PENSIONS COMMITTEE

Thursday 29 September 2022
at 6.30 pm Hackney Town Hall, Hackney, London, E8 1EA

The live stream can be viewed here:
https://youtu.be/48INJUotc5s or
https://youtu.be/A-VE38KXYlg

Members of the Committee:

Councillor Grace Adebayo
Councillor M Can Ozsen
Councillor Ian Rathbone
Councillor Kam Adams
Councillor Robert Chapman, Cabinet Member for Finance
Councillor Margaret Gordon
Councillor Ben Hayhurst
Councillor Lynne Troughton
Councillor Joe Walker

Co-Optees
Henry Colthurst
Jonathan Malins-Smith

Mark Carroll
Chief Executive
www.hackney.gov.uk

Contact: Rabiya Khatun
Governance Officer
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Pensions Committee
Thursday 29 September 2022
Agenda

1 **Apologies For Absence**

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

3 **Consideration of The Minutes of The Previous Meeting** (Pages 1 - 8)

4 **Training – Procurement**

5 **2022 Actuarial Valuation - Initial Whole Fund results & Draft Funding Strategy Statement** (Pages 9 - 88)

6 **Pension Statement of Accounts** (Pages 89 - 134)

7 **Quarterly Update (including Responsible Investment update (link to TCFD consultation) and Pensions Committee appointments)** (Pages 135 - 176)

8 **Custody Contract - TO FOLLOW**

9 **Exclusion of The Press And Public**

Proposed resolution:

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

10 **Investment Strategy Update - Cashflow Management & Asset Rebalancing (EXEMPT)** (Pages 177 - 194)

11 **Third Party Administration Contract Update (EXEMPT)** (Pages 195 - 218)

12 **Cyber Strategy Update (EXEMPT)** (Pages 219 - 230)

13 **Investment Consultancy Procurement decision (EXEMPT) - TO FOLLOW**

14 **Consideration of the Exempt Minutes of the Previous Meeting** (Pages 231-232)

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

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.

Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY 15 JUNE 2022

Councillors Present:	**Councillor Kam Adams in the Chair** Cllr M Can Ozsen, Cllr Robert Chapman, Cllr Lynne Troughton Cllr Margaret Gordon (Joined virtually)
Co- Optees:	Jonathan Malins-Smith
Apologies:	Cllr Grace Adebayo and Cllr Ian Rathbone
Officers in Attendance:	Andrew Jackson (Legal Team), Ian Williams (Group Director of Finance and Corporate Resources), Jackie Moylan (Director of Financial Management), Michael Honeysett (Interim Head of Pensions), Rachel Cowburn (Head of Pensions), and Rabiya Khatun (Governance Officer)
Also in Attendance:	Alex Lake (Trucost) Andrew Johnston (Consultant, Hymans Robertson) Laura McInroy (Hymans Robertson) Karen McWilliam (Governance Consultant, Aon) Jon Wilson and Stuart Kohler (Equiniti)

1 Apologies For Absence

1.1 Apologies for absence were received from Cllr Grace Adebayo, Cllr Ian Rathbone and Henry Colthurst.

1.2 Apologies for lateness was received from Cllr Gordon.

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

2.1 The Chair thanked Cllr Rob Chapman for the excellent work that he has done while he was the chair of this committee and as a Vice-Chair continuing to share his rich knowledge at future meetings.

RESOLVED:

To note the confirmed appointment to the position of Chair – Councillor Kam Adams and Vice-Chair - Councillor Robert Chapman for the Municipal Year 2022/23, as agreed by Full Council at its Annual Meeting on 25 May 2022.

3 Terms of Reference

3.1 Members considered the terms of reference of the Pensions Committee.

RESOLVED:
To note the terms of reference of the Pensions Committee for the Municipal Year 2022/23.

4 Declarations of Interest - Members to declare as appropriate

4.1 Karen McWilliam, Aon, gave a short introduction to the declaration of interests and the Committee's fiduciary duties, and the introductory training sessions for Members. The declaration of interest forms would be sent to Members by email as the Pension Fund was required to maintain its own records.

