PENSIONS COMMITTEE

Wednesday, 24th June, 2020 at 6.30 pm

Until further notice, these meetings will be held remotely
https://youtu.be/5lcfrgC8CTs

Membership

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:
Rabiya Khatun
Governance Services
Tel: 020 8356 6279
Email: Rabiya.khatun@hackney.gov.uk

Future Meetings
18/10/20
14/01/21
15/03/21

Quorum: 2 Elected Members

Hackney

The press and public are welcome to attend this meeting

AGENDA
Wednesday, 24th June, 2020

ORDER OF BUSINESS

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2	**Declarations of Interest - Members to declare as appropriate**	
3	**Consideration of The Minutes of The Previous Meeting**	1 - 6
4	**Exclusion of The Press And Public** Proposed resolution: THAT the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt items 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. **Wards Affected** / **Contact Officer** ☎	
5	**Covid 19 Impact Update**	7 - 10
6	**Investment Strategy Review Timetable and ISS update**	11 - 30
7	**Quarterly Update - supplementary paper (to follow)**	
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ACCESS AND INFORMATION

Location

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

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

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

Facilities

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

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

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

Copies of the Agenda

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

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

Council & Democracy- www.hackney.gov.uk

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

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

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

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

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

Further Information

Advice can be obtained from Dawn Carter-McDonald, Interim Director of Legal and Governance Services on 020 8356 6234 or email dawn.carter-mcdonald@hackney.gov.uk

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Hackney

MINUTES OF A SPECIAL PENSIONS COMMITTEE

MONDAY, 17TH FEBRUARY, 2020

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Michael Desmond (Vice-Chair), Cllr Kam Adams, Cllr Ben Hayhurst, Cllr Polly Billington and Cllr Rebecca Rennison**
Co- Optees:	**Henry Colthurst**
Officers in Attendance:	**Ian Williams, Group Director, Finance and Corporate Resources, Michael Honeysett, Director Financial Management, Sean Eratt, Legal Services, Rachel Cowburn, Head of Pension Fund Investment**
Also in Attendance:	**Tess Merrett, Governance Services**

2 Apologies For Absence

2 Declarations of Interest - Members to declare as appropriate

There were no declarations of interest.

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

There was no urgent business.

4 Carbon Risk Audit 2019 - Interim Results

Ian Williams introduced the report and highlighted the work which had taken place over the last three years in respect of reducing the Fund's carbon footprint.

Councillor Chapman thanked everyone for the excellent progress made against the hard target which the Committee had set itself for reducing the Fund's exposure to future CO_2 emissions by 50% by 2022. The progress made meant that the Fund was ahead of target.

Neil McIndoe from TruCost gave a brief overview of the position for Pension Funds in respect of reporting on climate change which had changed in the last 3 years. There had been considerable activity by the Bank of England and the Financial Conduct Authority in relation to this and The Taskforce on Climate Related Financial Disclosures (TCFD) had put requirements in place for banks, Pension Funds and Asset Manager to report on climate change.

Nikol Ioannou from TruCost gave a presentation of the Portfolio Footprint. The presentation covered a variety of metrics covering historical performance

- carbon footprint metrics
- carbon disclosure metrics
- fossil fuel and stranded assets exposure metrics

The presentation then went on to consider forward looking metrics and scenario analysis specifically in respect of

- 2 degree alignment: energy transition

Nikol Ioannou highlighted the improved position within the Hackney Pension Fund portfolio from 2016 to 2019. 60% of the target to reduce exposure to future CO2 emissions by 50% by 2022 had already been achieved so the Fund was on track to achieve its overall target of a 50% reduction in exposure to reserves over 6 years.

Looking forward, the Fund would need to make positive decisions around renewable energy generation and green revenues to improve its alignment with the Intergovernmental Panel on Climate Change's (IPCC) Special Report on Global Warming of 1.5 degree C.

Councillor Hayhurst asked how Hackney's target of a 50% reduction in carbon emissions by 2022 benchmarked with other boroughs.

Rachel Cowburn said that Hackney was one of the first authorities to undertake an analysis and report on it. However, TruCost had benchmarked Hackney's Fund Portfolio against the Mediterranean-Climate Regions (MCRs) world common benchmark used by investors. The Fund had significant exposure in the UK but the gap between the MCRs and the global portfolio had narrowed in the years 2016-2019. The Hackney Investment Strategy was not unusual with other Funds' strategies and UK exposure. However, Hackney's Fund had reduced its exposure from 25% to 10%.

There was likely to be a bigger move towards the TCFD's recommendations and more focus on real world emissions. An update could be brought back to Committee in the future.

Councillor Billington said that as there had been significant change across the world in respect of climate change, could the Hackney Fund's target be revised?

Councillor Chapman said that it would be possible but the policy would need to be revised first and this evening's meeting was to measure the progress against what we set out to achieve.

Councillor Billington said it was important to review passive and active investments.

Rachel Cowburn said that Scope 1 and Scope 2 disclosures were improving however Scope 3 disclosure relating to products was more challenging. Exposure to reserves focussed on fossil fuel extraction. TCFD looked at real world emissions so it was asking companies what they were doing to reduce carbon footprint and there was an increased use of this approach.

Neil McIndoe said that it would become easier in the future as more metrics were used. There were also more regulations emerging which would help in establishing commonality.

Councillor Chapman asked for an update on metrics and what had changed to be brought to a future Committee meeting. This could assist with a review of Hackney's investment strategy.

The Committee thanked TruCost for their presentation.

Sriya Sundaresan from Carbon Tracker gave a presentation.

Henry Colthurst said that in respect of the coal stations in China used to produce power, these had to be receiving government subsidy and did we have details on that. Sriya Sundarsan said that it was very difficult to get the Chinese data so data from satellites had been used therefore subsidy information was based on assumptions. Henry Colthurst commented that there could be huge redundant coal assets in the future as renewable energy sources were now cheaper to produce.

Councillor Hayhurst asked what advice Carbon Tracker would give to Hackney. Sriya Sundarsesan said it would be advisable to desist from investment in coal. However, coal producers did not just provide for power stations.

Councillor Billington asked how the Council as investors could help decision makers address a way of managing stranded risk?

Sryia Sundarsesan said that as the Council had an investor and policy making role, it was most important to have data transparency and the fact that Hackney had hired third parties to help with this was forward thinking.

The Council as policy makers should use solid, financial, publically available data to make an economic case for divesting.

Councillor Desmond asked if Carbon Tracker had looked at the Airline Industry? Sryia Sundarsesan said they had not.

Councillor Rennison asked about the interplay between investors and the transition away from fossil fuels.

Sryia Sundarsesan said that peer pressure played a role in divesting and making an argument for an orderly exit from such investments.

Councillor Chapman said that it was important to look at the positive impact of our investments and also to be proactive in the way we invested

Rachel Cowburn said the Fund could look for investments which both gave a return but also had environmental benefit such as investing in renewables.

Councillor Chapman asked whether the Collective Investment Vehicle (CIV) made Hackney's position harder, easier or a combination of both?

Ian Williams said that a considerable amount of work had been undertaken with CIV and it was important for shareholders to keep the pressure on. Focus needed to be on the Environmental, Social and Governance (ESG) investments and to ensure the Committee protected the interests of Hackney's Fund.

Councillor Hayhurst agreed with Councillor Billington in that given Hackney was ahead of its target, more stringent stretch targets should be set. Councillor Chapman said it was important not to lose sight of the fact that Hackney was the only local authority to be doing this sort of analysis.

The Committee thanked Carbon Tracker for their presentation.

