PENSIONS COMMITTEE

Wednesday 15 June 2022 at 6.30 pm Hackney Town Hall, Mare Street, London, E8 1EA

The live stream can be viewed here:
https://youtu.be/vLpQqYltRuY
or
https://youtu.be/qGLNwYhomN8

Members of the Committee:

Councillor Grace Adebayo
Councillor M Can Ozsen
Councillor Ian Rathbone
Councillor Kam Adams (Chair)
Councillor Robert Chapman (Vice Chair)
Councillor Margaret Gordon
Councillor Ben Hayhurst
Councillor Lynne Troughton

Co-optees:
Jonathan Malins-Smith
Henry Colthurst

Mark Carroll
Chief Executive
www.hackney.gov.uk

Contact: Rabiya Khatun
Governance Officer
rabiya.khatun@hackney.gov.uk

Pensions Committee
Wednesday, 15 June 2022
Agenda

1 Apologies For Absence

2 Appointment of the Chair and Vice- Chair for the Municipal Year 2022/23

The committee is requested to note the confirmed appointments to the position of Chair – Cllr Adams and Vice Chair- Cllr Chapman of the Pensions Committee, as agreed by Full Council at its Annual Meeting on 25 May 2022.

3 Terms of Reference (Pages 9 - 10)

To note the Terms of Reference of the Pensions Committee.

4 Declarations of Interest - Members to declare as appropriate

5 Consideration of The Minutes of The Previous Meeting (Pages 11 - 16)

6 Carbon Risk Audit 2022 - Full Results Carbon Risk Audit (Pages 17 - 86)

7 Responsible Investment - Next Steps (Pages 87 - 94)

8 Quarterly Update Report (Pages 95 - 140)

9 Equiniti - Third Party Administration Performance Update (Pages 141 - 144)

10 2022 Actuarial Valuation - Council Contribution Rate - TO FOLLOW

11 Investment Strategy Review - Introduction (Pages 145 - 148)

12 Reporting Breaches Procedure - Policy Review (Pages 149 - 172)

13 Procurement and Contracts Update (Pages 173 - 176)

14 Future Pensions Committees Forward Look (Pages 177 - 178)

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

16 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 Item(s) 6- Appendix 1 and 17 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.

17 Consideration of the Exempt Minutes of the Previous Meeting (Pages 179 - 180)

Public Attendance

Following the lifting of all Covid-19 restrictions by the Government and the Council updating its assessment of access to its buildings, the Town Hall is now open to the public and members of the public may attend meetings of the Council.

We recognise, however, that you may find it more convenient to observe the meeting via the live-stream facility, the link for which appears on the agenda front sheet.

We would ask that if you have either tested positive for Covid-19 or have any symptoms that you do not attend the meeting, but rather use the livestream facility. If this applies and you are attending the meeting to ask a question, make a deputation or present a petition then you may contact the Officer named at the beginning of the Agenda and they will be able to make arrangements for the Chair of the meeting to ask the question, make the deputation or present the petition on your behalf.

The Council will continue to ensure that access to our meetings is in line with any Covid-19 restrictions that may be in force from time to time and also in line with public health advice. The latest general advice can be found here - https://hackney.gov.uk/coronavirus-support

Rights of Press and Public to Report on Meetings

The Openness of Local Government Bodies Regulations 2014 give the public the right to film, record audio, take photographs, and use social media and the internet at meetings to report on any meetings that are open to the public.

By attending a public meeting of the Council, Executive, any committee or sub-committee, any Panel or Commission, or any Board you are agreeing to these guidelines as a whole and in particular the stipulations listed below:

- Anyone planning to record meetings of the Council and its public meetings through any audio, visual or written methods they find appropriate can do so providing they do not disturb the conduct of the meeting;

- You are welcome to attend a public meeting to report proceedings, either in 'real time' or after conclusion of the meeting, on a blog, social networking site, news forum or other online media;

- You may use a laptop, tablet device, smartphone or portable camera to record a written or audio transcript of proceedings during the meeting;

- Facilities within the Town Hall and Council Chamber are limited and recording equipment must be of a reasonable size and nature to be easily accommodated.

- You are asked to contact the Officer whose name appears at the beginning of this Agenda if you have any large or complex recording equipment to see whether this can be accommodated within the existing facilities;

- You must not interrupt proceedings and digital equipment must be set to 'silent' mode;

- You should focus any recording equipment on 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 to respect the wishes of those who do not want to be filmed and photographed may result in the Chair instructing you to cease reporting or recording and you may potentially be excluded from the meeting if you fail to comply;

- Any person whose behaviour threatens to disrupt orderly conduct will be asked to leave;

- Be aware that libellous comments against the council, individual Councillors or officers could result in legal action being taken against you;

- The recorded images must not be edited in a way in which there is a clear aim to distort the truth or misrepresent those taking part in the proceedings;

- Personal attacks of any kind or offensive comments that target or disparage any ethnic, racial, age, religion, gender, sexual orientation or disability status could also result in legal action being taken against you.

Failure to comply with the above requirements may result in the support and assistance of the Council in the recording of proceedings being withdrawn. The Council regards violation of any of the points above as a risk to the orderly conduct of a meeting. The Council therefore reserves the right to exclude any person from the current meeting and refuse entry to any further council meetings, where a breach of these requirements occurs. The Chair of the meeting will ensure that the meeting runs in an effective manner and has the power to ensure that the meeting is not disturbed through the use of flash photography, intrusive camera equipment or the person recording the meeting moving around the room.

Advice to Members on Declaring Interests

If you require advice on declarations of interests, this can be obtained from:

The Monitoring Officer;
The Deputy Monitoring Officer; or
The legal adviser to the meeting.

It is recommended that any advice be sought in advance of, rather than at, the meeting.

Disclosable Pecuniary Interests (DPIs)

You will have a Disclosable Pecuniary Interest (*DPI) if it:

- Relates to your employment, sponsorship, contracts as well as wider financial interests and assets including land, property, licenses and corporate tenancies.

- Relates to an interest which you have registered in that part of the Register of Interests form relating to DPIs as being an interest of you, your spouse or civil partner, or anyone living with you as if they were your spouse or civil partner.

- Relates to an interest which should be registered in that part of the Register of Interests form relating to DPIs, but you have not yet done so.

If you are present at any meeting of the Council and you have a DPI relating to any business that will be considered at the meeting, you **must**:

- Not seek to improperly influence decision-making on that matter;
- Make a verbal declaration of the existence and nature of the DPI at or before the consideration of the item of business or as soon as the interest becomes apparent; and
- Leave the room whilst the matter is under consideration

You **must not**:

- Participate in any discussion of the business at the meeting, or if you become aware of your Disclosable Pecuniary Interest during the meeting, participate further in any discussion of the business; or
- Participate in any vote or further vote taken on the matter at the meeting.

If you have obtained a dispensation from the Monitoring Officer or Standards Committee prior to the matter being considered, then you should make a verbal declaration of the existence and nature of the DPI and that you have obtained a dispensation. The dispensation granted will explain the extent to which you are able to participate.

Other Registrable Interests

You will have an 'Other Registrable Interest' (ORI) in a matter if it

- Relates to appointments made by the authority to any outside bodies, membership of: charities, trade unions, lobbying or campaign groups, voluntary organisations in the borough or governorships at any educational institution within the borough.
- Relates to an interest which you have registered in that part of the Register of Interests form relating to ORIs as being an interest of you, your spouse or civil partner, or anyone living with you as if they were your spouse or civil partner; or
- Relates to an interest which should be registered in that part of the Register of Interests form relating to ORIs, but you have not yet done so.

Where a matter arises at any meeting of the Council which affects a body or organisation you have named in that part of the Register of Interests Form relating to ORIs, you **must** make a verbal declaration of the existence and nature of the DPI at or before the consideration of the item of business or as soon as the interest becomes apparent. You **may** speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

Disclosure of Other Interests

Where a matter arises at any meeting of the Council which ***directly relates*** to your financial interest or well-being or a financial interest or well-being of a relative or close associate, you must disclose the interest. You **may** speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

Where a matter arises at any meeting of the Council which ***affects*** your financial interest or well-being, or a financial interest of well-being of a relative or close associate to a greater extent than it affects the financial interest or wellbeing of the majority of inhabitants of the ward affected by the decision and a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest, you **must** declare the interest. You **may** only speak on the matter if members of the public are able to speak. Otherwise you must not take part in any discussion or voting on the matter and must not remain in the room unless you have been granted a dispensation.

In all cases, where the Monitoring Officer has agreed that the interest in question is a **sensitive interest**, you do not have to disclose the nature of the interest itself.

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Terms of Reference - Pensions Committee

The Pensions Committee will be responsible for the functions set out below:

1. To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, and the various pension legislation.
2. To act as Scheme Manager for the Pension Fund.
3. To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
4. To formulate and publish a Statement of Investment Principles.
5. To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium-term plan to deliver the objectives.
6. To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
7. To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
8. To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles
9. To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget
10. To receive and approve an Annual Report on the activities of the Fund prior to publication
11. To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis
12. To keep the terms of reference under review
13. To determine all matters relating to admission body issues
14. To focus on strategic and investment related matters at two Pensions Committee meetings
15. To review the Pension Fund’s policy and strategy documents on a regular cycle and review performance against the Fund’s objectives within the business plan
16. To maintain an overview of pensions training for Members

The Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme representative.

The quorum for the Pensions Committee shall be 2 elected Councillors

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Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

THURSDAY 10 MARCH 2022

Link to view the meeting:
https://youtu.be/c5E-nPOPuoU or https://youtu.be/9TOiNIXRZP4

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Michael Desmond, Cllr Kam Adams (Vice-Chair), Cllr Nick Sharman and Cllr Lynne Troughton**
Co-optees:	**Jonathan Malins-Smith and Henry Colthurst**
Apologies:	**Cllr Ben Hayhurst and Cllr Polly Billington**
Officers in Attendance:	Jackie Moylan (Director of Financial Management), Michael Honeysett (Interim Head of Pensions), Rachel Cowburn (Head of Pension Fund Investments and Actuarial), Georgia Lazari (Solicitor - Team Leader) and Rabiya Khatun (Governance Officer)
Also in Attendance:	Andrew Johnston (Hymans Robertson) Simon Jones (Hymans Robertson) Karen McWilliam (Aon)

1 **Apologies For Absence**

1.1 Apologies for absence were received from Cllrs Billington and Hayhurst.

1.2 Jonathan Malins- Smith and Henry Colthurst joined the meeting remotely.

1.3 Cllr Troughton left the meeting at 19.15 hours.

2 **Declarations of Interest - Members to declare as appropriate**

2.1 The following Members declared that there was no change to the disclosable interests stated at the start of the municipal year 2021/22:

- Cllrs Chapman, Hayhurst and Troughton declared that they were members of the LGPS;
- Cllr Gordon and Jonathan Malins-Smith declared that they were deferred members of the LGPS; and
- Cllr Adams declared that his wife was a member of the LGPS.

2.2 Karen McWilliam and Andrew Johnston declared an interest in agenda item 6 – Procurement and Contracts Update as employees of Aon and Hymans Robertson respectively and left the room during consideration of this item.

3 **Consideration of The Minutes of The Previous Meeting**

3.1 There were no minutes of the meeting for approval.

4 **Responsible Investment Policy**

4.1 The Head of Pension Fund Investments and Actuarial introduced the report setting out the results of a carbon risk audit carried out by TruCost on the equity portfolio to measure the Fund's carbon footprint and exposure to future CO2 emissions and the progress made against the Fund's target to reduce exposure to future CO2 emissions. It also set out the next steps for the Fund in terms of both climate change reporting and the Fund's approach to Responsible Investment more widely.

4.2 It was highlighted that the results of the audit showed that the Fund had reduced its exposure to future CO_2 emissions by 96.9% since July 2016, significantly outperforming the Fund's target of a 50% reduction by 2022 without negatively impacting on performance. The proposed changes to the Fund's monitoring of carbon metrics had been part of a wider planned update to the Fund's approach to Responsible Investment, which would focus on setting out the Committee's priorities for Responsible Investment and strengthening the Fund's engagement approach. The updated Responsible Investment policy set out the new three key priorities, approach to exclusion and strengthening the Fund's engagement approach.

4.3 In response to questions from Members relating to the report, the Head of Pension Fund Investments and Actuarial, Andrew Johnston and Simon Jones from Hymans Robertson responded as follows:

- In terms of performance and relative performance, the Fund's performance had been benchmarked against LGPS peers as this gave an indication of how the Fund had performed relative to funds of a similar size, life cycle and investment strategies. The challenge in performance comparison was that there were limited defined benefit pension funds open to both new and existing scheme members;
- Since 2016 the measuring of carbon risk had changed and monitoring carbon exposure more frequently was now possible as data had become more widely available and cheaper. More guidance was also available in particular from the Task Force on Climate-Related Financial Disclosures (TCFD) which had recommended using a whole metrics of carbon metrics to monitor things such as emissions from invested companies, reserves and the plans companies had in place to achieve alignment with the Paris Agreement. With regard to the remaining 3% carbon exposure, the emphasis would be to look at underlying companies and their preparations for transition and alignment with the Paris Agreement. The Fund's overarching ambition to align with the Council's commitment to deliver net zero emissions by 2040 and in line with the IPCC's goal of limiting global

warming to 1.5C was achievable with more frequent measuring and monitoring taking place in line with TCFD recommendations.

- With regard to the specific approaches and measurements to achieve the target, it was highlighted that the TCFD recommendations were very detailed and widely recognised by larger pension schemes. The TCFD recommendations were expected to become requirements on LGPS schemes and the overlap between the TCFD requirements and net zero framework was substantive. In addition to monitoring, consideration needed to be given to metrics that were relevant such as the alignment metrics and setting stewardship and engagement goals to monitor those acting on behalf of the Fund. The Chair indicated that he would like TruCost to deliver a presentation when it submitted its report at the next meeting;
- Having more metrics and measuring other parts of the Fund's portfolio would allow asset owners to apply pressure on fund managers and investing companies to drive the change in reducing carbon emissions;
- With regard to setting a new target based on the updated metrics, it was emphasised that the year 2040 was a statement of ambition. Members were cautioned against setting an earlier date as this could impact on interim targets and could have unintended consequences such as forcing the Fund to divest from companies that were slowly moving through the transition process. In addition, if the Fund's portfolio achieved net zero more quickly than the world it would still be subject to the risk of climate change; and
- Guidance for asset owners had been given to ask investing companies their plans for transition to net zero and engaging to encourage change in behaviour.

4.4 The Chair asked officers to consider collaborations with other organisations such as IIGC and PRI as part of responsible investment.

RESOLVED

1. **Note the reduction in exposure to future CO2 emissions by 96.9% since 2016, which significantly outperforms the Fund's target of a 50% reduction.**
2. **Agree the Fund's ambition to deliver net zero emissions across its functions by 2040, ten years earlier than the target set by the Government, and in line with the Intergovernmental Panel on Climate Change's higher confidence threshold for limiting global warming to 1.5C above pre-industrial revolution average.**
3. **Agree that the Fund should monitor carbon exposure using a set of metrics in line with recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD.)**
4. **Approve the draft Responsible Investment Policy.**

5 **Risk Policy**

5.1 The Head of Pension Fund Investments and Actuarial introduced the report setting out the updated risk policy.

5.2 In response to questions from Members relating to the report, the Head of Pension Fund Investments and Actuarial and Interim Head of Pensions responded as follows:

- In terms of the risk of high inflation to the Fund and currency hedging, the Committee had already agreed currency hedging at 30% within its investment strategy and this approach could not be amended based on current global issues. The current hedging was considered appropriate in the longer term and could be reviewed during the next valuation;
- It was confirmed that the Fund's investment mandates currently had no currency hedging and that the team were in the process of procuring a hedging provider and an update would be provided at the next meeting;
- The Head of Pension Fund Investments and Actuarial agreed to provide members information on the Fund's other exposures to currency following the meeting;
- The Fund's low carbon and sustainable equity fund had major exposure to the dollar and Euro currencies and therefore mitigation was necessary;
- The current inflationary pressures were short term issues while the Fund had taken a long term view to inflation and currency hedging.

RESOLVED to:
1. Approve the updated Risk Policy.
2. Note the risk register update for 2021/22.

(Karen McWilliam and Andrew Johnston left the meeting before consideration of item 6.)

6 **Procurement & Contracts Update**

6.1 The Head of Pension Fund Investments and Actuarial introduced the report setting out the current position and requirement for further extensions on several contracts for services within the Pension Fund which were due for renewal. These included the actuarial services and investment consultancy currently provided by Hymans Robertson, benefits and governance services provided by Aon and global custody services provided by HSBC. The coronavirus pandemic had disrupted the procurement process for these services and consideration had been given to the Committee's request to align the procurement interviews with Committee's meeting dates.

6.2 In response to questions relating to the report, the Head of Pension Fund Investments and Actuarial responded as follows:

- Hymans Robertson's Investment Consultancy contract had been in place for many years and the contract had been renewed periodically;
- It would be a challenge to obtain this consultancy service in-house as the Pension Fund covered a wide range of areas and specialist legal advice on benefit issues could not always be obtained within the Council;
- The Pensions team consisted of five members of staff in administration, four staff in investment and accounts, Director of Financial Management and Corporate Director of Finance and Resources as well as advice from the Council's Legal Services.

RESOLVED to:

1. **Approve the re-procurement of the Actuarial Services Contract (with Hymans Robertson) and Benefits & Governance Consultancy Contract**

(with Aon) via direct call off under Lot 5 of the National LGPS Framework for Actuarial, Benefits & Governance Consultancy Services.

2. **Note the intention to put the above contracts out for competitive tender via the Framework in Spring 2023.**
3. **Approve the extension of the Investment Consultancy Contract with Hymans Robertson for an additional 5 months to 30th September 2022.**
4. **Note the current position regarding the Custodian Services Contact.**

7 Pensions Administration Strategy

7.1 Karen McWilliam, Aon, introduced the report on the Fund's Pensions Administration Strategy, which had been updated to reflect the development of the Employer self Service portal for collecting monthly employer data. It was highlighted that many changes in regulations were expected in the next few years.

RESOLVED:
To approve the updated Hackney Pensions Administration Strategy as outlined in Appendix 1 for publication.

8 Business Plan

8.1 The Chair introduced the report outlining the Business Plan.

8.2 A member requested refresher training be available for Committee members.

RESOLVED:
To approve the Business Plan for 2022/23 to 2024/25.

9 Quarterly Update Report

9.1 The Interim Head of Pensions introduced the report providing an update on the key quarterly performance measures, position of the Fund between November and December and an update on the implementation of the investment strategy.

9.2 It was highlighted that the report did not include the impact of the Russian invasion on the Fund's performance. However, following a recent exercise and analysis of the level of exposure, it was reported that the Fund had approximately 0.05% exposure to Russian related investments.

9.3 In response to questions from members relating to the report, the Interim Head of Pensions, Head of Pension Fund Investments and Actuarial and Andrew Johnston responded as follows:

- The Fund had no direct exposure to Russian investments but had limited exposure of approximately £1m mainly concentrated in the equity portfolio. Officers were working with the relevant Fund Managers with the intention to divest from the Fund's Russian holdings when practicable due to the long term financial risk they presented as the Ukraine conflict and sanctions had led to assets losing value and there was also no possibility of engagement;

- The Committee were advised to focus on two key priority areas, these were engagement with the LCIV and Blackrock mandate managers to continue to understand how decisions were being taken on behalf of the Committee going forward and expressing the Committee's opinions and views, and considering beliefs and divestments;
- With regard to the definition of Russian assets, it was clarified that the exposure of 0.05% represented Russian companies listed on either the Russian stock exchange or other stock exchanges but it did not represent indirect exposure. An exercise had been undertaken but further work was being undertaken to look at the Fund's indirect exposure to look at those companies directly affected by sanctions and the financial risks involved; The Head of Pension Fund Investments and Actuarial undertook to provide an update on the Russian holdings within the Fund;
- It was highlighted that Russian assets were losing value as the conflict continued and also index funds providers had taken the decision to remove Russia from their universe and would no longer hold Russian assets in these index funds. To divest from Russian holdings at present was complicated and in particular from pooled funds as it was not practicable due to the transaction costs involved and also the level of exposure;
- It was confirmed that there had been a deterioration in the funding position, it was approximately 6% worse than represented at the year end. Due to volatility in the markets being less extreme than previously no recommendations were being made to amend the investment strategy; and
- The 32.5% improvement since 2019 had been driven by strong growth asset performance predominantly in equities and rising yields.

9.4 It was noted that members were satisfied with the approach to divest from Russian holdings as soon as practical.

RESOLVED:
To note the report.

10 **Exclusion of The Press And Public**

RESOLVED:
That the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt item 11- Cyber Security Policy 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.

11 **Cyber Security Policy**

11.1 The minutes for this item are exempt.

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

12.1 Cllr Desmond thanked the Chair and Committee members for their commitment and work and also officers. Cllr Sharman also thanked the Pensions team for their support and professionalism.

Duration of the meeting: 18.48- 21.15 hours

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Hackney

Title of Report	Carbon Risk Audit 2022 – Full Results & Presentation (TruCost)
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open & Exempt Appendix
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1 This report presents the results of a carbon risk audit carried out on the Fund's equity portfolio to measure the Fund's carbon footprint and exposure to future CO_2 emissions, and to assess progress made against the Fund's target to reduce exposure to future CO_2 emissions by 50% by 2022.

1.2 The results show that the Fund has reduced its exposure to carbon reserves by 96.9% between July 2016 and November 2021. This demonstrates significant outperformance of the Fund's original target to reduce exposure by 50% by 2022.

1.3 We are proud to have responded to this issue early and to have been one of the first LGPS funds to set and transparently monitor performance against a carbon reduction target. The target has helped highlight the areas of greatest risk within the Fund's investment strategy and helped the Fund integrate carbon risk into the strategy setting process. The changes made have delivered very significant reductions in risk.

1.4 The audit was carried out by S&P Global Trucost, a specialist provider of data on climate change, natural resource constraints, and broader environmental, social, and governance (ESG) factors. Trucost will be attending the Committee meeting to present the results of the exercise.

2. Recommendations

2.1 The Pensions Committee is recommended to:

- Note the reduction in exposure to future CO_2 emissions by 96.9% since 2016, which significantly outperforms the Fund's target of a 50% reduction.

3. Related Decisions

- Pensions Committee - 10th March 2022 - Carbon Risk Audit - 2022 Results
- Pensions Committee - 17th February 2020 - Carbon Risk Audit
- Pensions Committee - 19th September 2016 - Update on climate change recommendations and presentation of carbon footprinting results.
- Pensions Committee - 28th January 2016 - Future Workstreams - Climate Change

4. Comments of the Group Director of Finance and Corporate Resources

4.1 The Pensions Committee acts as Scheme Manager for the Pension Fund and is therefore responsible for the management of £1.8 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension promises, which are underwritten by statute.

4.2 The Fund recognises that investment in fossil fuels and the associated exposure to potential stranded assets scenarios pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

4.3 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. This report provides the Committee with a greater understanding of where climate risks are concentrated within its investment portfolio, which can then be used to help mitigate those risks within its investment strategy.

4.4 The Group Director is very pleased to report the reduction in exposure to future CO_2 emissions by 96.9% since 2016, which indicates that the Fund has significantly outperformed its target of a 50% reduction by 2022. The reduction is fully compatible with the Fund 's wider investment strategy and has been achieved with no negative impact on performance; the Fund's performance has improved relative to its peer group (other local authority pension funds) over the 6 year period since the introduction of the target.

5. Comments of the Director of Legal, Democratic and Electoral Services

5.1 The Pensions Committee has delegated authority for managing all aspects of the Pension Fund including the following from the Committee's Terms of Reference:

- To formulate and publish an Investment Strategy Statement
- To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver the objectives.
- To determine the strategic asset allocation policy

5.2 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the Administering Authority to formulate an Investment Strategy Statement (ISS) in line with guidance published by the Secretary of State. The guidance requires the Fund to include a section on its approach to Environmental, Social and Governance (ESG) factors within its ISS.

5.3 In 2014, the Law Commission produced guidance on the fiduciary duties of investment intermediaries, which indicated that investors should have regard to ESG factors where they are financially material. In its guidance to occupational schemes, the Pensions Regulator has given a clear indicator that it believes this to be the case for climate change.

5.4 This report helps to demonstrate that the Committee is factoring climate risk into its investment strategy setting process as a material financial risk and will make clear disclosures with regards to its approach in the ISS as required by the LGPS (Management and Investment of Funds) Regulations 2016.