4.2 The following Members had the following disclosable interests for the municipal year 2022/23:

- 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.

5 Consideration of The Minutes of The Previous Meeting

5.1 Members considered the previous minutes of the meeting held on 10 March 2022.

RESOLVED:
That the minutes of the Pensions Committee held on 10 March 2022 were approved as a correct record.

6 Carbon Risk Audit 2022 - Full Results Carbon Risk Audit

6.1 The Head of Pension Fund Investments and Actuarial introduced the report and Alex Lake from Trucost gave a short presentation on the analysis of the audit and answered questions from members.

6.2 Councillor Chapman thanked Committee Members and officers for their work in exceeding the Fund's target of 50% reduction.

RESOLVED:
To 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.

7 Responsible Investment - Next Steps

7.1 The Head of Pensions introduced the report setting out the next steps in the Fund's Responsible Investment work programme including a progress update on the development of the Fund's Taskforce on Climate-related Financial Disclosures (TCFD) reporting and proposals for the Fund's Responsible Investment Working Group.

7.2 In response to questions from members, the Head of Pensions responded that they would be advertising for the role in the summer and that any interested member of the Committee could attend and observe the working group, which would comprise of two councillors and two officers. Officers were meeting with other London Funds to look at aligning the Pension Fund's carbon targets with other London Funds by the end of 2022. The government had not yet committed to any timescale when the TCFD recommendations would become a requirement for LGPS.

RESOLVED to:

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

8 Quarterly Update Report

8.1 The Interim Head of Pensions introduced the report.

8.2 In response to questions from members, it was reported that there had been a rise in gilt yields in Quarters 1 and 2 and a reduction in the Fund's liabilities. The Fund had 0.05% of Russian related assets that could not be divested from. Following the GMP exercise, it was a statutory duty for the Fund to reduce any pensioner overpayment. The Sharia Fund like AVCs was an investment product that the Council would not contribute to but could be offered to members as an alternative choice for those that had expressed concerns joining the LGPS.

RESOLVED:
That the contents of the report be noted.

9 Equiniti - Third Party Administration Performance Update

9.1 The Head of Pensions introduced the report. Jon Wilson and Stuart Kohler from Equiniti gave a presentation on Third Party Administration contract performance.

9.2 The representatives from Equiniti and Head of Pensions responded to members' questions. It was an employer's responsibility to submit their data and Equiniti and Hackney had taken a partnership approach in educating employers about the data to be submitted with 80% of employers expected to submit their data electronically. The fees paid to Equiniti did not impact on members as the LGPS was a defined benefit pension scheme and members' contributions were set following an actuarial valuation and at a national level. The fees were necessary when considering future contracts and ensuring the service delivered value for money. Equiniti was working towards ensuring that they could meet the legal timescale for issuing annual benefit statements to all active and deferred scheme members, and making members information and statements accessible from mobile applications. Equiniti was making improvements especially in the issuing of statements within the legal timescale and had employed a dedicated officer with LGPS knowledge and experience to ensure it was in compliance with LGPS requirements in future. Equiniti was improving the accuracy of the information it received by removing the manual processes and requiring employers to send their data through an automated and digitalised system to eradicate many of the historical issues that currently existed. Equiniti had undertaken an employee engagement survey and had received positive responses. They expected improvements in the contract performance within months and agreeing a way forward from 2023.

RESOLVED:
That the contents of the report be noted.

10 2022 Actuarial Valuation - Council Contribution Rate

10.1 Agenda item 10 was moved to the end of the agenda due to the exempt information contained within the appendices to the report.

11 Investment Strategy Review - Introduction

11.1 Andrew Johnston, Hymans Robertson presented the report and gave a short presentation on the introduction to investment strategy setting.

11.2 In response to questions from members, Andrew Johnston responded that the government bonds, gilts and index linked gilts were low risk investments and that the Committee should be investing in assets that meet the Pension Fund's objectives to ensure that pension benefits could be paid in the future. It was important to look at the current asset allocation and strategy but the Committee could explore local investments, such the LCIV Sustainable Fund. Responsible investment had been identified as an area of priority, which could support the local economy and jobs.