Recommendations

The Pensions Committee **RESOLVED**

- to note the reduction in exposure to future CO_2 emissions by 31% over 3 years which placed the Fund well over halfway to its target of 50% over 6 years.
- to note that the fund manager for PT Bukit Asam, the Indonesian coal miner, had now sold this holding from the Fund's investment portfolio.
- to agree the consideration of performance against the Fund's carbon reduction target would form a formal part of setting the 2020 investment strategy together with measurement of financial performance.
- to agree that consideration of approaches to improving alignment with the 1.5 degree C warming scenarios would form a formal part of setting the 2020 investment strategy.
- to agree that in light of the Fund's current performance, to review the target to reduce our carbon emissions.
- to agree that the strategy setting process would consider how the Fund could make a positive contribution to the transition to a low carbon economy, through investment in renewable infrastructure and other suitable asset classes driving better returns for our Fund.

5 Any Other Business

Councillor Chapman said that following the discussions at the last Committee meeting in respect of employer contributions into the pension fund, further discussions had taken place between himself as Chair of the Committee, Councillor Rennison as Lead Member for Finance and Ian Williams as Group Director, Finance and Corporate Resources. The outcome of these discussions had been that the Council would aim to reduce its contributions to the pension fund more quickly than had been set out in the report so the contributions would reduce by 1.5%, 1.5% and then 0% over 3 years rather than 1%, 1% and 1% over 3 years.

Duration of the meeting: 6.30 - 8.45 pm

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Covid-19 Impact Update **Pensions Committee** **24th June 2020**	Classification **PUBLIC** Ward(s) affected **ALL**	Enclosures None **AGENDA ITEM NO.**

1. INTRODUCTION

1.1. This report provides the Committee with an update on the impact of the Covid-19 pandemic on both the Fund's investments and its operations.

2. RECOMMENDATIONS

2.1. The Committee is recommended to:

- Note the report

3. RELATED DECISIONS

3.1. N/A

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

4.1. The Covid-19 pandemic has had a significant impact on the Fund's investments, as well as impacting its operations. Given the ongoing market volatility and uncertainty over the long term economic impact, predicting the long term impact on the Fund is extremely difficult.

4.2. Employer funding positions have been reduced as a result of recent market disruption. The majority of the Fund's liabilities relate to the Council, its schools and the academies. These employers have long term funding horizons and excellent covenants (e.g. government backing, tax raising powers); considering the funding implications for these employers over the longer term is entirely appropriate.

4.3. The Fund does have some smaller employers with shorter funding horizons and weaker covenants. These employers could therefore cease participation in the Fund in the near future. In these cases, careful cessation planning is required as a result of the recent fall in asset prices and ongoing uncertainty.

4.4. There are no direct financial implications arising from this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Assessing the impact of the Covid-19 pandemic on the Fund helps demonstrate that the Committee is exercising its fiduciary duty by maintaining a strong understanding of factors affecting fund performance.

6. IMPACT ON ADMINISTRATION

6.1. The COVID-19 pandemic has so far had a significant impact on local government pension schemes, with the impact being felt across administration, investment and governance functions. The Fund has been working with suppliers and stakeholders to understand the impact and put revised processes in place where required to address the risks.

6.2. This report sets out some of the key issues and actions taken, as well as setting out details of the guidance in place from the various LGPS governance bodies.

6.3. In line with new guidance released from the Pensions Regulator (TPR) for public service pension schemes (https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/scheme-administration-covid-19-guidance-for-trustees-and-public-service)the Fund has worked closely with its administrator, Equiniti, to prioritise critical administration processes. These include:

- paying members' benefits
- retirement processing
- bereavement services
- processes needed to ensure benefits are accurate (e.g. investing Additional Voluntary Contributions)

6.4. Equiniti have been able to move many of their staff to a work from home model, with key staff remaining in the office to deal with telephone and mail enquiries. Equiniti's payroll team, which delivers Hackney's pensioner payroll, is well staffed and has been working fully from home. Updates for members on both the impact of the COVID-19 pandemic and the dangers of pension scams have been added to the Fund's website.

6.5. The in-house team at Hackney have agreed a set of temporary process changes with Equiniti to support retirement processing and bereavement services. These temporary processes have now been in place for almost 3 months and are due to be reviewed shortly.

6.6. The Fund has received reports from a small number of employers that are struggling to pay contributions during this period. Fund officers have sought advice from the Fund actuary on how best to approach this issue and are putting together a set of principles to ensure employers are treated fairly whilst minimising the risk to the Fund.

6.7. In dealing with administration issues, the Fund is following guidance for administrators set out by TPR (linked above) and from the Scheme Advisory Board (SAB) via lgpsregs.org (https://www.lgpsregs.org/news/covid-FAQs.php)

7. IMPACT ON FUNDING

7.1. The Fund's latest funding position (as at 11th June 2020) is 86.5%, compared to 92% as at the valuation date of 31st March 2019. The funding position on 31st March 2020 was 82.4%. The funding position has deteriorated as a result of the reduction in asset prices, although a significant proportion of the losses have since been recovered. It should be noted that the ongoing economic climate remains very uncertain; the pandemic will continue to have a significant impact on the global economy and it is not yet clear what the longer term impact on asset values is likely to be.

7.2. The Scheme Advisory Board has issued a statement on the LGPS 2019 valuations (http://lgpsboard.org/images/PDF/Covid-19/Valuations2019.pdf), which came into effect from 1st April 2020. Clearly economic conditions have changed significantly since the valuations took place; however, the statement makes clear that employer contributions should in principle be held at the levels set out in the 2019 valuations.

7.3. As noted in the statement, the LGPS is an open scheme with many large employers with excellent covenants; it can therefore continue to fund on a long-term ongoing basis and should maintain stable employer contributions wherever possible. In the Hackney Fund, the majority of our liabilities relate to the Council and its maintained schools, and the academy schools. These employers have long term funding horizons and excellent covenants (e.g. government backing, tax raising powers); considering the funding implications for these employers over the longer term is entirely appropriate.

7.4. Within the Fund we do also, however, have some smaller employers with shorter funding horizons and weaker covenants. These employers are often on relatively short contracts with the borough's schools and could therefore cease participation in the Fund future in the near future. If this were the case, any exit payment or credit would be based on their funding balance sheet at the cessation date. In these cases, the recent fall in asset prices and ongoing volatility makes planning for cessation extremely difficult.

7.5. Whilst none of the Fund's employers are expected to cease in the immediate future, it is likely that some smaller employers will cease before the end of this valuation cycle. We have been working with the Fund actuary to identify employers at risk and are putting together a plan to address the impact and minimise risk to the Fund and the employer.

7.6. In terms of the whole fund funding level, it should be remembered that any deterioration in the funding position today is not necessarily representative of the long term funding strength of the Fund – we take a long term view when setting the funding plan (due to the long term nature of the liabilities) and, when investing in growth seeking assets such as equities, short term asset, and therefore funding level, volatility is expected.

7.7. This is why the Fund actuary uses a valuation methodology which does not focus on market conditions on a particular day but rather allows for future uncertainty and market volatility (In effect, the current scenario which is playing out is likely to have been represented in the 5,000 scenarios modelled by the Fund actuary to help set the funding strategy).

8. IMPACT ON INVESTMENT

8.1. May 2020 saw global equity markets recovering to levels last seen in early March. This was largely as a result of fresh stimulus measures and hopes that economies are on the mend as COVID-19 lockdowns are beginning to ease globally. Despite the positive sentiment in the market, bleak economic data is still coming in, creating a widening disconnect between global markets and the economy.

8.2. This suggests that although asset values have bounced back somewhat since the lows of late March, the longer term impact is still highly uncertain. The Fund has made no significant changes to asset allocation as a result of the pandemic, and will instead look to take a long term approach in setting its 2020 investment strategy.

8.3. The Fund's current priorities remain as follows:

- Liquidity – cash management is the current key priority for the Fund, as cash inflows from both investment income and employer contributions could be affected. The Fund is currently marginally cashflow positive without relying on investment income; however, there are still a number of key areas of focus for cashflow planning, which are set out below:
    - Pension payroll - ongoing management of cashflow to ensure pensions are paid. To meet the requirements for the payroll, the Fund generally maintains 2 months worth of benefit payments in its client account with Equiniti. This is felt to be sufficient at present, and permits sufficient time to remit additional cash to Equiniti in the event that employer contributions do reduce.
    - Capital calls for private lending mandates – these have continued despite the downturn and are still being factored into cash planning.
    - Transfers – equity falls and lower government bond yields may mean the Scheme sees an increase in the amount and levels of transfers.