6. Background to the report

6.1 In January 2016, the Fund held its initial strategy meeting to consider in detail the Fund's approach to investment in fossil fuels and management of the financial risks posed by climate change. At that meeting, the Committee considered and approved a set of recommendations reflecting both its recognition of these risks and a strengthened commitment to factor them into its investment approach. The recommendations were as follows:

- Develop a policy statement regarding the London Borough of Hackney's approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS)
- Agree to monitor carbon risk within the London Borough of Hackney Pension Fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund
- Review options for the Pension Fund's passive UK equity mandate
- Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.
- Maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance

- Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s)
- Review options for switching some of the existing property mandate into a low carbon property fund
- In recognition of the financial risks posed by climate change, resolve to amend the Fund's risk register to reflect this as a risk

6.2 The Fund has now completed work on all of the above recommendations. Since 2016, the Fund has:

- Included a carbon reduction policy statement within the ISS, clearly setting out the carbon reduction target
- Commissioned 3 carbon footprint reports (2016, 2019 and 2022) - these have been used to set and monitor the Fund's carbon reduction target
- Reviewed exposure to UK passive equities (one of the Fund's most significant sources of exposure to reserves) and removed this allocation from the Fund's investment strategy
- Changed the Fund's active equity managers, ensuring that the new managers consider carbon risk as an integral part of decision making. The Fund continues to engage with both its active and passive equity managers
- Stepped up involvement with the work of the Local Authority Pension Fund Forum (LAPFF), which engages collectively on behalf of local authority pension funds. Cllr Chapman, Chair of the Pensions Committee, is now a member of the LAPFF executive and attends engagement meetings on behalf of the group
- Invested 35% of the Fund in sustainable/low carbon equity funds, far above the initial commitment of 5%
- Switched £25m of the Fund's property mandate into Threadneedle's Low Carbon Workplace Fund, which is a partnership between Columbia Threadneedle Investments, the Carbon Trust and property developer Stanhope. Through the fund, the partnership acquires commercial office buildings and refurbishes them, turning them into energy efficient workplaces. Once occupied, the buildings' energy and carbon performance are monitored against standards set by the Carbon Trust, who also provide support to occupiers to help reduce their energy usage
- Amended the Fund's risk register to include carbon risk/stranded assets within the Fund's Environmental, Social and Governance risks

6.3 We are very pleased by the progress made on implementing these recommendations. The Fund has gone significantly beyond the original recommendation in many cases, perhaps most notably in the case of the carbon footprinting recommendation and investment in sustainable and low carbon equity funds.

7. **<u>Carbon Risk Audit & Target Setting</u>**

7.1 The Fund undertook its first carbon risk audit in summer 2016, following the recommendation made at the January 2016 meeting to commission a carbon footprint report for the Fund. Carried out by Trucost, the audit assessed not only the carbon footprint of the Fund's equity portfolio, but also its exposure to future emissions through fossil fuel reserves.

7.2 The Fund's view was that exposure to future emissions most accurately represented the risk to the Fund from investing in fossil fuel companies. Assessing exposure to emissions from reserves in this way helped the Fund to take a view on its exposure to potentially stranded assets that may prove unusable as a result of the transition to a low carbon economy.

7.3 After careful consideration of how carbon risk could best be reduced within the investment management framework in which LGPS funds operate, and after taking proper advice, the Committee considered it appropriate to propose a quantifiable, time-bound target for a reduction in the Fund's exposure to future fossil fuel emissions. The Committee agreed that the Fund should:

- Reduce its 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 and adjusted for Assets Under Management (£AUM)

7.4 The proposal represented an initial step in ensuring that the Fund is prepared for transition to a low carbon economy. It clearly set out the timeframe for decarbonisation and defined how it should be measured, making it the most ambitious carbon reduction target amongst the London LGPS funds.

7.5 As the target was to be assessed over 2 valuation cycles, the Committee had an interim audit carried out at the 3 year point to review progress against the target and assist with decision making for the 2020 investment strategy. The interim audit showed that the Fund had reduced its exposure to carbon reserves by 31.4% between July 2016 and November 2019. This placed the Fund well over halfway to its target of 50%, and also highlighted some clear areas for improvement.

7.6 The Fund made a number of investment strategy changes during 2021, with relatively few changes to the equity mandates planned for 2022. The decision was therefore made to bring forward the final assessment date for the target to 30th November 2021. This report presents the detailed results of that final assessment, setting out the Fund's outperformance against its 50% target.

8. <u>Summary of performance against target</u>

8.1 The audit shows that the Fund has reduced its exposure to carbon reserves by 96.9% between July 2016 and November 2021.

8.2 Trucost has analysed the carbon emissions embedded within the fossil fuel reserves that are disclosed by the underlying companies within the Fund's equity portfolio. The emissions measured are the carbon emissions embedded within company owned fossil fuel reserves which can be considered 'unburnable' if the Paris Agreement targets are to be achieved. The Committee has used this metric to set its target as it gives an indication of the extent to which the Fund is exposed to assets (i.e. coal, oil and gas reserves) that may be at risk of stranding.

8.3 The results shown here are normalised by asset value; the future emissions measured for each portfolio (2016 and 2022) have been divided by the value of holdings for that portfolio. This gives a figure for emissions intensity. The figures for 2016 have been restated from previous assessments to allow for changes in Trucost's methodology since 2016. The range of carbon data available and the tools for analysing it have developed significantly since 2016, and Trucost now use a different method of apportioning emissions to companies, that takes account of bondholders as well as equity owners. It has therefore been necessary to restate the figures from 2016 to ensure a comparable dataset.

8.4 The Fund's equity portfolio as at 31st August 2016 (as used in the initial assessment) had an emissions intensity of 5,497.25 tCO_2e/mGBP (tonnes of future CO_2 emissions divided by value of holdings (£million)), whilst the equity portfolio as at 30th November 2022 has an emissions intensity of 174.51 tCO_2e/mGBP. This represents a reduction of 96.9% since 2016, well in excess of the Fund's original target.

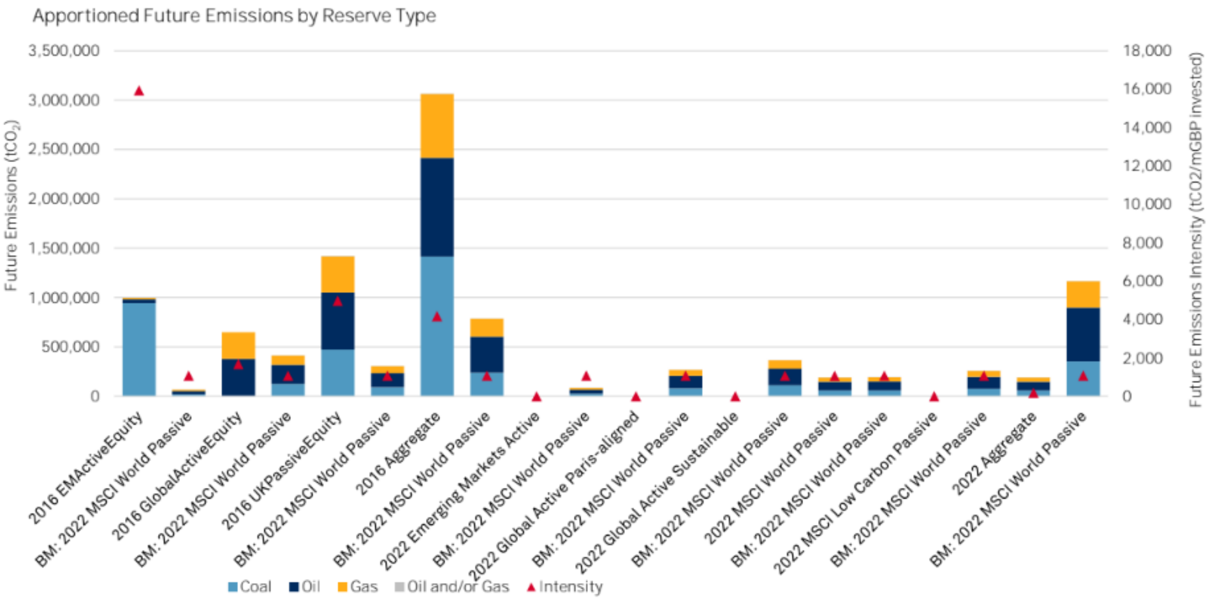
8.5 We are extremely pleased with this result and are proud to have been one of the first LGPS funds to set and transparently monitor performance against a carbon reduction target. Setting a clear target has helped highlight the areas of greatest risk within the Fund's investment strategy and helped the Fund integrate carbon risk into the strategy setting process; the changes made have delivered very significant reductions in carbon risk exposure.

8.6 It should be remembered that carbon risk data is complex and has certain inherent limitations. One key issue is that of disclosure - the usefulness of any metric will depend on the reliability of the data submitted at the company level. The Fund's approach has been to use this carbon risk audit as a guide to where the most significant risks are concentrated and to use this to inform decision-making around strategy setting and risk management. The metrics disclosed are also used to inform the Fund's engagement with its managers and investee companies, as well as potentially assisting us in improving climate-related disclosures.

9. <u>Reduction in exposure to Reserves- Breakdown by Mandate</u>

9.1 As well as measuring the exposure across the aggregate equity portfolios for both 2016 and 2019, the audit assessed exposure to future emissions for each of the Fund's underlying equity mandates. The exposure to reserves from coal, oil and gas was measured for each mandate for both 2016 and 2022, and compared to the exposure for a portfolio of the same value tracking the MSCI World. The benchmark should not be considered as representing the Fund's overall equity investment strategy; rather it provides a useful way of comparing exposure across portfolios of different sizes.

9.2 The chart below sets out the exposure for each of the Fund's equity mandates for both 2016 and 2022, measured using current data. As set out above, each mandate is benchmarked against the MSCI World to indicate the intensity of its exposure. For each mandate, the benchmark exposure represents the level of exposure that would be expected for a portfolio of the same size tracking the MSCI World. A larger version of the chart can be found in Appendix 1 to this report.



9.3 the 96.9% reduction in exposure has been achieved. The key drivers have been disinvesting from the UK passive equity mandate, moving to active and passive global equity mandates with very low exposure to fossil fuel reserves, and changing the emerging markets equity mandate by moving to a pooled option through the London CIV.

9.4 All of the Fund's equity mandates now have reserves exposures at or below the benchmark, compared to none in 2016. In 2016, 25% of total Fund assets were held in a UK Passive Equity mandate, tracking the FTSE Allshare. This mandate represented the Fund's significant exposure to fossil fuel reserves in absolute terms (approx. 1.4m tCO_2), largely driven by the presence in the FTSE Allshare index of several large diversified miners as well as a substantial oil and gas sector. Disinvesting from this mandate therefore significantly reduced the Fund's exposure to reserves.

9.5 Another significant driver of the Fund's exposure to fossil fuel reserves in 2016 was the emerging markets active equity mandate. Although much smaller than the UK passive mandate (approx. 5% of total Fund assets), this mandate had an extremely high emissions intensity of nearly 16,000 tCO_2e/mGBP. This was driven largely by exposure to a single company, a coal miner. Coal has a greater emissions intensity than either oil or gas; for a certain monetary value, investment in coal will result in a greater exposure to future emissions.

9.6 Whilst the Fund maintains exposure to emerging market equities, it has changed the Fund in which it invests as a result of moving this allocation to the London CIV. The current EM equities fund reports no exposure to fossil fuel reserves, therefore reducing the emissions intensity of the Fund's overall equity portfolio.

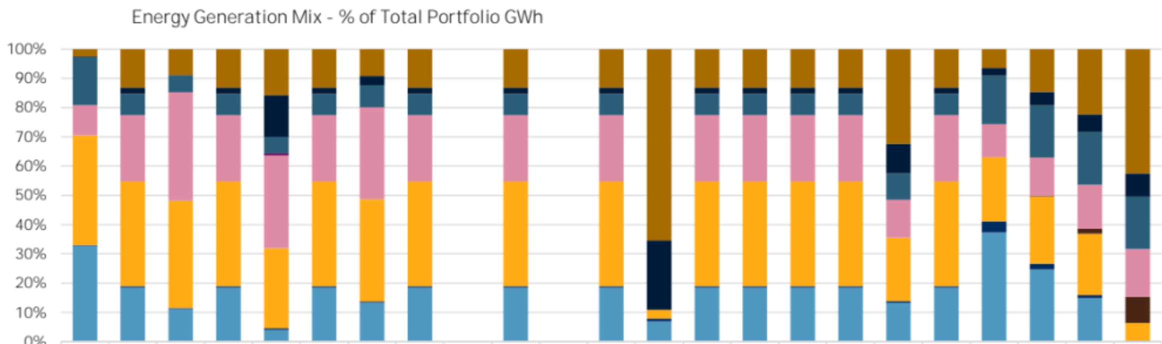
9.7 The Fund's global equity exposure is now split between 2 passive and 2 active mandates, all of which have emission intensities equal to or lower than the MSCI World benchmark. 3 of the mandates (MSCI Low Carbon Passive, Global Active Sustainable and Global Active Paris-aligned) report no exposure to apportioned future emissions from fossil fuel reserves.

10. <u>Alignment with Paris Agreement goals</u>

10.1 Another key metric for the Committee to consider is alignment with the goals of the Paris Agreement, which sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.

10.2 Historically, investment portfolios have been measured against traditional financial benchmarks which reflect the economy today rather than the low carbon economy needed for the future. This over-represents traditional fossil fuel energy sectors and under-represents greener energy providers. To help overcome this issue, Trucost has compared the current energy mix of the Fund's portfolio to a two degree warming scenario to illustrate how to work toward an energy transition goal. This allows the Fund to assess its transition impact and consider how it can make a positive contribution to a lower carbon economy.

10.3 The chart below shows the percentage share in the overall energy mix of each unit of energy apportioned to the Fund's 2016 and 2022 portfolios and MSCI World benchmark, by type. These are then compared to the IEA's '2 degree aligned' energy mix scenarios for the world in 2016, 2025, 2030 and 2050 respectively. A larger version of this chart can be found in Appendix 1 to this report.



	2016 EMActive Equity	BM: 2022 MSCI World Passive	2016 GlobalActiveEquity	BM: 2022 MSCI World Passive	2016 UKPassiveEquity	BM: 2022 MSCI World Passive	2016 Aggregate	BM: 2022 MSCI World Passive	2022 Emerging Markets Active	BM: 2022 MSCI World Passive	2022 Global Active Paris-aligned	BM: 2022 MSCI World Passive
Other Renewables	2.49%	13.10%	8.82%	13.10%	15.79%	13.10%	9.18%	13.10%	0.00%	13.10%	0.00%	13.10%
Biomass	0.30%	2.20%	0.16%	2.20%	14.18%	2.20%	3.09%	2.20%	0.00%	2.20%	0.00%	2.20%
Hydroelectric	16.35%	7.24%	5.73%	7.24%	5.64%	7.24%	7.53%	7.24%	0.00%	7.24%	0.00%	7.24%
Other sources	0.07%	0.08%	0.01%	0.08%	0.67%	0.08%	0.16%	0.08%	0.00%	0.08%	0.00%	0.08%
Nuclear	10.26%	22.58%	37.10%	22.58%	31.71%	22.58%	31.39%	22.58%	0.00%	22.58%	0.00%	22.58%
Fossil energy with CCS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Natural Gas	37.60%	35.81%	36.66%	35.81%	27.43%	35.81%	34.91%	35.81%	0.00%	35.81%	0.00%	35.81%
Petroleum	0.22%	0.48%	0.38%	0.48%	0.54%	0.48%	0.38%	0.48%	0.00%	0.48%	0.00%	0.48%
Coal	32.71%	18.51%	11.14%	18.51%	4.03%	18.51%	13.36%	18.51%	0.00%	18.51%	0.00%	18.51%

	2022 Global Active Sustainable	BM: 2022 MSCI World Passive	2022 MSCI World Passive	BM: 2022 MSCI World Passive	BM: 2022 MSCI World Passive	2022 Aggregate	BM: 2022 MSCI World Passive	IEA (World) 2016 2 Degree Scenario *	IEA (World) 2025 2 Degree Scenario *	IEA (World) 2030 2 Degree Scenario *	IEA (World) 2050 2 Degree Scenario *
Other Renewables	65.39%	13.10%	13.10%	13.10%	13.10%	32.31%	13.10%	6%	15%	22%	43%
Biomass	23.73%	2.20%	2.20%	2.20%	2.20%	10.14%	2.20%	3%	5%	6%	8%
Hydroelectric	0.00%	7.24%	7.24%	7.24%	7.24%	8.99%	7.24%	17%	18%	18%	18%
Other sources	0.00%	0.08%	0.08%	0.08%	0.08%	0.06%	0.08%	0%	0%	0%	0%
Nuclear	0.00%	22.58%	22.58%	22.58%	22.58%	12.94%	22.58%	11%	13%	15%	16%
Fossil energy with CCS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0%	0%	2%	9%
Natural Gas	2.97%	35.81%	35.81%	35.81%	35.81%	21.67%	35.81%	22%	23%	21%	6%
Petroleum	0.99%	0.48%	0.48%	0.48%	0.48%	0.64%	0.48%	4%	2%	1%	0%
Coal	6.92%	18.51%	18.51%	18.51%	18.51%	13.24%	18.51%	37%	25%	15%	0%

* The content within the table above was prepared by S&P Trucost Limited, with data derived from the 2 Degree Scenarios devel oped by the International Energy Agency. ©OECD IEA 2017. The content within the table above does not necessarily reflect the views of the International Energy Agency.

10.4 It is worth noting that the portfolio and benchmark generation mixes are based only on disclosed energy production data. Companies operating in the energy sector but not disclosing units of energy produced are not included in the grid mix presented here. For example, the Fund's Emerging Markets Active and Global Active Paris-Aligned portfolios do not have exposure to any companies disclosing figures for energy generation and therefore have no results included within this analysis.

10.5 The 2022 Aggregate portfolio is reasonably well aligned with the 2ºC scenario for 2030 in terms of fossil fuel exposure within its energy mix (35.55% vs 39%). However, to align with the 2025 scenario, it would need to increase its exposure to renewable energy within the energy generation mix from 51.44% to 69%. This cannot be done through reduction in exposure to fossil fuel companies alone; as this analysis focuses on the percentage energy mix, the Fund would need to make positive decisions around renewable energy generation and green revenues to improve its alignment.

10.6 This analysis focuses on a 2ºC warming scenario, using data derived from the International Energy Agency's (IEA) World Energy Outlook (WEO) scenarios. The WEO is used by businesses, investors and governments as the global benchmark for modelling the energy industry. The 2 degree warming scenario used here is an earlier iteration of the IEA's Sustainable Development Scenario (SDS) intended to meet the targets of the Paris Agreement.

10.7 The Fund is very conscious of the IPCCs Special Report on Global Warming of 1.5°C, and that the IEA has since updated the SDS and published a new Net Zero Emissions by 2050 Scenario. This charts a narrow but achievable roadmap to a 1.5 °C stabilisation in global temperatures and the achievement of other energy-related sustainable development goals.

10.8 One of the Fund's key next steps is to consider how best to include alignment with newer 1.5 degree scenarios in its analysis as well as moving towards a broader assessment of investee companies' Paris-alignment. This will require looking beyond the energy generation mix to consider the carbon intensity reductions required across different sectors.

10.9 The Fund is now beginning a new programme of work to implement a range of metrics in line with the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). This work will help support the Fund's ambition to achieve net zero emissions by 2040, by providing information to allow the Fund to set robust interim targets against which to measure progress. More information can be found in Agenda Item 5 (Responsible Investment - Next Steps), which sets out details of the Fund's new programme of work.

11. <u>Other Metrics</u>

11.1 Sections 8-10 set out the key metrics for the Fund in terms of carbon risk exposure and alignment with the Paris Agreement goals. However, Trucost's audit also assessed a number of other metrics, which are set out in more detail in the Key Findings Report at Appendix 1. They will also covered in more detail during

Trucost's presentation. These metrics include:

- Carbon footprinting metrics
  - Carbon footprint by scope (Measures carbon emissions and classifies into Scopes 1,2&3)
  - Carbon intensity by method (Compares portfolios by normalising the carbon footprint by revenues or by value invested)
  - Sector VOH (value of Holdings) share vs carbon share (w compares each sector's value-based weight in a portfolio or benchmark to its share of the total apportioned carbon emissions)
  - Sector carbon intensities (shows the carbon to revenue intensities of the portfolio at the sector level)
  - Top contributors (shows the top contributors to the carbon intensity of the portfolios analysed)
  - Attribution analysis (shows the relative contribution of sector allocation and company selection decisions)
- Carbon disclosure metrics
  - Disclosure analysis (assesses the overall level of disclosure in each portfolio)
  - Top modelled contributors (shows the top contributors to each portfolio's Carbon/Revenue intensity whose Scope 1 CO_2e is classified as modelled)
- Stranded assets and energy transition metrics
  - Financial Exposure to Fossil Fuel Activities (assesses exposure to fossil fuel assets by showing the combined weight of holdings with business activities in either fossil fuel extraction or fossil fuel energy generation industries)
  - Fossil Fuel Activities Breakdown by Sector (breaks down the 'extractives and energy revenue exposure into specific industry exposures)
  - Top Contributors to Fossil Fuel Revenues (shows the top 10 contributors to the portfolio's weighted average fossil fuel revenues exposure)
  - Top Contributors to Coal Revenues (shows the top 10 contributors to the portfolio's weighted average coal revenues exposure)
  - Emissions from Reserves - **See Sections 8 & 9**
  - CAPEX (shows the total apportioned capital expenditure on fossil fuel related activites split by reserve type)
  - Top Contributors to Future Emissions from Reserves (shows the top contributors to the portfolio's apportioned emissions from reserves)
  - Energy Mix - **See Section 10**
  - Financial Exposure to Energy Revenues (assesses exposure to energy 'aggravators' (fossil fuels) and 'mitigators' (renewables) based on sources of revenue).

Appendices

Appendix 1 (EXEMPT) - Trucost Multi-portfolio Report

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

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Title of Report	Responsible Investment - Next Steps
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. This report sets out the next steps in the Fund's Responsible Investment work programme. Following on from an initial report at the March 2022 Pensions Committee, it provides a progress update on the development of the Fund's TCFD (Taskforce on Climate-related Financial Disclosures) reporting. It sets out the aim to stay at the forefront of driving the environmental, social and governance agenda through taking a leading in role in a London-wide forum enabling the Fund to have greater influence on Government proposals. It also sets out proposals for the Fund's Responsible Investment Working Group (RIWG) for the Committee's approval.

2. Recommendations

2.1. **The Committee is recommended to:**

- **Note the timeline for the development of TCFD reporting and note the Fund's involvement in setting up a London-wide working group**
- **Note the suggestion to introduce a new carbon reporting target once the first assessment of the Fund's portfolio under TCFD reporting is complete**
- **Approve the proposals for the constitution of the Responsible Investment Working Group.**

3. **Related Decisions**

3.1. Pensions Committee 15th June 2022 - Carbon Risk Audit 2022 - Full Results

3.2. Pensions Committee 10th March 2022 - Responsible Investment Policy & Carbon Risk Audit

4. **Comments of the Group Director of Finance and Corporate Resources.**

4.1. The Pensions Committee acts as Scheme Manager for the Pension Fund and is therefore responsible for the management of £1.8 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension promises, which are underwritten by statute.

4.2. The Fund recognises that environmental, social and governance factors can present financially material risks and opportunities for the Fund;s investments. The Fund aims to deliver stronger investment returns over the long term by recognising these risks and opportunities wherever possible and by contributing to a more sustainable financial system.

4.3. Climate change presents a systemic risk to ecological, societal and financial stability across the globe. To mitigate this risk, temperature rises need to be kept to well below 2°C compared to preindustrial levels. Financial assets will be significantly impacted through changes in climate policies, new technologies and growing physical risks; the Fund must therefore consider its capital allocation decisions in light of these changes.

4.4. A key risk of these changes is that present valuations do not adequately factor in climate-related risks because of insufficient information. Investors need adequate information on how companies are preparing for a lower-carbon economy; the recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD) are intended to help ensure that companies provide that information.

4.5. Adopting the TCFD recommendations will help the Fund to further assess the key risks posed by climate change and ensure its portfolio is as sustainable and resilient as possible.

5. **Comments of the Director of Legal, Democratic and Electoral Services**

5.1. The Pensions Committee has delegated authority for managing all aspects of the Pension Fund including the following from the Committee's Terms of Reference:

- To formulate and publish an Investment Strategy Statement
- To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver the objectives.
- To determine the strategic asset allocation policy

5.2. Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the Administering Authority to formulate an Investment Strategy Statement (ISS) in line with guidance published by the Secretary of State. The guidance requires the Fund to include a section on its approach to Environmental, Social and Governance (ESG) factors within its ISS.

5.3. In 2014, the Law Commission produced guidance on the fiduciary duties of investment intermediaries, which indicated that investors should have regard to ESG factors where they are financially material. In its guidance to occupational schemes, the Pensions Regulator has given a clear indicator that it believes this to be the case for climate change.