RESOLVED:
That the contents of the report be noted.

12 Reporting Breaches Procedure - Policy Review

12.1 Karen McWilliam, Governance Consultant, Aon, introduced the report

RESOLVED:
To approve the updated Reporting Breaches Policy.

13 Procurement and Contracts Update

13.1 The Head of Pensions introduced the report providing an update on the procurement process for the Fund's investment consultancy services contract currently provided by Hymans Robertson, which was due to be re-procured during 2022 including setting out a timetable for Member involvement in the process.

RESOLVED:
That the contents of the report be noted.

14 Future Pensions Committees Forward Look

14.1 Members considered the Committee's future Forward Look.

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

15.1 There was no other urgent business.

16 Exclusion of The Press And Public

RESOLVED:
THAT the press and public be excluded from the proceedings of the Committee during consideration of Exempt Items 10 and 17 on the agenda on the grounds that it is likely, in view of the nature of the business to be transacted, that were members of the public to be present, there would be a disclosure of exempt business as defined in paragraph 3 of Part 1 of schedule 12A of the Local Government Act 1972, as amended.

17 Consideration of the Exempt Minutes of the Previous Meeting

17.1 Members considered the previous exempt minutes of the meeting held on 10 March 2022.

RESOLVED:
That the exempt minutes of the Pensions Committee held on 10 March 2022 were approved as a correct record.

Duration of the meeting: 18.30 -22.00 hours

Rabiya Khatun
Governance Services
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Title of Report	2022 Actuarial Valuation - Initial Whole Fund results & Draft Funding Strategy Statement
For Consideration By	Pensions Committee
Meeting Date	29/09/2022
Classification	Open (Exempt Appendices 1&2)
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 update on the Fund's 2022 triennial actuarial valuation. It sets out the initial results of the valuation and presents a draft Funding Strategy Statement for review by the Committee prior to consultation with employers. The Fund actuary will be attending the Pensions Committee meeting to provide training and discuss the results in more detail.

2. **Recommendations**

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

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

3. **Related Decisions**

3.1. Delegated Powers Report March 2020 - Final Valuation Report and Funding

Strategy Statement

3.2. Pensions Committee 16 June 2022 - Actuarial Valuation - Contribution Rate Modelling (Hackney Council)

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

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

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

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

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

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

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

5.3. Taking into account the regulatory requirements around the actuarial valuation and role of the Pensions Committee as set out in the Terms of Reference, the consideration of the 2022 valuation process would appear to properly fall within the Committee's remit.

6. **Background to the report**

6.1. Under the LGPS Regulations 2013, the Pension Fund is required to undertake a formal actuarial valuation every 3 years to establish its funding position and to set the contribution rate for the following three years. The last formal actuarial valuation of the London Borough of Hackney Pension Fund was carried out as at 31st March 2019; this showed an improvement in the funding level from 77% to 92% and set the contribution rates for the three years commencing 1st April 2020.

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

6.3. A draft Funding Strategy Statement is attached at Appendix 2. The Fund is required to produce a Funding Strategy Statement under the LGPS Regulations 2013 and must revise it whenever it changes its policy on funding (i.e. at each valuation). The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. This statement also sets out how the Administering Authority has balanced the conflicting aims of:

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

6.4. The valuation is currently running to timetable, with the Council's contribution rate agreed by the Committee in June 2022, and data submitted by Equiniti in July. The Committee has agreed a Council contribution rate of 27% of payroll for each of the 3 years covered by the 2022 valuation cycle (2023/24, 2024/25, 2025/26), noting that the planning assumption for Medium Term Financial Planning (MTFP) purposes will be 28% pending the finalisation of the revaluation process.

6.5. Some data issues were identified by the Fund Actuary on reviewing the data - these have been discussed with Equiniti and additional work has been carried out by the Fund Actuary. This has not impacted on overall timescales but has resulted in a cost increase to the Fund of <£2k.