- Rebalancing – Whilst significant allocation changes will only be made through the investment strategy development process, rebalancing to marginally reduce equity risk is now being considered, given the rebound in asset values and ongoing economic uncertainty.

- Market developments – Officers are continuing to monitor market developments as the impact of the virus and containment measures become clearer.

- Engagement with managers, LCIV and custodian - Officers continue to monitor how suppliers are managing the crisis, both in terms of portfolio management and addressing operational issues, such as working from home and potential staff shortages.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn 020-8356 2630

Financial considerations: Michael Honeysett 020-8356 3332

Legal comments: Angelie Walker 020-8356 6994

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Investment Strategy Review Timetable and ISS update **Pensions Committee** **24th June 2020**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Two** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1. This report sets out a revised timetable for the development of the Fund's 2020 Investment Strategy following the 2019 actuarial valuation. It also presents a revised interim Investment Strategy Statement for approval by the Committee.

2. RECOMMENDATIONS

2.1. The Committee is recommended to:

- Note the revised timetable for development of the 2020 investment strategy.
- Approve the interim Investment Strategy Statement for publication on the Fund's website and within the Annual Report and Accounts.

3. RELATED DECISIONS

3.1. Pensions Committee 29th March 2017 – Investment Strategy Statement

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

4.1. This paper sets out a revised timetable for the development of the Fund's 2020 investment and presents a draft interim Investment Strategy Statement for Committee approval. Development of a robust investment strategy helps the Fund to take an ordered and prudent approach to the management of its assets, helping to manage the long term costs associated with the Pension Fund.

4.2. Spending time developing the investment strategy helps to ensure that the Pensions Committee are fulfilling their responsibilities as quasi Trustees of the Fund and that the Fund's investment objectives and policies are clearly set out in line with the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016

4.3. There are no direct financial implications arising from this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Reviewing the Fund's Investment Strategy following the 2019 actuarial valuation helps to ensure that the Strategy remains appropriate given the funding position and assists the Committee in fulfilling this duty.

5.2. Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy Statement (ISS) in line with guidance published by the Secretary of State. Broad powers allow the Government to intervene if an Administering Authority does not publish and maintain an ISS as set out in the guidance. Updating the ISS at this time ensures that the Fund remains compliant with Regulation 7.

6. INVESTMENT STRATEGY DEVELOPMENT TIMETABLE

6.1. Appendix 1 to this report presents a revised timetable for the development of the Fund's investment strategy. The timetable has been updated to take into account the impact of the Coronavirus pandemic and the cancellation of the March 2020 Pensions Committee meeting.

6.2. The timetable breaks down the topics to be discussed as part of investment strategy development, including investment beliefs and objectives (including around Responsible Investment), asset allocation, rebalancing and cashflow planning. It sets out an indicative timetable for discussion of these issues and the review of necessary policy documents, including the Investment Strategy Statement (ISS) and the Responsible Investment and Voting & Engagement policies.

6.3. The timetable increases the time available for discussion of key issues by including 2 planned workshops during July. The proposed agendas for these workshops therefore do not include formal decision making, but instead permit additional discussion of key topics ahead of formal meetings in September and December.

7. INTERIM INVESTMENT STRATEGY STATEMENT

7.1. Appendix 2 to this report presents a draft interim Investment Strategy Statement (ISS) for review by the Committee. The statement is based on the Fund's current strategy and investments as at 31st March 2020.

7.2. Approval of an interim ISS is requested as the Committee last formally reviewed the ISS in March 2017. The Fund is required to update the ISS at least every 3 years - formal review is therefore now required ahead of the new investment strategy being finalised.

7.3. The updates made to the statement relate primarily to the Fund's asset allocation, which has changed significantly since the statement was last approved. Changes have also been made to the section concerning pooling, as the Fund has pooled some of its assets since the previous update.

7.4. It is intended that the ISS should be reviewed again once the new investment strategy (including any changes to the Fund's Responsible Investment approach) has been finalised.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn 020-8356-2630

Financial considerations: Michael Honeysett 020-8356-3332

Legal comments: Angelie Walker 020-8356-6994

Appendices
Appendix 1 - Investment Strategy Development Timetable - Revised
Appendix 2 - Draft Interim Investment Strategy Statement

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Investment Strategy Review Timetable - Revised

Date	Task	Comments
9 March Workshop	• Recap on current investment beliefs and recent discussions • Timetable of upcoming work • Review investment beliefs (both in relation to RI and broader beliefs)	
31 March Pensions Committee		Cancelled due to Covid-19 pandemic
April/May Workshop		Postponed due to Covid-19
24 June Pensions Committee	• Opportunities pot - Infrastructure training and advice • Short investment strategy training focused on current strategy • Interim Investment Strategy Statement review to update statement with changes to pooled assets	
Start/end July -up to 2 workshops	• Review investment beliefs • Consider climate/RI objectives (based on discussions from 17th Feb Committee and 9 March Workshop) • Long term objectives (link in with valuation, CMA objectives, reporting) • Investment strategy/asset class considerations – current and new asset classes, approach to currency hedging, infrastructure, review of equity structure, fixed income, multi asset, property, London CIV update • Fx implementation for private lending mandates	

September Pensions Committee	• Investment Strategy Review • Asset liability modelling results (including climate risk scenario modelling) • Implementation timeline • Cashflow planning • Voting and engagement training session	
December Pensions Committee	• Finalise investment strategy - new mandate training, suitability notes etc • Rebalancing framework (“de-risking”) • Update Investment Strategy Statement with new strategy • Finalise RI policy • Finalise voting & engagement policy • Custodian review	

London Borough of Hackney Pension Fund

Investment Strategy Statement

Hackney

Investment Strategy Statement (Published TBC)

1. Introduction

The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund. The Pensions Committee ("the Committee") is the body with delegated powers to administer the Fund. The Committee, comprised of elected representatives of Hackney Council and a non-voting scheme member representative, recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers that are analogous to those holding the office of Trustee in the private sector. The Committee takes expert professional financial advice to assist it with managing the Fund.

The Investment Strategy Statement (ISS) has been prepared by the Committee having taken advice from the Fund's investment adviser, Hymans Robertson LLP.

The ISS, which was approved by the Committee on 24th June 2020 is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (in force from 1st April 2020).

2. Background to the Fund

2.1 The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to formulate an Investment Strategy Statement, in accordance with guidance issued by the Secretary of State.

The Statement must include:

(a) a requirement to invest fund money in a wide variety of investments;
(b) the authority's assessment of the suitability of particular investments and types of investments;
(c) the authority's approach to risk, including the ways in which risks are to be assessed and
managed;
(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and

realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

2.2 The Scheme

The Pension Scheme for the London Borough of Hackney is a Career Average Revalued Earnings (CARE) defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the scheme are the Local Government Pension Scheme Regulations 2013.

The Local Government Pension Scheme (LGPS) Regulations 2013 set out in clear terms the benefits that are payable to Scheme members. The benefits offered to those members are therefore guaranteed by law; members are not reliant on investment performance for their pensions in retirement The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members. If, therefore, the Pension Fund's investments do not perform as well as expected, any shortfall must be met from Council Tax, other public funds and by other employers participating in the Fund, and not by reducing the amount of pension benefits paid or by increasing employees' contributions.

Pension benefits for individuals are increased each year in line with movements in the Consumer Prices Index (CPI).

3. The suitability of particular investments and types of investments

3.1 Fund Objectives

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefit basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on 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.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The Fund has used asset liability modelling (ALM) carried out by Hymans Robertson to help set an investment strategy.