5.4. This report helps to demonstrate that the Committee is factoring climate risk into its investment strategy setting process as a material financial risk and will make clear disclosures with regards to its approach in the ISS as required by the LGPS (Management and Investment of Funds) Regulations 2016. It also helps demonstrate that the Fund is preparing for the likely introduction of new regulations on climate change governance and reporting for the Local Government Pension Scheme (LGPS).

5.5. The report also sets out proposals concerning the Fund's Responsible Investment Working Group (RIWG). The RIWG is a working group rather than a Committee of the Council; as such the provisions of SEction 102 of the Local Government Act 1972 do not apply.

6. <u>Taskforce on Climate-related Financial Disclosures (TCFD)</u>

6.1. One of the key functions of financial markets is to price risk to support informed decisions about capital allocation; to do this, markets need accurate information from companies. In recent years, it has become apparent that information on the risks posed by climate change to businesses has not always been available - and that markets have not consistently priced those risks.

6.2. The Financial Stability Board (FBS) therefore created the Taskforce on Climate-related Financial Disclosures (TCFD) to develop recommendations on the type of information that companies should disclose to support investors. Published in 2017, the TCFD's recommendations establish a set of 11 clear, comparable and consistent disclosures through which exposure to climate-related financial risks and opportunities can be identified, assessed, managed and disclosed.

6.3. Although the TCFD recommendations focus on disclosures by organisations, the framework is a useful tool for pension trustees in assessing the risks of climate change within their portfolio and managing the consequences. The recommendations can be considered across 4 areas with 11 specific recommendations, as follows:

- Governance - Disclose the organisation's governance around climate-related risks and opportunities.
    - Describe the [Committee's] oversight of climate-related risks and opportunities.
    - Describe management's role in assessing and managing climate-related risks and opportunities.
- Strategy - Disclose the actual and potential impacts of climate-related risks and opportunities on the organisations' strategy where that information is material
    - Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
    - Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.
    - Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including disclosure under a 2°C or lower scenario.
- Risk Management - Disclose how the organisation identifies, assesses, and manages climate-related risks.
    - Describe the organisation's processes for identifying and assessing climate-related risks.
    - Describe the organisation's processes for managing climate-related risks.
    - Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
- Metrics and Targets - Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
    - Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
    - Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
    - Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

6.4. The Department for Levelling Up, Housing and Communities (DLUHC) is expected to launch a consultation on TCFD requirements for the LGPS during 2022. Larger private sector occupational pension schemes are already required by law (The Climate Change Governance and Reporting Regulations 2021) to report annually in relation to the TCFD recommendations, and these requirements will be extended to smaller schemes in stages.

6.5. It is anticipated that the requirements for the LGPS will be similar to those for occupational schemes in many ways, albeit with some key differences. Requirements on governance, strategy and risk management are anticipated to be much the same. The scenario analysis recommendation in the 'strategy' element is likely to include a requirement for at least 2 climate change scenarios; one aligned with the Paris Agreement and the other of funds' own choosing.

6.6. It is expected that at least 3 metrics will be required in the 'Metrics and Targets' element, with funds required to set a target based on one of the metrics chosen. DLUHC have suggested that more ambitious funds might consider reporting on, and potentially setting a target based on a fourth metric of their choice.

6.7. DLUHC have also confirmed that asset pools are expected to play a substantial role in delivering the new obligations, to help minimise duplication and ensure that the LGPS is using its scale and market power effectively to drive improvements in the climate data produced by investee companies.

6.8. In setting a clear and measurable carbon reduction target in 2016, the Hackney Fund has been at the forefront of carbon reporting amongst the London LGPS funds. The Fund wishes to maintain this leading role and it is therefore essential that it puts robust plans in place to meet and exceed the expected requirements from the DLUHC consultation.

6.9. Whilst the Fund had initially targeted early adoption of the reporting framework and a new target set at the June meeting of the Pensions Committee, it is increasingly clear that close co-operation between London funds is likely to deliver the best outcomes. It is proposed that a working group of funds with experience of carbon reporting be set up; the Hackney Fund has been proposed as a member.

6.10. Involvement in a collaborative effort is likely to produce better long term outcomes for the Fund. Involvement in a working group to establish the best approach for London gives the Fund considerable say over the preferred approach and helps to ensure value for money in the provision of carbon reporting data. It is also more likely that a collaborative response to the forthcoming DLUHC consultation will influence government proposals. The Fund has a long history of successful collaboration with other LGPS funds and wishes to use its experience in this area to drive a robust approach to TCFD across London.

6.11. It is also suggested that the Committee introduce new carbon reporting targets once the Fund has completed its first portfolio analysis using the new TCFD metrics. Monitoring progress against a clear and measurable target remains a vital strand of the Fund's approach to carbon risk; setting interim targets will be key to helping the Fund achieve its ambition to reach net zero emissions by 2040.

6.12. The Fund's approach to target setting has focused on making commitments based on a full understanding of the dataset. The TCFD reporting project will introduce new metrics not previously covered in the Fund's portfolio analysis - it is therefore suggested that the Committee look to introduce a new target once the first analysis using the new metrics is complete. This will ensure the Committee has a full understanding of the Fund's starting point and is able to set an ambitious target that helps deliver net zero by 2040.

7. Responsible Investment Working Group

7.1. In March 2022 the Committee approved the Fund's Responsible Investment Policy (Appendix 1), which set out the role of the Responsible Investment Working Group (RIWG). The RIWG will have a membership made up of both Councillors and officers and will be responsible for setting the Fund's stewardship priorities and engaging on these with managers and other relevant stakeholders.

7.2. It is recommended that the membership of the RIWG should be as follows:

- Pensions Committee Chair
- Up to 2 other Committee members, to be chosen by the Chair
- 2 Officers - Head of Pensions & Responsible Investment Officer
- Investment consultant

7.3. The RIWG will meet quarterly. As this is a working group rather than a Committee of the Council, it will not require a minimum number of members attending to be quorate; meetings may proceed with only officers in attendance if necessary. It is proposed that any Committee member may attend meetings of the RIWG as an observer if they wish to do so.

7.4. The Committee is recommended to approve the proposals above for the constitution of the RIWG.

Appendices

None

Background documents

None

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Title of Report	Quarterly Update Report
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Willams, Finance & Corporate Services

1. Introduction

1.1. This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, responsible investment, administration performance and reporting of breaches. It provides the Committee with information on the position of the Fund between January and March 2022. The report also provides an update on the implementation of the investment strategy approved at previous meetings.

2. Recommendations

2.1. **The Pensions Committee is recommended to note the report.**

3. Related Decisions

3.1. Pensions Committee (Urgency Delegation March 2020) – 2019 Final Valuation Report and Funding Strategy Statement
3.2. Pensions Committee 23rd November 2021 –Investment Strategy Statement
3.3. Pensions Committee January 2022 –Pension Administration Strategy (PAS)

4. Comments of the Group Director of Finance and Corporate Resources

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

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

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

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

5. Comments of the Director of Legal, Democratic and Electoral Services

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

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

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

6. Funding Update

6.1 Appendix 1 to this report provides an update on the funding position of the Fund as at 31 March 2022.

6.2 The update shows that the funding position has further improved over the last quarter from 109% to 110% as at 31 March 2022, representing a surplus of assets over liabilities of some £170m. The improvement in the funding position is largely a result of continuing strong investment returns.

6.3 It should be noted that the funding position indicated only covers the past service benefits and that it is anticipated that future costs are likely to continue to increase, thus continuing to apply ongoing pressure to overall costs of the scheme.

7. Investment Update

7.1 Appendix 2 to this report provides a manager performance update from the Fund's Investment consultants, Hymans Robertson. The report includes an analysis of the last quarter, 1 year and 3 year performance against benchmark and target, as well as Hymans Robertson's current ratings for each manager. The report shows that the Fund produced negative absolute returns over the quarter of 4.3%, underperforming its benchmark by 2.4%. Over the last 12 months, the Fund has underperformed the benchmark by 1.8%, producing overall returns of 6.1%. Over the last 3 years, returns of 7.8% have been achieved out-performimg benchmark by 0.4%.

7.2 The key driver of the recent underperformance has been the Fund's active exposure through the London CIV. The Fund's allocation to active equity is focused on growth & quality as opposed to value stocks. In recent months, growth stocks have lagged broad benchmark indices by significant margins, whilst value stocks have outperformed. Funds focused on quality stocks, such as the LCIV Emerging Markets Fund have provided very little cushion.

7.3 The Fund will closely monitor the performance of its equity portfolio and will consider the potential future impacts of style bias as part of the upcoming investment strategy review.

8. Investment Strategy Implementation Update

8.1 Following the Committee's approval of its refreshed investment strategy, Officers agreed to provide a quarterly update on its actual implementation.

8.2 It has been a relatively quiet quarter in terms of any further changes to the investments of the fund, particularly given that the majority of actions required to implement the current approved strategy had already been completed.

8.3 Further drawdowns have been financed on the infrastructure and private debt mandates in line with the agreed strategy and fund manager requests for financing.

8.4 There is a separate report on this Committee Agenda regarding the further review of the Fund's Investment strategy as will be required alongside the completion of the actuarial valuation

9. Responsible Investment Update

9.1 The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This section of the quarterly report therefore provides the Committee with an update on the work of the LAPFF. There is a separate report on the agenda regarding the Fund's achievement against its climate change target and potential options going forward.

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

9.3 As can be seen from the LAPFF Quarterly Update Report, much of the engagement with companies has continued to focus on human rights, social and climate change issues. LAPFF continue to issue voting alerts in respect of both climate change issues and wider social/human rights issues.

9.4 Officers have continued to work with advisors in the development of the RI work and in particular have produced a more detailed workplan in respect of the related work required during 2022 in respect of both the Fund's carbon targets and wider RI policies. As reported at last Committee, Trucost have completed the analysis of the Fund's current position against the carbon reduction target and the high level results of that were reported to Committee in March. A further more detailed analysis of the outcome is included elsewhere on the agenda.

9.5 On 24th February 2022, Russia invaded Ukraine in an internationally condemned act of aggression. As the conflict progresses, it has been necessary for the Pension Fund to consider the investment implications resulting from the impact of the war. A narrative summary of the impact is provided below.

9.6 The most immediate impact is on the Fund's investments in Russia and Ukraine. The Fund's exposure to Russia and Ukraine is small; approximately 0.05% of assets as at 28 February 2022, held via pooled funds. The Fund made allocation changes during the year 2021/22 but exposure at 31 March 2021 was also minimal. Given that engagement is not possible at this time, the Fund has committed to disinvesting its holding in Russia once it is practical to do so.

9.7 However, there are also other indirect impacts associated with the conflict. Russia and Ukraine are major commodities producers, and disruptions have caused global prices to soar, especially for oil and natural gas. Food costs have also jumped as Ukraine and Russia are significant producers, making up 30 percent of global exports of wheat. These represent significant inflationary pressures, making it harder for policymakers to balance containing inflation and supporting the economic recovery from the pandemic. These broader impacts, although challenging to quantify, affect a range of geographies and are likely to feed through to the Fund's investment portfolio.

10. Pension Administration

10.1 Pension Administration Management Performance

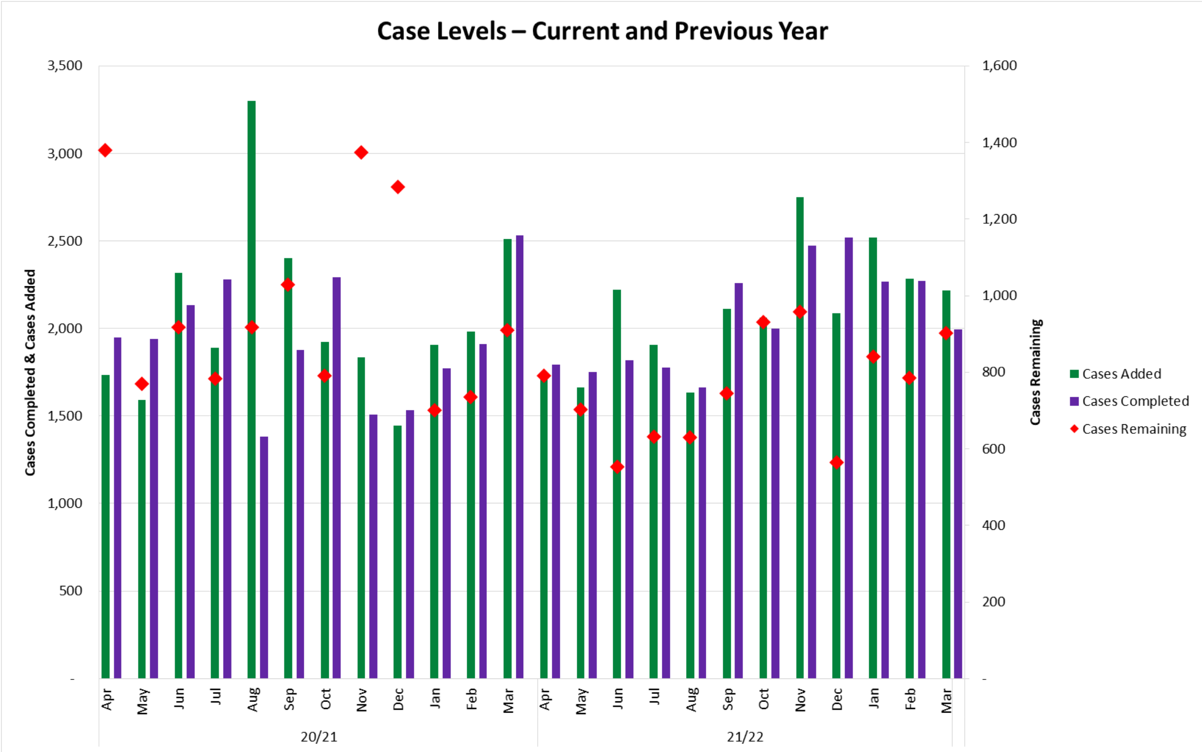
The following sections provide information on the numbers of cases being received and processed by Equiniti, as well as their performance against the Fund’s service level agreement standards (SLAs).

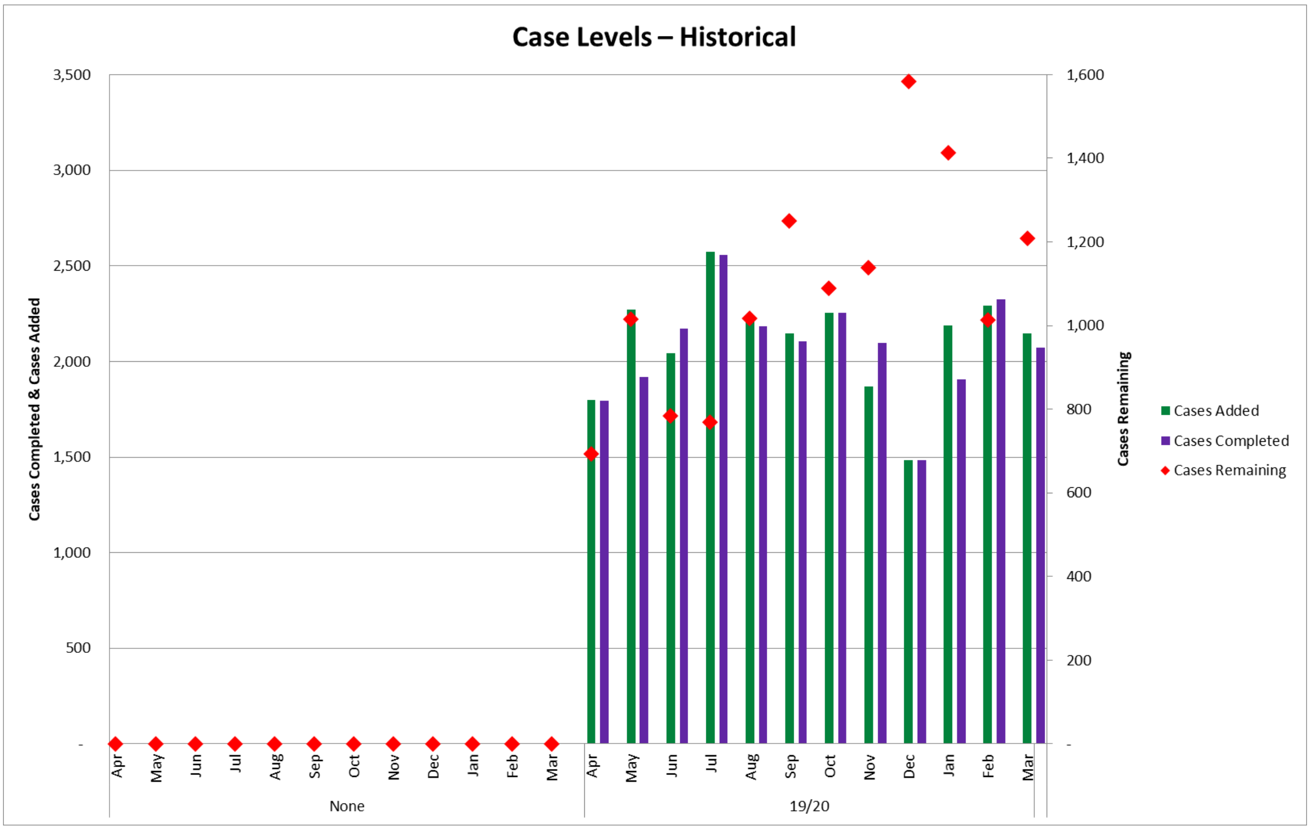
Case Levels

The graphs below show historical cases levels received and processed by Equiniti dating back to April 2019. For each month, the graph shows:

- "cases added" - the number cases received by Equiniti during the month ("cases added") and
- "cases completed" - the number of cases completed by Equiniti during the month ("cases completed")
- "cases remaining" - the numbers of cases that are outstanding and therefore waiting to be processed by Equiniti at the end of each month ("cases remaining")

For the period February 2022 to March 2022, the number of cases received has remained fairly consistent with the cases received in December 2021 and January 2022, following an increase in November 2021. The number of cases completed by Equiniti is slightly lower than those completed in the previous quarter.


Case Levels – Current and Previous Year
Cases Completed & Cases Added
Cases Remaining
3,500
3,000
2,500
2,000
1,500
1,000
500
-
1,600
1,400
1,200
1,000
800
600
400
200
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
20/21
21/22
Cases Added
Cases Completed
Cases Remaining


Case Levels – Historical
Cases Completed & Cases Added
Cases Remaining
3,500
3,000
2,500
2,000
1,500
1,000
500
-
1,600
1,400
1,200
1,000
800
600
400
200
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
None
19/20
Cases Added
Cases Completed
Cases Remaining

SLA and KPI monitoring

The contract with Equiniti includes a large number of service level agreement standards (SLAs). The most significant of these for the Fund, are categorised as being key performance indicators (KPIs) and these are monitored closely. The KPIs include target timescales for processes such as:

- providing new members with information about the scheme
- notifying retiring members of the amount of retirement benefits and paying them their tax free cash lump sum
- informing members who leave the scheme before retirement of their deferred benefit entitlement.

For most SLAs there are two targets:

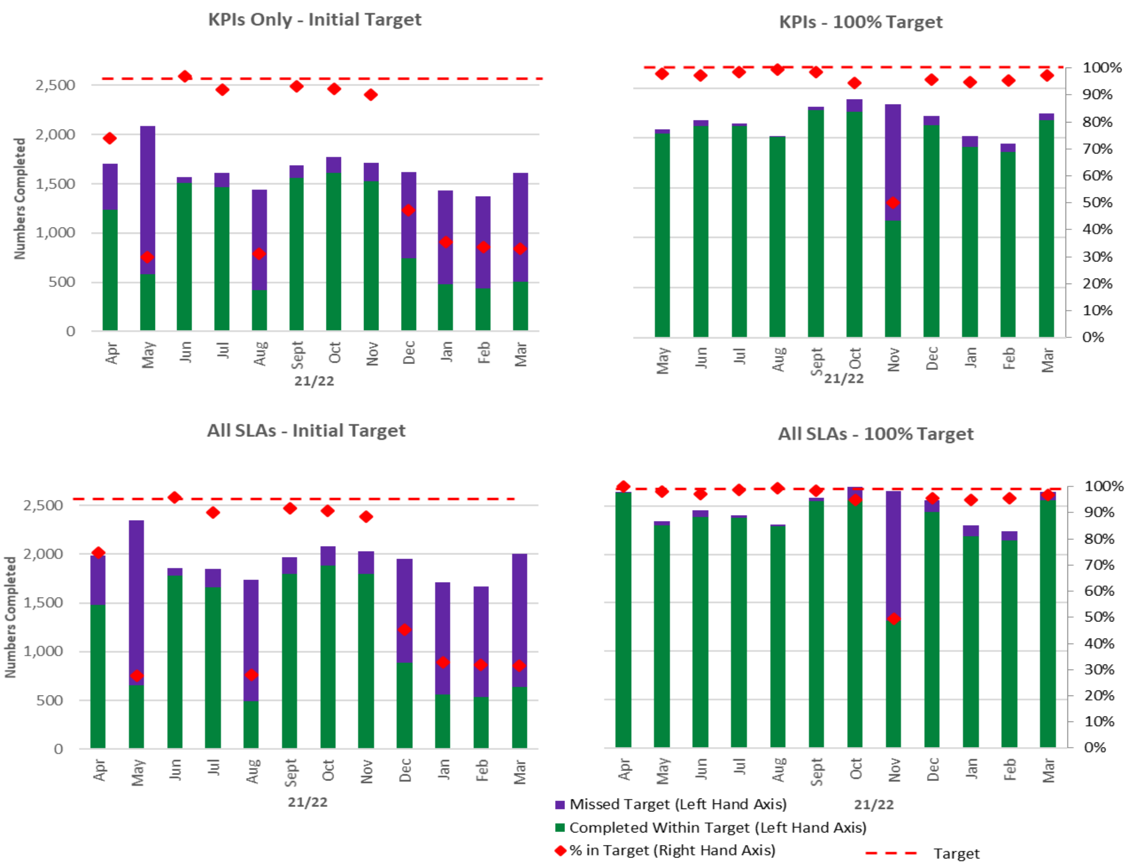
- an initial target – this is the initial timescale within which the majority of cases must be processed (typically 95% is the target to be processed by the initial target period)
- the 100% target – this is a later timescale by which it is expected that 100% of cases will be processed by.

The following graphs show Equiniti's performance against the various targets since April 2021. Each graph illustrates the numbers of cases completed within the target (green) and the number outstanding (purple), as well as the percentage of cases completed within the target (red diamond which relates to the right hand axis). The four graphs are as follows:

- KPIs Only – Initial Target: this shows the performance against **only** the key performance indicators based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- KPIs Only – 100% Target: this shows the performance against **only** the key performance indicators based on the 100% target where it is expected that all cases will be processed.
- All SLAs – Initial Target: this shows the performance against **all** service level agreement standards based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- All SLAs – 100% Target: this shows the performance against **all** service level agreement standards based on the 100% target where it is expected that all cases will be processed.

For the period February 2022 to March 2022, Equiniti have continued to perform very close to 100% target in all measures but there has been a decrease in the number of cases completed within the initial targets when compared to the overall previous quarter. However, the cases completed within initial target are consistent with the cases completed in January 2022. A key element of this decrease is due to some staffing changes within Equiniti and also the fact they are focussing on dealing

with historic cases caused by the significant increases in cases that were received during the start of the previous quarter (as illustrated in the graphs above).



10.2 **Ill Health Pension Benefits**

The release of ill health benefits fall into two main categories, being those for deferred and active members. The administering authority team at Hackney process all requests for the release of deferred members' benefits. Deferred members' ill health benefits are released for life, are based on the benefits accrued to the date of leaving employment, (with the addition of pension increases whilst deferred), but they are not enhanced by the previous employer.

The team also assist the Council's HR team with the process for requests to release an active members' benefits on the grounds of ill health retirement.

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

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% - paid for life, no review
- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review undertaken when pension has been in payment for 18months.

The applications received overall have been similar in volume compared to the same period in the previous year:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q4 2021/22	2	0	0	3	0
Q4 2020/21	5	5	0	0	0
ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q4 2021/22	4	3	0	1	0
Q4 2020/21	5	3	0	2	0

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

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

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

Stage 1 – Three applications were submitted in this quarter against the administering authority. One was in relation to an AVC investment delay which was upheld. The second was in relation to a CETV delay which was partially upheld. The third was in relation to a dispute over a normal retirement age and at the date of writing the report investigations are still ongoing.

Stage 2 – No applications were received in this quarter.

10.4 AVC Review

As part of the Pension Fund Governance it is good practice that we undertake a regular review of our Additional Voluntary Contribution (“AVC”) provision. As a result, AON was asked to undertake a review of the AVC arrangements held within the Fund.