6.6. Overall we have been pleased to note the improved quality of data provided by Equiniti; this is reflected in Fund's adherence to its valuation timetable, which has not been the case in previous years.

7. Whole Fund Funding Level

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

- presents the current funding position of the Fund using a range of actuarial assumptions;

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

7.2. The initial results show that the funding position has improved from the last valuation. The required investment return to be 100% funded is now 4.1% pa (4.3% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is now 74% (65% at 2019).

7.3. The most significant contributor to the increase in funding level is stronger than expected investment returns. These have more than offset the increase in short to medium-term inflation expectations.

7.4. Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation). Current expectations are that inflation pressures will be short-term and move back to normal in the longer-term. The inflation assumption the Fund Actuary has used reflects this pattern and allows for the short-term spike - further information can be found on page 25 of Appendix 1.

7.5. The Fund Actuary has presented the funding position across a range of different investment returns to help illustrate its sensitivity. However, the Actuary is still required to also report a single funding position as at 31 March 2022. To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.3% pa has been used. There is a 72% likelihood of success associated with a future investment return of 4.3% pa.

7.6. The following table sets out the single funding position on the basis of the assumptions above, and compares this to the reported position for the 2019 validation, which also used a 72% likelihood of success. There are limitations to this approach:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.
- The market value of assets changes daily.

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	530	432
Deferred Pensioners	473	503
Pensioners	858	771
Total Liabilities	**1,861**	**1,706**
Assets	**1,965**	**1,575**
Surplus/(Deficit)	**104**	**(131)**
Funding Level	**106%**	**92%**

7.7. The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that sadly, there were a higher than expected number of deaths. However, the impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension.

8. **Funding Strategy Statement**

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

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

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

8.3. For 2022, the Fund Actuary has proposed that the FSS be streamlined, after successive changes to the LGPS regulations have led to policies being ‘bolted on’ to the statement to help ensure compliance. A ‘core’ FSS is therefore proposed, containing the core information required by the regulations, with a number of short ‘satellite’ policies to pick up certain discretionary areas of funding strategy. These might include policies such as cessations, pre-payments and pass-through. Further information on these changes can be found in the briefing note at Appendix 3.

8.4. A draft of the core FSS is attached at Appendix 2 to this report. The Committee are asked to review and approve this draft statement for consultation; the statement will then be provided to employers for feedback prior to final approval in March 2023.

8.5. It should be noted that a number of sections are highlighted in yellow. These will be completed by fund officers as appropriate before final publishing, with the exception of Table 2 (Section 2.2), which sets out the parameters used to calculate employer contribution rates. The Fund Actuary will review this during the employer results part of the valuation process and revise as necessary

Appendices

Appendix 1 - Actuarial Valuation - initial Results (Exempt)
Appendix 2 - Draft Funding Strategy Statement (Exempt)
Appendix 3 - FSS Briefing Note

Exempt

By Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Background documents

None

Report Author	Name Rachel Cowburn Title Head of Pensions Email rachel.cowburn@hackney.gov.uk Tel 020 8356 2630
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 Electoral Services prepared by	Name: Georgia Lazari Title: Team Leader (Places) Email : georgia.lazari@hackney.gov.uk Tel: 0208 356 1369

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

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Sixty second summary

Is it time for a more accessible, usable and practical FSS?

Steven Scott
Senior Actuarial Consultant

Robert McInroy
Partner

With 2022 valuations making excellent progress, now is the time to consider how a Funding Strategy Statement refresh can help engage stakeholders, help facilitate a successful valuation and gain the benefits of better informed employers.

Changes to LGPS Regulations have led to several revisions to Funding Strategy Statements (FSSs) over recent years, not least, due to the introduction of exit credits and the new employer flexibilities. Even if your FSS complies with the latest regulatory requirements, can steps be taken to unlock the potential of the FSS?

As part of the 2022 FSS review, we believe the biggest gains can be made by restructuring the document to recognise the diversity of employers, increasing complexity of the LGPS and widening range of uses. The goal is to develop the FSS into the catalyst for improving employer knowledge and engagement.