The ALM approach projects forward the potential future development of asset and liability values, using stochastic modelling to model over 5000 different scenarios. This gives a distribution of outcomes which is then used to assess the probability of meeting the funding objective over a given time horizon for a number of different investment strategies. The tail risks of each strategy are assessed by considering the worst 5% of funding outcomes associated with each.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation

4. Investment of money in a wide variety of investments

4.1 Asset Classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's investment strategy as reflected in its holdings at 1st April 2020 is set out below in table 4.2.1. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Fund's target investment strategy is set out in table 4.2.2. The Fund intends to implement its target strategy gradually and aims to do so in collaboration with the London CIV and other London Boroughs.

The Fund has not previously invested in infrastructure, as the Fund to date has not had sufficient scale to make it accessible at a reasonable cost. However, the Committee recognises that asset pooling could provide opportunities to invest in more specialised asset classes and consider that infrastructure, under these circumstances, could offer a suitable risk/return profile for the Fund. Given this potential suitability, the Committee has approved an allocation of up to 5% for infrastructure, which may include local investment, including local investment should suitable opportunities arise through the pooling process.

The Fund has decided to invest 10% of the assets in a private lending mandate, to be funded by a reduction in the equity holding. The implementation of the new mandate is ongoing and will take a number of months, and so as an interim measure half of the allocation is being held in short dated bonds, and half in global equities, to broadly replicate the risk profile of the target asset allocation. Table 4.2.1 below reflects the starting position prior to investment in the private debt mandate, whilst Table 4.2.2. reflects the target position once fully invested.

4.2.1 Starting Fund Allocation

Asset class	Target allocation %	Control Range %
UK equities	10%	8% - 12%
Global equities	41%	38% - 44%
Global Emerging Market equities	4.5%	3.5% - 5.5%
Total equities	**55.5%**	**50.5% - 60.5%**
Property	10%	9% - 11%
Multi-asset	12.5%	10% - 15%
Bonds	22%	20% - 24%
Total	**100%**	

4.2.2 Target Fund Allocation

Asset class	Target allocation %
UK equities	10%
Global equities	36%
Global Emerging Market equities	4.5%
Total equities	**50.5%**
Property	10%
Multi-asset	12.5%
Bonds	17%
Private Lending	10%
Total	100

4.3 Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices

5. Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

5.1 Investment Restrictions

Type of investment	Maximum investment by the Fund % of assets
1. Contributions invested in any single partnership	5%
2. Contributions invested in partnerships	30%
3. Cash deposits	10%
4. Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%
5. Total investment in illiquid assets	30%

6. The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

6.1 Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Inflation risk. The risk that price and pay inflation is significantly more than anticipated, increasing the value of pension benefits accrued by active and deferred members of the Fund as well as increasing the value of pensions in payment.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be formally revisited as part of the 2022 valuation process, but may be repeated prior to that date if required.

The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

A detailed schedule of the funding risks to which the Fund is exposed is set out in the Funding Strategy Statement.

6.2 Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate long-term returns.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

Illiquidity risk is managed by investing across a range of assets, including liquid quoted equities and bonds, as well as property. The majority of the Fund's assets are realisable at short notice. Whilst the Fund does have a small allocation to less liquid assets, the degree of liquidity risk within the portfolio is acceptable given the Fund's long term investment horizon.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. The Fund currently maintains a broadly 50% hedge to overseas currency by investing in hedged share classes for the global equity exposure. This has been reviewed as part of the last strategy review but no change is currently planned.

Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

6.3 Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets. The Fund does not currently engage in stock-lending but may consider doing so in the future.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations they conduct for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7. The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London Collective Investment Vehicle (London CIV). The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow. The proposed structure and basis on which the London CIV will operate was set out in the July 2016 submission to Government.

7.1 Assets to be invested in the Pool

The Fund is transitioning liquid assets into the London CIV as suitable investment strategies that meet the asset allocation and investment strategy become available on the London CIV platform. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government; the Fund made its first investments of liquid assets in June 2018. The key criteria for assessment of Pool solutions is as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has 13.4% (£198.5m) of assets invested through mandates directly facilitated by the Pool.

The Fund currently holds 34.88% (£516.2m) of its assets in BlackRock pooled equity funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of passively managed assets outside pools for the time being. The Fund agrees for the London CIV to monitor the BlackRock funds as part of the broader Pool.

At the time of writing, the Fund holds 5.3% (£78.3m) of the Fund in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the Pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

At the time of preparing this statement the Fund holds the following assets outside of the London CIV:

Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the London CIV
Property	Threadneedle – Low Carbon Workplace Fund	1.75% (£25.9m)	IPD Quarterly index total return – office sector. Targets outperformance of the benchmark by 1% over rolling 3 year periods.	Illiquid assets - Units do not become redeemable until 5 years from the date of issue. Investment is via a Jersey unit trust – whilst it could be held within an ACS structure, the transfer of the property assets would incur signficant stamp duty. The Fund has invested in the LCW fund in 2 tranches (May 2016 and October 2016).
Property	Threadneedle - TPEN	8.63% (£127.8m)	IPD Quarterly index total return Targets outperformance of the benchmark by 1% over rolling 3 year periods.	Investment is via a unit linked life vehicle which cannot be transferred to the ACS structure . No suitable alternative currently exists through the London CIV, and the Fund wishes to maintain its strategic allocation to property.
Fixed Income	BMO	17.6% (£224.0m)	Outperform a customised benchmark (37.5 FTA Govt	Fund wished to retain strategic allocation and no suitable

			All Stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs) by 1% over a rolling 3yr period	alternative existed on CIV at initial review – to be reviewed at next review
Private Debt	Permira	0.96% (£14.2m)	Target net return 6% - 8%	Illiquid assets– assets held via a Lux Special Partnership and early exit would have a negative financial impact
Private Debt	Churchill	2.58% (£38.2m)	US Credit Suisse Leveraged Loan Index. Target net return 5.5% - 7%	Illiquid assets– assets held via a Lux Special Partnership and early exit would have a negative financial impact
Multi-asset	Invesco	4.55% (£67.3m)	Targets LIBOR 3m + 5%	To be reviewed at next review
Multi-asset	GMO	5.87% (£86.9m)	Targets OECD CPI G7 (GBP) + 5%	To be reviewed at next review
Bonds	BlackRock	5.3% (£78.4m)	3m GBP LIBID	Short term allocation to fund other mandates

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2019

7.2 Structure and governance of the London CIV

The July 2016 submission to Government of the London CIV provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

Since July 2016, the London CIV has made changes to its governance structure, which now operates as follows:

London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). FCA firm registered as London LGPS CIV Ltd, Reference Number 710618.

Approval for the structure has been signed off by the 32 participating London Authorities

The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through:

- the Shareholder Committee, which acts on behalf of the Shareholders as a consultative body, including on the Company's business plans and financial performance, and topics such as Responsible Investment. It comprises 12 Committee Members made up of 8 Local Authority Pension Committee Chairs (or Leaders of London Local Authorities) and 4 Local Authority Treasurers. The Chair of the Board of London CIV is also a member of the Committee. A trade union representative sits as an observer.

- The client services framework, which is informed by shareholder consultation and includes a programme of events for clients collectively.

At the company level for London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers

8. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Fund invests on the basis of financial risk and return, having considered a full range of factors, including environmental, social, and corporate governance (ESG) factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.

The Fund therefore requires its investment managers to integrate all material financial factors, including ESG considerations, into their investment analysis and decision-making for all fund investments.

The Fund's Investment Managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) are also expected to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund, including ESG factors. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. In summer 2016, Trucost were commissioned to produce a Carbon Risk Audit for the Fund, quantifying the Fund’s exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie.