Background

AVCs are not part of the main Pension Fund, instead AVC contributions are invested directly with the AVC provider and therefore do not impact on the sustainability of the Fund or on employer costs. Scheme members then have some flexibility in how they use their AVCs on retirement; as a tax free lump sum (subject to limits), ongoing annual income or a mixture of both.

There could be a financial impact on scheme members who pay AVCs if the AVC fund performance is poor or charges are unacceptably high. Although AVCs do not tend to be a major part of pension saving for most scheme members, poor performance may result in a lower expected income on retirement or, in the worst scenario, a member deferring their retirement.

The London Borough of Hackney appointed Prudential to provide an AVC facility for its scheme members. This arrangement has been in place for a number of decades.

Due to the level of expertise required (particularly in relation to the suitability and performance of investment funds), external consultants carry out ongoing reviews of AVC providers on behalf of administering authorities. AON carried out this review of the Hackney AVC facility and published their findings in April 2022. Their report considers the following:

- Investment performance (net returns on unit-linked funds and commentary on the With Profits Funds)
- Security (financial strength of the provider);
- Quality (administration and investment);
- Suitability of investment options (including liquidity and tradability in regulated markets);
- Charges (compared to current market rates and our experience of charges for other LGPS arrangements);
- Our overall view on the suitability of the AVC arrangements.

The Fund’s AVC arrangements are open to both new members and further contributions and provide access to two lifestyle strategies, a range of unit-linked funds and the Prudential With Profits Cash Accumulation Fund.

Summary of findings

The review has not identified any major concerns over the long-term suitability of the Fund’s AVC arrangements, and it was recommended they are maintained.

The only area in which Prudential scored poorly was on the quality of administration. The firm changed IT system during Q4 2020; the migration caused a number of problems which took many months to resolve, creating a significant backlog of issues and resulting in a drop in administration standards. It is understood that the IT issues have now been resolved and Prudential is focused on clearing the backlog and returning to its usual standard of service.

Recommendations

The review recommends that the Administering Authority:

- Monitors Prudential’s service standards to ensure they return to an acceptable level in the near future (Aon suggests by the end of Q2 2022), that any affected member accounts are fully reconciled and that Prudential pays compensation in the event that any members have been disadvantaged by the servicing problems.
- Reviews investment performance once Prudential resolves benchmark reporting issues, rather than waiting until the next formal review of the AVC arrangements.
- Considers whether the Shariah Fund should be made available to members
- Consider issuing a targeted communication to AVC members regarding recent volatility of fixed interest gilts and the inflation risk of investing in the Cash and Deposit Funds over the longer term (this could be issued online or in hard copy).

The Pension Fund is currently considering the findings and recommendations of the review and will give any further relevant updates in future committee meetings.

10.5 **Other work undertaken in Q4 2021/22**

Third Party Administration Implementation update

As previously reported, the major outstanding point of delivery under the new contract specification is in relation to employer interfaces and member online services. These were delayed due to the onset of the COVID-19 outbreak in the UK in late March 2020 which unfortunately halted the planned rollout and training programme. However, the first phase of the employer online portal work is in progress. The inhouse Hackney pension team has worked closely with the project delivery manager from Equiniti and have agreed a detailed specification proposal. Employer training for the portal was held and follow-up work is now in progress with the employers.

The council, the largest employer, has now moved into the “live” environment and monthly salary and contributions data is being uploaded each month directly into Equiniti’s administration system. Several other smaller employers are now also uploading into the live environment. Once the year end process has been completed, the remaining employers who are yet to actively engage and/or have not progressed to the live environment, will be pursued in line with the pension administration strategy.

Annual Benefit Statements

There is a legal timescale for issuing annual benefit statements to all active and deferred members of the scheme, which is 31 August. This is a major exercise carried out by Equiniti, but it relies on all the Fund's employers providing them with pensions information relating to the scheme members in a timely manner. This year some of the employers (including the council) have not had to submit the usual year end data as Equiniti, as part of the ESS onboarding process, have the monthly data uploaded onto their system for all of 2021/22. For those employers who have not onboarded, or who have not managed to backdate their monthly submissions, they are following the usual year end submission process. Equiniti are already carrying out data validations on submissions received and any employers who are yet to submit are being actively chased by Equiniti and also the inhouse pension team. Any queries will then go back to the employers.

As a result of previous lessons learnt, the process has been improved this year with increased communication and coordination between the different teams involved in the process within Equiniti. The internal controls and processes, plus increased automation of the system has also been undertaken.

A further update on the benefit statement work will be provided at the next meeting.

Address Tracing and Verification Exercise

As referred to in previous reports Equiniti have carried out an address tracing and verification exercise on the entire deferred member population. This was in order to help to trace those members which the Fund currently holds no current address for, but also to verify that the addresses that are held are still up to date, which is essential for data protection purposes.

Some 2,400 verification letters were sent- these are those in the deferred population that were flagged as living at a different address to that which was currently held on the administration system, or where no current address was held on the system. The overall response rate has been 49%.

This left some 1,200 addresses which required a chaser verification letter. These have now been issued and once the deadline date of the end of May 2022 has passed the Fund will receive an update from Equiniti and this will then allow for the necessary addresses to be updated.

A first verification letter has also been sent to 270 addresses which were generated as part of a deep dive into some 500 records which held no last known address. The deepdive resulted in last known addresses being found and therefore allowed Equiniti to perform a more detailed trace which generated matches for 270 records.

McCloud Programme Update

The Public Service Pension and Judicial Offices Bill received Royal Assent on 10 March 2022. This now enables the Department of Levelling up, Housing and Communities (DLUHC) to make the regulations needed to implement the McCloud remedy within the LGPS.

The first set of LGPS Regulations is still expected before the Summer Recess (provisionally 21 July 2022). DLUHC plans to consult on a second set of regulations in the Autumn which is expected to contain details of how the underpin will operate and cover areas such as tax and compensation. The coming in to force date of the regulations is now expected to be 1 October 2023, in line with the expected timeframe for the unfunded schemes. However, until this has been confirmed the programme continues to work on the basis of 1 April 2023 as the coming in to force date.

The Public Service Pensions and Judicial Offices Act 2022 included:

1. changes to the qualification criteria meaning that more members are now in scope
2. a requirement for multiple periods of service to be aggregated to qualify for McCloud
3. provisions for teachers to be offered membership of the LGPS in respect of ‘excess teacher service’

With regards to the extension of members in scope, to include those active on **or before** 31 March 2012, the Fund had already been collecting data for those members so there is no impact on the McCloud Programme.

The second and third points have been discussed at recent workstream meetings with actions and risks for these areas being identified.

Workstreams

Most workstreams are progressing with regular meetings being attended by key Hackney pensions officers and representatives from Equiniti and Aon.

Good progress is being made in relation to the Data, Communications, Finance, Governance and Benefit Rectification Workstreams. The Ongoing Administration and Systems workstream is behind where we would want it to be at this stage of the project. This is unlikely to be resolved without progress being made on the contractual arrangements with the Fund's third party administration and software provider, Equiniti, given that their current contract expires on 31 December 2022 and Equiniti has indicated that the Fund would need to migrate to the updated version of their software in order for the new McCloud underpin calculations to be automated. If the Fund remains on the current system those calculations would need to be carried out "off system".

The decision on the software is therefore key to delivering the McCloud programme, particularly in relation to the Data, Communications, Ongoing Administration and Specialist cases workstreams. The Benefit Rectification workstream is currently being delivered off system, but the outputs will need to meet the requirements of the administration software and so this workstream is also impacted by any potential migration.

The risk logs for each workstream have been updated to include the uncertainty of future contract/software arrangements as a key risk. The probability and impact scores will be monitored closely in the coming weeks as the situation becomes clearer.

The general Programme update on the specific workstreams is as follows:

- Within the Data Workstream, the deadline for submission of data was 31 March 2022. For the small number of employers who did not meet the 31 March 2022 deadline, the data acceptance principles (DAP) document is to be used to make consistent decisions on the data used. The DAP document was approved by the Programme Management Group at their meeting on 22 February. A meeting took place on 25 May with Equiniti to discuss and agree the application of the DAP based on some of Equiniti's findings to date. It was agreed to add these further scenarios to the DAP document which will be put forward to the Programme Management Group for approval at their next meeting, scheduled for 21 June 2022.

- The Communications workstream is up to date, with most of the actions such as reviewing BAU communications deferred until regulations are issued by DLUHC. The next communication workstream meeting is scheduled for 21 June 2022.

- The Finance and Governance workstreams' actions are up to date, and meetings will be scheduled when required to ensure future planning of programme deliverables. There may be some further actions to consider once the regulatory changes are confirmed by DLUHC.

- The Benefit Rectification workstream has progressed. Equiniti provided their project plans outlining milestones and timings for key activities and updated these following Aon's feedback ahead of the most recent workstream meeting on 17 May 2022. Equiniti's revised plans now require a further review by Aon and once agreed, the plans will be submitted to the Programme Management Group for approval. The next workstream meeting has been scheduled for 29 June 2022.

- Planning work is still required for the Ongoing Administration workstream to ensure that all programme deliverables are achieved as set out in the Programme Charter. The progress of this workstream has been stalled pending a decision on Equiniti's proposal regarding the contract and software version. As noted above, the current software will not be developed to support the delivery of this work.

- For the Specialist Cases workstream, an initial workshop was held last year, and it has been agreed within the project team to put this workstream on hold until after the final regulations have been published, with the expectation of guidance for certain types of cases.

Risks for all workstreams continue to be actively managed within the programme and these are reviewed regularly by the Programme Management Group (PMG). One key risk has been added since the last update, relating to the potential for the Equiniti contract not to be extended after 31 December 2022, along with the possible migration to the new Equiniti software.

Whilst the overall project is running slightly behind the original schedule, principally due to the slower than expected progress with the Ongoing Administration workstream, this needs to be considered in the context of the regulatory timetable. The biggest risk for the programme at the present time is the Equiniti contract and software situation where currently the scale of any impact to each individual workstream is unknown. The Programme Management Group's next meeting will take place on 21 June 2022 where this will be discussed, and the position will hopefully be clearer. A further update will be provided at the next Committee meeting.

Guaranteed Minimum Pension (GMP) Reconciliation

At the meeting on 23rd November 2021 and 10th March 2022, the Committee was provided with an update on the number of members affected by the GMP reconciliation exercise and some data analysis was provided. As you will recall, underpaid pensioners had their pensions corrected (and the arrears paid) in the October pensioner payroll, and overpaid pensioners had their pensions decreased from the November pensioner payroll.

As previously reported to the committee, the reported amounts did not contain the figures in relation to those member groups which were “descoped” from the main reconciliation process (members who became entitled to their GMP before reaching their SPA, some post 2016 SPA cases and certain survivor pensioners). Several discussions have taken place between the Fund and Equiniti on this and resources from Equiniti’s projects team have been allocated to commence work on the “descoped” groups in June 2022. A further update will be provided at the next meeting.

11. Reporting Breaches

11.1 There have been no reportable breaches in the last quarter.

12. Cyber Security Strategy Update

12.1 Following the approval of the Hackney Pension Fund Cyber Security Strategy at the March PC, work has been continuing to implement the strategy with particular focus on:

- Fund data and asset map – good progress has been made in developing the data and asset map. The map captures all flows of data or assets (including instructions relating to assets) of the Fund, assessing their frequency and size and strength of any controls from a cyber risk perspective.
- Hackney Council and Equiniti cyber assessments – initial results have now received and final points of clarification are now being considered to finalise these reviews
- Adviser, provider and partner organisation cyber assessments – a plan is being developed for assessments of other bodies based on the output from the data and asset map
- Incident response plan – a Fund specific incident response plan has now been started and this is being developed in consultation with Hackney Council.

12.2 These and other areas of ongoing work to manage cyber risk for the Fund have been captured in the cyber work plan. The plan, together with the results of the Equiniti and Hackney Council cyber assessments, will be presented to the Committee at the September meeting.

Appendices:
Appendix 1 – Funding Level Update
Appendix 2 – Investment Performance Report (Hymans Robertson – Investment Consultant)
Appendix 3 - LAPFF Quarterly Engagement Report

Background documents
None

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Update of funding as at 31 March 2022

This paper has been commissioned by and is addressed to London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund ("the Fund").

Its purpose is to provide an update on the overall fund level funding position and risk metrics as at 31 March 2022 and how it compares to the position at the last formal valuation of the Fund (31 March 2019). This paper contains a high level summary of the results (and charts). Further background on the methodology, data, reliances and limitations of these results is contained within the Appendix and the Fund's 2019 valuation report.

Key points to note on the commentary of this funding update are:

- The funding position is only a snapshot in time and is based on a single set of assumptions about the future. The funding level is therefore extremely sensitive to the choice of assumptions and market movements, in particular the expected future investment return assumption.
- Actual benefit payments in the future will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future ("future service"). The funding position presented is only in respect of **past service** benefits.
- The various judgements relating to McCloud and Goodwin will impact employers differently (the above analysis doesn't make any allowance for these matters); and
- The funding position as at 31 March 2022 is likely to change when assessed as part of the 2022 valuation, due primarily to changes in the valuation assumptions and recognition of member experience over the period since the 2019 valuation.

Executive summary

Reported funding position	31 March 2019	31 March 2022
Assets (£m)	1,575	1,912
Past service liabilities (£m)	1,706	1,742
Surplus/(Deficit) (£m)	**(131)**	**170**
Funding level	92%	110%
Assumed future investment return	3.85%	4.46%
Likelihood of achieving this return*	72%	72%
Fully funded target	**31 March 2019**	**31 March 2022**
Funding target	100%	100%
Future investment return required to be 100% funded	4.30%	3.90%
Likelihood of achieving this return*	**65%**	**80%**

* likelihood of the Fund's portfolio achieving these returns over the next 20 years

Past service funding position: The reported past service funding position has improved. The Fund has a surplus of £170m at 31 March 2022 (compared to a deficit of £131m at 31 March 2019). The improvement has been largely driven by strong investment performance since 31 March 2019.

Investment outlook: The outlook for future investment returns over the next 20 years has increased . At 31 March 2022, future investment returns are expected to be 4.46% p.a. based on an 72% likelihood of being achieved (at 31 March 2019, the equivalent return was 3.85%p.a.).

Fully funded required rate: The likelihood of achieving the future investment returns needed to be fully funded has increased since the last valuation (there is now an 80% chance of achieving the returns needed).

Therefore, **the Fund is now more likely to have sufficient assets to meet earned benefit payments than at the previous valuation.**

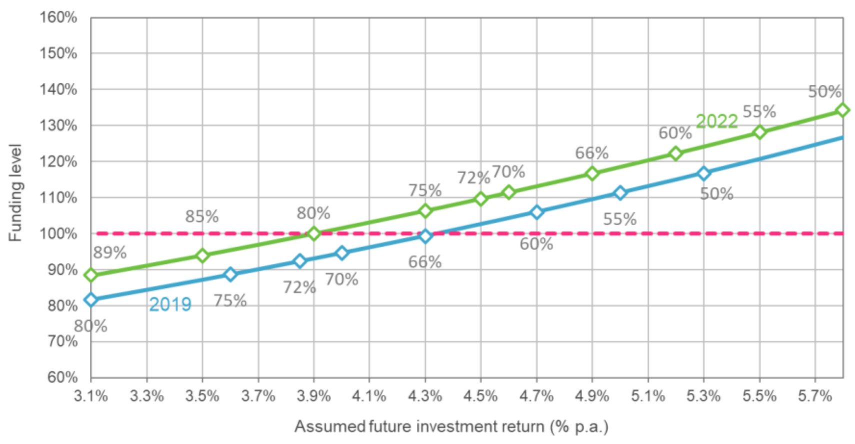
Funding level versus future investment return assumption

At 31 March 2022 the estimated funding position has improved with a surplus of £170m.

Reported funding position	31 March 2019	31 March 2022
Assets (£m)	1,575	1,912
Past service liabilities (£m)	1,706	1,742
Surplus/(Deficit) (£m)	**(131)**	**170**
Funding level	92%	110%

The funding level has been calculated using a future investment return assumption which has an 72% likelihood of being achieved. The reported funding level is extremely sensitive to this likelihood (i.e. the level of prudence being adopted).

The chart below shows how the funding level varies under different future investment return assumptions. The likelihood of achieving these returns is noted next to each point of the chart.



- From this chart, we can see that the likelihood of achieving any given future investment return is better than at 2019.
- However, regardless of the investment return assumption used, there has been an improvement in the funding position at 31 March 2022 compared to the 2019 valuation, reflecting an increase in assets held today per pound of benefit to be paid out in future.
- This improvement has been driven by strong investment performance over the period (26.8% since 31 March 2019).

Indicative impact on future contributions

Secondary rate contributions

It can be inferred that the improved past service funding position at 31 March 2022 is likely to have a positive impact on Secondary rate contributions at the next valuation for the average employer, all else being equal.

Any changes in funding position (and any impact on contributions rates) will be varied across the Fund's employers and is dependent on each individual employer's membership and funding plans.

Primary rate contributions

As discussed above, the past service funding position has improved. However, the assets held today only cover past service benefits – we still need to fund those benefits yet to be earned (i.e. Primary rate contributions in respect of future accrual). For the average fund, two-thirds of the benefit payments made over the next 50 years will be in respect of benefits yet to be earned.

As at 31 March 2022, longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

The increased cost of future accrual will lead to increased Primary contribution rates at the next valuation. For the average employer any increases in Primary contribution rates may be partially (or wholly) offset by reductions in Secondary contribution rates.

Reliances and limitations

This paper has been prepared for London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund for the purpose described above. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100

This report together with the formal valuation report for the Fund (issued March 2020) and the Fund's Funding Strategy Statement set out the aggregate of my advice.

Steven Scott FFA

30 May 2022

For and on behalf of Hymans Robertson LLP

Appendix

Assumptions and methodology

Liabilities

All demographic and financial assumptions underlying the benefit projections are as per the 31 March 2019 formal valuation with the exception of the future inflation assumption (which affects the rate of future pension increases, CARE revaluation and salary increases).

Further details about the assumptions can be found in the 2019 formal valuation report dated March 2020.

The future long-term inflation assumption used in the benefit projections as at 31 March 2022 is 2.7% p.a.. Therefore, as at 31 March 2022 we have assumed that:

- Future pension increases are 2.7% p.a.
- Future CARE pot revaluation is 2.7% p.a.
- Future salary increases are 3.0% p.a.

The benefit projections assume that membership experience since 31 March 2019 has been in line with the assumptions made. At a whole fund level, this assumption is reasonable to make and, for the purpose of this paper, we do not expect this to result in a material inaccuracy.

We have also allowed for additional benefit accrual between 1 April 2019 to 31 March 2022. This allows comparison with the Fund's asset value as at 31 March 2022.

Future investment returns

To calculate the expected future investment returns , we have used our proprietary Economic Service Scenario ("ESS") model, and the same methodology used to at the last formal valuation. Further details about the ESS model, and the calibration of the model as at 31 March 2019, can be found in the 2019 valuation formal report dated March 2020.

The calibration of the model as at 31 March 2022 is detailed below. The following figures have been calculated using 5,000 simulations of the ESS, calibrated using market data as at 31 March 2022. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields for at that time horizon. Only the overall Fund portfolio returns are shown, however similar information for separate asset classes is available on request.

		Portfolio returns	Inflation (CPI)	17 year real yield
5 years	16th %'ile	1.3%	2.3%	-2.2%
	50th %'ile	5.1%	3.9%	-1.3%
	84th %'ile	8.9%	5.5%	-0.4%
10 years	16th %'ile	2.4%	1.6%	-1.8%
	50th %'ile	5.2%	3.3%	-0.5%
	84th %'ile	8.1%	5.0%	0.8%
20 years	16th %'ile	3.6%	1.1%	-0.8%
	50th %'ile	5.8%	2.7%	1.0%
	84th %'ile	8.2%	4.4%	2.8%
	Dispersion (1 year)	9.2%	1.3%	

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.2% (1.9%) to 1.0% (3.2%)

Assets

The asset value as at 31 March 2022 has been provided to us by the Fund. To derive the level of likelihood associated with certain level of expected future returns, we have used the ESS model as described above and the Fund's current strategic asset allocation:

% allocation	
Global Equities	36.0%
Global Emerging Market Equities	4.5%
Diversified Growth Fund	7.5%
Total growth	**48.0%**
Private lending	20.0%
Property	10.0%
Infrastructure	5.0%
Corporate bonds	6.4%
Total Income	**41.4%**
Fixed interest gilts	6.4%
Index linked gilts	4.2%
Total Protection	**10.6%**
Total	**100.0%**

Model limitations

The models used to calculate the results in the paper make some necessary simplifying assumptions. I do not consider these simplifications to be material and I am satisfied that they are appropriate for the purposes described in this report.

Sensitivity of results

The results in this report are dependent on a number of factors including the membership details, current financial conditions, the outlook for future financial conditions and demographic trends such as longevity. Changes in each of these factors can have a material impact on the results. I have not sought to quantify the impact of differences in the above because of the complex interactions between them. If further information about the sensitivity of the results to different data or assumptions is required, this can be provided on request.

Funding Risks

Please see the FSS for details of the funding risks that apply to the future ability of the Fund to pay all members' benefits. These include, but are not limited to:

- Market risks – these include investment returns being less than anticipated or liabilities increasing more than expected due to changes in market conditions underlying the financial assumptions (e.g. inflation or pay increases above that assumed etc.).
- Demographic risks – these include anything that affects the timing or type of benefits (e.g. members living longer than anticipated, fewer members opting into the 50/50 option, etc.).
- Regulatory risks – the LGPS is a statutory scheme. There is a risk that central Government legislation could significantly change the cost of the scheme in future.

  In particular, the benefit structure of the LGPS is currently under review as a result of the consultation on the McCloud and Sargeant judgement, HM Treasury's and Scheme Advisory Board's cost-sharing valuations as well as the recent outcome of the Goodwin tribunal. Benefit changes as a result of these issues may materially affect the value of benefits earned by members both in the past and future. I have made no direct allowance for these changes and may need to review my calculations once the outcomes are known.
- Administration and Governance risks – failures in administration processes can lead to incorrect actuarial calculations. For example, where membership data is not up to date (e.g. leaver forms not being submitted in a timely matter) material inaccuracies

in respect of the level of deficit and contributions may occur at future valuations.

- Resource and Environmental risks – i.e. risks relating to potential resource constraints and environmental changes, and their impact on Fund employers and investments: such risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Fund, I have not explicitly incorporated such risks in this advice. The Administering Authority may wish to seek direct advice on these risks.

London Borough of Hackney Pension Fund

Q1 2022 Investment Monitoring Report

Andrew Johnston, Partner
Iain Campbell, Senior Investment Consultant
Jamie Forsyth, Investment Analyst

HYMANS ROBERTSON

Executive Summary

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

The Fund generated negative returns over the quarter with an absolute return of -4.3%, underperforming its benchmark by 2.4%.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation all contributed to global equities falling 2.4% in Q1.

In bond markets, Sovereign bond yields rose significantly to reflect increased rate rise expectations. Credit spreads widened, as rising input and living costs, alongside less accommodative central bank messaging, weighed on the outlook.

Inflation forecasts reached new highs in March, reflecting the expected stagflationary impact of the commodity price shock emanating from the Russia-Ukraine conflict.