FSS – key principles

LGPS Employers should be able to understand how their LGPS obligations will be funded from reading the FSS. From the determination of initial asset allocation and contributions, to what happens at cessation, the FSS should set out the policies and approaches taken by the Fund to ensure that pension obligations are appropriately funded, and that risks are being managed.

The FSS should therefore be practical, useable and accessible for employers. Steps to help support these aims include:

1. The FSS should be written in plain language so it can be easily understood. The use of pensions jargon is off-putting and should be avoided if this is to be employer friendly.
2. The FSS should be structured in a way that allows the employer to easily access elements of strategy that apply to them and in circumstances where they have an issue, problem, concern or query. So, for example, if an employer wants to access information on the Fund's policy to allowing prepayment of contributions, it should be relatively easy to find this.
3. The FSS should be circulated in good time and with supporting guidance to allow high-quality engagement and consultation. For example, providing an accompanying communication for each employer sector/type which flags the suggested main areas of focus which apply to them and any changes which have been applied.

A refresh of the FSS at the 2022 valuation would aim to satisfy the three key principles outlined above.

FSS refresh

The typical FSS has become increasingly unwieldy – successive changes to LGPS Regulations have led to different policies being 'bolted-on' over the years with focus on compliance and protecting the fund. Less time has been spent on reviewing the accessibility and useability of the document.

With relatively few regulatory or technical updates required to the FSS as part of the 2022 valuation, there is an opportunity to restructure and modernise.

Our proposed structure is for a streamlined "Core" FSS document, supported by a number of short "Satellite" policy documents.

- **Core FSS** – this would include all the information required by LGPS Regulations and Statutory Guidance. It would be written in a clear way, with little jargon, and this would be sufficient to ensure that each employer is able to understand the key principles and elements of the funding strategy, for example, how contribution rates are set.
- **Satellite policies** – separate or appended documents covering different elements of funding strategy would be prepared. Working both to complement the FSS and as standalone documents. These documents would set out the Fund's policies with regards to specific elements of strategy and would be written in a clear and more practical way.

Which areas might warrant satellite policies?

Any separate aspect of LGPS funding can be included as a separate policy, for example:

- **Cessations** – the FSS should set out the Fund's approach to ceasing employers, but the recent introduction of **exit credits** and **employer flexibilities** has increased the complexity and options. A complementary cessations policy which covers the key principles, approaches and practicalities would help reduce the detail in the core FSS.
- **Pre-payments** – the recent QC opinion on prepayments provided useful clarity to LGPS Funds on this topic. A separate policy document setting out how this would work in practice would help Employers understand their options and consider if this is something that would be of benefit.
- **Pass through policy** – Pass through is becoming much more prevalent in the LGPS as a means of allowing small contractors to participate in the LGPS in a way that better manages the allocation of risk during the period of participation. Again, separate policy setting out the Fund's approach to setting rates, sharing risk and documenting these agreements could help with managing the process of letting out services.

Consultation

Better informed employers lead to better outcomes from a funding, governance and administration perspective. Employers will be more engaged in funding discussions and more focus can be placed on designing solutions (as opposed to explaining policy).

This can start with a high-quality consultation at the 2022 valuation and work can start now on restructuring the FSS and creating the satellite policies to help facilitate this. If you're feeling brave enough, you may even leave some policy options open for employers to decide their own preference. A recent example of this was asking Awarding authorities decide the approach for setting contribution rates for 'pass through' employers.

If you would like to discuss further, please contact your usual Hymans Robertson consultant.

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Title of Report	Pension Fund Statement of Accounts
For Consideration By	Pensions Committee
Meeting Date	29th September 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

1.1. This report introduces the draft Statement of Accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2022, which are attached.

2. **Recommendations**

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

- Note the report

3. **Related Decisions**

3.1. None

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

4.1. The Pension Fund Statement of Accounts sets out the financial position of the Pension Fund as at 31st March 2022 and acts as the basis for understanding the financial wellbeing of the Pension Fund. It enables Members to manage and monitor the Scheme effectively, helping to ensure that they are able to fully understand the financial implications of the decisions they make.

