 the funding level was 77.6% compared to 77% as at the end of March 2016

5.2 The Chair noted that the Sustainable Fund had performed well. Ms Cowburn stated that the returns this quarter had been generally good.

5.3 Mr Colthurst asked if there was any correlation with the funding level of 77% at page 10 and funding risk at page 46 of the report and expressed concern that the funding level had fallen below 80%. Ms Cowburn clarified that the funding risk at page 46 was rated based on the current risk status and target risk status. In terms of current risk, this had been rated as a red risk and at present the funding level was 77%, which had been regarded as a major risk and likely. To mitigate this high risk the Fund had been targeting the risk looking at ways to reduce the impact to a moderate risk whilst still accepting it was likely to happen. Ms Cowburn acknowledged that the Fund had a significant funding deficit but this had to be balanced against a scheme that was open to new members.

5.4 Councillor Desmond sought further clarification regarding Churchill's valuation of 8.4% at page 23 of the report. Mr Johnston replied that 8.4% represented asset valuation at end of Q1 and this increased in Q2 to 15.1%, which had resulted from reporting increased cash contribution. Mr Johnston stated that this fund's performance could be assessed as delivering on target if the returns achieved were around 4% to 5% after a 12 month period.

5.5 The Chair enquired about the progress of the payroll issue. Ms Cowburn stated that significant progress had been made on the payroll interface and the Council's year end reporting, which had resulted in improvements in the 2018/19 data. This level of improvement needed to be sustained and further work was required in developing reporting including contribution values and integrated data provision. This year the Fund had issued 5,700 of the 6,300 active members' annual benefit statements and this progress had been reported to the TPR.

5.6 Councillor Adams asked about the appeals process. Ms Cowburn advised that the Council had a two stage complaints process and that if a member was dissatisfied with the resolution they could complain to the Pensions Ombudsman.

RESOLVED to note the contents of the report.

6 Pension Fund Annual Report and Accounts 2018/19

6.1 Rachel Cowburn introduced the post audit Annual Report and Accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2019. Ms Cowburn stated that following CIPFA's new guidance for funds on the production of annual reports, a draft version of the Annual Report and Accounts 2018/19 was being presented at the meeting. The audit of the Pension Fund accounts had been completed and a draft certificate provided. The Fund's auditor would formally issue a certificate after it had completed the review of the annual accounts once it had received the additional asset pooling information to be provided by London CIV later this month. The final version of the annual accounts would be circulated to Members prior to publication.

6.2 Ms Cowburn added that the Funds auditors had issued an unqualified opinion without modification and would be concluding that the Pension Fund financial statements within the Pension Fund's Annual Report were consistent with the Pension Fund financial statement within the Council's Statement of Accounts.

6.3 The Chair asked officers to review the document as there were some minor errors in the annual report.

6.4 Mr Malins-Smith referred to Churchill Asset Management at page 64 of the report and indicated that 'private equity' be amended to 'private debt' and that there was no reference of Primercia within the report. Ms Cowburn replied that Primercia had been disclosed at the end of the Statement of Account and noted in the Fund's contracted commitment.

6.5 Mr Malins-Smith referred to the related party transactions at page 147 of the report and the costs incurred by the Council in relation to the administration of the Pension Fund. He requested a breakdown of the cost of officer time to the Fund and the methodology used to apportion this cost. Ms Cowburn stated the costs had been agreed between the Pension Fund and General Fund and that any officer's time would be charged to the Pension Fund and the Council. Ms Cowburn added that there was no breakdown of the cost included in the accounts as this had not been required by the auditors. The Pensions Team also retained working papers in relation to this issue. The Chair requested that an update addressing these points be provided and circulated to Members.

6.6 The Chair requested that the Fund's significant increase in funding levels in 2019 be incorporated within to the report.

RESOLVED to:

1. **Note this version of the Pension Fund Annual Report and Accounts.**
2. **Approve publication and distribution to interested parties, pending a final update on asset pooling to be provided by the London CIV and subject to a final version being circulated to Members.**

7 GMP Reconciliation Update

7.1 Julie Stacey introduced the report providing an update on the Fund's GMP (Guaranteed Minimum Pensions) reconciliation exercise, which was being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension were properly accounted for. The report provided an update on the progress of Phase 2 of the reconciliation exercise and outlined factors for considering and agreeing to begin the next phase of Phase 3c – Pilot phase.

7.2 In response to a question from the Chair, Ms Stacey stated that comparison of enhanced complex data of individual records would be undertaken during the pilot phase to reduce the number of cases needing manual rectification and the work would be completed by spring 2019.

RESOLVED to approve additional budget of £15k to allow Phase 3c – Pilot Phase to commence.

8 Annual Report of the Pensions Committee 2019-2019

8.1 Rachel Cowburn introduced the report detailing the role of the Pensions Committee and summarised the key activities and achievements in 2018/19 that demonstrated how the Committee had fulfilled its role as the Scheme Manager for the London Borough of Hackney Pension Fund. The annual report would be presented to Full Council as a summary of the Committee's activities.

RESOLVED to note the report.

9 TPR Code Compliance

9.1 Rachel Cowburn introduced the report covering an updated Compliance Checklist for the London Borough of Hackney Pension Fund. From 1st April 2015 The Pensions Regulator (TPR) had assumed responsibility for public service pension schemes and the Code of Practice for Public Service Pension Schemes had come into force from 1st April requiring all pension schemes to consider its compliance with the Code.

9.2 Ms Cowburn stated that the Fund was generally able to demonstrate good levels of compliance with the code but there were some areas of partial compliance.

9.3 In response to a question from the Chair regarding the TPR's focus on LGPS, Ms Cowburn stated that the regulator's oversight of LGPS had increased with individual Pension Funds being scrutinised Hackney Pension Fund had entered into a formal engagement with the regulator on the issue of the provision of employer data and annual benefit statements and would be providing monthly updates and documentation in terms of engagement with employers in relation to contributions and late submission of data.

9.4 Councillor Billington enquired about the progress made in relation to the annual benefit statements and the number of areas that were partially compliant. Ms Cowburn advised that progress had been achieved in the issuance of statements however further work was needed. Ms Cowburn stated that some areas of partial compliance concerned issues that were ongoing while other issues were shorter term, and as the code was prescriptive the Fund could be in non- compliance for minor issues.

9.5 Mr Colthurst indicated that target dates for action were required for the areas that were identified as partially compliant. Ms Cowburn undertook to include target dates in future reports.

9.6 Councillor Desmond referred to F3-Does the fund keep records of and reconcile transactions on page 333 of the report and sought clarification regarding 'write off'. Ms Cowburn stated that the write-offs were relatively small overpayments of a few hundred pounds that could not be recovered such as death payments.

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

10 Pensions Committee Agendas - Forward Look

10. Members considered the forward look for Pensions Committee agendas.

RESOLVED that the forward look for Pensions Committee agendas be noted.

11 Brexit Update (Supplementary Paper)

11.1 Andrew Johnston outlined the report setting out the potential implications of the different outcomes to the UK's Brexit negotiations, in particular, some of the implications for the financial markets of a 'no-deal' Brexit and outlook for UK companies. It also considered the potential impact both on global financial markets and on the Pension Fund's assets and liabilities and its funding position.

11.2 Mr Johnston stated that the key risks to the funding level would be falls in nominal gilt yields, a rise in inflation expectations and falls in property values resulting in potential falls in liquidity.

11.3 Mr Johnston highlighted some of the implications of a no deal on gilts, sterling credit spreads, equities and unhedged currency exposure. Mr Johnston outlined the Brexit scenario analysis for a soft Brexit, no deal and ongoing uncertainty, and indicated that the Members would be reviewing hedging in the future as part of the Fund's investment strategy review.

RESOLVED to note the report including the Hymans Robertson's advice that no fundamental changes be made to the Fund's investment strategy at this stage.

12 Any Other Business Which in The Opinion Of The Chair Is Urgent

12.1 Mr Williams advised that a recruitment process was currently underway for a scheme member representative and that an appointment should be made by December 2019. A further update would be provided in the future relating to the term of appointment of Co- optee members of the Pensions Committee. The Chair requested that consideration be given to a appointing a Trade Union representative to this Committee.

12.2 Ms Cowburn stated that a special meeting of the Pensions Committee would be arranged in November 2019 to consider a report from Trucost.

13 Exclusion of The Press And Public

RESOLVED THAT the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of exempt appendices at item 7 on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

Duration of the meeting: 6.30 - 8.55 pm

Contact:
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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Actuarial Valuation and Funding Strategy Statement **Pensions Committee** **18th December 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. **INTRODUCTION ¶**

1.1 This report provides the Pensions Committee with an update on the Fund's 2019 triennial actuarial valuation. It sets out the initial results of the valuation and presents the results of the contribution modelling exercise carried out to help determine an appropriate contribution rate for the London Borough of Hackney. It also presents a draft Funding Strategy Statement for review by the Committee prior to consultation with employers. The Fund actuary will be attending the Pensions Committee meeting to provide training and discuss the results in more detail.

2. **RECOMMENDATIONS¶**

2.1 The Pensions Committee is recommended to:

- Note the whole fund reported funding position and the assumptions on which it is based.
- Agree that the Fund should progress to the next stage of the valuation - identifying key risks and identifying parameters for setting individual employer contribution rates.
- Approve the draft Funding Strategy Statement for consultation with employers.

3. **RELATED DECISIONS¶**

3.1 Pensions Committee 29th March 2017 - Pension Fund Actuarial Valuation 2016 - Valuation Report

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

4.1 The triennial valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation, and the membership data used; significant variations to either the assumptions or the data used could impact the stated funding position or the outcome of the contribution rate modelling, which helps determine the contribution rates payable by the Fund's employers. Given the Council's position as a Fund employer, the inputs to the triennial valuation can therefore impact the level of resources available for other Council services.

4.2 It is therefore critical that both the Pensions Committee and Pension Board have a sound understanding of the valuation process and the assumptions used in making decisions with regards to the valuation.

5. → COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES¶

5.1 Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 prescribes that each administering authority must obtain:

- an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
- a report by an actuary in respect of the valuation; and
- a rates and adjustments certificate prepared by an actuary

5.2 Paragraph 7 of the Pensions Committee's Terms of Reference state that it is responsible for 'mak[ing] arrangements for the triennial actuarial valuation, monitor[ing] liabilities and undertak[ing] any asset/liability and other relevant studies as required.

5.3 Taking into account the regulatory requirements around the actuarial valuation and role of the Pensions Committee as set out in the Terms of Reference, the consideration of the 2019 valuation process would appear to properly fall within the Committee's remit

6. → BACKGROUND TO THE REPORT

6.1 Under the LGPS Regulations 2013, the Pension Fund is required to undertake a formal actuarial valuation every 3 years to establish its funding position and to set the contribution rate for the following three years. The last formal actuarial valuation of the London Borough of Hackney Pension Fund was carried out as at 31st March 2016; this showed an improvement in the funding level from 70%

to 77% and set the contribution rates for the three years commencing 1st April 2017.

6.2 The Fund's actuary, Hymans Robertson, has been reviewing the data supplied to them by the Fund's administrator (Equiniti) and has now been able to provide an initial assessment of the whole fund funding level. This is set out in the Initial Results Report at Appendix 1 and discussed in more detail in Section 7 of this report.

6.3 The actuary has also modelled potential contribution strategies for the London Borough of Hackney as an employer, testing each strategy to assess the extent to which it relies on investment returns to reach the funding target. More detail on this modelling is provided in Section 8 of this report, and in the actuary's summary at Appendix 2

6.4 A draft Funding Strategy Statement is attached at Appendix 3. The Fund is required to produce a Funding Strategy Statement under the LGPS Regulations 2013 and must revise it whenever it changes its policy on funding (i.e. at each valuation). The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. This statement also sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

6.5 The Fund is running slightly behind its planned valuation timetable. The Fund would generally have expected to provide valuation data to the Actuary by August 2019; however, this was delayed by late receipt of employer data from the Council and the need for Equinti to undertake a significant data cleansing exercise prior to the submission of valuation data.

6.6 A full cut of data was submitted by Equiniti in mid October. Hymans Robertson have checked the data submitted as part of their valuation work and consider it to be of good quality overall. This represents a significant improvement relative to 2016, when although the Fund was able to submit data in line with the original timetable, issues with data quality meant that a significant period of revision was required to ensure the data was fit for purpose. The higher quality of the 2019 data has resulted from the receipt of improved employer data from the Council, and significant data cleansing work undertaken by both Equiniti and the in house pensions administration team prior to the submission of the data.

6.7 Whilst the delay to data submission has compressed the valuation timetable significantly, it is expected that employers will receive results early in the new year, permitting a suitable period of consultation prior to approval of the final valuation report by 31st March 2020.

7. WHOLE FUND FUNDING LEVEL

7.1 The Fund Actuary, Hymans Robertson, has now made an initial assessment of the whole fund funding level for the Hackney Pension Fund. This is set out in the Initial Results Report at Appendix 1. This report:

- presents the current funding position of the Fund using a range of actuarial assumptions;
- explains why the funding position has changed since the previous actuarial valuation was carried out in 2016; and
- shows the sensitivity of the funding position to actuarial assumptions made about the future (e.g. assumptions around investment returns and inflation).

7.2 The initial results suggest a funding level of 92%, which can be broken down as follows:

31 March 2019 (£m)	LB Hackney
Liabilities	
Active members	459
Deferred members	488
Pensioners	759
Total liabilities	**1,705**
Asset share	**1,575**
Surplus/(deficit)	(130)
Funding level	92%

7.3 It should be noted that the stated funding level is a snapshot in time, and reflects a range of assumptions, including the discount rate, salary assumptions and longevity and demographic assumptions; changing these assumptions would change this reported position. More detail on how the assumptions have been set can be found in Section 3 of the Initial Results Report.

7.4 The stated funding position of 92% represents a significant improvement from the 77% position calculated at the 2016 valuation and the funding updates provided to the Pensions Committee. A number of factors have driven this rise in the funding position, including investment returns, contributions received and changes in actuarial assumptions. More detail on the drivers of the increase can be found on page 10 of the Initial Results Report.

7.5 The most significant contributor to the increase in funding level is investment returns, followed by contributions paid in. Also of note are changes to the longevity assumptions used by Hymans Robertson; the recent slowdown in the rate of increase in life expectancy is now included within the actuary's projections.

7.6 Changes to salary increase assumptions have also had an impact; expectations around salary growth have been reduced relative to the 2016 valuation. Hymans Ropbertson have also changed their approach to setting the long term discount rate, moving from a gilts plus to a risk based approach which better reflects the open nature of the LGPS. This change will also affect the way funding updates are provided in the future, and should lead to a more stable reported funding level.

8. COMPASS MODELLING

8.1 Hymans Robertson's comPASS modelling is used to assess potential contribution strategies for the London Borough of Hackney as an employer. The key aim of the modelling is to assess the risk inherent in different potential funding strategies for the Council by considering the extent to which the proposed strategies are reliant on investment returns.

8.2 The model uses 5,000 different investment return scenarios (giving a wide distribution of outcomes) and models these against a small number of potential contribution strategies, considering for each strategy the probability of success and the extent of the downside risk associated with each scenario as well as performance across different time horizons.

8.3 The model therefore takes into account various factors when considering each strategy, which can be explained as follows:

- Time horizon – the actuary has considered the position at 2039 i.e. 20 years from the valuation date. This is in line with the Employer's current funding time horizon. In some cases she has also looked at the 17 year time horizon to 2036 to give insight into how sensitive the results are to the time horizon.
- Likelihood of success – What is the "risk" tolerance? i.e. how likely is it that the employer will be fully funded within the time horizon? The actuary has assumed use of a minimum 66% measure in line with the current Funding Strategy Statement although this should not be viewed as a target
- Downside risk – How "bad" is the worst case scenario? i.e. how low could the funding level fall by the end of the time horizon? The modelling shows the averages of the worst 5% of funding levels for each strategy to indicate the extent of downside risk.
- Investment strategy – The purpose of the modelling is to compare the results with the current investment strategy to understand the impact on funding outcomes. The impact of the results on an alternative, lower risk investment strategy are also considered to test whether the contribution strategy remains appropriate if the Fund reduces investment risk in future (this analysis applies to the contribution rate only and does not replace appropriate investment advice when making strategy changes.)

8.4 The results of the modelling are set out in more detail in Appendix 2. Initial indicators are that thanks to a period of strong asset returns and a prudent approach to rate setting, the Fund is able to continue its trajectory of incremental reductions in London Borough of Hackney's contribution rate.

Whilst the model provides the Fund with a framework to help determine an appropriate contribution rate for the London Borough of Hackney as an employer, it should be noted that other factors must also be considered.

8.5 Other factors to be considered include:

- Budgets - if contributions are reduced or frozen now, will there be difficulty in increasing contributions if this is required in the future?
- Scrutiny - Proposed rates need to be justified to the Pensions Board and external bodies such as the Government Actuary's Department (GAD)
- External Risks - these include climate change and political uncertainty, and could lead to a less benign investment environment in the future
- Legal/Regulatory Risks - these include the McCloud ruling and the cost cap mechanism, both of which lead to uncertainty around possible benefit changes. Ideally, the contribution strategy needs to be flexible enough to absorb the impact of changes. Hymans recommend that this be achieved by increasing the required probability of success when testing contribution strategies.