Having taken into account the risks associated with exposure to fossil fuel reserves, the Committee has approved a target to:

- Reduce the Fund’s relative exposure to future emissions from fossil fuel reserves (measured in $MtCO_2e$ – million tonnes of CO_2 emissions) by 50% over 2 valuation cycles (6 years)
- Measure the reduction relative to the Fund’s position as at July 2016 (7.11$MtCO_2e$) and adjusted for Assets Under Management (£AUM)

The target will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee’s fiduciary duties.

The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting. Consideration has therefore been given in setting the Fund’s Investment Strategy to how this objective can be achieved within a pooled investment structure and the Committee, having taken professional advice, will work with the London CIV to ensure that suitable strategies are made available.

Where necessary, the Fund will also engage with its Investment Managers or the London CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. However, the Fund does not at this time operate a blanket exclusion policy in respect of specific sectors or companies.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee reviews its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission’s guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee’s fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission’s guidance on financial and non-financial factors.

9. The exercise of rights (including voting rights) attaching to investments

The Fund is committed to being a long term steward of the assets in which it invests and aims to promote the highest standards of governance and corporate responsibility in the companies in which it invests. It expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis, including training and information sessions on matters of social, environmental and corporate governance.

The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which they ultimately invest. It recognises that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

It therefore expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed. Effective monitoring and identification of ESG issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, leading to greater influence and improved outcomes for shareholders and more broadly, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. Additionally, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), through which it joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website. At the FRC's most recent review, both the Fund and the London CIV were rated as Tier 1.

As part of its compliance with the Stewardship Code the Fund has adopted a set of Voting Intention Guidelines. The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with these guidelines, which can be found on the Fund's website.

Future investments through the London CIV will be covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting for investments on the CIV will therefore be delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Extension of Actuarial Services and Benefits & Governance Consultancy Contracts **Pensions Committee** **24th June 2020**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1. This report recommends that the Pensions Committee approve a one year extension for both the Fund's Actuarial Services contract and its Benefits & Governance Consultancy contract.

2. RECOMMENDATIONS

2.1. The Committee is recommended to:

- Approve the extension of the Actuarial Services Contract with Hymans Robertson for an additional year to 31st October 2021
- Approve the extension of the Benefits & Governance Consultancy Contract with Aon for an additional year to 31st October 2021

3. RELATED DECISIONS

3.1. Pensions Committee 12th September 2018 – Extension of Actuarial Services and Benefits & Governance Consultancy Contracts

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

4.1. The procurement for the Actuarial Services and Benefits and Governance Consultancy contracts were undertaken via the National LGPS Framework for Actuarial, Benefits and Governance Services. Use of the framework resulted in significant savings on the resources required to undertake the procurement, and as well as helping to drive competitive fee arrangements from suppliers.

4.2. The initial terms of the contracts were for 4 years from 1st November. The contracts were first extended in 2018 for 2 years and under normal circumstances would need to be re-tendered during 2020. Extending the contracts as described for one year will allow the ongoing delivery of services under both contracts under the same pricing arrangements as applied previously, except where adjustments for inflation are permitted. It will also permit the Fund to procure the new contracts in 2021 under the revised and updated Actuarial, Benefits and Governance Consultancy Framework.

4.3. A one year extension to the existing contracts is not expected to have a material financial impact. Both contracts would otherwise be re-let under the existing framework, which would be unlikely to result in a significant reduction in price.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Council's Constitution sets out the terms of reference for the Pensions Committee which includes delegated powers to make arrangements for the appointment of and to appoint suitably qualified Pension Fund administrators, investment managers and custodians and to periodically review those arrangements.

5.2. The procurement of the Actuarial Services and Benefits & Governance Consultancy Services contracts was originally carried out in 2014 using an OJEU-compliant framework and in accordance with the Public Contracts Regulations 2006. The two call-off contracts commenced on 1 st November 2014 for a period of four years to 31st October 2018, with the option to extend for a further two years until 2020. This option was exercised and the contracts were extended to 31st October 2020.

5.3. This paper requests that the Committee approve 12 month extensions to the contracts outside of the extensions permitted in the contracts. These extensions are being requested in line with Regulation 72(1) of the Public Contracts Regulations 2015, which states that:
'Contracts ... may be modified without a new procurement procedure ... in any of the following cases:
(c) where all of the following conditions are fulfilled:
(i) the need for modification has been brought about by circumstances which a diligent contracting authority could not have foreseen;
(ii) the modification does not alter the overall nature of the contract;
(iii) any increase in price does not exceed 50% of the value of the original contract or framework agreement.

5.4. These extensions would appear to meet the 3 requirements. Firstly, the extensions are being requested as a result of the Coronavirus pandemic, which could not have been foreseen. Secondly, the proposals are to extend rather than fundamentally modify the contracts. Thirdly, in each case a 12-month extension, if granted, would represent 1/7th of the overall contract length. The annual value of each contract falls between £100k - £200k; the 12 month increase in contract length is therefore extremely unlikely to breach the 50% threshold in either case.

6. BACKGROUND TO THE REPORT

6.1. This report recommends that the Pensions Committee approve a one year extension to both the Fund's Actuarial Services contract with Hymans Robertson and its Benefits & Governance Consultancy contract with Aon, extending the end date for both contracts to 31st October 2021.

6.2. The contracts were originally let under the National LGPS Framework for Actuarial, Benefits and Governance Services for an initial period of four years, with the option to extend by a further 2 years. This option was exercised and the contracts were extended to 31st October 2020.

6.3. The one year extensions are being requested as a result of the Coronavirus pandemic. The framework under which the contracts were let was originally due to expire during 2020; in response, the National LGPS Frameworks programme was developing a new framework with updated terms and conditions. The introduction of the new framework has been delayed by the pandemic and Norfolk County Council, the letting authority, has secured an extension of the existing framework until 30th June 2021.

6.4. The current framework therefore has a limited lifespan. To ensure choice around contract term and to maintain up to date terms and conditions, Fund officers recommend delaying re-tendering the contracts until the new framework is in place in July 2021. A one year extension of the current contracts to 31st October 2021 would allow both contracts to be re-let in summer/autumn 2021.

6.5. As set out in Section 5, the request to extend these contracts is outside the original contract terms but compliant with Regulation 72(1) of the Public Contracts Regulations 2015. The request is further supported by a Cabinet Office Procurement Policy Note (Appendix 1) in relation to Covid-19, which sets out information and associated guidance on the public procurement regulations and responding to the current coronavirus outbreak.

Ian Williams
Group Director, Finance and Corporate Resources

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Cabinet Office

Procurement Policy Note - Responding to COVID-19

Information Note PPN 01/20 March 2020

Issue

1. This Procurement Policy Note (PPN) sets out information and associated guidance on the public procurement regulations and responding to the current coronavirus, COVID-19, outbreak. The exact response to COVID-19 will be tailored to the nature, scale and location of the threat in the UK, as our understanding develops. However, it is already clear that in these exceptional circumstances, authorities may need to procure goods, services and works with extreme urgency. Authorities are permitted to do this using regulation 32(2)(c) under the Public Contract Regulations 2015.

Dissemination and Scope

2. This PPN is applicable to all contracting authorities, including central government departments, executive agencies, non-departmental public bodies, local authorities, NHS bodies and the wider public sector. Together these are referred to in this PPN as 'contracting authorities.'

3. Please circulate this PPN across your organisation and to other relevant organisations that you are responsible for, drawing it to the specific attention of those with a commercial and procurement role.

Timing

4. With immediate effect.

Background

5. There will be a range of commercial actions that must be considered by contracting authorities in responding to the impact of COVID-19. In such exceptional circumstances, authorities may need to procure goods, services and works with extreme urgency. This is permissible under current public procurement regulations using regulation 32(2)(c).

6. This PPN and associated guidance covers options that may be considered in relation to procurements under the Public Contract Regulations 2015 (for the current financial thresholds, see PPN 06/19):

- direct award due to extreme urgency (regulation 32(2)(c);
- direct award due to absence of competition or protection of exclusive rights;
- call off from an existing framework agreement or dynamic purchasing system;

- call for competition using a standard procedure with accelerated timescales;
- extending or modifying a contract during its term.