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

5.1. The Council has established a Pensions Committee to act as the Scheme Manager of the Pension Fund as well as delegating various functions to the Group Director, Finance and Corporate Resources in accordance with legislation. The Council has also established the Fund’s Local Pension Board which is required by legislation.

5.2. The functions of the Pensions Committee are contained within part 3 of the Councils’ Constitution and this includes approval of the Pension Fund Report and Accounts for Publication. Taking into account this function of the Committee, review of the draft accounts would appear to fall within the Committee’s remit.

6. **Background to the Report**

6.1. The Accounts and Audit Regulations 2015 require local authorities to produce unaudited accounts by 31st May following the year end For LGPS administering authorities, the unaudited accounts must include a copy of the Pension Fund Statement of Accounts. For 2020/21 and 2021/22 the Accounts and Audit Regulations (Amendment) Regulations 2021 pushed this deadline back to 31st July.

6.2. Hackney Council’s draft 2021/22 accounts (including the Pension Fund Statement of Accounts) were published by the deadline of 31st July. Audit of the accounts has not yet commenced and a timetable for the audit is not yet available.

6.3. The LGPS Regulations 2013 require the Fund to publish its audited Annual Report and Accounts by 1st December following the year end. Given the delay to audit timetables, this is unlikely to be possible for 2021/22. The Fund will shortly be publishing a draft version of the Annual Report and will request provisional approval from the Pensions Committee until such a time as the fully audited version is available.

6.4. A copy of the Statement of Accounts is attached at Appendix 1 to this Report for the Committee’s information.

Appendices

Appendix 1 - Statement of Accounts

Background documents

None

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Statement of Accounts 2021/22

Fund Account

2020/21 £'000		Notes	2021/22 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(76,326)	Contributions	7	(76,104)
(4,625)	Transfers in from other pension funds	8	(5,026)
(80,951)			(81,130)
63,528	Benefits	9	62,658
6,394	Payments to and on account of leavers	10	8,414
69,922			71,072
(11,029)	**Net (additions)/withdrawals from dealings with members**		**(10,058)**
12,003	**Management Expenses**	11	**15,174**
	Returns on investments		
(20,119)	Investment income	12	(19,252)
(351,463)	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	(86,404)
(20)	Taxes on Income		4
(371,602)	**Net returns on investments**		**(105,652)**
(370,628)	**Net (increase)/decrease in the Fund during the year**		**(100,536)**
1,493,348	**Opening net assets of the Scheme**		**1,863,976**
1,863,976	**Closing net assets of the Scheme**		**1,964,512**

Net Assets Statement

2020/21 £'000		Notes	2021/22 £'000
1,833,627	Investment Assets	13a	1,933,215
150	Long-Term Investment	13a	150
10,606	Cash Deposits	13a	4,880
1,844,383			**1,938,245**
(133)	Investment Liabilities	13a	**(332)**
1,844,250	**Net Value of Investment Assets**	13a	**1,937,913**
158	Long-term debtors	20a	226
22,741	Current Assets	20	30,170
(3,173)	Current Liabilities	21	(3,797)
19,726			**26,599**
1,863,976	**Net Assets of the Fund available to fund benefits at the period end**		**1,964,512**

Note: the fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

The Hackney Pension Fund (‘the Fund’) is part of the Local Government Pension Scheme and is administered by the London Borough of Hackney.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2021/22, the Pension Fund website https://hackneypension.co.uk and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended).
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

It is a contributory defined benefit pension scheme administered by the London Borough of Hackney (“the Council”) to provide pensions and other benefits for pensionable employees of the London Borough of Hackney and for the employees of admitted and scheduled bodies eligible to participate in the Fund. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pensions Committee with the Group Director of Finance and Corporate Resources being given delegated authority for the day to day operations of the Fund.