8.6 It should also be noted that contribution rates are calculated by employer; different employers have different histories within the Fund and therefore have different contribution rates and funding positions. The change in contribution rate for each employer between 2016 and 2019 will depend on the individual employer's circumstances; the rate payable by the London Borough of Hackney and the proposed direction of travel are not applicable to other employers.

8.7 Once this initial stage of valuation has been reviewed and agreed, the actuary will proceed to the calculation of other employer rates.

8.8 Once this initial valuation approach and outcome has been agreed, the actuary will liaise with fund officers to calculate individual employer rates. A period of consultation with employers is required; we therefore hope to be able to distribute these to employers in January 2020, with 1-2-1 sessions with the actuary being offered to employers at the employer forum in March.

9. FUNDING STRATEGY STATEMENT

9.1 The Funding Strategy Statement (FSS) is a legal requirement under Regulation 58 of the LGPS Regulations 2013, which states that 'an administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.' The statement must be updated each time the Fund changes its policy on funding (i.e. after each valuation).

9.2 The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. It also sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and

- prudence in the funding basis.

9.3 A draft FSS is attached at Appendix 3 to this report. The Committee are asked to review and approve this draft statement for consultation; the statement will then be provided to employers for feedback prior to final approval in March 2020.

Group Director of Finance & Resources

Report Originating Officer: Rachel Cowburn (020 8356 2630)
Financial considerations: Michael Honeysett (020 8356 3332)
Legal comments: Sean Eratt (020 8356 6012)

Appendices
Appendix 1 - Exempt - Initial Results Report
Appendix 2 - Exempt - ComPASS Modelling Summary
Appendix 3 - Draft Funding Strategy Statement

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update	Classification **PUBLIC**	Enclosures **FIVE**
Pensions Committee **18th December 2019**	Ward(s) affected **ALL**	**AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting of breaches.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 29th March 2017 –2016 Actuarial Valuation and Funding Strategy Statement
- Pensions Committee 29th March 2017 –Investment Strategy Statement
- Pensions Committee 26th March 2019 –Pension Administration Strategy (PAS)

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

4.1 The Pensions Committee has delegated responsibility for management of the Pension Fund. Quarterly monitoring of key aspects of the management of the Pension Fund is good practice and assists the Committee in making informed decisions. .

4.2 Monitoring the performance of the Fund’s investment managers is essential to ensure that managers are achieving performance against set benchmarks and targets. Performance of the Fund’s assets will continue to have a significant influence on the valuation of the scheme’s assets going forward. The investment performance of the Fund is a key factor in the actuarial valuation process and therefore directly impacts on the contributions that the Council is required to make into the Pension Scheme.

4.3 The Committee’s responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

4.4 Reporting on administration is included within the quarterly update for Committee as best practice. Monitoring of key administration targets and ensuring that the administration functions are carried out effectively will help to minimise costs and ensure that the Fund is achieving value for money.

4.5 Whilst there are no direct impacts from the information contained in this report, quarterly monitoring of key aspects of the Pension Fund helps to provide assurance to the Committee of the overall financial performance of the Fund and enables the Committee to make informed decisions about the management of the Fund.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Pensions Committee's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:

- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
- To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- To act as Scheme Manager for the Pension Fund

5.2 Given these responsibilities, it is appropriate for the Committee to consider a regular quarterly update covering funding and investment matters, budget monitoring and scheme administration and governance.

6. FUNDING UPDATE

6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The results below have been presented on the basis of the 2016 valuation, using rolled forward assumptions updated for changes in gilt yields. They therefore look very different from the initial results of the 2019 valuation, which uses updated actuarial assumptions and information on the membership of the fund.

6.2 The changes made for the 2019 include changes in demographic and longevity assumptions, as well as a change in the approach to setting the discount rate. The Fund's discount rate in 2016 was based on gilts plus 1.65%, which means that the monitored funding level fluctuates with gilt yields. The discount rate for the 2019 valuation has been calculated based on the fund's investment strategy and expected returns, so is less strongly correlated to movements in gilt yields. More information on the changes for the 2019 valuation can be found in the 'Actuarial and Funding Strategy Statement' paper.

6.3 As at the end of September 2019, the funding level based on the 2016 valuation was 75.7% compared to 77% as at the end of March 2016. This represents a slight decrease relative to the previous quarter (77.6%).

6.4 The funding level of 75.7% at 30th September 2019 is based on the position of the Fund having assets of £1,651m and liabilities of £2,179m, i.e. for every £1 of liabilities the Fund has the equivalent of 75.7p of assets. The monetary deficit remains high, increasing from £350m in March 2016 to £528m in June 2019. The liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all scheme members, pensioners, deferred members and active members. These will be paid over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities in respect of benefits accruing and to recover any deficit which has arisen.

6.5 The progress of the funding level on both an ongoing and yield curve basis is shown in the Funding Progression Update on Page 4 of the Investment Performance and Funding Report at Appendix 1. As stated above, this information is provided on a different basis to that discussed as part of the 2019 valuation – more information is provided in the Valuation Report. The report also highlights the asset risks to which the Fund is exposed, providing a basic breakdown of the Fund's asset allocation along with returns of major asset classes since 31st March 2016**.**

7. GOVERNANCE UPDATE

7.1 During Q1, officers of the Fund provided responses to a governance survey issued by Hymans Robertson. The survey was commissioned by the LGPS Scheme Advisory Board and asked respondents to consider the governance of the LGPS and potential conflicts of interest between the pensions function of administering authorities and their host local authority. The survey focused on financial decision-making and the role of the s151; officers considered that a number of the suggestions represented good practice (e.g. approval of pension fund budgets by pensions committees) but recommended against radical change to existing structures.

7.2 The responses to the survey and Hymans Robertson's initial report have now been considered by the Scheme Advisory Board (SAB). A Phase II report has now been published on the SAB website. The report sets out a number of recommendations across 2 workstreams; Standards & Outcomes and Compliance & Improvement. The SAB has also agreed that the Secretariat, in conjunction with the project team at Hymans Robertson and scheme stakeholders, should proceed to develop Phase III of the project including draft statutory guidance on governance compliance statements and establishing a set of key performance indicators. Final proposals for Phase III of the project will be considered by the Board when it next meets on the 3rd February 2020.

7.3 The Pensions Regulator recently completed an engagement exercise with 10 local government funds from across the UK. The exercise was completed between October 2018 and July 2019 following the results of the Regulator's governance and administration survey, which suggested that the rate of improvement across the LGPS had slowed down. The aim of the exercise was to understand scheme managers' approaches to a number of key risks, feedback on good practice and suggest improvements that could be made.

7.4 The Regulator has now produced a report on its findings which highlights key risks, sets out examples of good practice and suggests areas in which improvements can be made. Officers of the Fund have reviewed the report and considered areas in which the Hackney Pension Fund is performing well and those in which improvements could be made. These are summarised in the Pensions Board report below: http://mginternet.hackney.gov.uk/documents/s67691/4%20-%20Review%20of%20the%20Pensions%20Regulators%20Work%20-%20Update%20and%20Training.pdf

8. INVESTMENT UPDATE

8.1 Appendix 2 to this report provides a manager performance update from the Fund's Investment consultants, Hymans Robertson. The report includes an analysis of quarterly, 1 year and 3 year performance against benchmark, as well as Hymans Robertson's current ratings for each manager.

9. RESPONSIBLE INVESTMENT UPDATE

9.1 The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This section of the quarterly report therefore provides the Committee with an update on the work of the LAPFF and also voting recommendations and how managers have responded. In addition the update will include key topical issues concerning environmental and social governance issues in order to provide scope for discussion on these key issues.

9.2 The LAPFF Quarterly Engagement report is attached at Appendix 3 to this report, setting out LAPFF's engagement activity over the Quarter in relation to environmental, social and governance issues. Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates and therefore has no direct holdings in the companies referenced. It does, however, retain exposure via its pooled passive funds to a large number of the companies LAPFF engages with.

9.3 During the quarter, changes to secure investment in the Just Transition were discussed at the Liberal Democrat, Conservative and Labour conferences. In his role as Vice-Chair of LAPFF, Pensions Committee Chair Cllr Rob Chapman has helped drive LAPFF's role in the Just Transition, emphasising that partnership is critical to its success. Organised by the Smith Institute, the meetings provided a platform for LAPFF to set out what these changes should be. A core recommendation from LAPFF was that the UK government should establish a Just Transition Commission, along the lines of the Scottish Commission, to bring public and private sectors together.

9.4 As set out in the Q2 update, Cllr Chapman represented the LAPFF at ArcelorMittal's AGM, welcoming the progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement and asking that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario.

9.5 Since the AGM, ArcelorMittal has brought out its first Climate Action Report which sets out the company's ambition to significantly reduce CO_2 emissions globally and be carbon neutral in Europe by 2050. LAPFF met with senior executives of ArcelorMittal in early July, following the publication of the report. A summary of progress is provided below:

- **The commitment**: ArcelorMittal has committed to carbon neutrality in Europe by 2050 and to substantial reductions globally.
- **How the company plans to achieve it:** the Climate Action report has quite detailed low emission technology pathways, with the commercial time horizon for each set out.
- **Target setting:** the meeting had a strong focus on target setting, which ArcelorMittal aim to do in 2020, when the methodology for science-based targets for the steel industry is released. The current target is for an 8% carbon footprint reduction by 2020, against a 2007 baseline.
- **Limitations:** Lakshmi Mittal, ArcelorMittal's joint chair, chief executive has been very clear on his view for the need for a green border tax to make implementation of many of the low carbon technologies commercially viable.
- **Focus for future engagement:** as with other Climate Action 100+ engagements, trade association memberships and target setting are key themes. Company participation in the Energy Transitions Commission, which had been a request at the AGM, has emphasised the view of the need to move to hydrogen technology using renewable energy. ArcelorMittal has already launched a new project in Hamburg to use hydrogen on an industrial scale for the direct reduction of iron ore in the steel production process.

10. RISK MONITORING

10.1 Quarterly risk monitoring for Q2 2019/20 is included at Appendix 5. The reports cover the key risks faced by the Fund across 3 categories – Investment & Funding, Admin & Comms, and Governance. The reports highlight key and new risks, as well as any that have changed status relative to their target during the quarter.

10.2 Key risks - the Fund's key risks are as follows:

- Asset risk - failure to meet objectives through poor asset performance
- Funding risk - the growth rate of liabilities outstrips that of assets
- Poor membership data - poor administration or employer data provision resulting in inaccurate member records

The Fund's key risks are mostly unchanged since the previous review; however, the likelihood rating of 'Poor membership data' has improved from 'almost certain' to 'likely'

10.3 New/emerging risks - No new risks have been added since the previous review. However, the wording and actions on 'Reliance on external systems' have been changed to better reflect the risk of cybercrime and the actions to be taken to prevent it. This change has been made in line with recommendations from the Pensions Regulator

10.4 Deteriorating risks - no risk ratings have deteriorated since the previous review.

10.5 The Fund's full risk register (broken down by governance, funding & investment and administration & communications risks can be found at Appendix 5 to this report. The register assesses risks relative to the target level of risk which the Fund is willing (or required) to accept. The risk register was last updated in September 2019.

11. BUDGET MONITORING

11.1 Budget Monitoring for Q2 2019/20 is presented at Appendix 6 to this report. The monitoring forecasts a reduced surplus on dealings with members relative to budget (£16.1m against a budgeted £20.9m). The key drivers behind this forecast reduction are transfers in and transfers out; the forecast for transfers in is significantly lower than budgeted (£6.1m against a budgeted £8.8m) whilst transfers out are forecast at £6.6m against a budget of £4.2m. It should be remembered that both items are entirely dependent on member decisions and are highly volatile as a result; these forecasts are likely to change significantly over the course of the year.

11.2 Certain items, most notably investment income and investment management fees, are still being forecast using the original budget estimates. Making a reliable estimate of investment costs and income is challenging at this relatively early stage in the year, given that both are dependent to a certain extent on investment performance.

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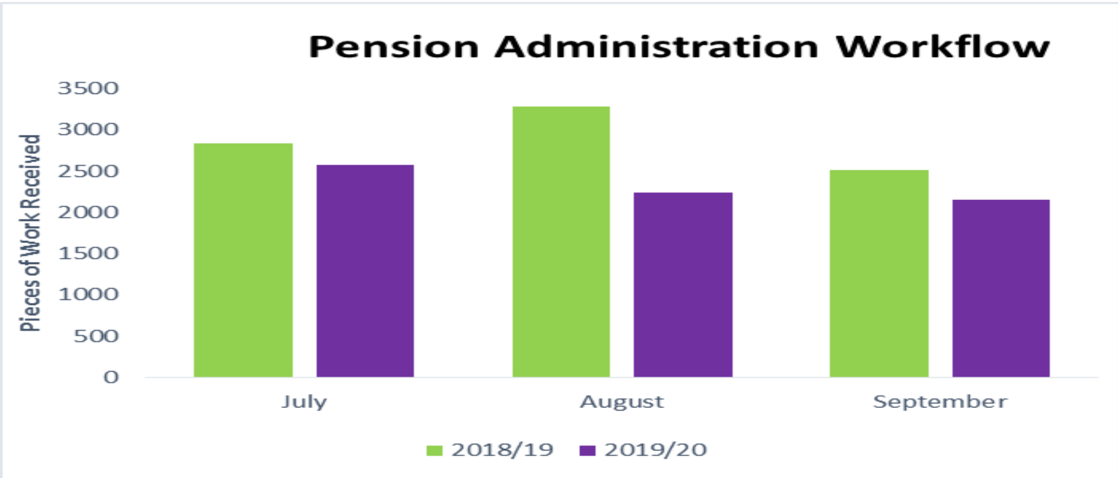
12. PENSION ADMINISTRATION

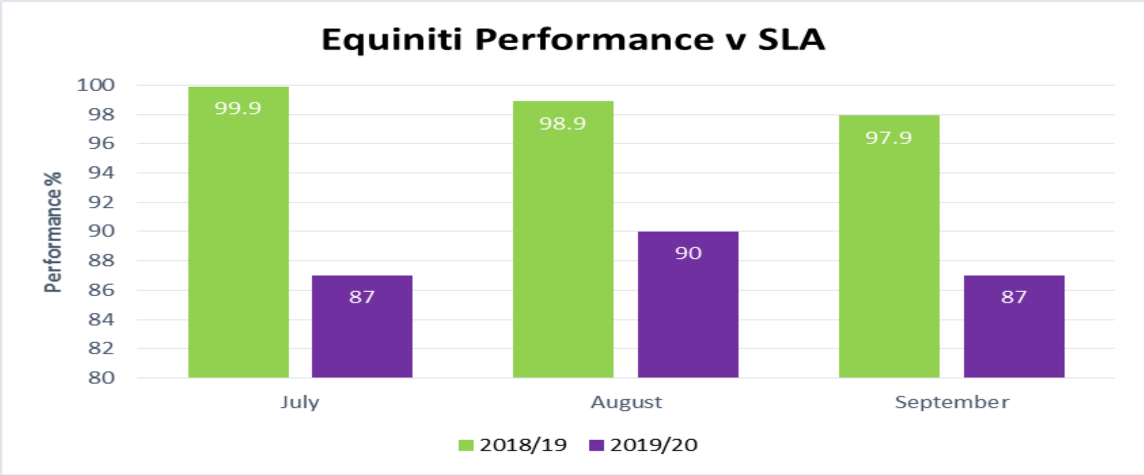
12.1 **Pension Administration Management Performance**

During Q2 2019/20, the administrators received a total of 6,964 new cases compared to 8,630 during Q2 in 2018/19. A comparison of the monthly workflow between Q2 2018/19 and the reporting quarter is set out below:-



The performance of the external pension administrators is monitored by the administering authority's pension team at Hackney on a monthly basis. As reported in previous quarters, Equiniti remain working under a 'relaxed SLAs' regime due to the ongoing data corrections and annual benefits statement validations taking priority over the business as usual (BAU).

Therefore performance against the service level agreement (SLA) is being monitored against priority work only (death grants, bank detail changes, pension into payment; i.e. all work relating to financials), and averaged 88% for Q2 2019/20, compared to 98.9% for the same quarter last year. The administrator's monthly performance against the SLA during Q2 2019/20 and Q2 of 2018/19 is set out below:



By 31st August 2019, the Fund had sent out 6,664 annual benefit statements to deferred members, with 1,622 statements withheld due to address or data issues. A total of 5,779 benefit statements were sent to active members, and 466 statements were withheld due to complex data issues. This represents a very significant improvement to the numbers issued for the year ending 2018. The key driver of this improvement was the receipt of high quality year end data files from Hackney Council and Hackney Learning Trust; although submitted late, the data was of good quality and allowed the majority of active statements to be sent.