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Definitions

Growth

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

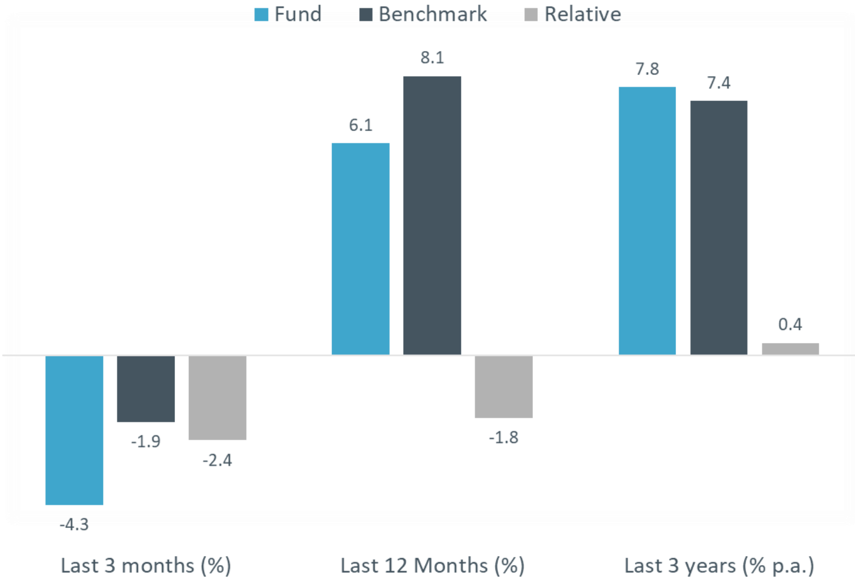
Income

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

Protection

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

Performance



Growth, Income & Protection Allocation

Growth, Income & Protection	Actual	Benchmark	Relative
Growth	62.9%	58.0%	4.9%
Income	18.3%	21.9%	-3.6%
Protection	18.8%	20.1%	-1.2%

Asset Allocation

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

This page includes;

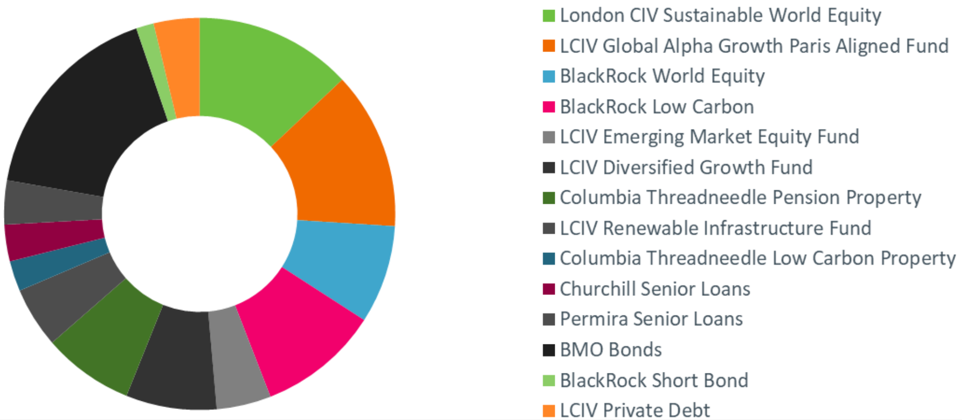
- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

The LCIV Renewable Infrastructure mandate and the LCIV Private Debt mandate valuations as at 31 March 2022 have been provided using the custodian valuation statement.

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q4 2021	Q1 2022			
London CIV Sustainable World Equity	Active	346.1	316.6	16.4%	13.0%	3.4%
LCIV Global Alpha Growth Paris Aligned Fund	Active	245.6	211.8	11.0%	13.0%	-2.0%
BlackRock World Equity	Passive	188.7	180.6	9.3%	8.1%	1.2%
BlackRock Low Carbon	Passive	248.0	241.5	12.5%	10.0%	2.5%
LCIV Emerging Market Equity Fund	Active	81.4	76.4	4.0%	4.5%	-0.5%
LCIV Diversified Growth Fund	Active	149.8	140.7	7.3%	7.5%	-0.2%
Total Growth		**1,259.6**	**1,167.7**	**60.4%**	**56.1%**	**4.3%**
LCIV Renewable Infrastructure Fund	Active	23.2	24.9	1.3%	5.0%	-3.7%
Columbia Threadneedle Pension Property	Active	156.5	163.1	8.4%	7.5%	0.9%
Columbia Threadneedle Low Carbon Property	Active	25.0	24.7	1.3%	2.5%	-1.2%
Churchill Senior Loans	Active	52.2	58.4	3.0%	3.0%	0.0%
Permira Senior Loans	Active	69.8	70.0	3.6%	3.6%	0.0%
LCIV Private Debt	Active	51.8	73.2	3.8%	3.8%	0.0%
Total Income		**378.4**	**414.3**	**21.4%**	**25.4%**	**-4.0%**
BMO Bonds	Active	274.2	256.2	13.3%	17.0%	-3.7%
BlackRock Short Bond	Passive	114.5	93.5	4.8%	1.5%	3.4%
Total Protection		**388.8**	**349.7**	**18.1%**	**18.5%**	**-0.4%**
Total Scheme		**2,026.8**	**1,931.7**	**100%**	**100%**	**0%**

Asset class exposures



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

Comments

- Performance figures for the LCIV Renewable Infrastructure mandate are not yet available.
- The estimated Churchill returns are below its strategic benchmark and target over a 12-month period. The mandate is USD denominated and so exposed to currency risk, with recent volatility impacting returns experienced by the Fund.
- Performance of USD to GBP as at 31 March 2022 has been as follows:
    - 3m: 2.9%
    - 6m: 2.4%
    - 12m: 5.0%

Performance relative to benchmark & target

	Last 3 months (%)					Last 12 months (%)					Last 3 years (% p.a.)				
	Fund	B'mark	Relative	Target	Relative	Fund	B'mark	Relative	Target	Relative	Fund	B'mark	Relative	Target	Relative
Growth															
London CIV Sustainable World Equity	-8.5	-2.4	-6.2	-1.9	-6.7	9.0	16.0	-6.0	18.0	-7.6	15.1	14.8	0.3	18.2	-2.7
LCIV Global Alpha Growth Paris Aligned Fund	-13.7	-2.4	-11.6	-1.9	-12.0	-	-	-	-	-	-	-	-	-	-
LCIV Emerging Market Equity Fund	-6.1	-4.3	-1.9	-4.3	-1.9	-	-	-	-	-	-	-	-	-	-
BlackRock World Equity	-4.3	-4.4	0.2	-4.4	0.2	12.1	11.7	0.4	23.9	-9.5	14.2	14.0	0.2	11.7	2.2
BlackRock Low Carbon	-2.5	-2.6	0.1	-2.6	0.1	16.1	15.7	0.3	23.1	-5.7	15.8	15.4	0.4	15.7	0.1
LCIV Diversified Growth Fund	-6.1	1.0	-7.0	1.0	-7.0	-	-	-	-	-	-	-	-	-	-
Income															
Columbia Threadneedle Pension Property	4.1	5.6	-1.4	5.9	-1.7	23.7	23.1	0.4	24.1	-0.4	7.7	8.1	-0.3	9.1	-1.2
Columbia Threadneedle Low Carbon Property	-0.2	1.7	-1.9	2.0	-2.1	3.7	13.4	-8.6	14.4	-9.4	2.1	0.2	2.0	1.2	1.0
Churchill Senior Loans	1.5	2.9	-1.4	1.6	-0.1	7.5	6.8	0.7	6.3	1.2	2.5	5.3	-2.7	6.4	-3.7
Permira Senior Loans	10.7	1.1	9.5	1.8	8.8	15.1	4.2	10.4	7.0	7.6	-	-	n/a	7.2	-
Protection															
BMO Bonds	-6.6	-6.6	0.0	-6.4	-0.3	-2.7	-2.6	-0.1	-1.6	-1.1	1.8	1.1	0.7	2.1	-0.3
BlackRock Short Bond	-0.1	0.1	-0.2	0.1	-0.2	0.0	0.1	0.0	0.9	-0.9	0.5	0.3	0.2	1.0	-0.5
Total	-4.3	-1.9	-2.4			6.1	8.1	-1.8			7.8	7.4	0.4		

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

- *The London Collective Investment Vehicle and BMO Funds have targets above that of their benchmarks. The table above shows both the Fund vs Benchmark and the Fund vs Target Return.*
- *Churchill has not provided performance figures for their Fund as the fund is still relatively new. The performance figures shown are estimated by Hymans Robertson based on the fund NAV and adjusted for capital contributions and distributions made. We will report on actual performance once this fund has sufficient track records.*
- *Please also note that we have reported the Permira & Churchill mandates against the Fund's agreed Cash +4% strategic benchmark for it allocation to private debt. The absolute target performance set by Churchill and Permira are 5.5%-7% and 6%-8% respectively and we have reported against the mid target range for each.*
- *Long term returns are calculated by rolling up historic quarterly returns and include the contribution of all current and historical mandates over the period. These include returns from funds held over the period which are no longer held by the Fund.*

This page includes manager/RI ratings and any relevant updates over the period.

Hymans research team have assigned a rating of 'suitable' for the LCIV Sustainable Equity mandate and the LCIV Renewable Infrastructure mandate. These were previously not rated by our research team.

Manager ratings

Mandate	Mandate	Date Appointed	Benchmark Description	Hymans Rating	RI
LCIV Sustainable	World Equity	Jun-18	MSCI World Index Total Return +2%	Suitable	Strong
LCIV Paris Aligned	World Equity	Sep-21	MSCI All Country World Gross Index (in GBP) + 2-3%	Preferred	Good
BlackRock	World Equity	Jun-18	MSCI World Net Total Return 95% hedged	Preferred	Adequate/Good
BlackRock LC	Low Carbon	Jun-18	MSCI World Low Carbon Index	Preferred	Adequate
BlackRock UK	UK Equity	Jun-18	FTSE All-Share	Preferred	Adequate
LCIV EM	Emerging Markets	Sep-21	MSCI Emerging Market Index (TR) Net +2.5%	Suitable	Adequate
LCIV DGF	DGF	Oct-21	Sonia +3.5%	Preferred	Good
LCIV Renewable Infrastructure	Infrastructure	Sep-21	IRR of 7-10% in local currency terms (net of fees), with a target yield of 3-5% p.a.	Suitable	Not Rated
Threadneedle TPEN	Property	Mar-04	MSCI UK Quarterly All Balanced Property Index +1%	Positive	Adequate
Threadneedle LCW	Low Carbon Property	May-16	MSCI UK Quarterly All Balanced Property Index +1%	Not Rated	Not Rated
Churchill	Senior Loans	Feb-19	LIBOR 3m + 4%	Not Rated	Not Rated
Permira	Senior Loans	Dec-19	LIBOR 3m + 4%	Preferred	Adequate
LCIV Private Debt	Private Debt	Mar-21	Target return of 6-8% p.a.	Suitable	Not Rated
BMO	Bonds	Sep-03	Bond Composite + 1%	Positive	Good
BlackRock SDB	Bonds	Feb-19	3m GBP LIBID	Positive	Good

Hymans rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Source: Investment Managers

Market Background

Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes. As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a relatively robust pace of growth over 2022 and 2023 by post-Global Financial Crisis standards.

The inflation backdrop has seen central banks turn more hawkish this year, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a. and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted plans to reduce the size of its balance sheet.

Global sovereign bond yields rose significantly to reflect increased rate rise expectations with UK 10-year gilt yields rising 0.7% p.a., to 1.6% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.5% p.a., to 4.4% p.a., as real yields rose to a lesser extent then their nominal counterparts.

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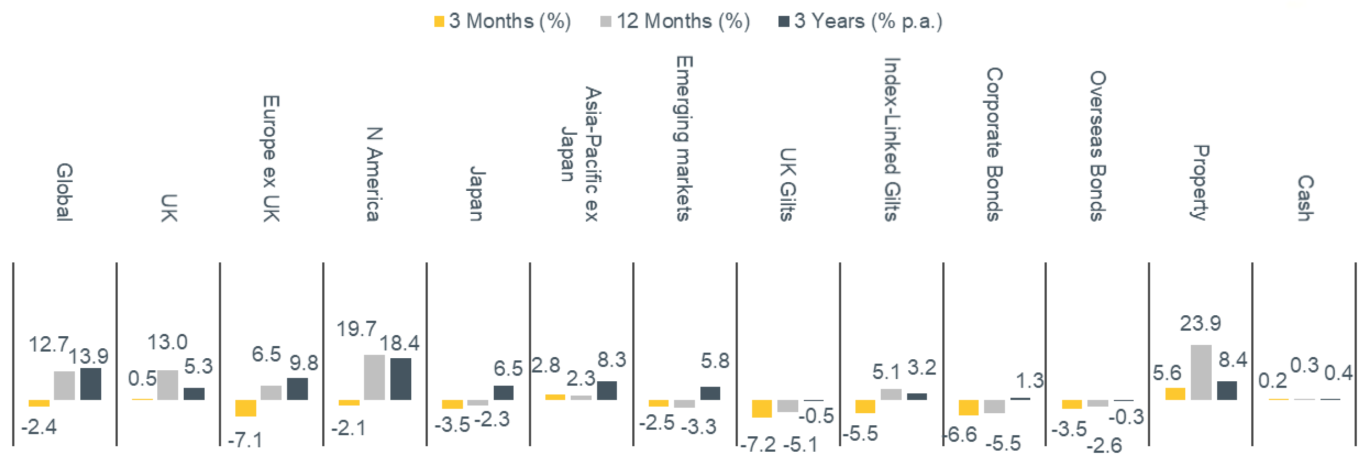
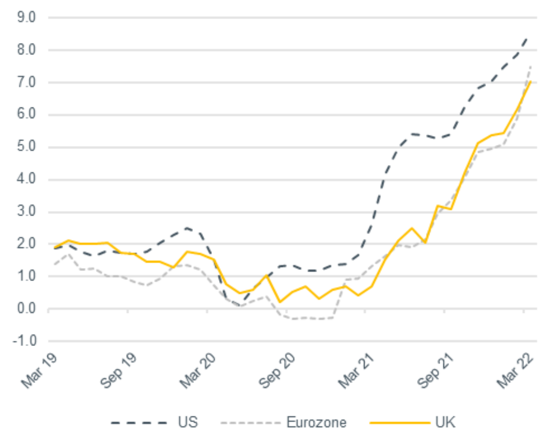
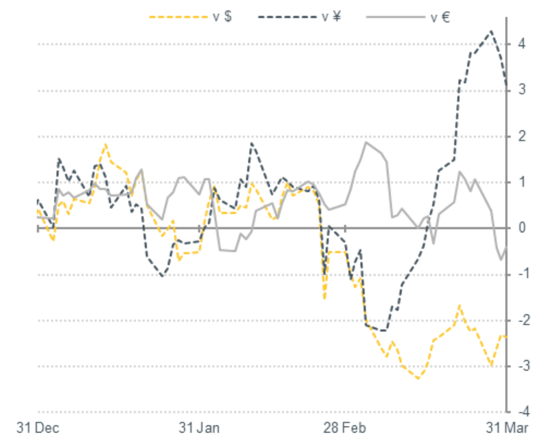
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

Global investment-grade spreads increased by 0.3% p.a., while US and European speculative-grade spreads increased 0.3% p.a. and 0.7% p.a., respectively. Larger increases in European spreads perhaps allude to the greater exposure of European corporates and consumers to higher energy prices.

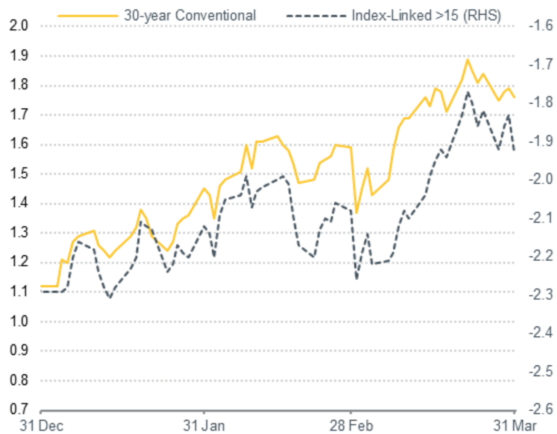
Commodity prices surged to extreme levels and faster expected monetary tightening in the US contributed to a rally in the dollar, whilst safe-haven appeal drove gold prices higher.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation have all contributed to global equities falling 2.4% this year, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuation of stocks with earnings growth further in the future, such as those in the technology sector. The consumer discretionary sector also underperformed as markets considered the impact of inflation on real consumer incomes. Surging oil and gas prices sees the energy sector lead the year-to-date performance rankings.

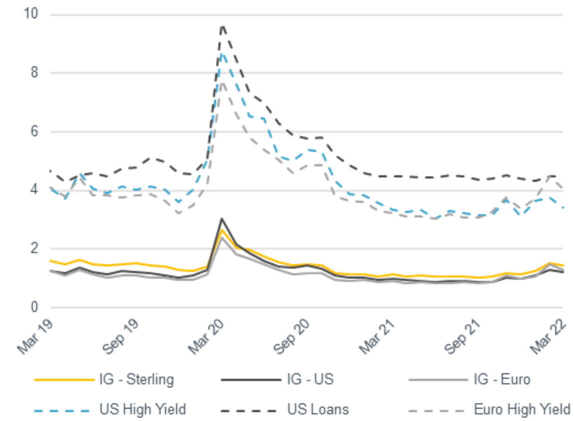
The UK AND Asia – Pacific ex Japan were the only regions to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.

A 18.0% rise in the MSCI UK AREF capital value index over the 12 months to the end of March is largely attributable to a 36.8% rise in industrial capital values. Return on the All-Property Index, including income, was 23.9% in the 12 months to end-March.

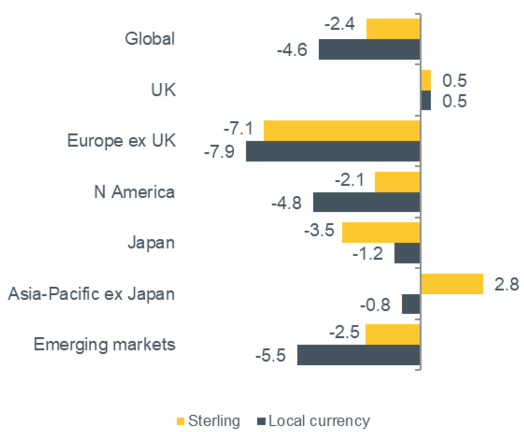
Gilt yields chart (% p.a.)



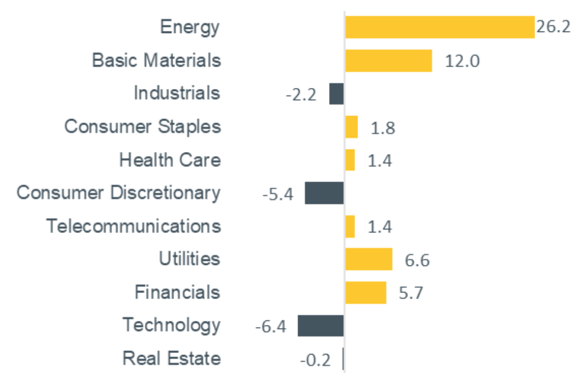
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

HYMANS ROBERTSON

Risk warning

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

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

Geometric v arithmetic performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

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

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

Quarterly Engagement Report

January-March 2022

Local Authority Pension Fund Forum

Ukraine, UK Endorsement Board, Mining & Human Rights, AstraZeneca, Chipotle

LAPFF Statement on Ukraine

LAPFF has expressed its profound sadness and solidarity with the people of Ukraine following the Russian invasion. On top of humanitarian and human rights concerns, the war is raising the prospect that Russia and Russian companies have become virtually uninvestable. LAPFF's approach to responsible investment and environmental, social, and governance (ESG) impacts is being put to the test as never before.

From a governance perspective, it is clear that the Russian government is incapable of ensuring a legal framework that respects the rule of law, destabilising incentives for Russian companies to operate in a certain, sustainable environment. The companies themselves face increasing sanctions, including a ban on the importation of Russian oil into the US. Foreign companies likewise face sanctions on investing in Russia and Belarus and challenges in determining when and how to withdraw from Russia. These challenges seem unlikely to be resolved, even with an end to hostilities.

From an environmental perspective, the invasion of Ukraine has highlighted the problem with the world's reliance on fossil fuels. It is clear that an orderly fair and just transition to renewables, as quickly as possible, is critical not only for environmental, social, and financial reasons, but also for global security.

From a social perspective, as Russia is increasingly shut off from the rest of the world, both through sanctions and through the level of outrage expressed globally at the Russian invasion, it is expected that Russian firms will face increasing difficulties in operating effectively and in securing staff. It is also foreseeable that to the extent foreign companies are able to maintain their operations in Russia, notwithstanding sanctions, these companies will face increased social challenges, including maintaining staff levels and morale. This is apart from the reputational hit to any company associated with Russia due to humanitarian and human rights abuses committed in the course of the war.

Alongside these unsettling developments, the proposed Jenrick Amendment poses an additional risk of uncertainty to LGPS investment opportunities in Russia. The war in Ukraine highlights concerns for responsible investors – and others – that the proposed amendment will create confusion for investors about how to undertake responsible investment in relation to ESG issues. This confusion pertains both to Russia and more broadly.

Other systemic contextual challenges include what we hope is the transition from Covid being pandemic to its being endemic sometime soon and an ever-shortening time frame to mitigate and adapt to the climate catastrophe.

LAPFF has sought to use its financial clout to improve the world for over 30 years now. This work cannot take place in isolation and will not always be successful, but we have learned that persistence, consistency, and determination do lead to positive outcomes.

COMPANY ENGAGEMENTS

UK Endorsement Board (IFRS17)

Objective: The UKEB is the new body to approve international accounting standards (IFRS) for use in the UK, post-Brexit. The prior arrangement under the EU had led to unsatisfactory outcomes, essentially due to Big 4 capture of the endorsement process obfuscating the law. The position regarding UK law should be clearer. The objective therefore is to ensure that the UKEB follows the law (UK law follows the drivers of going concern, in both the numbers and internal control). The international model under the auspices of the Big 4 incorporates defensive assertions that are contrary to UK law.

A problem is the composition of the UKEB, which contains people carried over from the prior FRC Accounting Standards Board's approval of IFRS, including Big 4 defence and lobbying interests. There is no credible asset owner representation. The first standard up for endorsement is IFRS 17 and there are public concerns that the UKEB has pre-decided the outcome and that endorsement processes are a rubber-stamping exercise. The defects in IFRS are well known to LAPFF in the context of banking collapses, the insolvency of Carillion and the incidence of frauds, such as Patisserie Valerie. A recurring theme is dressing up the lack of prudence as a virtue, when the outcomes are numbers more flattering to the wishes of management.

Achieved: Baroness Bowles has tabled over a dozen Parliamentary Questions dealing with the governance of the UKEB, as technical matters. As also covered in the Times, her questions have included extracts from emails a journalist obtained. They stated that the member of the UKEB, a solicitor, had sought to use a barrister with an acknowledged conflict to act "behind the scenes". The LAPFF Chair wrote to the Chief Executive of the Financial Reporting Council which has responsibility for oversight of the UKEB. As a result of that letter a meeting of the LAPFF chair was held with the civil servant responsible for the UKEB and FRC.

In Progress: The discussions with BEIS are likely to continue. The core issue is simple. The accounting and auditing framework is there for shareholder and creditor protection, and auditor liability settles on that basis, but the IFRS model doesn't fit that model. The problem is that the IFRS model lacks the crucial ingredients to determine whether a company is a going concern or not.

Shell

Objective: Further to LAPFF's position on Shell, which is one of scepticism about Shell's climate change plans, the Forum has sought improvement in the plan and its delivery against targets. Shell does not have a 1.5°C plan, which would require both time dependent actions and a carbon budget (the total future emissions over time). Shell instead has vague aspirations of 'net zero' by 2050 which doesn't cover the necessary emissions reductions prior to 2050, and which is: i) dependent on customers, and ii) relies on vague offsets, such as Carbon Capture and Storage (CCS) and trees.

Achieved: A joint meeting with CA100+ members and the CEO of Shell was held in March 2021, which was the first meeting after the decision of the Dutch Court in May 2021 which also concluded that Shell's plans were not adequate. There was no discernable shift in either the strategy or the path to limiting global warming to 1.5°C. But there now appears to be more scepticism in line with the LAPFF position from asset managers and owners that had previously been supportive of the Shell plans in 2021.

In Progress: The war in Ukraine has highlighted that in addition to climate change problems oil and gas also carry problems with the security of supply, the ethics of supply and the volatile price (as opposed to cost) of oil and gas. These matters will be built into future LAPFF engagements. High fossil fuel costs also make already unviable CCS-type projects even less viable.

Total

Objective: LAPFF noted during the quarter that Total decided to divest from Myanmar after a presence in the country of around thirty years. This decision was taken just before the war in Ukraine began, and Total has subsequently been criticised by Greenpeace and Friends of the Earth for its position on Russia. Therefore, LAPFF was interested to understand how Total had taken its decisions in relation to the two challenging situations.

Achieved: Total's representative helpfully set out a detailed account of the company's decision to withdraw from Myanmar and the set of challenges the company faced in relation to Russia and Ukraine. The specific complications related to geopolitics and balancing human rights considerations with legal and financial obligations was very clear. Whatever view one takes on the conduct of companies in this position, they are at the crux of the tensions and decision-making in a practical way that most societal actors are not. This position poses both risks and opportunities for the companies involved, and has significant implications for investors, civil society, and the environment.

COMPANY ENGAGEMENTS

In Progress: It was agreed that LAPFF would engage further on this complicated topic.

BHP

Objective: BHP offered to arrange a meeting for LAPFF with the Renova Foundation to discuss how to progress the remaining houses to be built after the Samarco tailings dam collapse at Mariana, Brazil in 2015. Both BHP and Renova representatives joined the call.

Achieved: LAPFF had been concerned at the lack of progress regarding the housebuilding with only three houses (to a total of 10) being built during 2021. However, by the time the meeting had taken place, 47 houses had been built. LAPFF Chair, Cllr Doug McMurdo, made clear that even this improved progress was inadequate. However, the improvement was welcomed.