7. Contracting authorities procuring under the Defence and Security Public Contracts Regulations 2011, the Utilities Contracts Regulations 2016 and the Concession Contracts Regulations 2016 will need to check similar provisions in those regulations

8. The COVID-19 outbreak is likely to give rise to supply chain disruption and contracting authorities may need to take action in response to supplier claims of 'force majeure' or contract 'frustration'. These and other issues will be covered in future PPNs.

Contact

9. Further guidance on COVID-19 for individuals, employers and organisations is available on GOV.UK.

10. Enquiries about this PPN should be directed to the Crown Commercial Service Helpdesk on 0345 410 2222 or info@crowncommercial.gov.uk.

PUBLIC CONTRACT REGULATIONS - RESPONDING TO COVID-19

Introduction

There will be a range of commercial actions that need to be considered by contracting authorities in responding to the impact of COVID-19. In such exceptional circumstances, authorities may need to procure goods, services and works with extreme urgency. This is permissible under current public procurement regulations.

If you have an urgent requirement for goods, services or works due to COVID-19, and you need to procure this under the Public Contract Regulations 2015 (PCRs), there are various options available. These include:

- direct award due to extreme urgency;
- direct award due to absence of competition or protection of exclusive rights;
- call off from an existing framework agreement or dynamic purchasing system;
- call for competition using a standard procedure with accelerated timescales;
- extending or modifying a contract during its term.

Depending on the specific nature of your requirement there may be further options under the PCRs, such as the additional delivery of supplies from an existing supplier (regulation 32(5)), additional similar works or services from an existing supplier (regulation 32(9)), or using the services of a subsidiary of another contracting authority (regulation 12). These are not covered in this guidance and do have their own specific requirements.

You should ensure you keep proper records of decisions and actions on individual contracts, as this could mitigate against the risk of a successful legal challenge. If you make a direct award, you should publish a contract award notice (regulation 50) within 30 days of awarding the contract.

Direct award due to reasons of extreme urgency

COVID-19 is serious and its consequences pose a risk to life. Regulation 32(2)(c) of the PCRs is designed to deal with this sort of situation.

Regulation 32(2) sets out the following:

> *The negotiated procedure without prior publication may be used for public works contracts, public supply contracts and public service contracts in any of the following cases: ...*
>
> *(c) insofar as is strictly necessary where, for reasons of extreme urgency brought about by events unforeseeable by the contracting authority, the time limits for the open or restricted procedures or competitive procedures with negotiation cannot be complied with.*
>
> *… the circumstances invoked to justify extreme urgency must not in any event be attributable to the contracting authority.*

Therefore, in responding to COVID-19, contracting authorities may enter into contracts without competing or advertising the requirement so long as they are able to demonstrate the following tests have all been met:

1) There are genuine reasons for extreme urgency, eg:

- you need to respond to the COVID-19 consequences immediately because of public health risks, loss of existing provision at short notice, etc;
- you are reacting to a current situation that is a genuine emergency - not planning for one.

2) The events that have led to the need for extreme urgency were unforeseeable, eg:
   - the COVID-19 situation is so novel that the consequences are not something you should have predicted.
3) It is impossible to comply with the usual timescales in the PCRs, eg:
   - there is no time to run an accelerated procurement under the open or restricted procedures or competitive procedures with negotiation;
   - there is no time to place a call off contract under an existing commercial agreement such as a framework or dynamic purchasing system.
4) The situation is not attributable to the contracting authority, eg:
   - you have not done anything to cause or contribute to the need for extreme urgency.

Contracting authorities should keep a written justification that satisfies these tests. You should carry out a separate assessment of the tests before undertaking any subsequent or additional procurement to ensure that they are all still met, particularly to ensure that the events are still unforeseeable. For example, as time goes on, what might amount to unforeseeable now, may not do so in future.

You should limit your requirements to only what is absolutely necessary both in terms of what you are procuring and the length of contract.

Delaying or failing to do something in time does not make a situation qualify as extremely urgent, unforeseeable or not attributable to the contracting authority. This is because:

- the PCRs expect a contracting authority to plan its time efficiently so that it is able to use a competitive procedure;
- competitive alternatives (eg. an accelerated open procedure) can be completed quickly;
- case law has held that knowing that something needs to be done means it is foreseeable;
- a contracting authority's delay or failure to do something is likely to mean that the situation is attributable to the contracting authority.

It is important that contracting authorities continue to achieve value for money and use good commercial judgement during any direct award. Whilst prices may be higher than would be expected in a regular market, any abnormally high pricing should be approved by the appropriate commercial director. Additionally, contracting authorities are encouraged to consider contractual mechanisms to ensure that they have the ability to secure pricing reductions through the life of the contract. Where this is not possible, it is recommended a log should be kept and reasoning provided for future auditing.

Direct award due to absence of competition or protection of exclusive rights

Regulation 32(2) of the PCRs also sets out that the negotiated procedure without prior publication may be used:

> *(b) where the works, supplies or services can be supplied only by a particular economic operator for any of the following reasons: ...*
>
> > *(ii) competition is absent for technical reasons,*
> >
> > *(iii) the protection of exclusive rights, including intellectual property rights,*
>
> *… but only where no reasonable alternative or substitute exists and the absence of competition is not the result of an artificial narrowing down of the parameters of the procurement.*

Therefore, a contracting authority may make a direct award where the works, goods or services needed to respond to COVID-19 can only be supplied by a particular supplier because:

- competition is absent for technical reasons eg there is only one supplier with the expertise to do the work, produce the product or with capacity to complete on the scale required; or
- the protection of exclusive rights, including intellectual property rights eg:
  - the supplier owns those rights (including intellectual property rights);
  - it has the exclusive right to exploit intellectual property rights.

But this is only when:

- there is no reasonable alternative or substitute available; and
- the contracting authority is not doing something which artificially narrows down the scope of the procurement eg by over-specifying the requirement.

Contracting authorities should keep a written justification that satisfies these tests. You should carry out a separate assessment of the tests before undertaking any repeat procurement to ensure these tests have been met.

Call off from an existing framework agreement or dynamic purchasing system

Central purchasing bodies, such as the Crown Commercial Service, offer public bodies access to a range of commercial agreements including framework agreements and dynamic purchasing systems (DPS).

It is possible to use one of these commercial agreements as long as:

- your contracting authority was clearly identified as a permitted customer in the original OJEU notice or the invitation to confirm interest;
- the goods, services or works to be procured fall within the scope of those covered by the contract, framework agreement or DPS;
- the contract, framework agreement or DPS was procured in accordance with the PCRs;
- the terms of the contract, framework agreement or DPS are suitable and meet your requirements without the need for significant changes.

A framework agreement will provide for direct awards, mini-competitions or both. You must follow the procedure for awarding a call off contract set out in the framework agreement. An award under a DPS has to be by mini-competition and the minimum time for receipt of tenders is 10 days.

Using a standard procedure with accelerated timescales due to urgency

Contracting authorities can reduce the minimum timescales for the open procedure, the restricted procedure and the competitive procedure with negotiation if a state of urgency renders the standard timescales impracticable. The minimum time limits vary (see regulations 27(5), 28(10) and 29(10) respectively). For procurements under the open procedure, timescales can be reduced to 15 days for receipt of tenders plus the minimum 10 days for the standstill period.