During August 2019, Equiniti and the administering authority's pension team carried out a significant data cleansing exercise to help rectify errors and omissions and resolve complex cases to allow the outstanding statements to be sent out. This work required significant internal resourcing from the pension administration team as well as additional work by Equiniti. Where appropriate, additional costs have been met by Hackney Council as the employer.

At the time of writing this report (December 2019) the Fund has sent out statements to all but 30 active members and 160 deferred statements remain outstanding. These more complex cases are currently being investigated by Equiniti and statements will be sent out as soon as possible.

12.2 New Starters and Opt-Outs

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q2 2019/20	6,869	436
Q2 2018/19	6,857	126

The number of opt outs in Q2 2019/20 were significantly higher compared to Q2 2018/19, as on 1 July 2019 the Council undertook its mandatory Re-Enrolment duties, and as the London Borough of Hackney is also the employer of staff in Community and Voluntary Controlled Schools for the purposes of AE, it took the lead on behalf of these schools re-enrolment duties as well. This meant automatically re-enrolling "eligible job holders" - employees who are aged between 22 years and State Pension age (SPA) and to whom they pay gross earnings above the personal allowance threshold – who had previously opted out of a pension scheme, into a "qualifying" pension scheme on 1 July.

12.3 **Ill Health Pension Benefits.**
The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The administration team at Hackney process all requests for the release of deferred members' benefits on the grounds of ill health, as well as assisting the Council's Human Resources team with the process for the release of active members' benefits on the grounds of ill health.

Deferred members' ill health benefits are released for life and are based on the benefits accrued to the date of leaving employment, with the addition of pension increase, but they are not enhanced by the previous employer.

Active members' ill health pensions are released on one of three tiers:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date and is typically only paid to those with very serious health conditions or life limiting health problems – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - paid for life, no review

- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review is undertaken once the pension has been in payment for 18months.

For tier 3, a scheme member's prognosis is that whilst they are unable to fulfil their current role on medical grounds to retirement, they may be capable of undertaking some form of employment in the relatively near future. However should the member's health deteriorate further, there is provision under the regulations for their benefits to be uplifted from tier 3 to tier 2, if the former employer agrees that their health condition meets the qualifying criteria for the increase.

The table sets out the number of cases that have been processed during Q2 of 2019/20, compared to the same period in the previous year:-

DEFERRED MEMBER'S ILL HEALTH RETIREMENT					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q2 2019/20	1	0	0	0	1
Q2 2018/19	1	0	0	1	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q2 2019/20	2	2	0	0	0
Q2 2018/19	0	0	0	0	0

12.4 **Internal Disputes Resolution Procedure (IDRP)**

This is the procedure used by the Fund for dealing with appeals from members both active and deferred. The majority of the appeals are in regard to either disputes around scheme membership or the non-release of ill health benefits. The process is in 2 stages:-

- Stage 1 IDRP's are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.
- Stage 2 IDRP's are determined by the Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

There were no IDRP cases during the reporting quarter.

12.5 **<u>Other work undertaken in Q2 2019/20</u>**

<u>Third Party Administration Implementation update</u>

Good progress is still being made over the last quarter on finalising the delivery of the new contract specification. At the time of writing, (December 2019) there are now only 2 points of delivery on the new service specification that remain outstanding, and the agreed joint effort to get these delivered to the expected standard is proving productive and good progress is being made.

<u>New & Ceasing Employers</u>

During Q2, the Fund has not admitted any new employers and 1 employer contract has ceased; breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
Pride Catering – Nightingale School contract	-	31/08/2019	TBA

<u>Voluntary Redundancy (VR) Exercises for the Council</u>

In July 2019, the Council launched a VR scheme as an important initiative to help the Council make the necessary changes to help meet the financial challenge of funding cuts from central government. The voluntary redundancy scheme will help the Council reduce costs further and continue to protect services, and also minimise the amount of compulsory redundancies that may be need in the future.

The administering authority's pension team has taken the lead in this project and has provided redundancy, and a number of pension estimates, to c400 employees who have expressed an interest in the VR scheme. Corporate Panels have met to consider employees VR applications, and decision have been logged ready to release to applicants.

The decision letters will be available for applicants to collect week commencing 16 December, and their decision to accept or reject the Council's offer must be made by 6 January 2020. Those who accept the offer, will receive redundancy notices week commencing 13 January, their notice period to commence 20Janary and last day of service will be 29 February 2020, unless different dates have been agreed by the Panels taking account of service requirements.

Pre-retirement workshops

The in-house Pensions Team have set up a series of 'Pre-retirement workshops' in conjunction with a company called Affinity Connect. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund and are aimed at members who are thinking of retiring within the next 2 to 5 years. The final workshop for this financial year is to be held on 13 January 2020.

13. REPORTING BREACHES

13.1 The breaches register for Q2 2019/20 is attached at Appendix 4 to this report. There were 9 breaches during the period, all relating to contributions or supporting documentation. All are rated green; none are considered reportable.

Ian Williams
Group Director of Finance & Corporate Resources

Appendices:

Appendix 1 – Investment Performance and Funding Report (Hymans Robertson – Investment Consultant)
Appendix 2 – LAPFF Quarterly Engagement Report
Appendix 3 – Breaches Register
Appendix 4– Risk Reporting
Appendix 5 – Budget Monitoring

Report Originating Officers: Rachel Cowburn 020-8356 2630
Financial considerations: Michael Honeysett 020-8356 3332
Comments of the Director of Legal and Governance: Sean Eratt 020-8356 6012

London Borough of Hackney Pension Fund

Q3 2019 Investment Monitoring Report

Andrew Johnston, Partner
Anna Hawkins, Investment Consultant
Rahul Sudan, Investment Analyst

HYMANS ROBERTSON

Dashboard

Executive Summary

The objective of this page is to set out some key metrics on the Fund.

Over the quarter the fund has underperformed the benchmark.

The high level asset allocation is broadly in line with target.

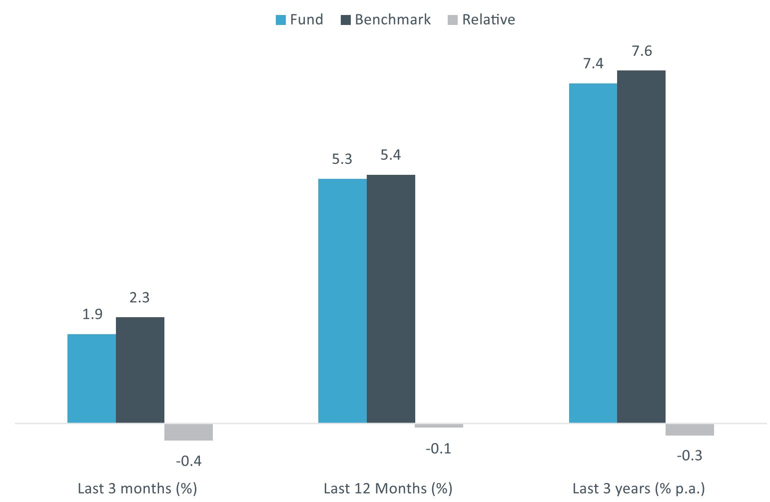
Definitions

Growth
Growth assets are designed to provide return in the form of capital growth. They may include investments in company shares, alternative investments and property. Growth assets tend to carry higher levels of risk compared to other assets yet have the potential to deliver higher returns over the long term.

Income
Income producing assets are investments which produce recurring revenue. They may include investments in interest paying bonds, property leases and dividend paying stocks. The income generated may be fixed or variable.

Protection
Protection assets aim to secure your investment and typically take less risk compared to other asset types. As a result the growth generated tends to be lower over the long term. Protection assets may include investment grade fixed income and cash. Derivative strategies may also be used to hedge unexpected investment losses.

Performance



Growth, Income & Protection Allocation

Growth, Income & Protection	Actual	Benchmark	Relative
Growth	67.7%	67.5%	0.2%
Income	11.1%	11.0%	0.1%
Protection	21.2%	21.5%	-0.3%

HYMANS ROBERTSON

Asset Allocation

This section sets out the Scheme's high level asset valuation and strategic allocation.

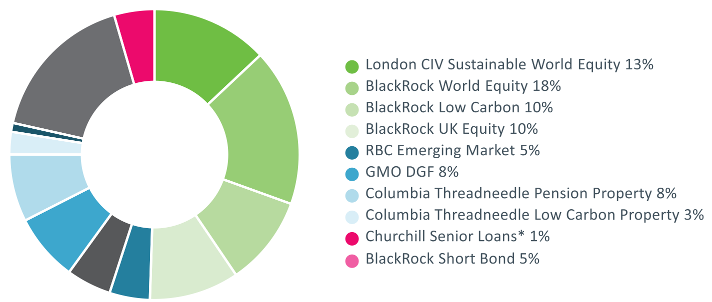
This page includes;

- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

Asset Allocation

Mandate	Active/Passive	Valuation (£m) Q2 2019	Valuation (£m) Q3 2019	Actual Proportion	Benchmark	Relative
London CIV Sustainable World Equity	Active	£223.2	£225.7	14.0%	13.0%	1.0%
BlackRock World Equity	Passive	£285.2	£289.6	18.0%	17.5%	0.5%
BlackRock Low Carbon	Passive	£167.8	£174.9	10.9%	10.0%	0.9%
BlackRock UK Equity	Passive	£152.6	£154.6	9.6%	10.0%	-0.4%
RBC Emerging Market	Active	£81.9	£80.6	5.0%	4.5%	0.5%
Invesco DGF	Active	£66.2	£66.8	4.1%	5.0%	-0.9%
GMO DGF	Active	£99.7	£98.1	6.1%	7.5%	-1.4%
Total Growth		**£1,076.7**	**£1,090.3**	**68%**	**68%**	**0%**
Columbia Threadneedle Pension Property	Active	£129.3	£137.5	8.5%	7.5%	1.0%
Columbia Threadneedle Low Carbon Property	Active	£26.1	£25.9	1.6%	2.5%	-0.9%
Churchill Senior Loans*	Active	£15.1	£15.8	1.0%	1.0%	0.0%
Total Income		**£170.5**	**£179.2**	**11%**	**11%**	**0%**
BMO Bonds	Active	£247.8	£262.6	16.3%	17.0%	-0.7%
BlackRock Short Bond	Passive	£78.0	£78.1	4.9%	4.5%	0.4%
Total Protection		**£325.8**	**£340.7**	**21%**	**22%**	**0%**
Total Scheme		**£1,572.97**	**£1,610.27**	**100%**	**100%**	**0%**

Asset class exposures



Source: Investment Managers

**The Churchill allocation is being drawn down over a period of time. The ultimate target allocation is 10%. In the interim period the assets are held in the BlackRock World Equity and Ultra Short Bond Funds.*

Source: Investment Managers

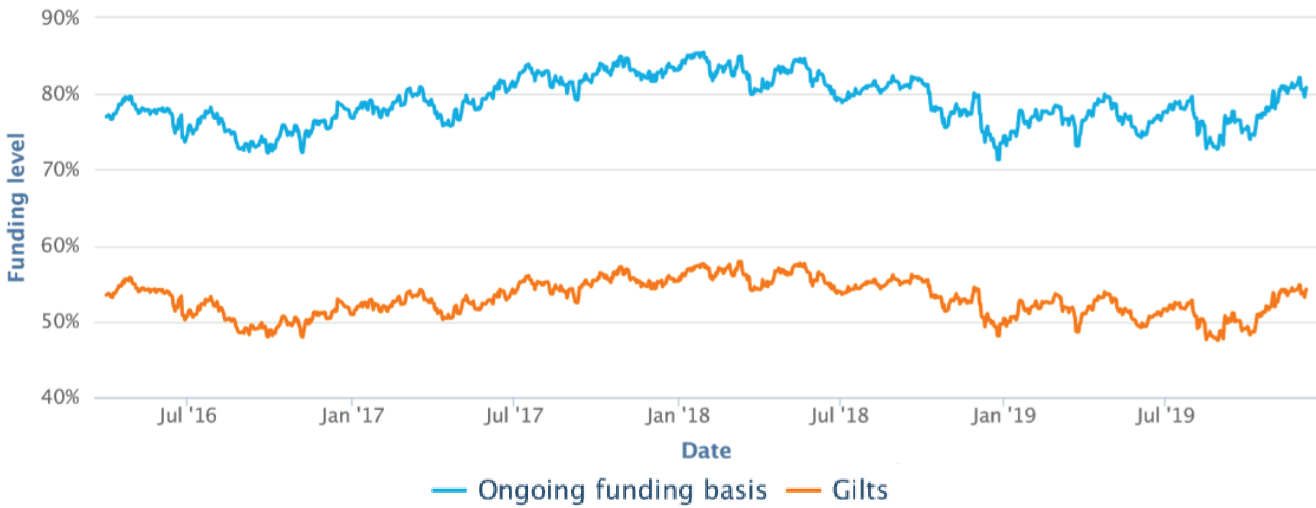
Funding

This page is used to show funding information, both historic and projected.

This page includes;

- Funding level progressions on different bases.
- Analysis of Surplus table.
- Over the quarter the deficit has decreased by £75.3m mainly as a result of an increase the excess return on assets.
- The current objective is to reach a fully funded position by 2031 on an ongoing basis of 1.65% over gilts.

Funding level progression



Funding level reconciliation

Quarter

Surplus	(£m)
Surplus/(deficit) as at 30 June 19	(453.6)
Contributions (less benefits accruing)	0.5
Interest on surplus/(deficit)	(3.6)
Excess return on assets	60.0
Impact of change in yields & inflation	(132.2)
Surplus/(deficit) as at 30 September 19	(528.9)

Since previous valuation

Surplus	(£m)
Surplus/(deficit) as at 31 March 2016	(350.2)
Contributions (less benefits accruing)	52.7
Interest on surplus/(deficit)	(46.2)
Excess return on assets	226.0
Impact of change in yields & inflation	(411.2)
Surplus/(deficit) as at 30 September 19	(528.9)

Manager Performance

- This section shows the Scheme's manager performance.
- The table shows a summary of the full Scheme performance over different time periods.

Performance relative to benchmark & target

	Last 3 months (%)					Last 12 months (%)					Last 3 years (% p.a.)				
	Fund	B'mark	Relative	Target	Relative	Fund	B'mark	Relative	Target	Relative	Fund	B'mark	Relative	Target	Relative
Growth															
London CIV Sustainable World Equity	1.2	3.8	-2.5	4.3	-3.0	8.4	7.8	0.6	9.8	-1.2	n/a	n/a	n/a	n/a	n/a
BlackRock World Equity	1.6	1.4	0.1	n/a	n/a	2.3	1.7	0.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackRock Low Carbon	4.3	4.1	0.1	n/a	n/a	8.5	8.2	0.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackRock UK Equity	1.3	1.3	0.0	n/a	n/a	2.7	2.7	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
RBC Emerging Market	-1.7	-1.1	-0.6	n/a	n/a	5.5	3.7	1.8	n/a	n/a	6.8	7.8	-1.0	n/a	n/a
Invesco DGF	0.7	0.2	0.5	1.4	-0.8	0.0	0.8	-0.8	5.8	-5.5	0.5	0.6	-0.1	5.6	-4.8
GMO DGF	-1.7	0.2	-1.9	1.5	-3.1	-0.5	1.5	-2.0	6.5	-6.6	1.7	1.8	-0.2	6.8	-4.8
Income															
Columbia Threadneedle Pension Property	0.3	0.4	-0.1	0.7	-0.4	1.9	2.2	-0.3	3.2	-1.3	6.5	6.7	-0.2	7.7	-1.2
Columbia Threadneedle Low Carbon Property	0.2	-1.9	2.1	-1.7	1.9	0.8	-0.1	0.9	0.9	-0.1	n/a	n/a	n/a	n/a	n/a
Churchill Senior Loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Protection															
BMO Bonds	5.9	5.9	0.1	6.1	-0.2	14.1	13.9	0.2	14.9	-0.7	4.5	3.8	0.7	4.8	-0.3
BlackRock Short Bond	0.2	0.2	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	1.9	2.3	-0.4			5.3	5.4	-0.1			7.4	7.6	-0.3		

Source: Fund performance provided by Investment Managers and is net of fees except for the BMO and the Low Carbon Property fund which are gross of fees. Benchmark performance provided by Investment Managers and DataStream.

- *The London Collective Investment Vehicle, Invesco, GMO and BMO Funds have targets above that of their benchmark's. The table above shows both the Fund vs Benchmark and the Fund vs Target Return.*
- *Churchill have not provided performance figures for their Fund as the fund is still relatively new.*

Long term returns are calculated by rolling up historic quarterly returns and include the contribution of all current and historical mandates over the period. These include returns from funds held over the period which are no longer held by the Fund.