In Progress: There continues to be political and operational obstacles to making progress with the housebuilding. For example, obtaining permits for the houses is clearly an issue. Affected communities are also concerned that a programme to provide those still waiting for homes with existing houses rather than having to wait for new ones is a cop out by the companies and Renova. In contrast, the companies and Renova are saying that the community members who have taken up this offer have been pleased to do so. Therefore, all sides have a lot of work to do, and LAPFF will continue to engage the companies, Renova, and the affected communities to have everyone's needs met as soon as possible.

Freeport McMoran

Objective: Having met with a number of other mining companies, and extensively with BHP and Rio Tinto in relation to the Resolution Copper project in Arizona, LAPFF was keen to meet with Freeport McMoran, a mining company headquartered in Arizona. The aim was to better understand Freeport McMoran's approach to engaging with affected communities.

Achieved: As LAPFF had not met with the company before, the meeting was introductory to a large extent. However, LAPFF was pleased that within the first 15 minutes of the conversation, the topic of free, prior and informed consent was raised in the context of how important relationships with Indigenous communities are. Given LAPFF's mining and human rights report and the fact that Freeport has faced recent accusations of problems in community relations at its Emma B operations in New Mexico, it was helpful to hear the company's approach to community engagement. There was also a discussion about corporate governance in light of a number of recent board changes.

In Progress: LAPFF is keen to engage further with Freeport McMoran on its approach to community engagement and to build an engagement relationship similar to those it has established with other major mining companies.

Rio Tinto

Objective: Rio Tinto reached out to LAPFF to offer a meeting with the company's Chief Financial Officer, Peter Cunningham. LAPFF met with Mr. Cunningham last year when he was still interim CFO and was pleased to re-connect now that he has been permanently in office for nearly a year. LAPFF's aim was to assess the extent to which Rio Tinto is accounting for social and environmental factors in its financial considerations.

Achieved: This meeting came not long after Rio Tinto bravely released publicly an independent investigation into the company's workplace culture. The findings were not flattering. However, it is encouraging to LAPFF that Rio Tinto has started to be more open about its social and environmental shortcomings as it is believed this openness will ultimately build a company that is financially resilient.

Sadly, the conversation turned to whether Rio Tinto has operations in Russia and Belarus as the war in Ukraine had just begun at the time of the meeting. Rio Tinto appears to be fairly resilient on this front, though it was noted that depending on how wide an impact the war ends up having, the company could be impacted indirectly.

LAPFF also heard about Rio Tinto's plans to hold a say on climate vote at the company's AGM, which will be held in person for the first time since the Covid pandemic began. After engaging with other company representatives, investors, and NGO commentators on the plan, LAPFF decided to advise members to oppose it on the basis that an appropriate timeframe for Scope 3 emissions reductions and a just transition were not adequately addressed in the transition plan.

In Progress: LAPFF considers that Rio Tinto has made good progress on practices to address carbon emissions, including engaging with business customers on technologies to decarbonise steel and aluminum production, and on human rights practices, but the company has more work to do in both areas. Furthermore, the company can still do more to link its financial performance to these social and environmental impacts. For example, over the course of the year, Rio Tinto has seen a 69-day strike in Canada, the loss of a mining permit due to community opposition in Serbia, and

Aluminium smelter, Kitimat, British Columbia, Canada

COMPANY ENGAGEMENTS

continued operational delays in both the US and Australia, in part due to difficult community relations in both countries. Additionally, given the extent of Rio Tinto's Scope 3 emissions and the limited timeframe available to take action, LAPFF's view is that an effective energy transition can't take place without an effective fair and just transition. Therefore, it is LAPFF's view that the company still has some work to do to create a culture whereby its staff understands that social and environmental impacts are the basis for financial resilience.

Vale

Objective: Vale invited LAPFF to participate in three investor roundtables regarding the company's progress on social issues. LAPFF's goal was to understand if there has been progress on this front and if so, the extent to which there has been progress. Any progress was deemed very welcome in particular because of the findings of the LAPFF mining and human rights report which flagged a number of concerns for Vale.

Achieved: One of the concerns LAPFF has raised in its mining and human rights report is that Vale (and other companies in the industry) appear to be too focused on human rights processes and not sufficiently focused on human rights outcomes. LAPFF was therefore pleased to note with the investor roundtables that the company reached out to investors beforehand to ask what concerns they would like addressed during the meetings.

That said, some meetings have continued to consist primarily of Vale staff providing slide presentations on their work with little audience interaction or time for questions. These presentations are highly technical and rarely, if ever, mention the needs of, or interaction with, affected communities.

In Progress: There is still concern that although Vale appears to be seeing investor input better than it has before, it is not yet hearing the voices of its affected community members. In LAPFF's view, this gap creates operational, reputational, legal, and financial risks to the company and to shareholders because the company is missing an important source of information. LAPFF will continue to work with both Vale and affected community members on this communication.

Occupied Palestinian Territories (OPT) Engagements

Objective: LAPFF continues to ask a number of companies to undertake human rights impact assessments on their operations in the Occupied Palestinian Territories (OPT).

Achieved: LAPFF met with two companies this quarter: Motorola, alongside representatives for LGPS Central, and Bezeq. Both meetings were somewhat introductory and a starting point to continue dialogue going forward. Bezeq is the first company LAPFF has met on this topic that operates under Israeli state law, and provided an overview of its operations and what areas it operates in. LAPFF also met with the UN Special Rapporteur on Human Rights to discuss a letter that was sent to LGPS Funds, as well as further information on company positions on the list and the process for companies being removed from it.

In Progress: LAPFF will continue to engage with a number of companies it initially engaged with – a large number of whom do not appear to have sufficient human rights due diligence processes in place, or even a human rights policy. The Forum will consider voting recommendations on these, given that the OPT is definitively a conflict zone, and such zones require enhanced human rights due diligence.

Chipotle

Objective: LAPFF has been engaging Chipotle for over two years, the primary objective being to encourage the company to undertake a full value chain water risk assessment as well as the disclosure of quantitative performance metrics and best practices for water management targeted to the areas of water stress. LAPFF argued that without this assessment, Chipotle would not be well placed to identify its total water risk exposure and prepare for water supply uncertainties associated with climate change moving forwards.

Achieved: After a period of heightened engagement with the company, LAPFF member fund Greater Manchester Pension Fund (GMPF) filed a resolution ahead of Chipotle's 2022 AGM. The proposal requested the company undertake an assessment to identify, in light of the growing pressures on water supply quality and quantity posed by climate change, its total water risk exposure, and policies and practices to reduce this risk. Following discussions between LAPFF Executive member John Anzani, a GMPF representative and the company, an agreement was reached that would see the resolution withdrawn from the ballot. The withdrawal was conditional upon formal commitments being made which will see significant improvement to the company's approach to managing water risk throughout its entire value chain. The specific actions being taken by the company will be disclosed to the market upon publication of its sustainability report in April, at which time LAPFF can elaborate more on the specific actions Chipotle is taking in this space. The commitments represent significant progress in the company's sustainability practices, the direct result of LAPFF's active engagement.

In Progress: Part of the agreement with the company included a commitment to continuing engagement through 2022. LAPFF will monitor the company's performance against its commitments on an ongoing basis and meet with the company to discuss progress during the year.

AstraZeneca

Objective: LAPFF Executive member, John Anzani, met with AstraZeneca Chair, Leif Johannson, to discuss the company's experience during the Covid pandemic and what learnings it has taken from this experience. There was also a question about whether AstraZeneca will change its business strategy or business model in light of its learnings.

Achieved: From the outset, Mr. Anzani expressed his thanks to AstraZeneca on behalf of LAPFF for the role the company has played in its vaccine development and rollout. In particular, it was appreciated that AstraZeneca had not sought to profit from its vaccine in the same

COMPANY ENGAGEMENTS

way that Pfizer and Moderna have and sought instead to distribute the medication as widely as possible around the world. There was a discussion around the misunderstanding of the vaccine's risks as presented in the press that arguably compromised an even more effective rollout process.

Again, the developments surrounding the war in Ukraine were discussed, which prompted a discussion about supply chain security. Interestingly, the last time LAPFF met with Mr. Johansson, there was a similar discussion about supply chain security stemming from the impending impact of Brexit. The importance of diversity and inclusion in all aspects of the company's operations was also discussed.

In Progress: AstraZeneca faced significant operational problems as a result of the media reporting around the blood clots said to be associated with the company's Covid vaccine. It is hoped that the company will be able to reflect on this challenge over time to ensure that it can help as many people as possible and push back on any unwarranted reputational concerns in future.

LyondellBasell

Objective: LyondellBasell is a chemicals company listed in the Netherlands. Following a call with company representatives at the end of 2021, as part of engagement with the CA100+ investor collaborative group, a meeting was sought with the chair, Jacques Aigrain, to discuss the company's climate transition plan and further progress to be made on setting targets for Scope 3 carbon emission reductions.

Achieved: At the meeting, Mr Aigrain was probed on the greatest challenges the company faces in moving to net zero. LAPFF asked for more detail around company plans for electrification using renewables and green hydrogen or green methanol technology and what lessons were being taken from other sectors to bring forward their implementation. Mr Aigrain agreed it had to be progressed through partnerships and gave the example of partnering with a utility to eliminate its use of coal in Germany.

In Progress: Subsequent correspondence with the chair set out various areas of investor expectations discussed during the meeting including on decarbonisation pathways, exploring partnerships to further technological advances, further disclosure on climate-related capex, accounting and auditing, and lobbying and policy stances. A further meeting is proposed after the company has issued its sustainability report later in 2022.

ArcelorMittal

Objective: In a meeting at the end of 2021, LAPFF and the other lead CA100+ investors sought publication of a more granular report on lobbying with a trade association overview. Further correspondence in early January promoted engagement with InfluenceMap, whose assessment feeds into the CA100+ benchmarking process.

Achieved: In January 2022, ArcelorMittal issued a new Climate Advocacy Alignment Report. Continued engagement on lobbying disclosure and the shortly to be released new CA100+ benchmark results have helped the company, a year and a half on from their first 'lobbying' report, to update and improve it. In particular there is now disclosure on the action the company will take where misalignment is found between climate policy positions taken by membership associations, and ArcelorMittal's own policy priorities and the Paris agreement. Potential escalation measures include direct communication requesting further alignment with company policy priorities and the Paris agreement, ensuring ArcelorMittal's financial contribution is ringfenced for non-lobbying activities (e.g. towards standard setting only) and ArcelorMittal ceasing membership of the respective association.

In Progress: In January, as part of further collaborative engagement, a letter was sent to Karen Ovelmen, the audit committee chair, commending improvements in ArcelorMittal's accounting disclosure for Paris-aligned accounts, pressing for further relevant disclosure and seeking a meeting. The letter was copied to all audit committee members as well as the lead partner of the audit firm, Deloittes.

London, 2021. Rally calling for the end of Uyghur genocide in China

Uyghur Engagements

Objective: The Uyghurs, a Turkic ethnic group native to Xinjiang in China, and other Muslim groups in the region, have reportedly been detained against their will for a number of years. There have been instances of evidence of Uyghurs being used for forced labour in the region, amongst other accusations of human rights violations. A large number of companies have been instigated in having instances of Uyghur forced labour in their supply chains, most notably by the Australian Strategic Policy Institute (ASPI) in February 2020. LAPFF initially reached out to eight companies to discuss supply chain due diligence and to ascertain whether these companies had found instances of Uyghur forced labour in their supply chain.

Achieved: To date, LAPFF has met with two of the eight companies, Dell and Cisco, and has had correspondence on the matter with a further two. Tesco has agreed to a meeting in May 2022, shortly after publishing the annual report and sustainability materials, whilst Microsoft also provided further details. Both Dell and Cisco provided similar responses during the meeting, noting that they had not found any instances of Uyghur forced labour in their due diligence processes. Both companies are members of the Responsible Business Alliance and conduct audits with its assistance. Given the complexity of technological supply chains, it was unclear how far down the audit process went for either company. Both Dell and Cisco appeared to take on board feedback from LAPFF, encouraging for better transparency around reporting, particularly on the topics of modern slavery, grievance mechanisms on whistleblowing, and more examples of precisely what serious findings they find in their audits, and how they remedy this.

COMPANY ENGAGEMENTS

In Progress: LAPFF has joined around 60 investors in a working group, coordinated by the Investor Alliance for Human Rights. This provides the opportunity to collaborate going forward and corroborate notes and engagement strategies with a host of other investors. LAPFF will be seeking meetings with those companies that have yet to respond, alongside Microsoft who provided further detail.

VOTING ALERTS

Apple

LAPFF issued a voting alert at Apple. The voting alert focused on shareholder proposals on human rights. The alert recommended that members vote in favour of improved transparency reporting on the removal of apps following concerns about freedom expression in China, reporting on policies and procedures to protect against forced labour, and undertaking a civil rights audit. The alert also recommended supporting shareholder proposals for clearer reporting on gender and ethnic pay gaps and assessing risks of workplace concealment clauses.

Rio Tinto

As mentioned above, LAPFF issued a voting alert for Rio Tinto. The alert recommended that LAPFF members oppose the annual report, the remuneration report implementation, the re-election of Megan Clark, and the company's climate action plan. There was a recommendation to abstain on the remuneration report. The recommendation to oppose the annual report was based on concerns that Rio Tinto had not adequately reported the risk of community relations considerations at its Resolution Copper joint venture in Arizona, had not adequately set out a just transition strategy, and had not adequately considered whether the company's auditors were taking account of climate risk in appointing the auditors.

COLLABORATIVE ENGAGEMENTS

COLLABORATIVE INVESTOR MEETINGS

Say on Climate

Over the quarter, more responses have been received in response to joint correspondence with TCI and Sarasin late last year to FTSE companies. This asked companies to provide shareholders with the opportunity to support disclosure of greenhouse gas emissions and reduction plans by putting an appropriate resolution on their 2022 AGM agenda. Recent responses that show progress on addressing emission reductions have included Halma and GlaxoSmithkline, but most positive was the response from the London Stock Exchange chair, who has put a resolution on the company's 2022 AGM ballot.

Asia Collaborative Engagement Platform for Energy Transition

LAPFF continues to meet with other investors in progressing collaborative engagement on climate and energy transition with banks and power generation companies in Asia, organised and informed by Asia Research and Engagement (ARE). Assessments have been undertaken on decarbonisation policies and practices of 26 power companies in the region and shared with the companies. LAPFF has provided commentary on ARE's review of 32 banks in the region which will be issued as a publicly available report at the end of March.

Institutional Investor Group on Climate Change (IIGCC)

Participation in this weekly investor round-up provides updates on potential 2022 Say on Climate/transition plan resolutions to European companies. These plans are mapped against the Climate Action (CA100+) benchmarks, providing a measure of progress in the energy transition. There is also a focus on company lobbying, accounting, and auditor votes. Investors can 'flag' voting intentions at these companies, as well as any of the global companies covered by CA100+.

Investor Alliance on Human Rights (IAHR)

LAPFF joined the IAHR this quarter to connect to investors globally who are engaging with companies on human rights issues. IAHR has working groups on Uyghur labour in Xinjiang, Myanmar, and the technology sector. LAPFF will participate in all of these groups. The IAHR is also a way for LAPFF to roll out its new human rights strategy, which covers these areas and stresses the need for collaborative engagement.

SHARE

Another organisation that has been working on a range of human rights issues is SHARE, an investor organisation in Canada focusing on environmental, social, and governance issues. LAPFF spoke with SHARE's human rights coordinator about collaborating on engagements, where possible. There appears to be significant overlap in engagements with SHARE also working on Uyghur forced labour, a fair and just transition, and tailings dams, among other issues.

PRI

LAPFF met with PRI this quarter to discuss the PRI's nascent engagement on human rights. As the initiative is not yet officially underway, it is not clear what role LAPFF will play. However, LAPFF will continue to liaise with PRI and others in the group to ensure that the respective work is complementary as both organisations increase their work in this area.

UNI Global

LAPFF met with UNI Global to discuss the global union's new initiative on social protection. There is now a binding document on social protection concluded in the wake of the Rana Plaza factory collapse and the subsequent Bangladesh Accord on fire safety. UNI Global is seeking to engage investors on social protection on the back of this new global agreement.

COLLABORATIVE INVESTOR INITIATIVES

US Securities and Exchange Commission (SEC) on climate disclosure

LAPFF joined other investors in writing to the SEC referencing its upcoming Climate Disclosure Rulemaking. Co-ordinated by the US 'As You Sow' organisation, correspondence underscored the importance of requiring verified Scope 1 through 3 value chain carbon emissions-reporting with an emphasis on Scope 3 verified reporting.

COLLABORATIVE ENGAGEMENTS

Letter to French auditors on climate risk

LAPFF supported a collaborative letter to French auditors EY, PwC, KPMG and Deloitte, asking about disclosure on material climate-related risks. It raised the concern that if material climate risks are not properly examined, there may be questions over the reliability if auditor's opinions that these accounts meet the true and fair view standard as required under European Company Law.

Amazon and Starbucks Freedom of Association Letters

After signing onto an initial collaborative letter to Amazon seeking improved practices on freedom of association and collective bargaining at the company's facility in Bessemer, Alabama, LAPFF signed a follow up letter on this topic. LAPFF signed a similar letter this quarter to Starbucks after reports of anti-union conduct by the company.

Kellogg

LAPFF, alongside Mercy Investment Services and PIMCO, joined a collaborative effort under the Access to Nutrition Index (ATNI) in engaging with Kellogg on a number of issues related to nutrition. Representatives from the company were probed on the company's approach to addressing malnutrition, how it defines what is considered a healthy product and whether it intends to use a more globally recognised system, what reformulation strategies it has, how it intends to market healthy products through existing channels that it already has such as the use of value stores and whether there would be any targets around this. The Forum is looking to follow up with continued dialogue in Q2 on a number of issues not discussed in the meeting.

Sainsbury and Share Action

During the pandemic, supermarket employees have been amongst a number of key workers on the frontline, providing an essential service in serving the nation. LAPFF joined ShareAction and the Good Work investor coalition in engaging with Sainsbury around the paying of a living wage. Before the meeting had taken place, Sainsbury announced its new pay deal in January. However, the resolution being put forward by ShareAction is seeking support by the company to accredit as a Living Wage employer in the next few years. Sainsbury's pay rise in January was a welcome step but left some gaps that the engagement seeks to address, such as discrepancies between inner and outer London living wage rates and no commitment relating to any of its third-party staff. LAPFF raised questions of Union negotiation, as the company consults with Union, and Argos has a collective bargaining agreement with Unite. The wider workforce does not have such an agreement, whereas a number of the company's peers do.

Care sector – UNI Global Union

LAPFF continued its involvement in the UNI Global Union collaborative initiative on employment standards and care quality at nursing homes. The investor expectations statement now includes support from over 100 institutions with combined assets of over $3.3 trillion. Engagement with REITs within the care sector is commencing, with LAPFF the lead investor at Welltower and a supporting investor at others.

Slamon fish farm aquaculture

FAIRR Initiative

After becoming a signatory to the FAIRR initiative in December 2021, an investor network focusing on ESG risks in the global food sector, LAPFF signed onto collaborative engagements. One looks at sustainable aquaculture, asking salmon companies to develop and disclose strategies for diversifying feed ingredients towards lower impact and more sustainable alternatives, and to implement better climate risk management. The other looks at working conditions in global meat supply chains. It seeks to address a number of human rights capital risks in the animal farming industry.
Collaborative Community Meetings

Brazilian Communities & British Consul in Brazil

Prior to the pandemic, LAPFF promised to visit the communities affected by the tailings dam collapses in Mariana and Brumadinho, Brazil. LAPFF intends to keep its promise to visit these communities and, in preparation, held a discussion with the British Consulate in Belo Horizonte, Brazil, to discuss timings and information necessary to proceed with the trip.

LAPFF EVENTS

SAY ON CLIMATE
MAKE YOUR CLIMATE ACTION PLANS COUNT

Say on Climate Event

LAPFF, together with Sarasin & Partners and TCI Fund Management wrote to FTSE All Share companies in 2021, urging them to submit a Climate Transition Action Plan to each AGM for shareholder approval. Having received a significant response to this, it was decided to hold an event at which companies, investors and other interested parties could discuss how best to formulate and disclose such plans and put them to shareholders for review. In February, a range of speakers in the investor, corporate, regulatory and advisory space gathered to discuss what are likely soon to be mandatory disclosures, with lively debate ensuing.

APPG

The LAPFF-supported All-Party Parliamentary Group on Local Authority Pension Funds held a meeting in March. The meeting followed on from the launch of the APPG's report on responsible investment for a just transition, with presentations from Dr Alan Whitehead MP, Shadow Minister for Climate Change and Net Zero, and Matt Toombs, Director of Campaigns and Engagement, Cop26 Unit, Cabinet Office. Tessa Younger, Head of Engagement at PIRC, also provided an overview of the Say on Climate initiative and LAPFF's involvement with it.

Communities affected by Rio Tinto Operations

LAPFF Chair, Cllr Doug McMurdo, hosted a webinar with community members affected by Rio Tinto operations in Australia, Mongolia, and Papua New

COLLABORATIVE ENGAGEMENTS

Guinea. While there are still many areas that need progress, which Rio Tinto itself admits through its brave and helpful workplace culture report, there are also points of improvement. In general, it was felt that the culture at the executive level of the company has improved; it is hoped this improved culture will extend throughout the entire organisation. It was also noted that Rio Tinto has agreed to an independent assessment of its role at its legacy Panguna mine in Papua New Guinea. However, progress appears patchy globally with accounts from Mongolia – and through separate contact with LAPFF, Arizona - less positive.

CONSULTATIONS

UN OHCHR Accountability and Remedy Project Consultation

One area of interest as LAPFF increases its work on human rights is the growing number of legislative initiatives on human rights and environmental due diligence (mHREDD) emerging at both the domestic and international levels. To this end, LAPFF joined a consultation held by the United Nations Office for the High Commissioner of Human Rights to discuss trends in mHREDD globally. Sessions included an overview of mHREDD initiatives, the role of courts, the role of administrative bodies, and the link between mHREDD and grievance mechanisms. This discussion is particularly relevant for LAPFF as the UK deliberates on its own mHREDD legislation. LAPFF also attended a UN Global Compact webinar on mHREDD that stressed the need to overcome the siloed approach to environmental and social issues in approaches to legislating for due diligence. This observation fits well with LAPFF's approach to engaging on a fair and just transition to a zero carbon economy.

MEDIA COVERAGE

DAM COLLAPSE

UK local govt pension scheme "dismayed" at lack of action over Brazil dam collapses
https://www.mining.com/web/uk-local-govt-pension-scheme-dismayed-at-lack-of-action-over-brazil-dam-collapses/
The ESG Interview: Learn from the Past, Look to the Future
The ESG Interview: Learn from the Past, Look to the Future - ESG Investor

UK ENDORSEMENT BOARD

Standards board 'looks like a cabal'
https://www.thetimes.co.uk/article/standards-board-looks-like-a-cabal-hks5ch38b

ISRAEL PALESTINE

LGPS seeks UN clarity on investment comments
https://www.pensions-expert.com/DB-Derisking/LGPS-seeks-UN-clarity-on-Israel-investment-comments

UKRAINE

Lessons from Ukraine: are defence exclusions 'responsible'?
https://www.room151.co.uk/blogs/lessons-from-ukraine-are-defence-exclusions-responsible/

CHAIR'S QUOTE

"I had hoped, with the promising trajectory of the Omicron variant, that 2022 would be a year of more positive developments. However, we now find ourselves with the prospect of another world war and less certain than ever about how to act on ESG issues as investors due to recent government initiatives in the UK. In this context, LAPFF's work takes on even greater significance as investors must step up to respect human rights, the environment, and good governance where governments and other actors fail to do so."