There is no express requirement for the situation to be unforeseeable or not attributable to the contracting authority but you should set out in your OJEU notice a clear justification eg:

> *"The COVID-19 outbreak has given rise to an urgent need for the supply of [description of what is being procured] because [explanation of urgency]. This does not give [name of contracting authority] sufficient time to comply with the standard [open procedure / restricted procedure / competitive procedure with negotiation] timescales for this procurement. [Contracting authority] considers this to be a state of urgency which it has duly substantiated. Accordingly, [contracting authority] is using the accelerated time limits permitted under the Public Contract Regulations 2015 (regulation [27(5) for the open procedure / 28(10) for the restricted procedure / 29(10) for the competitive procedure with negotiation]) in respect of this procurement".*

Contracting Authorities can also consider the use of the Light Touch Regime for specific health and social care related services (see regulation 74-77). While contracting authorities are required to advertise contracts in OJEU and publish contract award notices, you are free to use any process or procedure you choose to run and are not required to use the standard procurement procedures (open, restricted etc). You are also free to set your own timescales as long as they are reasonable and proportionate.

Extending or modifying a contract during its term

Regulation 72(1) sets out the following:

> *Contracts … may be modified without a new procurement procedure … in any of the following cases:*
>
> *(c) where all of the following conditions are fulfilled:*
>
>> *(i) the need for modification has been brought about by circumstances which a diligent contracting authority could not have foreseen;*
>>
>> *(ii) the modification does not alter the overall nature of the contract;*
>>
>> *(iii) any increase in price does not exceed 50% of the value of the original contract or framework agreement.*

Contracting authorities should keep a written justification that satisfies these conditions, including limiting any extension or other modification to what is absolutely necessary to address the unforeseeable circumstance. This justification should demonstrate that your decision to extend or modify the particular contract(s) was related to the COVID-19 outbreak with reference to specific facts, eg your staff are diverted by procuring urgent requirements to deal with COVID-19 consequences, or your staff are off sick so they cannot complete a new procurement exercise. You should publish the modification by way of an OJEU notice to say you have relied on regulation 72(1)(c).

Multiple modifications are permissible, however each one should not exceed the 50% of the original contract value. You should also consider limiting the duration and/or scope of the modification and running a procurement for longer-term/wider scope requirements alongside it.

There are other grounds available under regulation 72 for extending contracts, including: if the proposed variation has been specifically provided for in the contract (regulation 72(1)(a)); where a change of contractor cannot be made for economic or technical reasons (regulation 72(1)(b)), and where the modifications are not substantial (regulation 72(1)(e))

If more than one ground is applicable this may lower the legal risk and therefore you should ensure all relevant grounds are included in your written justification.

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Infrastructure Investment - Initial Strategy Decision **Pensions Committee** **24th June 2020**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Two(Exempt)** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1. This report sets out an initial proposal for the Pensions Committee to make an allocation to infrastructure as part of the Fund's opportunities pot. It summarises the aims and objectives of investing in infrastructure and sets out its risk return profile as an asset class. It also recommends potential next steps for the Committee's approval.

1.2. The report is accompanied by a paper from the Fund's investment consultant, Hymans Robertson, which provides formal investment advice to support the decision.

2. RECOMMENDATIONS

2.1. The Committee is recommended to:

- Approve a total allocation to infrastructure of up to 5% of the Fund. Within this, it is recommended that the first priority for implementation be renewable infrastructure, either through a balanced fund or by using a dedicated renewable infrastructure fund alongside a balanced fund, as a means to continue and support the Fund's carbon objectives.

- Approve an allocation to renewable infrastructure of 30% - 50% of the total infrastructure allocation. As the renewables market develops, and it becomes clearer what level of impact the renewable infrastructure allocation can have on the Fund's carbon exposure, this level may increase.

3. RELATED DECISIONS

3.1. Pensions Committee 29th March 2017 – Investment Strategy Statement

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

4.1. An allocation to infrastructure is being considered to help shift the Fund's asset mix towards income-generating assets and provide a good proxy match for the Fund's long term liabilities. In the longer term, this should help the Fund to achieve its long term funding targets. The report is supported by investment advice from the FUnd investment consultant, Hymans Robertson; the advice provided is set out in Appendix 1 to this report.

4.2. Given the relative complexity of investing in infrastructure, the move is likely to result in an increase in manager fees. However; the increase is justifiable when considered in the context of the suitability of infrastructure within the Fund’s investment strategy.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. One of the responsibilities is ensuring compliance with the LGPS (Management and Investment of Funds Regulations 2016)

5.2. This report helps to demonstrate that the Fund is compliant with Regulation 7(7) and 7(8), in demonstrating that the Committee reviews and revises its investment strategy where necessary and that fund money is invested in accordance with it.

5.3. The report also helps to demonstrate that the Fund is compliant with Regulation 9 (4), in ensuring that the authority is taking proper advice in the appointment of investment managers.

6. BACKGROUND TO THE REPORT

6.1. As part of its 2017 review of the Fund’s investment strategy, the Committee approved an allocation of up to 5% for an “opportunities pot”, which could involve a range of asset classes, including infrastructure. The Committee has not as yet allocated any funds as part of this pot, as the focus has been on pooling and on the implementation of the new investment mandates.

6.2. This paper recommends that the Committee consider using the opportunities pot to make an allocation to infrastructure, potentially building up to the 5% upper target. Within the suggested allocation, it is recommended that consideration is given to renewable infrastructure, either through a balanced infrastructure fund or by using a dedicated renewable infrastructure fund alongside a balanced fund, as a means to support the Fund’s carbon objectives.

6.3. The report sets out some background information on investment in infrastructure and summarises the key risks and benefits. It also introduces more detailed information on renewable infrastructure and the types of infrastructure fund available, and considers the next steps in the allocation process should the Committee approve the initial recommendations in this report.

6.4. The report is supported by a paper from the Fund’s investment consultants, Hymans Robertson. This provides a broad overview of Hymans’ view of infrastructure investment and its suitability for the Hackney Fund, and helps demonstrate that the Fund is compliant with Regulation 9 (4) of the LGPS (Management and Investment of Funds Regulations 2016), by ensuring that the authority is taking proper advice in the appointment of investment managers.

6.5. Andrew Johnston from Hymans Robertson will be attending the Committee meeting to provide a training session on investment in infrastructure.

7. INTRODUCTION TO INVESTMENT IN INFRASTRUCTURE

7.1. Historically, relatively few UK pension schemes have invested in infrastructure as a result of the complexity of the asset class and difficulties in accessing suitable investments efficiently. However, it is now rapidly increasing in popularity as schemes are recognising the potential benefits and the asset class is becoming increasingly accessible, even to smaller pension funds.

7.2. The UK Government strongly supports infrastructure investment by UK pension funds. The Ministry of Housing, Communities and Local Government (MHCLG), in their recent draft guidance to LGPS pension funds, included a strong steer to consider investing in infrastructure projects. It suggested LGPS funds should be moving towards infrastructure investment at similar levels to overseas pension funds of comparable size.

7.3. Infrastructure describes assets that societies require to function well. Infrastructure assets can be a suitable asset for pension funds as they can provide high income streams with a long duration that can be linked in some way to inflation, either explicitly or implicitly. Clearly, this is of interest for pension funds looking for long term inflation-linked cash flows to match liabilities.

7.4. Thanks to the monopolistic position that some infrastructure companies enjoy and the essential nature of the assets and services they provide, returns can be fairly predictable and resilient to market cycles. This can mean a low correlation of infrastructure with other asset classes and therefore good diversification for pension funds who can forgo liquidity and take a long term view.

7.5. The aim of investing in infrastructure will, therefore, typically be to access some combination of:

- further diversification of growth assets;
- reasonably high income distribution;
- a proxy match for longer term liabilities.

The nature of the investment can be chosen so as to prioritise one of these factors over the others. However, in practice, the investments available will involve some compromise relative to the ideal.

7.6. The key risks of infrastructure investment include:

- Liquidity risk: Due to the size of some assets, the limited number of potential buyers and regulatory approval requirements, divestments of infrastructure assets can take considerable time
- Development and Construction risk: Projects still in the development or construction stages face higher construction and demand risks than assets already in operation. Investors can choose to avoid these risks by investing only in existing infrastructure; however, those willing to take these added risks may be compensated with higher returns
- Political and regulatory: Different countries/regions have different political, regulatory and legal frameworks. Especially in jurisdictions with relatively

shorter regulatory histories, regulatory decisions may be inconsistent, increasing uncertainty for investors. Investing in politically stable regions with established legal and regulatory frameworks can reduce these risks.