Market Background

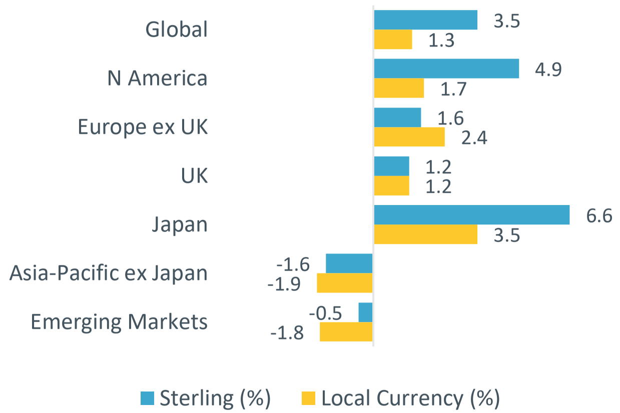
The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers but its manufacturing PMI fell to its lowest level since June 2009 in September.

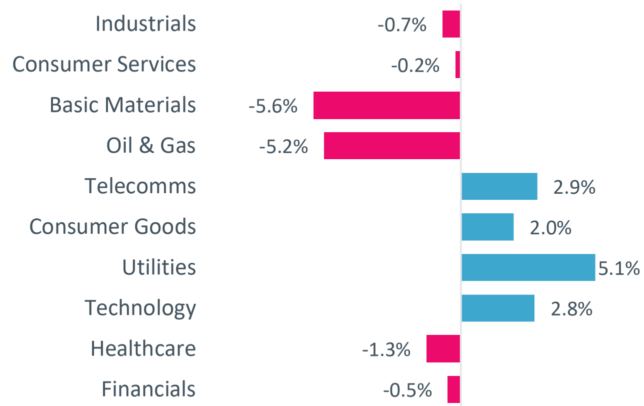
Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields continued to drift lower over the quarter. UK Implied inflation fell at longer maturities but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation. Despite prices spiking significantly, following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

Historic returns for world markets [1]

Regional equity returns [2]



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

Market Background

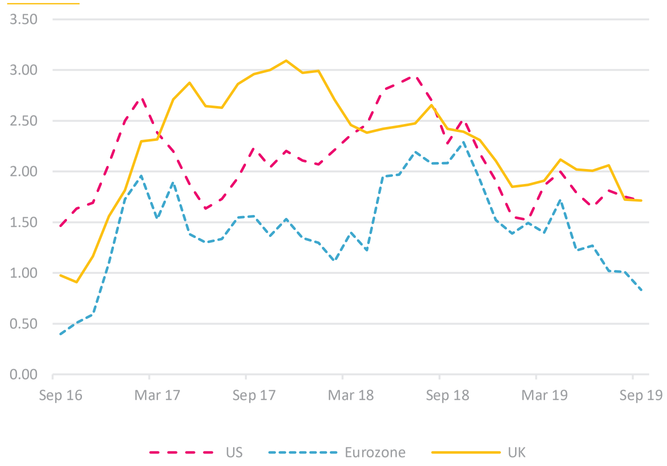
Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of the value style. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

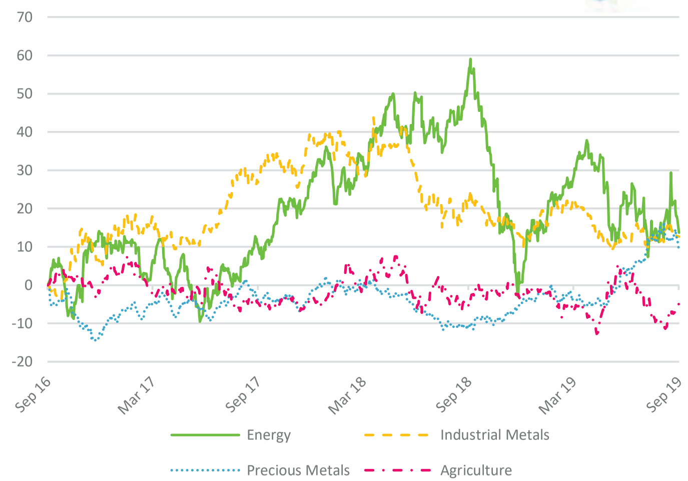
In the two months and one year to the end of August, UK property produced total returns of 0.5% and 1.6%, respectively. Marginal positive rental growth and return from income compensated for capital declines.

Annual CPI Inflation (% p.a.)



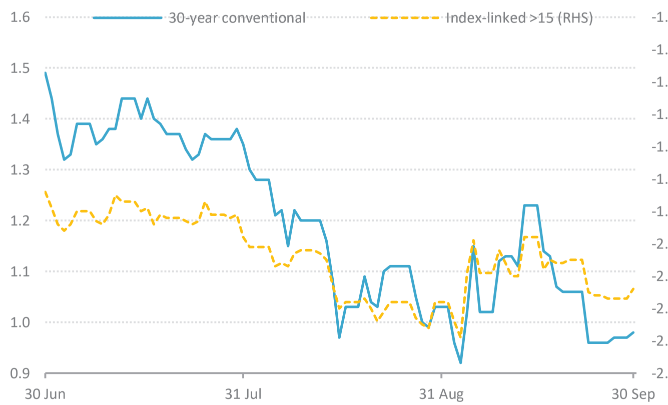
Higher CPI inflation can lead to higher income on CPI-linked assets like property, but will also lead to higher benefit payments

Commodity Prices



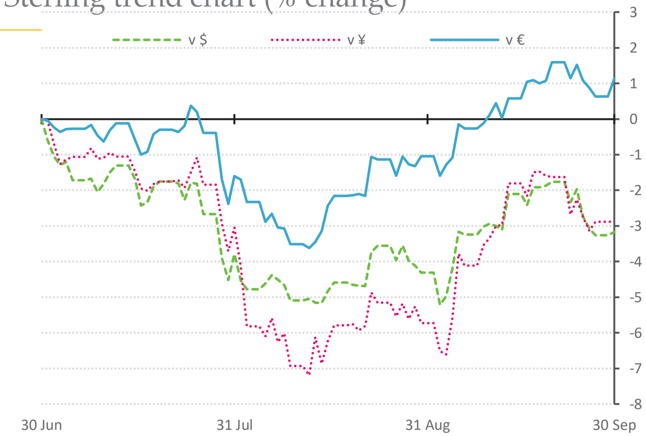
Funds which have exposure to commodities will benefit when the prices go up.

Gilt yields chart (% p.a.)



Gilt (UK government bond) yields are often used as a basis for valuing liabilities. When gilt yields increase the value of the liabilities decreases, as does the value of any bonds held by the Fund.

Sterling trend chart (% change)



Funds invested in unhedged overseas assets are exposed to exchange rate risks. If the Sterling strengthens against other currencies the value of unhedged overseas investments will increase.

Source: Reuters

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

Quarterly Engagement report

July-September 2019

Local Authority Pension Fund Forum

BAE Systems, Boeing, Lockheed Martin, Petrobras, ArcelorMittal, National Grid

Amnesty International campaigners drawing attention to UK-manufactured arms being used to commit war crimes in Yemen.

YEMEN

LAPFF engages with defence contractors over Yemen

LAPFF uses community engagement to link stakeholder input to investor value

Objective: ascertain if defence companies have increased their scope for building leverage in setting or influencing contract terms with national governments in relation to social and environmental factors.

Achieved: the reputational damage facing local authority funds as a result of holding Aerospace and Defence companies has been outlined.

In progress: through dialogue the companies have begun to recognise the populations affected by their products as one of their stakeholder groups.

Over the summer, LAPFF has been engaging with a number of defence companies cited for their role in supplying weapons to the Saudi coalition for the war in Yemen. The LAPFF Executive approved this engagement because LAPFF funds have been targeted by protestors concerned about the role of local authorities in funding this war.

Initially, the Forum contacted nine companies for engagements – BAE Systems, Boeing, Lockheed Martin, Raytheon, Thales, General Electric, General Dynamics, Textron, and Airbus. LAPFF has managed to hold meetings with three companies, BAE, Boeing and Lockheed, despite expecting little or no response from the companies approached.

A limited response was expected owing to the close relationship between defence companies and national governments. This relationship also meant it was not clear at first how to structure these engagements. If companies are contracting with governments in relation to national security, there seems to be little scope for them to influence the governments' approaches to this issue, and the companies engaged pushed this line hard. However, the pre-meeting research and the company discussions have helped to clarify how companies might push back in these situations.

After four years of deadly civil war, according to the UN, over 18 million Yemenis currently lack access to clean drinking water

"It is important for companies to recognise all those affected by the products they make and sell as important stakeholders. Without appropriate recognition, companies are unable to build a complete picture of the market and leave themselves exposed to unexpected changes in market dynamics."

Cllr Doug McMurdo
LAPFF Chair

First, in reviewing company materials, it was evident that although defence companies often espouse the principle of stakeholder engagement, affected communities – such as the Yemeni population being bombed – are not included in the scope of stakeholders considered. This omission likely affects the decision-making about the impact of the products

YEMEN

and services these companies offer. In consideration of this likelihood, LAPFF pushed for companies to consider communities affected by these companies' products and services as stakeholders.

Second, different companies have different ways of contracting. For instance, BAE and Lockheed contract almost exclusively with governments. Boeing, however, has a much more robust commercial component. Consequently, Boeing arguably has more leverage in being able to push governments to comply with international human right standards. For example, in this situation, if a government client were to commission weapons that a company isn't comfortable with, or that are to be used for a purpose that a company isn't comfortable with, it would likely be easier for the company to ramp up its commercial production and refuse the government contract.

Third, a number of defence companies are looking at different defence options. For example, cyber security is an area of interest for defence contractors. This area might be considered non-traditional for defence companies, but there seems to be scope for these companies to develop this type of technology – both on a military and commercial basis – rather than continuing to focus exclusively on traditional weaponry. Some companies, like Lockheed, are also selling these services to government clients such as energy departments, not just the military services. Therefore, by developing client relationships with government departments other than the military, companies might be able to pull back when faced with dubious military contracts.

All of the defence companies reviewed for this engagement had values such as 'respect for life' and 'integrity'. It is hard to see how companies can uphold these values if they are trapped in contracts that, by definition, require them to betray these values. Therefore, LAPFF will continue to apply what it has learned so far in engaging with defence contractors to work with these companies to uphold not only their own values, but LAPFF's policies too. The engagements are not easy or straightforward, but at least now there appear to be ways to move the human rights agenda forward in a way that should produce more sustainable returns for LAPFF members, as well as other investors.

● Boeing has a joint direct attack munition contract and a wideband global satellite communication contract with the US Air Force, an MH-47G Block II Chinook (pictured below) contract with the US Army Special Operations, and an F/A-18 service life modification contract with the US Navy.

● The UK has suspended granting new export licenses for arms that might be used by the Saudi Arabia-led coalition in Yemen while it considers a landmark court ruling that found the government's decision-making processes were unlawful. The outcome of this litigation could have implications for BAE, and specifically the planned export to Saudi Arabia of 48 of its Eurofighter Typhoon jets worth £5 billion (top).

COMPANY ENGAGEMENT

GOVERNANCE RISK

Anti-Corruption Engagements Ramp Up

Along with Sarasin, Church Commissioners and Royal London Asset Management, LAPFF has been engaging with Glencore over concerns about corruption in the Democratic Republic of Congo. The issues raised during this engagement prompted the Forum to send engagement requests to four other companies embroiled in corruption probes – Shell, ENI, Petrobras and Total.

As with the Yemen engagement, there was doubt about whether the companies would be willing to discuss on-going corruption allegations. Shell wrote back re-stating the content of the company's annual report on the matter and batting back the meeting request. However, both ENI and Petrobras got back almost immediately to offer meetings. Total has also now agreed to a meeting.

To date, the meetings with Petrobras and ENI have taken place. It is interesting to note that Petrobras is still a partly state-owned enterprise, although the Brazilian President, Jair Bolsonaro, has stated he would like the Company to be privatised by 2022. ENI began life as a state-owned company but became public in 1992. Shell and Total are both public companies. Given the role of state parties in corruption cases, these distinctions might be highly relevant and will be explored in the remainder of the engagements.

The Petrobras engagement centred around the Car Wash Investigation, a money laundering scandal that found that executives at Petrobras had accepted bribes in return for awarding contracts to construction firms. This outcome led to Petrobras' writing off US$2,527 million of capitalised costs for overpayment to contractors and suppliers

Objective: Ensure companies have made provisions for the potential liabilities associated with the corruption scandals. Ensure companies have updated internal mechanisms for finding and dealing with corruption across all levels of company operations.
Achieved: clarification gained on the extent of the corruption allegations and a the ultimate financial cost that might be incurred as a result of the litigation and the financial damage.
In Progress: dialogue on companies disclosing the extent to which ongoing corruption investigations are impacting profitability and growth.

"Companies leave themselves exposed to significant legal, financial and reputational risks if they fail to implement effective anti-corruption control mechanisms. The scandal at Petrobras outlines well the negative impact corruption scandals can have on shareholder value."

Cllr Rob Chapman - LAPFF Vice Chair

Operation Car Wash or 'Lava Jato' is an ongoing corruption investigation which initially started in 2008 involving Petrobras, politicians and construction companies.

COMPANY ENGAGEMENT

VOTING ALERTS

Sports Direct
LAPFF issued two voting alerts during the period under review. The first alert related to Sports Direct, a company that has recently faced the ire of investors after its latest results highlighted underwhelming performance as well as substantial unpaid taxes. These issues led to the company's primary auditor, Grant Thornton, announcing the intention to resign ahead of the company AGM. It is clear to LAPFF that although the Board has undergone significant change in recent years - improving independent oversight at Board level - the new directors have not held Mr Ashley to account, as evidenced by the company's continued spree of disparate retail aquistions. This acquisition strategy has raised significant concerns amoung investors. As a result, LAPFF recommended that member funds vote to oppose the entire board. Given the continued confusion with Grant Thornton and the controversy around Sports Direct's Belgian tax payments, LAPFF also recommended opposing the report and accounts, which are unlikely to give an accurate view of the business.

Ryanair
The second alert relates to Ryanair. LAPFF has requested that the company improve its governance practices for a number of years. Despite signing recognition agreements with a number of unions, Ryanair management still appears to struggle to work constructively with unions and staff to negotiate mutually beneficial terms and conditions of employment. With a board lacking in independence, LAPFF considers the board should be refreshed with a greater proportion of independent directors and skill sets appropriate to address and challenge the current company positions. On this basis, LAPFF recommended that members vote to oppose all board directors who are not independent.

ENGAGEMENT MEETINGS

Remuneration

As part of a wider investor discourse, LAPFF joined a call with Southern Company to discuss the implementation of compensation mechanism which links executive remuneration with climate factors. Southern Company is the second largest gas and electric utility company in the US and has recently set GHG reduction targets of 50% by 2030 (compared 2007 output) and 'low-to-no carbon emissions' by 2050. In support of this target, the company has also announced a new compensation metric that is tied to the carbon reduction goal.

The metric has both quantitative and qualitative components, ranging from adding zero-carbon megawatts and retiring coal to leadership in energy policy and R&D investment. The linking of GHG emissions to executive compensation is becoming more frequent across the energy sector, with Shell announcing similar metrics at the end of 2018.

Whilst the move has been welcomed by stakeholders, a number of concerns relating to Southern's remuneration mechanism were voiced at the meeting. These concerns raised three concerns about whether or not the proposed metrics can be considered effective in incentivising performance: (1) Southern has already announced GHG reductions of over 4,000 MW compared to the maximum award goal of 3,500 MW; (2) a net reduction in GHGs is not conditional upon achieving full vesting of the award as failure to reduce emission output can be offset by the generation of zero-carbon energy; and (3) the GHG reduction element of the award represents just 10% of the CEO's total opportunity under the long-term incentive.

LAPFF also asked the company if they would consider tying the GHG metric to the pay of other executive officers.

COMPANY ENGAGEMENT

AGM ATTENDANCE THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

National Grid

National Grid will be critical player in delivering the infrastructure needed to decarbonise the UK economy and meet government targets. LAPFF has therefore been engaging the company for a number of years to ensure it is managing the risks of a rapid transition. At this year's AGM, Cllr Glyn Carron welcomed the company's recent progress including its analysis on how net zero carbon emissions could potentially be achieved by 2050 and what this would mean for energy demand and use. Cllr Caron also congratulated the company for joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company. Cllr Carron asked whether National Grid were confident they would be able to meet the new demands on the energy system and infrastructure if there was a rapid shift towards decarbonisation, not least regarding electrification of cars and heating of homes. The company outlined some of the challenges of moving away from certain types of fuel and initiatives they were undertaking with government on electric charging points.

"This initiative makes clear that mobilizing for the planet goes hand-in-hand with protecting our pensions, and we need these commitments now."

Scott F Stringer, New York City Comptroller

PROGRESS

- National Grid is planning to implement carbon pricing on all major investment decisions by 2020.

- LAPFF joins an international grouping of investors sending a Statement to over 30 global oil and gas companies, on methane management, disclosure, and the importance of strong U.S. federal methane regulation.

- Earlier this year LAPFF joined other Climate Majority Project coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. In late September both DTE Energy and NRG Energy made unambiguous commitments to net-zero carbon emissions by 2050.