Local Authority Pension Fund Forum

COMPANY PROGRESS REPORT

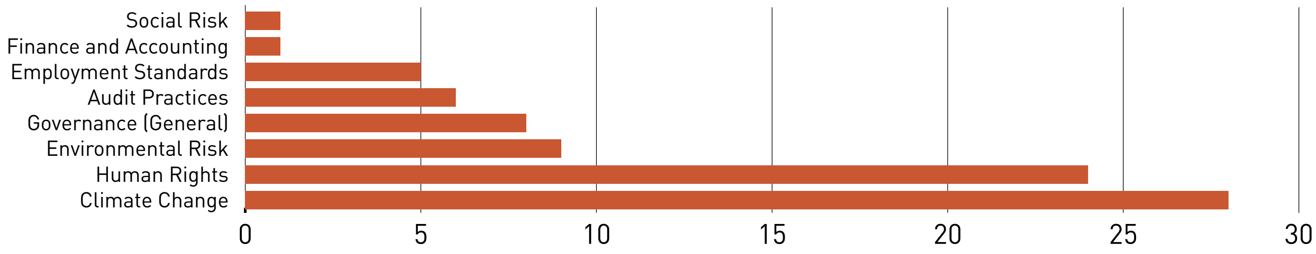
50 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

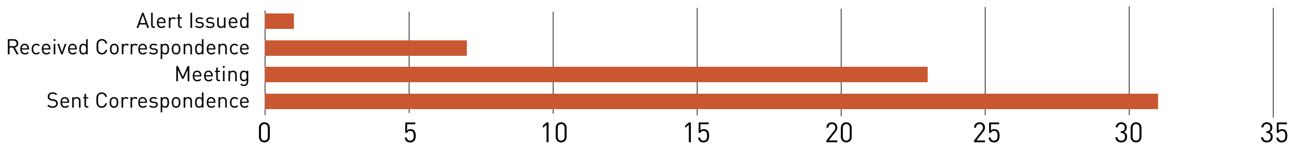
Company/Index	Activity	Topic	Outcome
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Change in Process
ALSTOM SA	Meeting	Human Rights	Dialogue
AMAZON.COM INC.	Sent Correspondence	Employment Standards	Dialogue
ANGLO AMERICAN PLC	Sent Correspondence	Climate Change	Change in Process
APPLE INC	Alert Issued	Human Rights	Dialogue
ARCELORMITTAL SA	Received Correspondence	Climate Change	Substantial Improvement
ASTRAZENECA PLC	Meeting	Governance (General)	Dialogue
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Meeting	Human Rights	Dialogue
BHP GROUP LIMITED (AUS)	Meeting	Human Rights	No Improvement
BP PLC	Meeting	Climate Change	Change in Process
BRF - BRASIL FOODS SA	Sent Correspondence	Human Rights	Awaiting Response
CHEVRON CORPORATION	Sent Correspondence	Human Rights	Awaiting Response
CISCO SYSTEMS INC.	Meeting	Human Rights	Dialogue
CK HUTCHISON HOLDINGS LTD	Meeting	Environmental Risk	Awaiting Response
CRANSWICK PLC	Sent Correspondence	Human Rights	Awaiting Response
CRH PLC	Received Correspondence	Climate Change	Change in Process
DBS BANK LTD	AGM	Climate Change	Small Improvement
DBS GROUP HOLDINGS LTD	AGM	Climate Change	Substantial Improvement
DELL TECHNOLOGIES	Meeting	Audit Practices	Dialogue
FREEPORT-MCMORAN INC.	Meeting	Governance (General)	Change in Process
GLAXOSMITHKLINE PLC	Received Correspondence	Climate Change	Moderate Improvement
HALMA PLC	Meeting	Finance and Accounting	Small Improvement
HALMA PLC	Received Correspondence	Climate Change	Moderate Improvement
INTERCONTINENTAL HOTELS GROUP PLC	Received Correspondence	Climate Change	Moderate Improvement
KELLOGG COMPANY	Meeting	Social Risk	Small Improvement
LEROY SEAFOOD GROUP ASA	Sent Correspondence	Environmental Risk	Awaiting Response
LONDON STOCK EXCHANGE GROUP PLC	Received Correspondence	Climate Change	Substantial Improvement
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Change in Process
MARFRIG GLOBAL FOODS S.A	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Human Rights	Awaiting Response
MOTOROLA SOLUTIONS INC.	Meeting	Human Rights	Dialogue
MOWI ASA	Sent Correspondence	Environmental Risk	Awaiting Response
NESTLE SA	Meeting	Climate Change	Small Improvement
NEXTERA ENERGY INC	Sent Correspondence	Climate Change	Moderate Improvement
PENNON GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
RENAULT SA	Sent Correspondence	Climate Change	Small Improvement
RIO TINTO PLC	Meeting	Climate Change	Moderate Improvement
SAINSBURY (J) PLC	Meeting	Employment Standards	Moderate Improvement
SALMAR ASA	Sent Correspondence	Environmental Risk	Awaiting Response
SANDERSON FARMS INC	Sent Correspondence	Human Rights	Awaiting Response
SEVERN TRENT PLC	Sent Correspondence	Environmental Risk	Awaiting Response
SYNTHOMER PLC	Meeting	Human Rights	Small Improvement
TESCO PLC	Received Correspondence	Human Rights	Dialogue
THYSSENKRUPP AG	Meeting	Climate Change	Change in Process
TOTALENERGIES SE	Meeting	Human Rights	Dialogue
TYSON FOODS INC	Sent Correspondence	Human Rights	Awaiting Response
UNITED UTILITIES GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
VALE SA	Meeting	Governance (General)	Dialogue
WELLTOWER INC	Sent Correspondence	Employment Standards	Awaiting Response
WH GROUP LTD	Sent Correspondence	Human Rights	Awaiting Response

ENGAGEMENT DATA

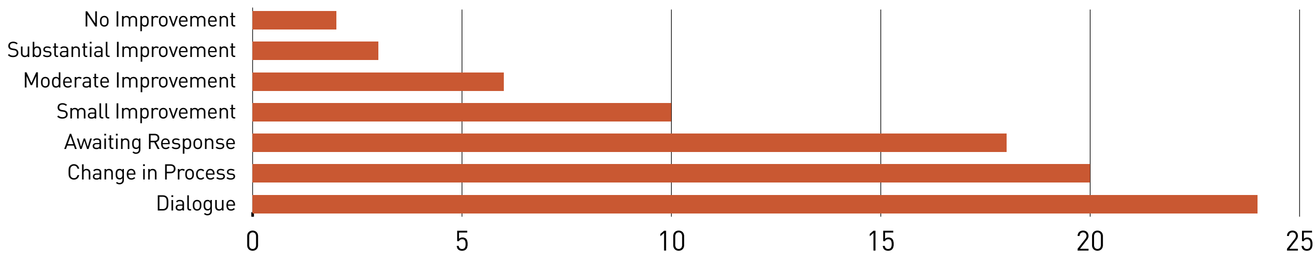
ENGAGEMENT TOPICS



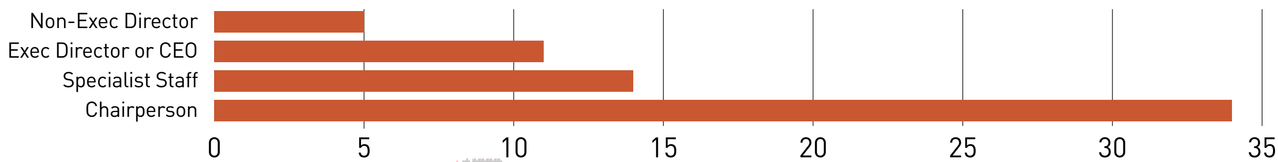
ACTIVITY



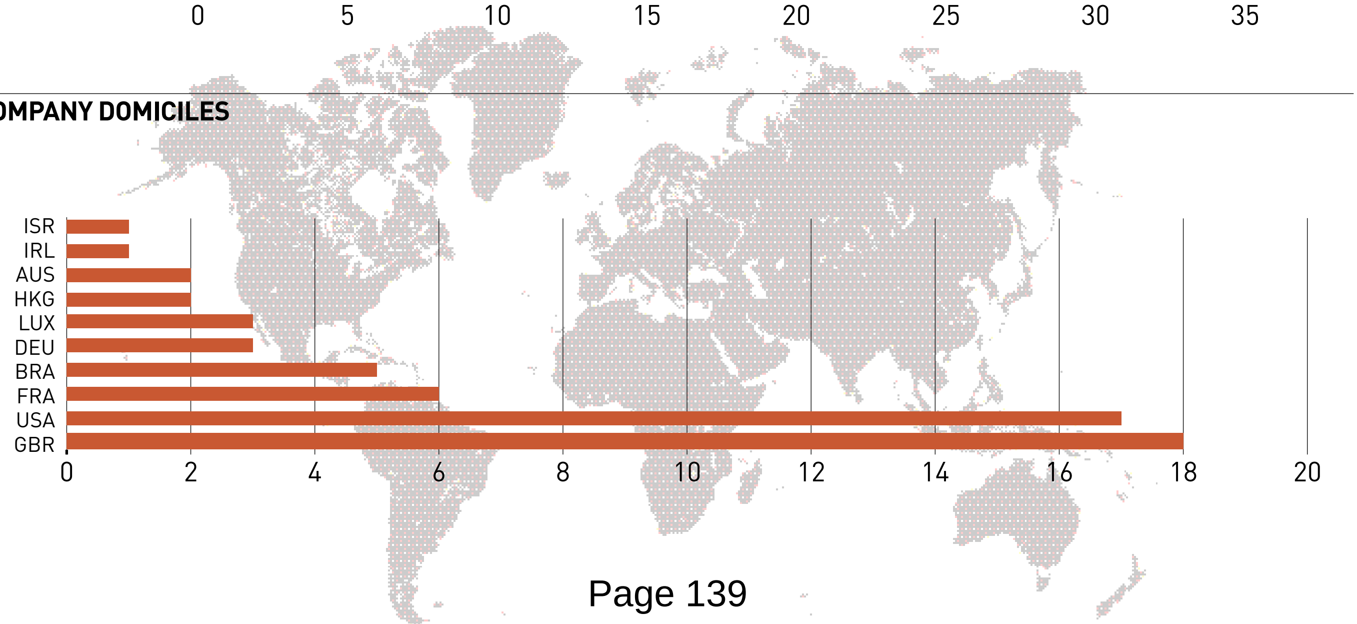
MEETING ENGAGEMENT OUTCOMES



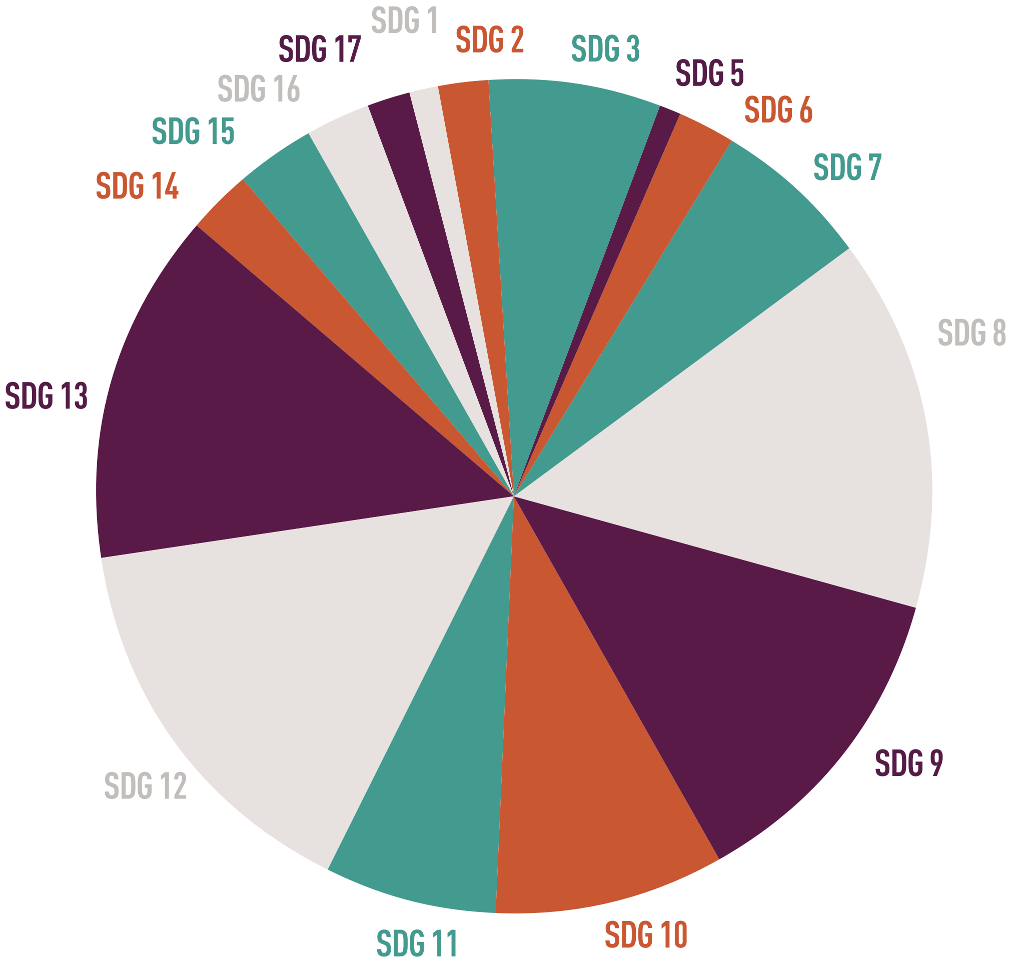
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	3
SDG 2: Zero Hunger	5
SDG 3: Good Health and Well-Being	16
SDG 4: Quality Education	0
SDG 5: Gender Equality	2
SDG 6: Clean Water and Sanitation	5
SDG 7: Affordable and Clean Energy	15
SDG 8: Decent Work and Economic Growth	35
SDG 9: Industry, Innovation, and Infrastructure	30
SDG 10: Reduced Inequalities	21
SDG 11: Sustainable Cities and Communities	16
SDG12: Responsible Production and Consumption	37
SDG 13: Climate Action	33
SDG 14: Life Below Water	6
SDG 15: Life on Land	7
SDG 16: Peace, Justice, and Strong Institutions	6
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	4

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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

Pool Company Members

Border to Coast Pensions Partnership
Brunel Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

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Title of Report	Equiniti - Third Party Administration Performance Update
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. The Pension Fund's administration services provider, Equiniti, has recently undergone a major internal restructure following its takeover by Siris Capital. This has resulted in significant changes in the team assigned to the Hackney Pension Fund.

1.2. The Fund also has long-standing concerns about the quality of service provided by Equiniti, and has therefore asked representatives from the firm to attend the Pensions Committee to provide a review of service performance.

2. Recommendations

2.1. **The Committee is recommended to:**

- **Note the report**

3. Related Decisions

3.1. Pensions Committee 25th April 2017 – Procurement of Third Party Pension Administration Services

4. Comments of the Group Director of Finance and Corporate Resources.

4.1. Provision of a high quality pensions administration service is essential to the efficient running of a Local Government Pension Scheme (LGPS) fund.

Pensions administration in the LGPS is costly and challenging, given the complexities of the scheme and the difficulties of recruiting and retaining suitably experienced staff.

4.2. Poor administration can be extremely costly. Costs can increase as a result of incorrect payment of benefits and additional contributions required by fund actuaries, as well as fines levied by the Pensions Regulator (tPR). It is therefore vital that contract provisions are met and that the Fund's administration service is delivered to a high standard.

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

5. Comments of the Director of Legal, Democratic and Electoral Services

5.1. The responsibilities for the proper administration of the Fund have been delegated by the Council to the Pensions Committee with the assistance of Pension Board members and senior officers. This is an onerous responsibility given the complexity of the scheme and the difficulty of recruiting sufficient experienced staff and, as such, the Committee previously decided to outsource much of this work to a third party provider.

5.2. It is critical that this contract is monitored on an ongoing basis to ensure Equiniti are meeting their contractual requirements. These include the Council's legal responsibilities in administering the fund, such as ensuring benefits are calculated in accordance with and paid within the timescales set out in legislation.

5.3. Failure to adhere to the overriding legal requirements relating to the administration of the Fund could impact on scheme members' benefits as well as services to the employers in the Fund. This could result in complaints and potential fines for maladministration.

5.4. There are no immediate legal implications arising from this report.

6. Background to the Report

6.1. Equiniti is the Pension Fund's third party pension administration services provider and has provided this service to the Fund since 2009. The firm was re-appointed from the start of 2018 following a competitive tender process during 2017. The contract is due to expire on 31st December 2022; Equiniti have made a renewal proposal which the Fund is currently considering together with the Council's procurement team.

6.2. Implementation of the new contract proved challenging, with a number of service requirements, such as standard communications, good quality monthly reporting and website provision not achieved for a considerable period of time.

6.3. Officers of the Fund continue to have some concerns about the standard of quality controls, automation and training within Equiniti. Issues arising have included:

- Examples of incorrectly calculated or communicated scheme benefits
- Failure to produce Annual Benefit Statements (both deferred and active by the deadline)
- Failure to provide timely and accurate information for Pensions Saving Statements
- Insufficient resources to complete work
- SLAs/KPIs not met
- Over reliance on manual processes and workarounds and spreadsheets
- Insufficient LGPS experience and over-reliance on key individuals

6.4. Equiniti was taken over by Siris Capital in December 2021. Siris is a private equity firm that primarily invests in mature tech & telecom businesses facing industry changes and transition. Since the restructure, Equiniti has completed a substantial internal restructure, which has seen significant changes to the team providing Hackney's administration service. To the Fund's knowledge there are now no members of the team with previous direct experience of LGPS administration.

6.5. Representatives from Equiniti will be attending the Pensions Committee to give a presentation on contract performance, giving members the opportunity to understand the service in more detail. The presentation will provide a summary of current performance and lessons learned as well as a summary of the business context and Equiniti's plans for service improvements.

<u>Appendices</u>

None

<u>Background documents</u>

None

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Comments for the Director of Legal, Democratic and Electoral Services prepared by	Name: Georgia Lazari Title: Team Leader (Places) Email : georgia.lazari@hackney.gov.uk Tel: 0208 356 1369

Hackney

Title of Report	Investment Strategy Review - Introduction
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. This report provides the Pensions Committee with an introduction to the investment strategy review that will take place alongside the 2022 actuarial valuation. The Fund's investment consultant will also provide a brief overview during the Pensions Committee meeting.

2. Recommendations

2.1. **The Committee is recommended to:**

- **Note the report**

3. Related Decisions

3.1. Pensions Committee 15th June 2022 - Actuarial Valuation - Contribution Rates

4. Comments of the Group Director of Finance and Corporate Resources.

4.1. This paper provides the Committee with an introduction to the process for setting the Fund's investment strategy. 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, Democratic and Electoral Services

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 in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority's investment strategy 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.

5.3. This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment of the suitability of different types of investments and considering how some of the risks to which the Fund is exposed can be managed through setting an appropriate investment strategy.

6. Background to the Report

6.1. The decisions taken around investment strategy are some of the most important decisions taken by the Pensions Committee. Contributions and investment returns are the only two options available to fund benefit payments; decisions around the contribution and investment strategies are therefore some of the most significant in terms of their overall impact on the Fund.

6.2. The principal objective of the Fund is to pay benefits when they fall due; this objective should be met whilst also ensuring that employers' contributions remain as stable as possible. It is therefore vital that the investment strategy is consistent with the Fund's contribution strategy and is not reliant on either unrealistically high estimated returns or on sudden contribution increases.

6.3. Three different broad asset types - growth, income and protection - can all help play a role in ensuring that that Fund is able to meet its principle objective. The asset types play the following roles:

- Growth assets - help generate sufficient returns to keep the cost of new benefits accruing reasonable
- Income assets - help generate cash as the Fund requires
- Protection assets - reduce risks of deficits emerging to protect against increases in secondary rates

6.4. The level of each asset type held by the Fund is likely to need to change over time as the Fund matures. Early stage funds will have a high proportion of active members (and therefore significant contribution payments), low levels of pensions in payment and a long time horizon - these funds can therefore focus on growth assets to generate returns. As funds mature, their income requirements are likely to increase as the proportion of active members reduces and pensioner numbers increase. Very mature funds, with a shorter time horizon and (hopefully) lower deficit are likely to focus on protection assets to protect gains and maintain affordable contributions.

6.5. The Fund's investment consultant will provide a brief overview of the strategy setting process at the Pensions Committee meeting and Members will have the opportunity to ask questions. A workshop is planned for early July to allow time for a more in- depth discussion on asset allocation and strategy setting prior to any formal decision making.

Appendices

None

Background documents

None

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Comments for the Director of Legal, Democratic and Electoral Services prepared by	Name: Georgia Lazari Title: Team Leader (Places) Email: Georgia.Lazari@Hackney.gov.uk Tel: 020 8656 1369

Title of Report	Reporting Breaches Procedure - Policy Review
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

1.1. Those involved in running or advising Pension Schemes have a statutory obligation to report 'materially significant' breaches of the law to The Pensions Regulator (TPR) under section 70 of the Pensions Act 2004. Since 1st April 2015, TPR's oversight powers have been extended to cover the administration and governance of public service schemes, including the Local Government Pension Scheme (LGPS). Part of TPR's remit has been to put in place a Code of Practice covering these aspects of scheme management and the Code includes a section providing guidance on how to identify and assess the significance of breaches of the law. The Code is due to be updated in autumn 2022 but based on the draft Single Code it is not expected that the requirements around reporting breaches will change significantly.

1.2. This report includes the Fund's Breaches Procedure which has been reviewed and updated. Generally, unless otherwise specified, the Fund's policy is to review policies every three years (or sooner if required, for example, due to changes in legislation). This Policy has reached the review date and has had some recommended updates as set out in this cover report.

2. **Recommendations**

2.1. **The Pensions Committee is recommended to:**

- **Approve the updated Reporting Breaches Policy**

3. **Related Decisions**

3.1. Pensions Committee 23rd July 2018 – Last update of Breaches Procedure

4. **Comments of the Group Director of Finance and Corporate Resources.**

4.1. In recent years there has been an increased focus on the governance of LGPS funds, with the introduction of oversight powers for TPR and the publication of the Code of Practice being good examples of this. Ensuring compliance with the Code may result in additional work for the Fund's officers and advisers, bringing an associated increase in cost to be met by the Fund; however, any such costs will be immaterial in the context of a £1.9bn Fund.

4.2. The Pensions Regulator's Compliance and Enforcement policy sets out the Regulator's approach to regulatory compliance. It makes clear that the Regulator expects to educate and enable schemes to improve their standard of governance. However, where no action is taken by scheme managers to address poor standards, enforcement action will be taken, which may include financial penalties.

5. **Comments of the Director of Legal, Democratic and Electoral Services**

5.1. The Public Service Pensions Act (2013) extended the oversight powers of the Pensions Regulator to the administration and governance of public service schemes, including the LGPS. As such, those involved with the management of LGPS funds are required to report breaches of scheme regulations to The Pensions Regulator under section 70 of the Pensions Act 2004.

5.2. Scheme regulations under this duty include any legislation relevant to the administration and governance of the scheme. Such regulations will include:

- LGPS Regulations 2013
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014

5.3. There are no immediate legal implications arising from this report.

6. **Regulatory Background**

6.1. Section 70 of the Pensions Act 2004 requires that certain people involved in running or advising a pension scheme must report 'materially significant' breaches of the law to TPR. For public service schemes, those subject to this reporting requirement are:

- Scheme managers (in this case the Council as the Administering Authority, with responsibility delegated to the Pensions Committee)
- Pension Board Members
- Persons otherwise involved in the administration of the scheme
- Employers
- Professional advisers
- Persons otherwise involved in advising the Scheme Manager in relation to the scheme.

6.2. The Regulator's Code of Practice helps individuals to determine whether or not a breach needs to be reported, setting out two key judgements to enable a decision:

- Does the individual have reasonable cause to believe there has been a breach of the law
- If so, does the individual believe that this is likely to be of material significance to the Regulator?

The Code provides practical guidance on the factors that individuals should consider in making these key judgements, and the process for making a report to the Regulator, should this be required.

6.3. The Code also highlights the need for schemes to be satisfied that those with statutory responsibility for reporting breaches have a sufficient level of knowledge and understanding to fulfil their duty. The Code recommends that training be provided for Scheme Managers and Pension Board members, and for all others with a duty to report, to be familiar with the legal requirements and the processes and procedures for reporting.

6.4. TPR also recommends that schemes should establish and operate 'appropriate and effective' procedures that enable people to raise concerns and allow the objective consideration of any breaches identified. They should also set out appropriate timescales for individuals to consider whether or not a breach should be reported.

7. <u>**Hackney Pension Fund - Actions Taken**</u>

7.1. The Breaches Procedure for the Hackney Pension Fund at Appendix 1 to this report was first formally approved for the London Borough of Hackney Pension Fund at its meeting in June 2015 and an updated version was approved in July 2018. This update is part of the program of regular review set out in the Pension Fund Business Plan.