- Sub-sector: Each infrastructure sub-sector has different risk factors and return drivers. Constructing a well diversified portfolio can help ensure correlation between the different sector risks is low.
- Leverage risk: the use of leverage will magnify losses if returns are impacted by adverse economic conditions.
- Income risk: the risk that assets generate less income than expected.

7.7. Historical return data for infrastructure as an asset class is limited. The best source of information is an organisation called Preqin, which collects a wide variety of data on alternative assets and publishes a global quarterly infrastructure index. The data gathered by Preqin suggests that there is a wide dispersion of returns amongst infrastructure funds but that, on average, high single digit returns can be achieved. The target returns for balanced infrastructure funds are generally in the region of 7% - 12% p.a.

7.8. Appendix 1 to this report sets out more information on the risks and benefits of infrastructure investment, as well as providing more detail on the types of funds available.

8. RENEWABLE INFRASTRUCTURE

8.1. Renewable infrastructure refers to a sub-set of infrastructure that is focused on harnessing energy from renewable sources. This includes energy generation, storage and distribution. There are three main sectors within renewable infrastructure:

- Solar – harnessing the energy created from the sun.
- Wind – generating energy from wind. Wind turbines can either be located on land (onshore) or at sea (offshore).
- Hydro – harnessing the power of flowing water (e.g. tidal flows).

8.2. These three sub-sectors comprise the majority of the renewables market although there are other well established sub-sectors, such as biomass and energy conversion. While renewable infrastructure investing has traditionally centred on energy generation, assets relating to the storage and distribution of energy are a small but growing part of the investible opportunity set.

8.3. Two key factors have contributed to the rise in interest in renewable infrastructure: policy shifts from governments looking to transition away from using nuclear or fossil fuels to meet their energy requirements; and the substantial drop in the costs of building and maintaining these assets and generating renewable energy.

8.4. As with broader infrastructure mandates, one of the key determinants of expected returns that investors can expect to receive relates to the stage at which investment is made in the lifecycle of a project. Expected returns are directly linked to the level of risk taken so investors should expect to receive a higher return for investing in renewable projects before they are built compared to buying assets once they are fully operational.

8.5. The majority of returns from renewable infrastructure investment should come from the income received once the energy generated is sold to the wider market through the use of either government-backed contracts or Power Purchase Agreements. Government-backed contracts help set a price for a fixed period of time and are used more often in countries where governments are trying to attract investment in renewables. Power Purchase Agreements (“PPA”): PPAs are agreements that fix the price per unit of electricity over the term of the agreement. They are often struck between the owner of the renewable asset and a corporation looking to source its energy from renewables.

8.6. The expected returns on renewables are currently slightly lower than those on balanced infrastructure, partly as a result of the high levels of money flowing into the sector compared to the volume of suitable deals. For example, typical expected returns on renewable infrastructure are in the range of 5% - 8%, or slightly higher for funds which take on development and construction risk, whereas typical expected returns on balanced infrastructure funds are in the region of 7% - 12% p.a.

8.7. More information on renewable infrastructure can be found in the briefing note included at Appendix 2 to this report.

9. TYPES OF FUND AVAILABLE

9.1. If the Committee chooses to approve an allocation to infrastructure, this will need to be made via a pooled fund or funds. These can be either closed ended or open ended and may be individual primary funds, run by a single manager, or a fund of funds arrangement. Funds vary widely in terms of their location and sector focus.

9.2. Individual infrastructure funds (primary funds) typically invest in around 6-10 assets/projects. The number of assets is limited as there is a finite life to the fund. With a closed-ended fund investment, money is drawn down on a just in time basis so investors continue to meet cash calls some years after the initial commitment.

9.3. The majority of infrastructure funds are closed-ended and most have a 10-12 year life. To benefit from the longevity of asset lives and potential inflation protection, the assets need to be held for a longer period of time than that offered by most closed-ended funds. There are some specialist funds with more focused strategies offering exposure to the asset class over a longer period and if ther fund chooses to allocate to a closed-ended fund, it is recommended this type of strategy is considered.

9.4. A small number of open-ended, or “evergreen” (that is, with an infinite life), infrastructure funds are available to UK pension fund investors. The few established open-ended infrastructure funds that we are aware of are now offering something quite different to what the closed-ended funds have to offer. They have 12-16 platform investments through which they can invest new capital and benefit from efficiencies. These funds offer the benefit of immediate transparency in terms of the assets held and cash yield generated. They may also have better access to deals where a long term owner is preferred.

9.5. Open ended funds are therefore potentially one of the best options to meet the requirements of pension funds for investing in infrastructure; however, there is a lack of choice as only a few exist and it is not easy for new funds to be created. It should also be remembered that, despite their open ended structure, these funds remain illiquid, with redemptions paid out at the manager's discretion.

9.6. A fund of funds (FoF) approach involves a single manager investing in a range of infrastructure funds on behalf of a client. A portfolio will typically include around 10-20 unitised holdings in a range of closed-ended funds offered by other mainstream and specialist managers. A FoF will typically not invest in an underlying open-ended fund given the mismatch in the underlying structure.

9.7. The main advantage of the FoF approach is that investors can gain exposure to a wider range of managers, funds, specialist sectors and investment vehicles, without the associated governance burden. There is diversification of risk, but that comes at a cost by introducing an additional layer of fees. Careful consideration is therefore required to justify this.

10. NEXT STEPS

10.1. It is proposed that the Committee begin to consider approaches to implement an allocation to infrastructure, and potentially building up to the 5% upper target allocation for the "opportunities pot". Within this it is recommended that consideration is given to renewable infrastructure, either through a balanced infrastructure fund or by using a dedicated renewable infrastructure fund alongside a balanced fund, as a means to continue and support the Fund's carbon objectives.

10.2. The proposed approach to implementation is to focus first on identifying a suitable allocation to renewable infrastructure, which should be set at 30% - 50% of the total allocation. As the renewables market develops, and it becomes clearer what level of impact the renewable infrastructure allocation can have on the Fund's carbon exposure targets, this level may increase.

10.3. Hymans Robertson have suggested a proposed minimum threshold for the size of fund relative to the size of the proposed investment. It is suggested that any investment in a single renewable infrastructure fund is limited to a maximum of 20% of that fund's total value (and ideally lower), with the investment being split across a number of different infrastructure funds if necessary. The same suggested limit would also apply to balanced funds.

10.4. There are a number of options the Fund could use to implement an allocation to infrastructure - officers are currently exploring these and, should these initial recommendations be approved, more detailed recommendations around implementation will be presented at a future Committee meeting. A pooled or collaborative approach to implementation is recommended if a suitable mandate meeting the Fund's strategic objectives can be identified.

10.5. Potential implementation options include the following collaborative and pooled approaches:

- The London CIV fund with Stepstone, which currently has commitments of £400m from six London Borough Pension Funds. The fund's initial investment is to a renewable energy fund, but it is anticipated that over time its allocation to renewables is expected to fall. The Fund is targeting a minimum of 25% in renewable infrastructure.

- Collaboration between London Boroughs to carry out a joint selection exercise to find a mandate which achieves the shared objectives. A number of Boroughs, including Hackney, are currently working with the London CIV on its Seed Investor Group for renewable infrastructure to test if a suitable renewables mandate can be identified.
- Pooled infrastructure offerings, such as PIP and GLIL, which the Fund may be able to access.

10.6. More information on implementation, including the recommended source of funds, is included in Appendix 1 to this report.

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Appendices
Appendix 1 - EXEMPT - Hymans Robertson - Infrastructure Advice
Appendix 2 - EXEMPT - Hymans Robertson - Renewable Infrastructure Briefing Note

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

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