- LAPFF also signed up to an investor statement on deforestation and forest fires in the Amazon. The statement called on companies to disclose and implement a commodity-specific no deforestation policy with quantifiable, time-bound commitments covering the entire supply chain. This statement, which was co-ordinated by the PRI, was issued in direct response to the escalating crisis of deforestation and forest fires in in Brazil and Bolivia during the period under review.

The largest steel-maker in the world, ArcelorMittal

LAPFF met with senior executives of ArcelorMittal in early July, following the publication of the company's first Climate Action report.

•**The commitment:** ArcelorMittal has committed to carbon neutrality in Europe by 2050 and to substantial reductions globally.

•**How the company plans to achieve it:** the Climate Action report has quite detailed low emission technology pathways, with the commercial time horizon for each set out.

•**Target setting:** the meeting had a strong focus on target setting, which ArcelorMittal aim to do in 2020, when the methodology for science-based targets for the steel industry is released. The current target is for an 8% carbon footprint reduction by 2020, against a 2007 baseline.

•**Limitations:** Lakshmi Mittal, ArcelorMittal's joint chair, chief executive has been very clear on his view for the need for a green border tax to make implementation of many of the low carbon technologies commercially viable.

•**Focus for future engagement:** as with other Climate Action 100+ engagements, trade association memberships and target setting are key themes. Company participation in the Energy Transitions Commission, which had been a request at the AGM, has emphasised the view of the need to move to hydrogen technology using renewable energy. ArcelorMittal has already launched a new project in Hamburg to use hydrogen on an industrial scale for the direct reduction of iron ore in the steel production process.

SSAB – Swedish steel-making technology with virtually no carbon footprint

A joint investor call/webinar with the Swedish steelmaker, SSAB, provided useful context for understanding how companies are approaching the technological challenges of moving to low or net-zero carbon steel-making.

SSAB are working in partnership with a mining company (LKAB) and a utility (Vattenfall) on the Hybrit project. The Hybrit project is a hydrogen based process, with a byproduct of water instead of carbon dioxide. The partnership appears

COMPANY ENGAGEMENT

a crucial underpin to its success.

There has been much interest in Hybrit from other steel companies, and almost all major steel companies in Europe have launched similar initiatives. Currently, there is a projected 20-30% increase in cost for this steel, but with renewable electricity costs dropping over time, and the EU emissions trading scheme costs for carbon emissions rising, SSAB has concluded that in future, steel from this process will be able to compete in the market with traditionally made steel. In the interim, SSAB considers customers will be willing to pay a premium for low to zero carbon steel. Ultimately, SSAB is aiming for carbon-neutral production by 2045 in line with the national target for Sweden.

Centrica plans to exit oil and gas exploration and production

Following on from a meeting with Centrica's new Chair, Charles Berry, in May, LAPFF participated in an investor meeting/webinar with Centrica executives which provided the opportunity to not only hear about changes to the company's strategy, but also to probe further into the context for Centrica's target setting.

Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. This move supports a strategic focus on customers, which is mirrored by its target setting for carbon reduction. Customer emissions represent 90% of total company emissions, and the target is to reduce the use of gas and electricity by customers by 25% by 2030, with a goal of net zero by 2050.

For many companies, customer emissions are much larger than their direct and operational emissions, so investors keep a keen eye on target setting in this area, as an indication that boards are addressing this primary carbon reduction challenge. BHP has been notable amongst the diversified miners in this regard, announcing in July that it will set and disclose goals in 2020 to tackle emissions from customers that use its iron ore and coking coal for steelmaking and other products.

Carmakers in the US

LAPFF alongside other investors has been engaging both Ford and General Motors (GM) on their approach to climate change, which became more pressing with the US administration planning a roll-back on fuel efficiency standards. LAPFF and other investors were initially calling on companies to engage with the federal government but also with California. The Forum had previously written to the companies to continue to work with California on agreed standards to reduce greenhouse gas emissions regardless of the federal approach. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. However, there was a more positive response from Ford alongside BMW, Volkswagen and Honda who have agreed a deal with California on fuel efficiency standards. The Forum wrote to those companies thanking them for their agreement to voluntarily comply with California's rules while also calling on GM to follow suit. This agreement is a major win for the Forum and will potentially have significant environmental and economic benefits for all stakeholders.

SOCIAL RISK ENGAGEMENTS
DIVERSITY

Aveva Group

LAPFF has identified the technology sector as having particularly low levels of women represented on company boards and therefore has focused diversity engagements in this sector. As part of this engagement strand, the Forum spoke with the Philip Aiken (pictured), chair of UK-based technology company Aveva, to gain a better understanding of how Aveva is tackling management of diversity throughout the company as well as any target setting on gender diversity in particular. Mr Aiken provided a clear outline of measures the company was taking in recruiting and retaining women in Aveva's workforce and the approach to boardroom appointments, with the latest appointments split equally between men and women. Further improvement in board level diversity is unlikely in the short-term, with no board appointments imminent, leaving the company still falling short of 30% female board representation mark.

COLLABORATIVE ENGAGEMENTS

Methane: regulatory oversight

Four oil and gas majors have come out publicly in support of federal methane regulation (Shell, BP, Exxon Mobil and Equinor) with Shell's statement being the strongest. Despite this, the Trump Administration is seeking to remove methane from regulatory oversight. LAPFF has supported an Investor Statement which asks a range of these 'non-renewable' companies to speak out publicly on the need to maintain both the federal regulation of methane and the US Environmental Protection Agency (EPA)'s 'Endangerment Finding'. This finding dates from 2009 and requires the EPA to take action under the Clean Air Act to curb emissions of carbon dioxide, methane and other greenhouse gases which would endanger 'the public health and welfare of current and future generations'. The Investor Statement is also being sent to a number of US Electric Power companies on the risk posed to downstream companies including Dominion, Duke, Xcel, Exelon, Southern and NRG. LAPFF has also written to the National Grid Chair with the Statement as the company has significant operations in the US distributing electricity and natural gas.

The Powering Past Coal Alliance

The government department for Business, Energy and Industrial strategy (BEIS) is working to develop Finance Principles for the UK and Canadian government-led 'Powering Past Coal Alliance'. The PPCA Finance Principles are covered in the government's new Green Finance Strategy.

LAPFF has signed up to be a partner to the 'Powering Past Coal Alliance'. This decision is in line with LAPFF policy that there should be no new investment in coal. This position will be made public in New York in late September as part of UN Climate Action Summit (pre)meetings. There will be further opportunities for

COMPANY ENGAGEMENT

LAPFF members to join PPCA through to and including COP26 in late 2020.

US Corporate Lobbying positions
Companies have significant influence on climate and energy policies and LAPFF has concerns, shared by other investors, about lobbying activities that are inconsistent with addressing the risks posed by climate change.

LAPFF, through its CERES membership, has therefore joined other signatories to an investor letter to 55 US companies to share expectations on the topic of corporate lobbying on climate change and to request information about how each company ensures that its lobbying activities are consistent with the goals of the Paris Agreement on climate change. Some members wishing to take a more active approach have taken up the opportunity to file or co-file resolutions to US companies that have been identified with significant federal and state lobbying expenditures and that lack or have poor disclosure on trade association memberships.

POLICY ENGAGEMENTS

Reliable accounts updates

There have been few developments in this area since the last Quarterly Engagement Report, other than the fact that the new Chair of the Audit, Reporting and Governance Authority (ARGA) has been announced as Simon Dingemans.

Further to the penalties on Tesco plc, following accounting irregularities in 2014, LAPFF has again approached the Financial Conduct Authority (FCA) and a meeting between the LAPFF Chair and the FCA is pending. LAPFF made the point that the system the FCA had used, compensating one class of shareholder at the cost of another, was disadvantageous to long-term shareholders.

As part of an investor group led by Sarasin & Partners LLP, LAPFF attended a meeting with PwC about the extent to which auditors are able to provide assurance that companies are accounting for material climate risks. The concern is whether audit committees, as well as the auditors themselves, are able to ensure that a company's financial statements convey a true and fair view of the businesses financial performance if climate considerations are not adequately disclosed. The balance sheets of oil and gas companies (now classified as 'non-renewables') are particularly at risk of potential overstatement given the increase in risk of asset depreciation consequent to changes in government policies, technological advances and public opinion amongst other factors. PwC acknowledged the role of the auditor in reporting climate risks. It became apparent during the discussion that the primary obstruction to consistency in reporting climate risks originates from the judgement auditors make around whether financial statements that do not outline climate change as a material risk remain compliant with reporting requirements.

Investing in a Just Transition to a Net Zero Economy – What needs to change?

Changes to secure investment in the Just Transition were discussed at the Liberal Democrat, Conservative and Labour conferences. Organised by the Smith Institute, the meetings provided a platform for LAPFF to set out what these changes should be. Both the LAPFF Chair, Cllr Doug McMurdo and Vice-chair, Cllr Rob Chapman identified that partnership is critical to the success of the Just Transition. So a core recommendation from LAPFF was that the UK government should establish a Just Transition Commission, along the lines of the Scottish Commission, to bring public and private sectors together.

A consensus from the Liberal Democrat meeting was that there needed to be much more certainty around environmental regulation and policy to support the move to a net zero economy in a just way. The regulatory environment was also central to discussions at the Conservative fringe meeting with a call for greater cross government collaboration and a dedicated cabinet minister and governmental department. At the Labour meeting, there was agreement that the target of net zero emissions by 2030 achieved in a 'just' way was ambitious and that there should be focus on making as much progress in the short term as possible.

MEDIA COVERAGE

Pension fund anger at Sports Direct's Mike Ashley: 'There's a problem here'
Yahoo! Finance, 11 September 2019
A third of Sports Direct investors vote against re-electing Mike Ashley
The Guardian, 11 September 2019
Sports Direct in race against time to find new auditor
Financial Times, 11 September 2019
Sports Direct shares recover some losses
The BBC News, 29 July 2019
Results debacle hits Sports Direct shares
The Times, 30 July 2019
Investors urge cement makers to cut emissions
Financial Times, 21 July 2019
Super Fund corrals $13trn for livestreaming action
Newsroom, 20 August 2019
Germany and Slovakia head list of new Alliance members at UN Climate Action Summit
Powering Past Coal Alliance, 22 September 2019
Inside view: How to be an effective steward of assets
Funds Europe Magazine, 25 September 2019

NETWORKS AND EVENTS

ClientEarth 'Climate Change and the Law' Seminar - This event explored how to use the existing legal framework to better encourage companies to report both on their climate change impacts and on how they will be affected by climate change.

LAPFF attended the launch of the FAIRR Protein Producer Index. The Index benchmarks the largest global meat, dairy and aquaculture producers using environmental, social and governance risk factors in line with the Sustainable Development Goals.

The processing of 70 billion animals for human consumption annually is responsible for 14% of the world's greenhouse gas emissions.
Jeremy Coller - Coller FAIRR Protein Producer Index

COMPANY PROGRESS REPORT

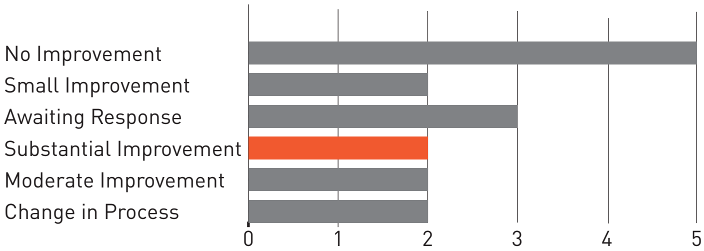
108 Company engagements over the quarter including the following meetings, voting alert submissions and filing of shareholder resolutions

Company	Activity	Topic	Outcome
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BAE SYSTEMS PLC	Meeting	Human Rights	No Improvement
CENTRICA PLC	Meeting	Climate Change	Substantial Improvement
GENERAL MOTORS COMPANY	Meeting	Environmental Risk	Small improvement
GLENCORE PLC	Meeting	Audit Practices	Small Improvement
NATIONAL GRID PLC	AGM	Climate Change	Substantial Improvement
PETROBRAS-PETROLEO BRASILIERO	Meeting	Reputational Risk	Moderate Improvement
RYANAIR HOLDINGS PLC	Alert Issued	Governance (General)	
SOUTHERN COMPANY	Meeting	Climate Change	Change in Process
SPORTS DIRECT INTERNATIONAL PLC	Alert Issued	Governance (General)	
WALT DISNEY	Resolution filed	Climate Change	Dialogue

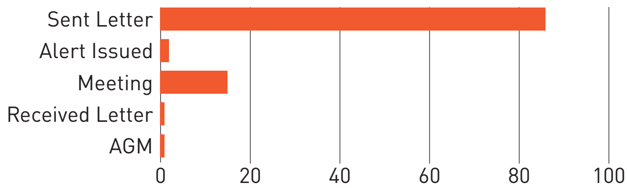
SUBSTANTIAL IMPROVEMENTS: Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. **National Grid** is joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company.

ENGAGEMENT DATA

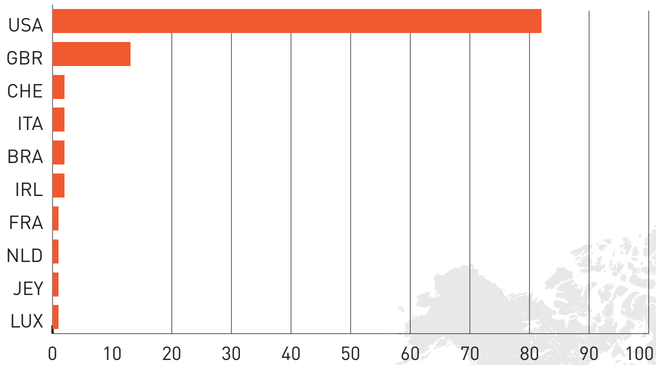
MEETING ENGAGEMENT OUTCOMES



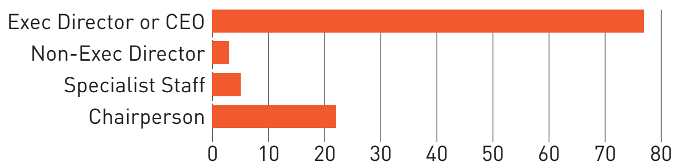
ACTIVITY



COMPANY DOMICILES



POSITIONS ENGAGED



ENGAGEMENT RE YEMEN

The reputational damage facing local authority funds as a result of holding Aerospace and Defence companies has been outlined.

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Border to Coast Pensions Partnership
Brunel Pensions Partnership
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Islington Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
LGPS Central
Lincolnshire Pension Fund
London CIV
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northern LGPS
Northamptonshire Pension Fund
Northumberland Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Wales Pension Partnership
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund•
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

LB Hackney Pension Fund - Breaches Register 2019-20

Quarte	Dat	Category (e.g. administration, contributions, funding, investment, criminal activity)	Employer / Org	Description of breach	Cause of breach	Possible effect of breach and wider implications	Reaction of relevar parties to breach	Traffic Light Syster	Reported / Not reported (with justification if not reported a dates)	Outcome of report and/or investigations	Outstanding actions
Q2	Jul-19	Contributions	Brook House Sixth Form College	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late on 20/08/19. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward
Q2	Aug-19	Contributions	Hackney Learning Trust	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late on 20/08/19. First offence, issued with a warning. No levy raised.	Monitor going forward
Q2	Aug-19	Contributions	Lubavitch Multi Academy Trust	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late on 20/08/19. First offence, issued with a warning. No levy raised.	Monitor going forward
Q2	Sep-19	Contributions	Hackney (LBH)	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward
Q2	Sep-19	Contributions	De Beauvoir Primary School	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. New payroll provider from Sept 2019. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward
Q2	Sep-19	Contributions	Gainsborough Primary School	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. New payroll provider from Sept 2019. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward
Q2	Sep-19	Contributions	Morningside Primary School	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. New payroll provider from Sept 2019. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward
Q2	Sep-19	Contributions	St John the Baptist Primary School	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. New payroll provider from Sept 2019. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward
Q2	Sep-19	Contributions	St Matthias Primary School	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. New payroll provider from Sept 2019. First offence for the year, an email has been sent to the employer reminding them of the deadlines. No levy raised.	Monitor going forward