7.2. As per the Regulator's guidance, the policy:

- Sets out the law on reporting breaches, and those to whom it applies

- Provides guidance on how to confirm the facts when a breach is suspected
- Provides guidance on determining whether or not a breach is likely to be of material significance to the Regulator
- Sets out the appropriate level of seniority for decision-making when determining whether or not to report
- Provides appropriate timescales for reporting
- Provides guidance on dealing with complex cases
- Sets out an early reporting procedure for serious breaches (e.g. where dishonesty is suspected)
- Sets out the procedure for reporting a breach to the Regulator

7.3. Updates made to the policy since it was last approved are:

- Adding clarification to the introductory section
- Updating to reference the new Pension Regulator's Single Code, due to be published in autumn 2022
- Adding a section referencing other policies and procedures that may also apply to individuals subject to this Breaches Procedure
- Updating the key steps in determining whether a breach has occurred, determining its significance and whether it should be reported
- Updating the decision tree diagram
- Adding in a new appendix setting out some example breaches
- Updating contact details

Appendices

Appendix 1 - Reporting Breaches Procedure

Background documents

None

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Corporate Resources prepared by	Tel: 020 8356 3032
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London Borough of Hackney Pension Fund

Procedure for Reporting Breaches of the Law

Reporting Breaches Procedure

Introduction

This document sets out the procedures to be followed by certain persons involved with the London Borough of Hackney Pension Fund, which is ~~the Local Government Pension Scheme~~ managed and administered by Hackney Council, in relation to identifying, recording and potentially reporting breaches of the law to the Pensions Regulator.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

This procedure has been developed to assist those individuals who have a legal responsibility to report certain breaches to The Pensions Regulator in determining whether a breach they have identified should be reported. It has also been developed to assist Hackney Council, in its role as Administering Authority, in ensuring it is aware of all breaches of the law in relation to the Hackney Pension Fund and that these are appropriately recorded and then dealt with.

Hackney Council, as Administering Authority, has delegated responsibility for the implementation of these procedures to the Group Director, Finance and Corporate Resources and the Head of Pensions ~~Fund Investment~~.

The following persons, or any other person who has responsibility to report breaches of the law in relation to the Hackney Pension Fund, are strongly encouraged to follow this procedure should they identify such a breach:

~~This Procedure document applies, in the main, to:~~

- all members of the Pensions Committee and the ~~local~~ Pension Board
- all officers involved in the management of the Pension Fund including staff members in the Hackney Council Pension Fund Team ~~members of the Hackney Financial Services Team~~, the Director, Financial Management and the Group Director, Finance and Corporate Resources (Section 151 Officer)
- personnel of the third party administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers
- officers of employers participating in the London Borough of Hackney Pension Fund who are responsible for pension matters

- any other person otherwise involved in advising the managers of the Fund, including Hackney Council's Monitoring Officer and staff members of the Internal Audit function.

Throughout this procedure, any person to whom this procedure applies, as a result of them identifying a breach or potential breach, will be referred to as the individual.

The next section clarifies the full extent of the legal requirements and to whom they apply.

Requirements

Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who is otherwise involved in the administration of ~~such a scheme~~ an occupational or personal pension scheme
- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
(b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override ‘legal privilege’. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice[1]

Practical guidance in relation to this legal requirement is included in The Pension Regulator’s Code of Practice including in the following areas:

- implementing adequate procedures to consider and record breaches
- judging whether a breach must be reported
- submitting a report to The Pensions Regulator
- whistleblowing protection and confidentiality.

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[1] The Pensions Regulator plans to replace the current Code of Practice 14: Governance and Administration of Public Service Pension Schemes with a new Single Code applicable to all pension schemes. This is due to come into force in Autumn 2022. It is expected that this policy will comply with the new Code but it will be reviewed and updated where necessary.

Application to the London Borough of Hackney Pension Fund

Hackney Council has developed this procedure in relation to the London Borough of Hackney Pension Fund. This document sets out how the Council will strive to achieve best practice through the use of a formal reporting breaches procedure. ~~which~~ It reflects the guidance contained in The Pension Regulator's Code of Practice. ~~in relation to the London Borough of Hackney Pension Fund and this document sets out how the Council will strive to achieve best practice through use of a formal reporting breaches procedure~~.

Training on reporting breaches and related statutory duties, and the use of this procedure, is provided to Pension Committee members, Pension Board members and key officers involved with the management of the London Borough of Hackney Pension Fund on a regular basis. Further training can be provided on request to the Head of Pensions. ~~Fund Investment.~~

Other Administering Authority or Organisational Requirements

In addition to the requirements of this Procedure, there may be other policies and procedures in place relating to areas such as fraud or whistleblowing that apply to the individuals covered by this Breaches Procedure. For example, Hackney Council has in place the following:

- Whistleblowing Policy
- Anti-fraud and Corruption Policy
- Anti-money laundering Policy

This Procedure should be followed in addition to any existing procedures or policies that may be in place, such as those listed above. In particular, individuals are reminded that there is a legal requirement to report breaches of the law in relation to the Hackney Pension Fund that could be considered significant to The Pensions Regulator. The Council's Monitoring Officer (contact details at the end of this procedure document) can assist if an individual is uncertain how to deal with the interaction between this Procedure and any other organisation's policy or procedure that may be in place.

The London Borough of Hackney Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess, record and report (if appropriate) ~~(or record if not reported)~~ a breach of law relating to the London Borough of Hackney Pension Fund.

It aims to ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk. There are four key steps to this procedure:

1. Understanding the law and what constitutes a breach
2. Determining whether a suspected breach is an actual breach
3. Determining whether the breach is likely to be of material significance and so should be reported to The Pensions Regulator
4. Recording the breach, even if it is not reported

These steps are explained below

1. *1. Understanding the law and what constitutes a breach ~~Clarification of the law~~*

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996: www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013: www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various): http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes) http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice:

  http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx

  In particular, individuals should refer to the section of the Regulator's code on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Head of Pensions ~~Fund Investment~~, the Director, Financial Management or the Group Director, Finance and Corporate Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence). Some examples of potential breaches are also included in Appendix A.

~~2.~~ *2. Determining whether a suspected breach is an actual breach* ~~*Clarification when a breach is suspected*~~

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred.

Where the individual does not know the facts or events, it will usually be appropriate to check with the Head of Pensions ~~Fund Investment~~, the Director, Financial Management or the Group Director, Finance and Corporate Resources at Hackney Council, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3. 3. Determining whether the breach is likely to be of material significance

Should an individual have reasonable cause to believe that a breach of the law has occurred, they must decide whether that breach is likely to be of material significance to The Pensions Regulator and therefore should be reported to The Pensions Regulator. ~~To decide whether a breach is likely to be of material significance~~ To do this, an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach.

Individuals may also request the most recent breaches report from the Head of Pensions ~~Fund Investment~~, the Director, Financial Management or the Group Director, Finance and Corporate Resources, as there may be details of other breaches which may provide a useful precedent on the appropriate action to take.

Further details on the above four considerations are provided in Appendix B to this procedure.

The individual should use the traffic light framework described in Appendix C to help assess the material significance of each breach and to formally support and document their decision.

It should be noted that the Pensions Regulator's role is in relation to requirements under the Pensions Act 2004. As such, it is possible that some breaches of the law do not fall within the Regulator's remit. However, given the complex nature of the law, including the wide ranging responsibilities covered by the Pensions Act 2004, Hackney Council encourages reporting of any breach that is considered to be materially significant regardless of the specific area of the law that has been breached. The Pensions Regulator can then determine whether it is a matter they have jurisdiction over or not.

The Head of Pensions can assist with determining whether the breach should be reported and can also assist in completing the document to report the breach. However the individual is ultimately responsible for determining what should be included in the report and for submitting the report to The Pensions Regulator.

4. Recording the breach, even if it is not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The Head of Pensions will maintain a record of all breaches identified, whether or not they were reported to The Pensions Regulator. Therefore individuals should provide the following information to the Head of Pensions so that all identified breaches can be recorded:

- copies of reports submitted to The Pensions Regulator
- copies of information relating to any other breach the individual has identified.

The information should be provided to the Head of Pensions as soon as reasonably practicable and certainly no later than within 20 working days of the decision made to report or not. The record of all breaches (reported or otherwise) will be included in the Governance Update Report at each Pension Fund Committee meeting, and this will also be shared with the Pension Board.

Assistance for individuals in following this procedure

The following information is provided to assist individuals in following this procedure.

1. Referral to a level of seniority for a decision to be made on whether to report

Hackney Council has designated officers (Head of Pensions ~~Fund Investment~~, the Director, Financial Management or the Group Director, Finance and Corporate Resources) to assist any individual with following this procedure. ~~ensure this procedure is appropriately followed~~. These officers are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate.

~~If breaches relate to late or incorrect payment of contributions or pension benefits, information the matter should be highlighted to the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources at the earliest opportunity to ensure the matter is resolved as a matter of urgency.~~

Individuals must bear in mind, however, that the involvement of the Head of Pensions ~~Fund Investment~~, the Director, Financial Management or the Group Director, Finance and Corporate Resources is to help clarify the individual's ~~potential reporter's~~ thought process and to ensure this procedure is followed. The individual ~~reporter~~ remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator, and for completing the reporting procedure.

The matter should **not** be referred to any ~~either~~ of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in step ~~section~~ 2 above). If that is the case, the individual may instead refer the matter to the Council's Monitoring Officer. Otherwise, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly for more serious breaches.

2. Dealing with complex cases

The Head of Pensions ~~Fund Investment~~, the Director, Financial Management or the Group Director, Finance and Corporate Resources may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases, information on which will be retained by Hackney Council, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the Scheme Advisory Board or the Local Government Pensions Committee Secretariat (part of the Local Government Group - http://www.lgpsregs.org/).

If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Committee or Board meeting.

3. Timescales for reporting

The Pensions Act and The Pension Regulator's Code requires that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not wait ~~rely on waiting~~ for others to report and nor is it necessary for an individual ~~reporter~~ to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

4. Early identification of very serious breaches

In cases of immediate risk to the scheme, for instance where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently individuals ~~reporters~~ should make these necessary checks. In cases of potential dishonesty the individual ~~reporter~~ should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

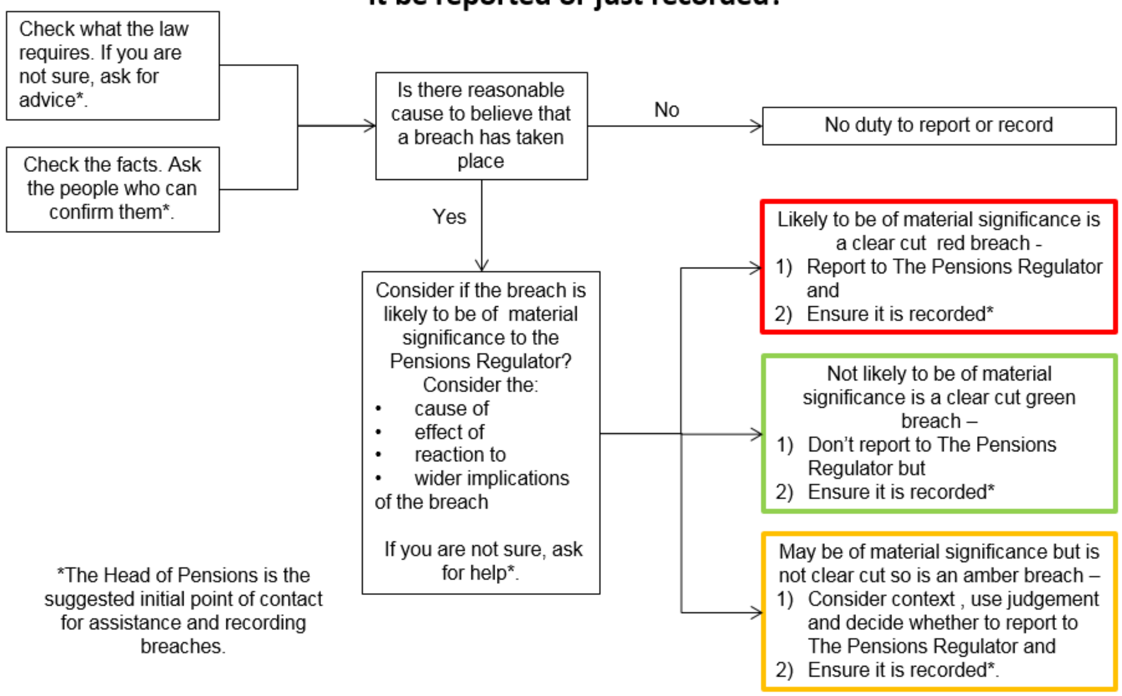
5. Decision tree

A decision tree is provided below which summarises the process for deciding whether or not a breach has taken place, whether it is materially significant to The Pensions Regulator and therefore needs to be reported, and then ensuring it is recorded.

~~*5. Recording all breaches even if they are not reported*~~

~~The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Hackney Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports submitted to The Pensions Regulator to the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources. Records of unreported breaches should also be provided to the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.~~

Decision-tree: Has a breach occurred and should it be reported or just recorded?



Reporting a breach to The Pensions Regulator

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary a written report can be preceded by a telephone call.

~~Reporters~~ The individual should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact the individual ~~reporters~~ to request further information. ~~Reporters~~ The individual will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (London Borough of Hackney Pension Fund)
- description of breach(es)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is Hackney Council).

If possible, ~~reporters~~ individuals should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator

- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number
- whether the breach has been reported before.

The individual ~~reporter~~ should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

Confidentiality

If requested, The Pensions Regulator will do its best to protect ~~a reporter's~~ the identity of an individual who has reported a breach and will not disclose information except where it is lawfully required to do so.

An employee may also have protection under the Employment Rights Act 1996 if they make a report in good faith in relation to their employer.

~~If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.~~

Reporting to Pensions Committee

A report will be presented to the Pensions Committee on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates.
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- highlighting new breaches which have arisen ~~in the last year/~~since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix D to this procedure.

Approval and Review

This version of the Reporting Breaches Procedure was reviewed and approved at the Hackney Pension Committee on 15 June 2022 ~~originally developed in June 2015, with changes made in July 2018 to reflect changes to both the operational structure of the Financial Services team and the management structure of the Council~~. It will be kept under review and updated as considered appropriate, but at least every three years, by the Head of Pensions ~~Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources~~. After any update it will be sent to all individuals who, or key contacts at organisations which are considered to be subject to the procedure.

~~It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.~~

Further Information

If you require further information about reporting breaches or this procedure, please contact:

Rachel Cowburn
Head of Pensions ~~Fund Investment~~
London Borough of Hackney Pension Fund
Hackney Council
4th Floor, Hackney Service Centre
1, Hillman Street
London
E8 1DY

Designated officer contact details:

1) Head of Pensions ~~Fund Investment~~ – Rachel Cowburn

E-mail rachel.cowburn@hackney.gov.uk

Telephone 020 8356 2630

2) Director, Financial Management – Jackie Moylan ~~Michael Honeysett~~

E-mail jackie.moylan@hackney.gov.uk ~~michael.honeysett@hackney.gov.uk~~

Telephone 020 8356 3032

3) Group Director, Finance and Corporate Resources – Ian Williams

E-mail ian.williams@hackney.gov.uk

Telephone 020 8356 3003

4) Monitoring Officer - Dawn Carter-McDonald

E-mail dawn.carter-mcdonald@hackney.gov.uk

Telephone 020 8356 6234

Further information on the London Borough of Hackney Pension Fund can be found as shown below:

Telephone: 020 8356 2745

Email: pensions@hackney.gov.uk (Governance)

hackney.pensions@equiniti.com (Administration)

Pension Fund Website: www.hackneypension.co.uk ~~http://hackney.xpmemberservices.com~~

Hackney Council Website: www.hackney.gov.uk (Minutes, Agendas, etc)

Appendix A – Example breaches of the law

In this appendix we provide just some examples of breaches of the law. This is not an exhaustive list given there are many sets of legislation that must be followed and some of these are extremely lengthy and complex. It should, however, provide a useful indication of the range of potential breaches that may arise.

Not consulting on the Funding Strategy Statement in line with LGPS Regulations and CIPFA guidance

Regulation 58 of the Local Government Pension Scheme Regulations 2013, as amended, requires the administering authority to prepare, maintain and publish a statement setting out its funding strategy and, in doing so, to consult with such persons as it considers appropriate. In doing this, the Administering Authority must also have regard to CIPFA guidance on preparing and maintaining a Funding Strategy Statement which clearly states employers should be consulted. The Funding Strategy impacts on the employers of the Fund and therefore a breach of the law by the Administering Authority is likely to have arisen if a statement was published which impacts on employers without first consulting with those employers.

Late notification of benefits

Various regulations dictate timescales for notifying scheme benefits, some of which are summarised below. Most of these requirements are included in more general pensions legislation i.e. not the Local Government Pension Scheme Regulations. A breach would arise every time one of these timescales was not met. All of the breaches would relate to the Administering Authority apart from the last one which would be a breach by an employer in the Fund. However, the first five listed could have been a result of delayed or incorrect information from an employer, which could be a separate and additional breach of the law by that employer.

Process	Legal Requirement
To provide new starters with information about the scheme	Two months from date of joining (provide information about the scheme in this timeframe, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled)
To inform members who leave the scheme of their leaver rights and options	As soon as is practicable, and no more than 2 months from date of initial notification (from employer or scheme member)
To notify the amount of retirement benefits	One month from date of retirement if on or after Normal Pension Age Two months from date of retirement if before Normal Pension Age
To notify dependant(s) the amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of the death, or from date of request

Process	Legal Requirement
Provide annual benefit statements to active members	31st August following the end of the scheme year
Receipt of employee contributions from employers	19th of the month following their deduction or 22nd if paid electronically.

Errors in benefit calculations

The Local Government Pension Scheme Regulations 2013, as amended, and previous LGPS legislation relating to historical service or leavers, dictate how benefits should be calculated. This includes elements such as what fraction of pay is used to calculation a pension and what counts as pay for LGPS purposes. A breach of the law by the Administering Authority would arise in the situation that any calculation was carried out that was not in accordance with those provisions.

Errors in deducting contributions

Regulation 20 of the Local Government Pension Scheme Regulations 2013, as amended, states which elements of pay should be treated as pensionable and therefore should have pension contributions deducted from them and should be used for calculating benefits from 1 April 2014. Regulation 4 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, is the equivalent provision for pre 1 April 2014 scheme membership and therefore it details how pensionable pay should be calculated by an employer for benefits accruing prior to 1 April 2014. Under these provisions, non-contractual overtime is pensionable from 1 April 2014 but not classed as pensionable for benefits accruing before 1 April 2014. A breach of the law by an employer would arise if any of the following happened:

- an employer **did not** deduct pension contributions from non-contractual overtime since 1 April 2014
- an employer **did not** include non-contractual overtime in the amount of any pensionable pay notified to the Administering Authority for membership from 1 April 2014
- an employer **did** include non-contractual overtime in the amount of final pay notified to the Administering Authority to be used to calculate benefits accrued prior to 1 April 2014.

Late notifications from year-end information by an employer

Regulation 80 of the Local Government Pension Scheme Regulations 2013 require each employer to provide to the Administering Authority specific information for each scheme member, such as pensionable pay, by 30 June each year. A breach of the law by an employer would arise if they failed to provide this year end information to the administering authority by 30 June or if the information was incomplete or inaccurate.

Inadequate knowledge of a Pension Board member

Section 248A of the Pensions Act 2004 requires every Pension Board member to be conversant with the LGPS rules and Pension Fund policies as well having knowledge and understanding of pension matters at a degree appropriate for the purpose of them exercising their Pension Board functions. Where a Pension Board member has failed to attend training or demonstrate that they already have the required level of knowledge, it is possible that a breach of the law will have occurred by that Pension Board member.

Appendix B – Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement

- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- Misappropriation of assets, resulting in scheme assets not being safeguarded
- Other breaches which result in the scheme being poorly governed, managed or administered

The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

The wider implications of the breach

~~Reporters~~ Individuals should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix C - Traffic light framework for deciding whether or not to report

Hackney Council recommends those responsible for reporting should ~~to~~ use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:

Red	Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance. These must be reported to The Pensions Regulator. Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.
Amber	Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported. Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.
Green	Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported. Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this ~~is~~ framework are ~~is~~ provided by The Pensions Regulator at the following link

https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/communications-and-reporting-detailed-guidance/complying-with-the-duty-to-report-breaches-of-the-law

Appendix D – Example Record of Breaches

Refer-ence	Date entered in Register	Title of Breach	Owner of Breach	Third Party which caused the breach (if any)	Description and cause	Possible effect and wider implications	Initial (re)action	Assessment of breach (red/amber/ green) Brief summary of rationale	Reported to TPR Yes / No	Further actions taken to rectify Breach	Outstanding actions (if any)

Hackney

Title of Report	Procurement & Contracts Update
For Consideration By	Pensions Committee
Meeting Date	15th June 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

1.1. The Pension Fund's contract for investment consultancy services (currently provided by Hymans Robertson) is due to be re-procured during 2022. This report provides an update on the procurement process for the contract, including setting out a timetable for Member involvement in the process.

2. **Recommendations**

2.1. **The Committee is recommended to:**

- **Note the report**

3. **Related Decisions**

3.1. Pensions Committee 10th March 2022 - Procurement & Contracts Update

4. **Comments of the Group Director of Finance and Corporate Resources.**

4.1. This paper provides the Committee with an update on the procurement of the Fund's investment consultancy services contract. Procurement of the contract is planned to take place via the well established National LGPS framework for Investment Management Consultancy Services; it is expected that use of the framework will deliver a competitive fee arrangement from the successful bidder.

4.2. There are no direct financial implications rising from this report.

5. **Comments of the Director of Legal, Democratic and Electoral Services**

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 advisors, administrators and custodians and to periodically review those arrangements.

5.2. Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 specifies that 'An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.' The Hackney Pension Fund has chosen to appoint a regulated investment consultancy firm to ensure that it meets the requirement to take proper advice.

5.3. Taking into account the regulatory requirements around investment and the role of the Pensions Committee as set out in the Terms of Reference, the procurement of investment consultancy services for the Pension Fund would appear to properly fall within the Committee's remit.

6. **Procurement Process**

6.1. The Pensions Committee has previously approved an extension of the Investment Consultancy services contract to 30th September 2022 to provide sufficient time to tender the contract via the National LGPS framework for Investment Management Consultancy Services Lot 1 (Investment Consultancy Services).

6.2. An indicative timetable for the process is set out below. The Committee are asked to note the requirement for an interview with Committee members - this is planned for the week commencing 5th September 2022.

TABLE 3: Indicative Timetable	
1. Further Competition Issued on London Tenders Portal	11 July 2022
2. Deadline for clarification questions	25 July 2022
3. Issue responses to clarifications	1 August 2022
4. Deadline for online submission of responses	8 August 2022
5. Evaluation of Quality and Price	W/c 15 August 2022

6. Issue invitations to presentation and interview stage	29 August 2022
7. Presentation and interview with the Pensions Committee and officers	W/c 5 September 2022
8. Committee decision	29 September 2022

6.3. Bids will be scored across 3 categories: quality, service fit and price. Each category will represent 20%-40% of the overall marks; the final weightings will be agreed with the Council's procurement team. The 'quality' aspect of the evaluation refers to the benefits of the service supplied by bidders, such as team resources and depth of experience. Meanwhile, the 'service fit' aspect refers to the extent to which the service provided is tailored to the Hackney Fund and the LGPS' specific requirements.

6.4. Marks for quality will be awarded on the basis of a written questionnaire, whilst those for service fit will be awarded on the basis of a presentation to the Pensions Committee. Pricing will be scored using a pricing exercise. The interviews will also provide bidders with the opportunity to clarify aspects of their written response if required.

6.5. The decision on the successful bidder will be made by the Pensions Committee at its meeting on 29th September.

Appendices

None

Background documents

None

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Comments for the Group Director of Finance and Corporate Resources prepared by	Name: Jackie Moylan Title: Director, Financial Management Email jackie.moylan@hackney.gov.uk Tel: 020 8356 3032
Comments for the Director of Legal, Democratic and	Name: Georgia Lazari Title: Team Leader (Places)

Electoral Services prepared by	Email : georgia.lazari@hackney.gov.uk Tel: 0208 356 1369

Future Pensions Committees Forward Look

W/c 5th September 2022 - Special Committee Meeting
1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Investment Consultancy Procurement - Interviews

29th September 2022 - Committee Meeting
1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Quarterly Update (including appointment of legal services)
5. Training – TBC and notice of Knowledge and Skills Survey.
6. Pension Committee appointments
7. 2022 actuarial valuation and review of funding strategy
8. Responsible Investing Update
9. Investment Strategy review
10. Pension Fund Report and Accounts
11. Contracts Update (Investment Consultancy, Custodian, Third Party Administration)
12. Cyber Strategy Update

November 2022
1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – TBC
5. Pensions tax communication strategy (may be delayed)
6. New TPR Single Code (*)
7. Governance review - Knowledge and Skills Survey & Effectiveness survey results
8. Conflicts of Interest Policy

December 2022
1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Quarterly Update
5. Training – TBC and
6. Governance review/implementation of actions
7. 2022 actuarial valuation and review of funding strategy
8. Investment Strategy Update
9. Data Improvement Plan/procedures
10. Cyber Strategy Update

March 2023

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Quarterly Update
5. Training – TBC.
6. 2022 actuarial valuation and review of funding strategy
7. Business Plan 8. SAB Good Governance review outcomes (*)
8. Inclusion and Diversity
9. Frozen refund exercise

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