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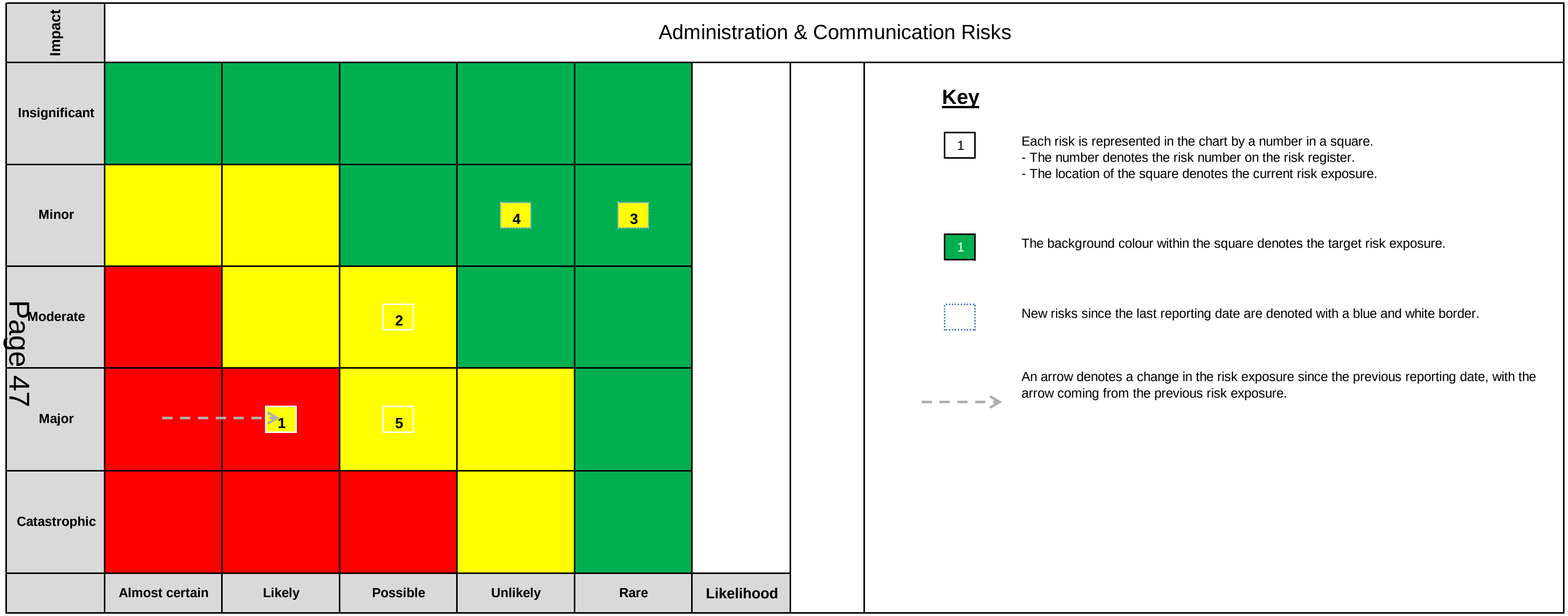
Administration and Communication Risks Heat Map and Summary



07 November 2019

<u>Hackney Pension Fund - Control Risk Register</u>

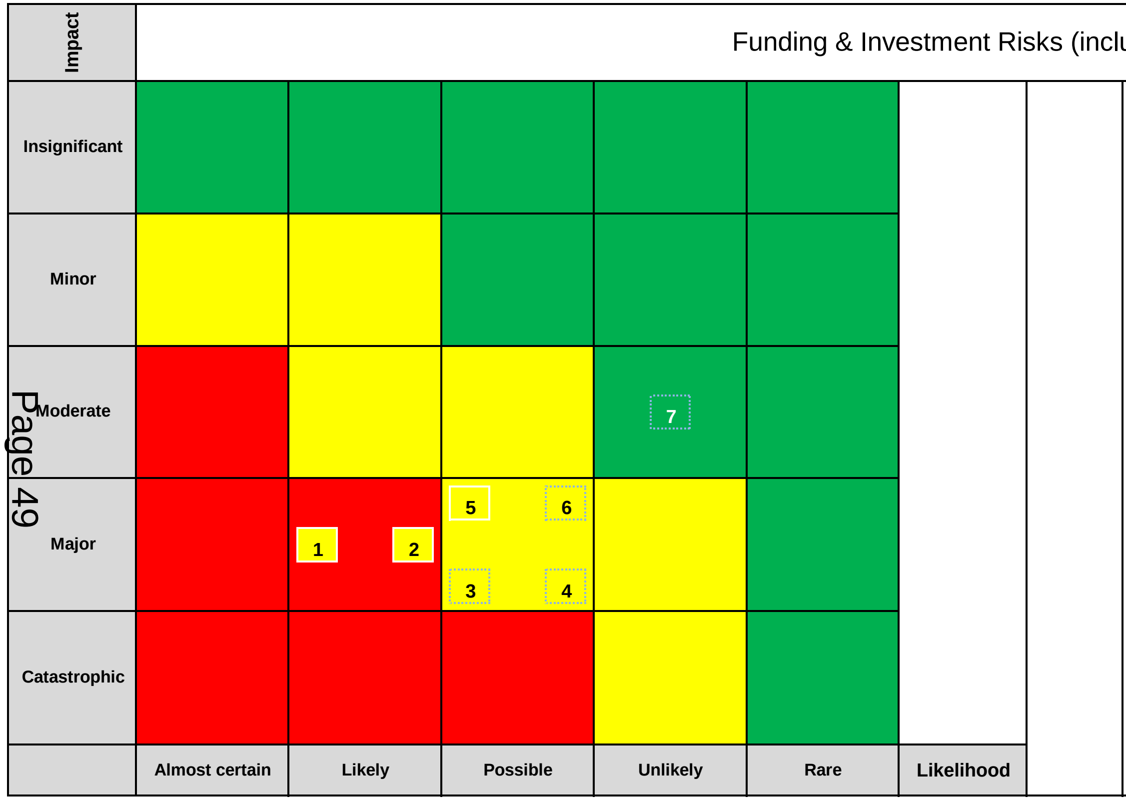
Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Deliver an efficient, quality and value for money service to its scheme employers and scheme members
A2 Ensure payment of accurate benefits and collect the correct contributions from the right people in a timely manner
A3 Ensure the Fund's employers are aware of and understand their role and responsibilities under the LGPS regulations and in the delivery of the administration function
A4 Maintain accurate records and communicate all information and data accurately, and in a timely and secure manner
A5 Set out clear roles and responsibilities for the Council and Equiniti and work together to provide a seamless service to Scheme employers and scheme members
C1 Promote the scheme as a valuable benefit and provide sufficient and up to date information so members can make informed decisions about their benefits
C2 Communicate in a plain language style
C3 Ensure the Fund use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications including greater use of technology
C5 Evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Poor Membership Data	Poor administration and/or provision of data result in inaccurate data giving rise to financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment of benefits etc.	A4	Major	Likely		1 - annual monitoring of membership records, valuation checks, external data validations 2 - Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied 3 - Service Level Agreement with external administrator and monthly monitoring of contract. Monitoring of employers and Pensions Administration Strategy which enables Fund to recoup additional administration costs for sub-standard performance. 4 - Provision of employer support to ensure employers have the knowledge and understanding necessary to provide correct information	Moderate	Possible		😐 Current impact 1 too high Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Prioritise completion of development work on interface (RC) 2 - Roll out employer portal to all employers (JS) 3 - Develop and roll out data improvement plan (JS/RC) - DONE 4 - liaise with Hackney payroll team to roll out new contribution monitoring report (RC) 5 - Ensure equiniti roll out employer strategy in line with contract (JS)	Julie Stacey/Rachel Cowburn	31/12/2019	30/09/2019
2	Poor Stakeholder Engagement	Poor communication with stakeholders (e.g. member communications late or incomplete, poor explanation of scheme) giving rise to disaffection, poor understanding amongst members and employers and actions against Council	A3, C1-5	Moderate	Possible		1 - Range of communication options for members and employers 2 - Provision of employer support to new or struggling employers	Moderate	Unlikely		😐 Current likelihood 1 too high	01/12/2018	Dec 2019	'1 - Roll out member self service (JS) 2 - Roll out employer portal (JS) 3 - Carry out scheme member satisfaction surveys (JS)	Julie Stacey	31/12/2019	30/09/2019
3	Pension Overpayments - increased costs through failure to cease pension payments	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	A2	Minor	Rare		1 - Management of NFI matches and follow up. NFI exercises to identify checks 2 - Write to pensioners each year over age 80 and overseas seeking confirmation of ongoing pension entitlement.	Minor	Rare		☺			1 - Existence checks to be carried out (JS)	Julie Stacey	31/12/2019	30/09/2019
4	Discretionary Policies - insufficiently robust policies expose Fund to higher costs	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Excessively generous or insufficiently robust policies of the Pension Fund and employers exposed to higher costs and reputational risks.	A2, A3	Minor	Unlikely		1 - Controls – Agreed policies and procedures to control such risks, which are regularly reviewed and approved by Pensions Committee. 2 - Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	Minor	Unlikely		☺				Julie Stacey	31/12/2019	30/09/2019
5	Poor delivery of administration service	Risk that third party administrator does not deliver in accordance with contractual requirements	A1-5	Major	Possible		1 - Strict service standards and SLAs in place 2 - Appointment through robust procurement exercise 3 - Expert contract management team in place 4 - Regular monitoring of KPIs 5 - Regular service review meetings	Major	Unlikely		😐 Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Ensure contract requirement are met 2 - Early identification and escalation of issues	Julie Stacey	31/12/2019	30/09/2019

Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



Key

Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

07 November 2019

Hackney Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement and Investment Strategy Statement:

F1 To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
F2 To ensure that employer contribution rates are reasonably stable where appropriate
F3 To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers)
F4 To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years
F5 To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations
I1 Have a strategic asset allocation benchmark for the Fund that has the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Asset risk - failure to meet objectives through poor asset performance	Asset risks include the following: Concentration - over allocation to a single asset class Illiquidity - insufficient liquid assets Currency risk – underperformance of asset currency ESG Risk – ESG related factors reduce the Fund's ability to generate long-term returns. Manager Underperformance	I1	Major	Likely		1 - Investment in a diversified range of asset classes 2 - Regular cash flow monitoring 3 - Currency hedging policy 4 - ESG and climate risk policy in place 5 - Multiple managers & performance monitoring	Major	Possible		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Complete planned investment strategy changes and associated transitions (RC) 2 - Align cash flow monitoring to business objectives (RC)	Rachel Cowburn	31/03/2020	30/09/2019
2	Funding risk - growth rate of liabilities outstrips that of assets	Funding Risks include: Inflation risk - Price and pay inflation more than anticipated Changing demographics –longevity improvements . Systemic risk - interlinked and simultaneous failure of several asset classes	F1	Major	Likely		1 -Monitoring of asset allocation and investment returns 2 - Some investment in bonds assists in liability matching 3 - Stabilisation modelling at whole Fund level allows for the probability that risk free returns on govt bonds will fall 4 - Assessment of liabilities at the triennial valuation and the roll-forward of liabilities between valuations	Moderate	Likely		Current impact 1 too high	01/12/2018	Dec 2020	1 - Reassess liabilities and requirement for matching assets at triennial valuation (RC)	Rachel Cowburn	31/03/2020	30/09/2019
3	Other provider risk - loss of value resulting from external providers	Other provider risks include: Transition risk - unexpected costs in relation to the transition of assets Custody risk - losing economic rights to Fund assets Credit default - default of a counterparty	I1	Major	Possible		1 - Regular scrutiny of providers 2 - Monitoring and management (may be delegated to investment managers in certain situations e.g. custody risk in relation to pooled funds). 3 - Seek appropriate advice where necessary (e.g. during a significant transition) 4 - The Pensions Committee has the power to replace a provider should serious concerns exist.	Major	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Transition planning for upcoming transitions (increased risk as increased movement of assets/appointment pof new providers) (RC)	Rachel Cowburn	31/03/2020	30/09/2019
4	Asset pooling risk - pooling prevents the Fund achieving its objectives	Asset pooling risks include: Transition risk – excessive additional cost through transition to the pooled arrangement. Concentration and capacity risks – excessive concentration of assets amongst relatively few large institutions. Political risk – central Government's infrastructure aspirations present conflict of interest for the Fund in setting its asset allocation strategy. Reputational risks – failure of a pooled arrangement could have significant consequences for the LGPS. Strategy risk – the Fund's chosen asset pool does not deliver suitable investment strategies to allow the fund to meet its objectives	I1	Major	Possible		1 - 'Monitor devlopment/respond to consultatuons - Monitor proposed changes, consultations and guidance from Government on the pooling agenda, responding where appropriate to influence outcomes. Amend process where required to ensure compliance. 2 - Relationship Management - Maintain good working relationship to ensure that the Fund is fully aware of developments at the pool level and the pool is aware of and responds to the Fund's strategic requirements. 3 - Transition Planning - Planning for transition considered as part of Investment Strategy development to ensure assets are transitioned efficiently and within the required timeframes. 4 - Pensions Committee Chair and S151 officer members of Shareholder Committee	Major	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Transition planning for upcoming transitions (increased risk as increased movement of assets/appointment pof new providers) (RC) 2 - Ensure more frequent formal catch up with senior LCIV staff (IW/MH/RC) 3 - Ensure LCIV aware of Hackney business plan to understand timing requirements (IW/MH/RC)	Rachel Cowburn	31/03/2020	30/09/2019
5	ESG Risk - ESG factors negatively impact Fund performance	ESG risk is the risk that financially material ESG factors have a negative impact on the Fund's performance. ESG factors include (but are not limited to) carbon risk, which is the risk that the implementation of COP21 political commitments dramatically reduces the proportion of fossil fuel reserves that can be used, with a subsequent impact on the business models and valuations of fossil fuel companies.	I1	Major	Possible		1 - Monitoring and management of the Fund's exposure to fossil fuel reserves and power generation to assess level of risk. Initial assessment carried out in July 2016. 2 - Inclusion of a policy statement setting out the Fund's approach to climate risk within the Investment Strategy Statement 3 - Active engagement with managers to understand sources of ESG risk	Major	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Ongoing devlopment of monitoring of fossil fuel risk (formal review of target summer 2019) 2 - Liaise with managers and LCIV to improve wider ESG risk reporting	Rachel Cowburn	31/12/2019	30/09/2019
6	External Factor/Regulatory Risk	The risk that external (e.g. geopolitical) factors or the introduction of new regulation requires major changes to the operation of the Fund	I1, F1	Major	Possible		1 - Asset liability modelling to ensure the Fund's Investment Strategy helps the Fund meets its objectives under a range of economic conditions 2 - Horizon scanning to ensure awareness of potential future risks and prepare	Moderate	Possible		Current impact 1 too high	01/12/2018	Dec 2020	1 - Complete Investment strategy updates to improve fund resilience - re-review at triennial valuation	Rachel Cowburn	31/03/2020	30/09/2019
7	Employer Convenant/Affordability risks	Employer Convenant and Affordability risks include: Employer default Employer deficit on termination Highly variable/rapidly increasing employer contribution rates	F4	Moderate	Unlikely		1 - Valuation and inter-valuation monitoring 2 - Monitoring of contributions 3 - Employer covenant checks with use of bonds/guarantees where necessary 4 - Contribution rate stabilisation where appropriate	Moderate	Unlikely						Rachel Cowburn	31/03/2020	30/09/2019

All Fund Risk Heat Map and Summary of Governance Risks

07 November 2019

Hackney Pension Fund - Control Risk Register

Governance Risks

Objectives extracted from Governance Policy

G1 All staff, Pensions Committee and Pension Board Members charged with financial administration, decision-making or oversight with regards to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
G2 The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
G3 All relevant legislation is understood and complied with
G4 The Fund aims to be at the forefront of best practice for LGPS funds
G5 The Fund manages Conflicts of Interest appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Recruitment and Rention - Insufficient experienced staff to meet Fund objectives	Restrictions on local authority salaries make it challenging for the fund to recruit and retain suitably qualified and experienced staff.	G1, G3, G4	Moderate	Likely		1 - Salaries benchmarked, supplements paid where appropriate 2 - Policies and procedures in place 3 - Staff able to cover other roles where possible 4 - Develop robust succession planning approach	Moderate	Unlikely		Current likelihood 2 too high	01/12/2018	Jun 2020	1 - Develop succession planning approach (MH/RC/JS) 2 - Further development of training programme - increase focus on mid level staff (RC/JS)	Julie Stacey/Rachel Cowburn	31/12/2019	30/09/2019
2	Knowledge and Skills - insufficient knowledge and skills amongst those charged with Fund Mangement	Failure to provide to suitable training and to ensure that all Committee Members are able to attend with sufficient regularity could result in the Fund failing to meet its objectives as a result of insufficient knowledgre and skills amonst those charged with its management	G1, G3, G4	Moderate	Possible		1 - Improvements being made to both induction and ongoing training 2 - Regular review of training offered and its effectiveness 3 - Knowledge and Skills Policy/training plan in place	Moderate	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Review of training programme and requirements underway (MH/RC)	Rachel Cowburn	31/12/2019	30/06/2019
3	Conflicts of Interest - actual conflicts of interet permitted to materialise	Failure to adequately monitor and disclose conflicts of interest results in potential conflicts not being managed	G5	Insignificant	Unlikely		1 - Conflicts of interest policy and register maintained 2 - Standing item requesting disclosure at all Committee/Board meetings 3 - Annual update to declarations required	Insignificant	Unlikely						Rachel Cowburn	31/03/2020	30/09/2019
4	Internal Fraud - financial loss resulting from actions of employee	Pensions team involved with the management of significant financial resources - potential for internal fraud	G4	Moderate	Unlikely		1 - Segregation of duties for key roles 2 - Regular scrutiny from internal audit 3 - Annual external audit of the Pension Fund	Moderate	Unlikely						Rachel Cowburn	31/03/2020	30/09/2019
5	Data Protection - failure to adequately protect member details	Non-compliance with the GDPR results in a failure to adequately protect member details, with a potential financial impact on members	G4	Moderate	Possible		1 - Compliance with the Council's ICT policy 2 - Use of encrypted email for sensitive data 3 - Use of confidential waste disposal 4 - Use of secure courier to transmit sensitive hard copy files 5 - Appropriate access control measures 5 - Redaction of personal information where required 6 - Tailored training to be provided to Financial Services staff, Pensions Committee and Pension Board Members Contracts with third party suppliers acting as joint data processors must ensure that: 1 - Third parties are GDPR compliant 2 - Secure methods of transfer for sensitive data transmission/storage built into contract 3 - Appropriate risk sharing between the Council and the third party supplier is in place.	Moderate	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Ensure all pensions team staff fully trained on GDPR 2 - Ensure TLS links in place with third party suppliers where possible - DONE 3 - Roll out employer portal to ensure more user friendly secure data transmission 4 - explore further secure email options as current offer not user friendly - DONE	Julie Stacey/Rachel Cowburn	31/12/2019	30/06/2019
6	Reliance on external systems - potential for system failure or cybercrime	Heavy reliance on external systems includinge following systems: Cedar (accounting), HSBCnet (custodian), LloydsLink, Compendia could result in a) failure to take appropriate action in gthe event of system failure b) insufficient protection against cybercrime	G4	Moderate	Possible		1 - All teams complete a Business Impact Analysis to assess timescales/impact of system failure etc. 2 - The Pension Investments and Pensions Administration Business Continuity Plans detail actions to take in the event of system failure	Moderate	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Internal training required on cybercrime risk - DONE 2 - Understand Council's aproach to cybercrime prevention 3 - Receive written assurances from all suppliers re: management of cybercrime 4 - Develop written cybercrime policy statement	Julie Stacey/Rachel Cowburn	31/12/2019	30/06/2019

Appendix 6 - Pension Fund Budget Monitoring Qtr 2 2019/20

Pension Fund Budget & Forecast 2019-20	Budget £000	YTD I&E £000	Budget to Date £000	Variance to Date £000	Other Planned Exp £000	FY Forecast £000	FY Variance £000	FY Variance %	Explanation of variance
Members Income									
Employers Contributions	(61,169)	(15,791)	(30,585)	(14,794)	(47,372)	(63,162)	(1,993)	3%	Within tolerance
Employees Contributions	(12,882)	(3,324)	(6,441)	(3,117)	(9,973)	(13,297)	(415)	3%	Within tolerance
Transfers In	(8,841)	(1,534)	(4,421)	(2,887)	(4,601)	(6,134)	2,707	-31%	Cannot be reliably estimated - dependent on member decisions
	(82,892)	**(20,648)**	**(41,446)**	**(20,798)**	**(61,945)**	**(82,594)**	**298**		
Members Expenditure									
Pensions	45,849	17,079	22,924	5,845	30,259	47,338	1,489	3%	Within tolerance
Lump Sum Commutations & Death Grants	11,692	4,123	5,846	1,723	8,247	12,370	678	6%	Within tolerance - dependent on member decisions
Transfers Out	4,224	2,200	2,112	(88)	4,400	6,599	2,375	56%	Cannot be reliably estimated - dependent on member decisions
Refund of Contributions	194	66	97	31	133	199	5	3%	Cannot be reliably estimated - dependent on member decisions
	61,959	**23,469**	**30,979**	**7,510**	**43,038**	**66,507**	**4,548**		
Net (additions)/withdrawals from dealings with members	**(20,934)**	**2,820**	**(10,467)**	**(13,287)**	**(18,908)**	**(16,087)**	**4,847**		
Management Expenses									
Administrative Costs	779	489	390	(99)	290	779	0	0%	Forecast estimated based on prior year actuals plus estimates for specific projects (e.g.GMP rectification) - no current evidence for
Investment Management Expenses	6,578	27	3,289	3,262	6,551	6,578	0	0%	Forecast based on prior year actual given difficulty of producing a reliable estimate - insufficient evidence to change
Oversight & Governance Costs	887	339	444	104	900	900	13	1%	Within tolerance
	8,244	**854**	**4,122**	**3,268**	**7,742**	**8,257**	**13**	**0**	
Net (surplus)/deficit from operations	**(12,690)**	**3,675**	**(6,345)**	**(10,020)**	**(11,166)**	**(7,830)**	**4,860**		
Investment Income									
Investment Income	(12,316)	(1,452)	(6,158)	(4,706)	(10,864)	(12,316)	0	0	Awaiting information. Forecast based on prior year actuals - currently insufficient information to change estimate
Net Investment Income/Expenditure	**(12,316)**	**(12,316)**	**(12,316)**	**(12,316)**	**(12,316)**	**(12,316)**	**(12,316)**		
Cash flow before Investment Performance	**(25,006)**	**(8,641)**	**(18,661)**	**(22,336)**	**(23,482)**	**(20,146)**	**(7,456)**		

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Conflicts of Interest Policy **Pensions Committee** **18th December 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. INTRODUCTION ¶

1.1 This report provides the Pensions Committee with an update to the Fund's Conflicts of Interest Policy. The report provides an overview of the changes made to the Policy since its last review by the Committee and recommends the updated Policy for approval.

2. RECOMMENDATIONS¶

2.1 The Pensions Committee is recommended to:

- Approve the draft updated Conflicts of Interest Policy

3. RELATED DECISIONS¶

3.1 Pensions Committee 26th March 2019 - Conflicts of Interest Policy

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

4.1 Proper management of conflicts of interest helps to reduce financial risk to the Pension Fund by promoting fair and transparent relationships with Fund stakeholders. Maintaining a Conflicts of Interest Policy provides a framework for the disclosure and management of potential conflicts and represents good practice; the costs of maintaining such a policy are not material.

4.2 There are no direct financial consequences arising as a result of this report

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES¶

5.1 Regulation 108 of the Local Government Pension Scheme Regulations requires administering authorities to satisfy themselves that none of the members of its Local Pension Board has a conflict of interest. This sets out a clear legislative requirement to manage conflicts of interest within the Pension Board; it is good practice for this approach to be extended to Pensions Committee Members and senior officers of the

Pension Fund.

5.2 Paragraph 1 of Pensions Committee's terms of reference states that the Committee's role is to consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, and the various pension legislation. Taking this into account, consideration of the Pension Fund Conflicts of Interest Policy would appear to sit within the remit of Pensions Committee.

6. CONFLICTS OF INTEREST POLICY

6.1 The Local Government Pension Scheme Regulations 2013 and the Pensions' Regulator's (TPR) Code of Practice set out that members of the Pensions Board should not have a conflict of interest in respect of their duties as members of the Board. In addition the TPR guidance provides for how such conflicts can be identified, monitored and managed. Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, he will use the code as a core reference document when deciding appropriate action.

6.2 Whilst the legal requirements around conflicts of interest relate specifically to members of the Pension Board, the attached draft Conflicts of Interest Policy (appendix 1 to this report) has been widened to include both the Pensions Committee and officers involved in the management of the Pension Fund. Whilst both Committee Members and officers are covered by other Council policies in respect of wider responsibilities, it is appropriate to consider conflicts of interest in relation to the Pension Fund in a single policy.

6.3 The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Pension Fund whether directly or in an advisory capacity. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions; the Policy sets out sets out some examples of how conflicts of interest might arise.

6.4 The Policy has been recently updated, with the last change being made in March 2019. It is being revisited now on the advice of the Fund's governance adviser, Aon, to ensure that the potential impacts of Asset Pooling are reflected in the Policy. Asset pooling raises the risk that conflicts of interest could arise for Councillors and Officers on pool governance bodies in the event that the interests of the wider pool and the Hackney Pension Fund diverge. It also raises a similar risk for advisers, who may advise both the Fund and the pool.

6.5 Other minor changes for clarity have also being made, including incorporating some appendices back into the main body of the document and setting out more clearly how the periodic review of conflicts of interests works in practice.

Group Director of Finance & Resources

Report Originating Officer: Rachel Cowburn (020 8356 2630)
Financial considerations: Michael Honeysett (020 8356 3332)

Legal comments: Sean Eratt (020 8356 6012)

Appendices
Appendix 1 - Draft Pension Fund Conflicts of Interest Policy

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London Borough of Hackney

Pension Fund

Conflicts of Interest Policy

Conflicts of Interest Policy

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an Elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interests of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the London Borough of Hackney Pension Fund, which is managed by the London Borough of Hackney Council. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the London Borough of Hackney Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, local Pensions Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that they do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

Aims and Objectives

In relation to the governance of the Fund, the Administering Authority's objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is open in all its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund is at the forefront of best practice for LGPS funds
- all Conflicts of Interest are managed appropriately

The identification and management of potential and actual conflicts of interest is therefore integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pensions Committee and the Pensions Board, including scheme member and employer representatives, whether voting members or not. It applies to all members of the Hackney Council Pension Fund Management Team and the Group Director, Finance and Corporate Resources (Section 151 Officer).

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Head of Pension Fund Investment will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he or she considers appropriate.

This Policy also applies to all advisers and suppliers to the Fund, whether advising the Pensions Board, Pensions Committee or Fund officers, in relation to their role in advising or supplying the Fund and including responsibilities representing the Fund on other committees, groups and bodies.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority and any other body on which they represent the Administering Authority, on any actual or potential conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

There are a number of overriding requirements relating to the management of potential or actual conflicts of interest for those involved in LGPS funds which are included in legislation or guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a local Pensions Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires local Pensions Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that local Pensions Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those Pensions Board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local Pensions Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to administering authorities and local Pensions Boards. The LGPS national scheme advisory board has issued guidance relating to the creation of local Pensions Boards including a section on conflicts of interest. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also adds a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for Pensions Board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pensions Board members are not being adhered to.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

The CIPFA governance principles guidance states "the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have." It includes some examples of how conflicts of interest could arise in these new roles. It highlights the need for Administering Authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities;
- ensure declarations are updated appropriately.

This Conflicts of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

The Localism Act 2011

Chapter 7 of this Act requires councillors to comply with the code of conduct of their local authority and that code of conduct must be consistent with the Seven Principles of Public Life (considered further below). In addition the Act requires that the code of conduct must include provisions requiring the disclosure and registration of pecuniary interests and interests other than pecuniary interests.

The Seven Principles of Public Life

Otherwise known as the 'Nolan Principles', the seven principles of public life apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service
- local government
- the police
- the courts and probation services
- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services.

Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership.

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Other Administering Authority Requirements

Pension Fund Committee Members

In addition to the requirements of this Policy, Pensions Committee members and co-opted members (including non-voting co-opted members) are required to adhere to the Hackney Council Members' Code of Conduct which, in Part 2, includes requirements in relation to the disclosure and management of pecuniary and other interests.

Local Pensions Board Members

In addition to the requirements of this Policy, Local Pensions Board members are required to adhere to Part 7 of the Terms of Reference of the Local Pensions Board. This includes the following requirements:

"Part 2 of Hackney Council's Code of Conduct for Members and Co-optees shall apply in relation to the management of conflicts of interest on the Pensions Board with the exception of the registration of pecuniary interests and how interests are to be disclosed which are detailed below.

Each member of the Pensions Board, or a person proposed to be appointed to the Board, (as well as attendees participating in the meeting) must provide the Assistant Director, Financial Management and the Assistant Director, Legal and Democratic Services with such information as he or she reasonably requires for the purposes of demonstrating that there is no conflict of interest.

The Assistant Director, Financial Management and Assistant Director, Legal and Democratic Services will jointly adopt the role of ensuring that the Chair and Vice Chair of the Pensions Board does not have a conflict of interest. Further they must be satisfied that the Chair is carrying out his or her responsibilities under this part appropriately."

Employees

In addition to the requirements of this Policy, officers of Hackney Council are required to adhere to the Hackney Council Code of Conduct for Employees which includes requirements in relation to aiming to avoid conflicts of interests and declaring them in writing should they occur.

Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to Hackney Council or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Hackney Council Pension Fund and on which advice is required or to a supplier or organisation providing services to the Hackney Council Pension Fund. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pensions Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Committee or Fund officers as long as there is no conflict of interest between the two roles.

The key advisers are all expected to have their own policies or protocols on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with Hackney Council.

What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS fund administered by Hackney Council, and
- at the same time, has:

- a separate personal interest (financial or otherwise) or
- another responsibility in relation to that matter, giving rise to a possible conflict with their first responsibility.

An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in Appendix 1.

Hackney Council encourages a culture of openness and transparency and encourages individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

Hackney Council will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Pension Fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

Provided that the Administering Authority (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, Hackney Council shall endeavour to avoid the need for an individual to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental it cannot be effectively managed, or where a Pensions Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

Responsibility

The Administering Authority for the London Borough of Hackney Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Head of Pension Fund Investment is the designated individual for ensuring the procedure outlined below is adhered to. For Pensions Board members, the Director, Financial Management and the Director of Legal and Governance Services must be satisfied that no conflict of interest exists and, accordingly, all information relating to Pensions Board members will be shared with the Head of Pension Fund Investment.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for officers, Pensions Committee members and Pensions Board members

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict.	On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2. The information contained in these declarations will be collated into the Pension Fund's Register of conflicts of interest in a format the same or similar to that included in Appendix 3.
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	At the commencement of any Pensions Committee, Pensions Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the meeting minutes and the Fund's Register of conflicts of interest. In addition, the latest version of the register will be made available by the Head of Pension Fund Investment to the Chairman of every meeting prior to that meeting if and when required. Any individual who considers that they or another individual has a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chairman and the Head of Pension Fund Investment prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Head of Pension Fund Investment, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. If such a conflict is identified outside of a meeting the notification must be made to the Head of Pension Fund Investment and where it relates to the business of any meeting, also to the Chairman of that meeting. The Head of Pension Fund Investment, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Head of Pension Fund Investment may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest and in the minutes of the meeting if raised during a meeting.

Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Head of Pension Fund Investment will provide to all individuals to whom this Policy applies a copy of their existing declaration for them to advise of any changes. All individuals must confirm that their information contained in the Register is correct or highlight any changes that need to be mad.

Conduct at Meetings

There may be occasions / circumstances when a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pensions Board or Pensions Committee meeting, and that this will be recorded in the minutes.

Operational procedure for advisers

Although this Policy applies to all of the key advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Head of Pension Fund Investment in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to Hackney Council as Administering Authority
- notify the Head of Pension Fund Investment immediately should a potential or actual conflict of interest arise
- highlight at all meetings should a potential or actual conflict of interest arise, preferably at the start of the meeting.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

Monitoring and Reporting

The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request to the Head of Pension Fund Investment.

In order to identify whether the objectives of this Policy are being met the administering authority will review the Register of conflicts of interest on an annual basis and consider whether there has been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

Key Risks

The key risks to the delivery of this Policy are outlined below all of which could result in an actual conflict of interest arising and not being properly managed. The Head of Financial Services will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

Costs

All costs related to the operation and implementation of this Policy will be met directly by London Borough of Hackney Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was last updated and approved at the London Borough of Hackney Pensions Committee meeting on 18th December 2019. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

London Borough of Hackney Pension Fund
Financial Services Department
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

Telephone: 020 8356 2745

Email: pensions@hackney.gov.uk

Appendix 1

Examples of Potential Conflicts of Interest

a) An elected member on the Pensions Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pensions Committee is on the board of a supplier that the Committee is considering appointing.

c) An officer of the Fund or member of the Pensions Committee accepts a dinner invitation from a supplier who has submitted a bid as part of a tender process.

d) An employer representative on the Local Pensions Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pensions Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pensions Board on the background to an item considered at the Pensions Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pensions Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Group Director, Finance & Corporate Resources, who has responsibility for the Council budget, is expected to approve the report to go to the Pensions Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Local Pensions Board or Pensions Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pensions Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pensions Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers or where they are also advisers to the London CIV.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pensions Committee or Local Pensions Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Committee or Local Pensions Board.

l) A Member of the Pensions Committee or officer of the Fund is on a London CIV Committee (e.g. Shareholders' Committee) and a matter is being considered that would benefit their originating Council or Pension Fund to a notably greater or lesser degree than other participating Councils or Funds

Appendix 2

Declaration of Interests relating to the management of the London Borough of Hackney Pension Fund administered by Hackney Council

I, [insert full name], am:

Tick as appropriate

- an officer involved in the management ☐
- a Pension Fund Committee Member ☐
- a Pensions Board Member ☐

of the London Borough of Hackney Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under the London Borough of Hackney Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue on a separate sheet if necessary):

1. Relating to me

a. Responsibilities relating to an employer in the pension fund

b. Membership of the LGPS

c. Other (see examples)

2. *Relating to family members or close colleagues*
    a. *Responsibilities relating to an employer in the pension fund*

    b. *Membership of the LGPS*

    c. *Other (see examples)*

Undertaking:

I declare that I understand my responsibilities under the London Borough of Hackney Pension Fund Conflicts of Interest Policy. I undertake to notify the Head of Financial Services of any changes in the information set out above.

Signed____

Date____

Name (CAPITAL LETTERS)______________________________

Position____

Appendix 3

London Borough of Hackney Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Hackney Council, the Administering Authority.

Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

[(1)] E.g. verbal declaration at meeting, written conflicts declaration, etc

[(2)] E.g. withdrawing from a decision making process, left meeting

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
GMP Reconciliation - Update and Urgency Delegation **Pensions Committee** **18th December 2019**	Classification **PUBLIC** Ward(s) affected **ALL**	Enclosures None **AGENDA ITEM NO.**

1. **INTRODUCTION**

1.1 This report provides the Pensions Committee with details of the Fund's GMP reconciliation (Guaranteed Minimum Pensions) exercise, which is being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension are properly accounted for. The report clarifies the next stages of the process and the decisions required to be made by the scheme to conclude this exercise.

2. **RECOMMENDATIONS**

2.1 The Pensions Committee is recommended to:

- Approve that all decisions in relation to the completion of this GMP exercise are delegated to the Group Director, Finance and Corporate Resources in conjunction with the Pensions Committee Chair
- Delegate authority to the Group Director, Finance and Corporate Resources to produce a more general Policy relating to the treatment of all over and underpayments (including GMP) relating to scheme members, to provide clarity over the preferred treatment in other situations

3. **RELATED DECISIONS**

- Pension Committee 10th September 2019 – GMP reconciliation exercise
- Pension Committee 20th March 2019 – GMP reconciliation exercise
- Pension Committee 21st March 2018 – GMP reconciliation exercise
- Pension Committee 29th March 2017 – GMP reconciliation exercise
- Pension Board 20th March 2017 – GMP Reconciliations
- Pension Board 26th January 2016 – GMP Reconciliations – Update and Training

4. **COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES**

4.1 This report sets out for the Pensions Committee the issues faced by the Fund as it tries to reconcile historical data for its scheme members for periods during which they were contracted out of the second state pension.

4.2 Whilst the cost of undertaking a GMP reconciliation exercise is significant, failure to undertake this work would result in the Fund being made responsible for the payment of any GMP liability that HMRC deems to be associated with it. Indications are that the differences between the Fund's administration data and HMRCs records are considerable, exposing the Fund to significant risk if no reconciliation exercise is undertaken.

4.3 The Pensions Committee is requested to approve that all decisions in relation to the completion of this exercise are delegated to the Group Director, Finance and Corporate Resources, and also agree that the Group Director be given delegated authority to approve a more general Policy relating to the treatment of all over and underpayments relating to scheme members, which will also provide clarity over the preferred treatment in other situations that may arise.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The reconciliation of GMP values is not a mandatory requirement under the Local Government Pension Scheme Regulations 2013. However, conducting a reconciliation exercise can help to reduce the risks to the Fund associated with unreconciled GMP liabilities, such as breaches of the Pensions Regulator's (TPR) code of practice regarding record keeping.

5.2 Paragraph 7 of Pensions Committee's Terms of Reference state that it is responsible for monitoring liabilities and undertaking any asset/liability and other relevant studies as required. The Committee is also responsible for monitoring the Pension Fund Budget.

5.3 As GMP reconciliation helps to properly measure and control the Fund's liabilities, consideration of such an exercise and its associated costs would appear to fall within the remit of Pensions Committee. The delegation of authority to officers by Council Committees is enabled by the Local Government Act 1972.

6. GMP RECONCILIATION - BACKGROUND

6.1 From 6th April 2016 the government introduced the new State Pension (nSP). This was designed to radically simplify pension provision, removing layers of complexity whilst ensuring security in retirement. Amongst the provisions removed was the Additional State Pension (AP), an earnings-related element of the old system. Members of defined benefit occupational schemes such as the LGPS were able to 'contract out' of this element, permitting both employee and employer to pay lower National Insurance contributions as a result. In exchange, schemes guaranteed to provide members with a pension at least as high as they would have received had they not been contracted out. This guaranteed amount is the GMP; it applies to all those who were contracted out between 6 April 1978 and 5 April 1997.

6.2 HMRC offered a service whereby schemes can check their GMP records against those held by HMRC and resolve any differences. However, HMRC withdrew the Scheme Reconciliation Service (SRS) at the end of October 2018 and no further support is offered for GMP queries. Pension schemes already undertaking a GMP reconciliation when the support service was withdrawn, can continue to have their GMP queries rectified. Where schemes have not undertaken a reconciliation of their contracted out liabilities, HMRC takes the stance that its own calculations are final; schemes will become responsible for any GMP liabilities which HMRC believe they hold.

6.3 The reconciliation of GMP values is not a mandatory requirement; however the Fund faces significant risks if its GMP liabilities are not reconciled. These include:

- Incorrect calculation of GMPs by HMRC, potentially increasing the fund's overall liabilities
- Assumed liability for GMPs if HMRC holds records for a fund that are not the fund's responsibility
- Unexpected increase in liabilities if the Fund does not hold records of all the liabilities it is responsible for
- Breach of The Pensions Regulator's (TPR) code of practice regarding record keeping
- Over and underpayment of pension benefits to individual scheme members
- Queries following HMRC notifications to scheme members in 2018
- Reputational issues

6.4 Officers have been working with the pension administrators, Equiniti, on a phased reconciliation project. The project is being undertaken by a specialist team within Equiniti's discontinuance department, and is separate from the main administration service provided to the Fund. It is run on a phased basis, with the scope and estimate costings being agreed for each phase prior to approval.

7. PHASE 3D - RECTIFICATION CASEWORK

7.1 This phase refers to the physical amendments needed to the administration system and the necessary corrections to those pension benefits already in payment. During earlier phases of this project, Equiniti have identified that there are significant discrepancies between the 2 sets of data (HMRC v Hackney Pension Fund), and a significant amount of work has been ongoing to determine the correct benefits and ensure all systems are updated.

7.2 As a result of resolving these discrepancies, it has been identified that some pension payments are incorrect – some higher than expected and some lower. This also means some pensioners and dependants have had their pensions overpaid or underpaid for a number of years. We have not yet received the details of how many pensioners and dependants are affected, or the impact on their pension payments, but we expect to receive a full report from Equiniti in early 2020.

7.3 It should be noted that these discrepancies, and cases of over/under payment, are something all pension schemes are having to manage, not just the LGPS.

8. DECISIONS FOR HACKNEY PENSION FUND

8.1 When the full results of this exercise are provided by Equiniti, the scheme will be required to make a number of decisions in relation to the treatment of the scheme members where their GMPs are incorrect, including the treatment of the pension payments. The decisions are complex due to legislation and case law.

8.2 The most sensitive area obviously relates to the pensions that need to be reduced and, in very simple terms, guidance provided to public service pension schemes has suggested that writing off all overpayments of pensions to date is preferable (where the error is GMP related), but ongoing pension payments should be reduced to the correct level. However the decisions about the treatment of these matters lies with the London Borough of Hackney, as the administering authority of the Fund.

8.3 This rectification exercise will need to be completed before the 1 April 2020 when pension increases are applied to benefits. This will avoid Equiniti having to redo their calculations, as well as reducing the risk of potentially incurring HMRC charges. However, given that the required information is still not available to consider these decisions, it will be too late to defer the decisions to the next Committee meeting in March 2020.

8.4 Therefore, the Pensions Committee are asked to approve that all decisions in relation to this part of the exercise are delegated to the Group Director, Finance and Corporate Resources in conjunction with the Pensions Committee Chair. Fund officers will work with Equiniti to develop a policy on the treatment of members with incorrect GMPs, which will be reviewed by the Group Director, Finance and Corporate Resources and the Pensions Committee Chair

8.5 It is also requested that the Group Director be given delegated authority to approve a more general Policy relating to the treatment of all over and underpayments relating to scheme members (not only relating to this GMP exercise), to also provide clarity over the preferred treatment in other situations. For example, this could include the wish to write off overpayments of pension immediately after the death of a pensioner or dependant.

8.6 Full updates will be provided to Pensions Committee at the next meeting in March 2020. The policy developed to assist with decision making on incorrect GMPs will be shared with the Committee as soon as possible. The Pensions Board will also be kept updated given the sensitivities around the treatment of over and underpayments of pension benefits.

Ian Williams
Group Director, Corporate Finance and Resources

Report Originating Officer: Julie Stacey 020-8356 3565
Financial considerations: Michael Honeysett 020-8356 3332
Comments of the Director of Legal, Sean Eratt, Lawyer, Legal Services 020-8356 6012

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
CMA Order - Investment Consultancy Objectives **Pensions Committee** **18th December 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. **INTRODUCTION ¶**

1.1 This report presents the Fund's first set of formal objectives for its investment consultant set under Remedy 7 of the Competition and Markets Authority's (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019. The report sets out the background for the order and recommends that the Committee reviews these objectives as part of the investment strategy review in spring 2020.

2. **RECOMMENDATIONS¶**

2.1 The Pensions Committee is recommended to:

- Note the agreed interim objectives for the Fund's investment consultant, Hymans Robertson
- Agree that these objectives will be formally reviewed as part of the Fund's investment strategy review in spring 2020

3. **RELATED DECISIONS¶**

3.1 N/A

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

4.1 The CMA Order is intended to help address competition issues within the investment consultancy and fiduciary management markets. Although the Fund does not currently make use of a fiduciary manager, it does use an investment consultant to fulfil its obligation under the LGPS (Management and Investment of Funds) Regulations 2016 to obtain proper advice.

4.2 The Fund could benefit from the CMA Order either directly, through clarifying and strengthening the requirements for its investment consultant, or indirectly via improved competition within the investment consultancy market and lower fees.

4.3 There are no immediate financial implications arising from this report

5. → COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES¶

5.1 LGPS administering authorities will be obliged to implement strategic objectives for investment consultants once revised statutory guidance from MHCLG is in place; this is not expected until 2020. However, guidance from the LGPS Scheme Advisory Board recommends that funds be aware that they may be subject to challenge under Part 7 of the CMA Order from 10th December; this report helps to demonstrate that the Fund has complied with its obligations by the 10th December deadline.

5.2 The Pensions Committee's Terms of Reference state that one of the Committee's functions is 'To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements'. Given this role in appointing and reviewing the Fund's investment consultant, the setting of objectives for the consultant would appear to properly fall within the Pensions Committee's remit.

6. → BACKGROUND TO THE REPORT

6.1 In September 2017, the Financial Conduct Authority (FCA) requested that the Competition and Markets Authority (CMA) carry out a market investigation of the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK. 2. The CMA published its report (Investment Consultants Market Investigation Final Report) on the matter in December 2018.

6.2 In the report, the CMA found that both the investment consultancy and fiduciary markets had features that restricted or distorted competition and that the CMA ought to take action to remedy, mitigate or prevent these issues. A draft order was issued in early 2019 with the final order being issued in June 2019. The Order places new obligations on service providers and pension schemes with regard to fiduciary management and investment consultancy Services.

6.3 There has been some uncertainty over the applicability of the order to the LGPS, given that an exemption was initially in place for public service schemes. Remedy 1 posed a particular problem, as it would potentially require funds to go out to full tender for fiduciary management services, even where these were provided by their asset pool; as such, it had the potential to undermine the asset pooling programme.

6.4 On 15th October 2019, the LGPS Scheme Advisory Board published an update on the CMA order stating that, following clarification from the DWP and MHCLG that Remedy 1 (obligation to tender Fiduciary Management service) would NOT apply to the LGPS but that amendments to MHCLG's Investment Strategy

Statement statutory guidance would implement remedy 7 (obligation to set strategic objectives for Investment Consultants).

6.5 The requirements of remedy 7 are set out in Part 7 of the Order which comes into force from 10th December 2019. These state that unless LGPS authorities set strategic objectives for their investment consultants they must not "*enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider*."

6.6 LGPS authorities will be obliged to implement strategic objectives once the revised statutory guidance is in force. However as guidance is not planned to be published prior to the appeal to the Supreme Court by the Palestinian Solidarity Campaign, the Scheme Advisory Board recommends that funds should be aware that they may be subject to challenge under Part 7 of the Order from 10th December and it may therefore be prudent to set objectives to meet that date.

6.7 Officers of the Fund have worked together with Hymans Robertson to develop an interim set of objectives, which were circulated to the Committee by email and agreed by 10th December. The objectives are set out at Appendix 1 to this report. The Committee will formally review these objectives as part of its investment strategy review in Spring 2020 to ensure that they are fully aligned with the updated investment objectives for the Fund.

Group Director of Finance & Resources

Report Originating Officer: Rachel Cowburn (020 8356 2630)
Financial considerations: Michael Honeysett (020 8356 3332)
Legal comments: Sean Eratt (020 8356 6012)

Appendices

Appendix 1 - Interim Investment Consultant Objectives

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CMA objectives for best practice investment governance

Scope of paper

This note is addressed to the Officers and Pension Committee of the London Borough of Hackney Pension Fund ("the Fund").

In December 2018, the Competition and Markets Authority ("CMA") published its report following a review of the investment consulting and fiduciary management markets.

The Competition and Markets Authority's Order issued in June 2019 sets out requirements for pension scheme trustees to establish (measurable) objectives for their investment consultants, which should be underpinned by trustees' longer term vision and objectives. We are awaiting further details from the Ministry for Housing, Communities and Local Government ("MHCLG") on how the CMA's requirements will be translated into LGPS regulations.

We are supportive of the new requirements, and believe that setting objectives linked to the Fund's longer term objectives, represents best practice in terms of overall pension scheme governance.

The CMA requirements stipulate that committees should set objectives for their investment consultants prior to appointment, or by 10 December 2019.

The purpose of this note is to propose some potential objectives for you to set us in our capacity as investment consultants to the Fund. We have prepared a separate guide setting out the requirements and considerations for setting objectives in more detail.

Basis of proposed wording

We have based the proposed objectives set out in this paper on the Fund's implied objectives reflecting your current approach.

Next steps

- Consider the proposed objectives to set us in our capacity as investment consultants and share any comments and feedback on these;
- Establish a final set of objectives by no later than 10 December 2019.

In the following section we have considered your long term vision and strategic objectives as implied from the current investment approach, and set out objectives against which you may wish to assess Hymans Robertson for discussion.

In addition to the above, we have included some objectives relating to our overall service delivery.

We look forward to discussing the content of this paper with you at your forthcoming meeting.

Prepared by:-
Andrew Johnston, Partner
Anna Hawkins, Investment Consultant
Rahul Sudan, Investment Analyst

For and on behalf of Hymans Robertson LLP

<table>
<tr><th>Your requirements</th><th>Our objectives</th></tr>
<tr><td>Ensure members' benefits are met as they fall due.</td><td rowspan="3">Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding

Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment</td></tr>
<tr><td>Support a long term funding approach that is consistent with a stable and affordable contribution approach from the employers.</td></tr>
<tr><td>Support a long term funding aim to be fully funded by 2031 on an ongoing basis of 1.65% over gilts and to continue maintaining this funding level going forward.</td></tr>
<tr><td>Ensure the Fund's approach is aligned with the objectives of pooling and associated guidance</td><td rowspan="2">Advise on the cost efficient implementation of the Fund's investment strategy as required, including advice on the use of suitable benachmarks, active or passive management, and taking into account the evolution of the London CIV.

Provide advice on the suitability of investment mangers and regular reporting to allow the Commitee to monitor the success of the investment strategy</td></tr>
<tr><td>Ensure cost efficient implementation of the Fund's investment strategy</td></tr>
<tr><td>Ensure the Fund's approach reflects relevant regulatory and legislative requirements</td><td rowspan="2">Ensure our advice complies with relevant pensions regulations, legislation and supporting guidance, and is consistent with the Committee's policies and beliefs

Develop the Committee's policies and beliefs, including those in relation to Responsible Investment.

Advise on suitable investment options to reduce fossil fuel exposure in the portfolio</td></tr>
<tr><td>Develop the Committee's Responsible Investment policy and ensure this is reflected in ongoing governance and decision making processes

Reduce the Fund's exposure to fossil fuels by 50% over six years to July 2022</td></tr>
<tr><td>Ensure the Fund's investment objectives are supported by an effective governance framework</td><td>Provide relevant and timely advice

Develop knowledge and understanding of investment matters

Our services to support your ongoing governance shall be proportionate and competitive in terms of costs relative to our peer group</td></tr>
</table>

Pensions Committee Agendas – Forward Plan

Special Meeting – Carbon Risk (January/February 2020)

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Trucost carbon risk audit (incl. presentation by Trucost)
5. Presentation – Carbon Tracker
6. Next Steps

March 2020

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – Infrastructure
5. Infrastructure – Strategic allocation
6. Quarterly Update
7. Actuarial Valuation – Final report sign off
8. Investment Strategy Statement Review
9. Pension Administration Strategy - update
10. Pension Fund Business Plan
11. AVC – investment Review
12. Communications Strategy - update

June 2020

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – TBC
5. Investment Strategy Review – final sign off
6. Quarterly Update
7. Administration audit
8. Pension Fund Administration – Annual Report
9. Pension Fund Budget – 2020/21
10. London CIV Update

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