b) Membership

All local government employees (except casual employees, teachers and those eligible to be members of the NHS Pension Scheme) are automatically entered into the Scheme. However membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. It also includes Academy and Free School non-teaching staff.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

As at 31st March 2022 there are 39 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2022	31 March 2021
Number of Employers with active members	39	41
Number of Employees in scheme		
Council	6,682	6,502
Scheduled bodies	537	524
Admitted bodies	53	57
Total	**7,272**	**7,083**
Number of pensioners		
Council	7,125	6,870
Scheduled bodies	53	56
Admitted bodies	11	23
Ceased Employers	608	553
Total	**7,797**	**7,502**
Deferred members		
Council	8,868	8,581
Scheduled bodies	844	767
Admitted bodies	30	72
Ceased Employers	991	932
Total	**10,733**	**10,352**
Grand Total	**25,802**	**24,937**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022.

Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2019 with the next valuation due to take place at 31 March 2022. Current employer contribution rates can be found in the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2021/22 or within the Actuarial valuation on the Pension Fund Website:- https://hackneypension.co.uk

Prior to 1 April 2014, pension benefits under LGPS were based on final pensionable pay and length of service.

April 2014, saw the implementation of LGPS 2014, a new Career Average Revalued Earnings (CARE) Scheme, based on a 1/49th accrual rate with retirement ages now linked to an individual member's state pension age. On average, contribution rates for employees have remained at 6.5%, however the contribution bands have widened and are now 5.5% to 12.5% at the top end. The new Scheme has also introduced the option for flexibility over contributions, i.e. a lower contribution for lower benefits, referred to as the 50/50 Scheme. It has not been possible to quantify the impact of these changes, although they have been designed to bring the future service costs of the Scheme down.

Details of the schemes are summarised below:

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 Career Average Revalued Earnings Salary
Lump Sum	Automatic lump sum of 3 x pensionable salary.	No automatic lump sum.	No automatic lump sum.
	In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the scheme guides which can be found at https://hackneypension.co.uk/.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund’s transactions for the 2021/22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code),* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS 19) basis, is disclosed in Note 19 of these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue recognition

a) Contributions income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments

- Changes in the net market value of investments are recognised as unrealised profits/losses during the year.
- Realised profit/losses are recognised upon the sale of investments during the year.

Fund Account – Expense items

d) Benefits payable

Pensions and lump-sum benefits payable include those known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrevocable tax is accounted for as a fund expense as it arises. All income and expenditure in the Statement of Accounts is net of VAT, where recoverable.

f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance: *Accounting for Local Government Pension Scheme Management Expenses (2016).*

i) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Relevant staff costs and associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) *Oversight and governance costs*

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. The cost of obtaining investment advice from external consultants is included in oversight and governance charges.

iii) *Investment management expenses*

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

Where an investment manager's invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2021/22, there were no fees based on such estimates (2020/21 no fees estimated).

A similar procedure is used for custodian fees, and in 2021/22 there were no fees estimated (2020/21: no fees estimated).

The Fund requests that non-invoiced investment management fees (plus other associated costs such as transaction costs) are disclosed via the Cost Transparency Initiative template. Where cost information is not readily available for the year ending 31st March 2022 (e.g. for pooled funds using different accounting dates), an estimate will be made using the most recent information available.

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis (with the exception of cash and debtors, which has been measured on an amortised cost basis), as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The Fund has contributed £150k of Regulatory Capital to the London Collective Investment Vehicle (LCIV), required from each member of the pool. The investment is carried at cost as:

- the shares held in the LCIV do not constitute a joint venture or group arrangements due to lack of control
- the investment is not repayable on demand and does not meet FVOCI requirements and
- These shares are being held as a long-term investment with currently no intention to trade
- the fund is of the view that fair value at 31st March 2022 cannot reliably be measured.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are measured at fair value through bid prices and liabilities at fair value through offer prices. Changes in the fair value of derivative contracts are included in any change in the market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash-in-hand and deposits payable on demand and includes amounts held by the Fund’s external managers.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash that are subject to minimal risk of changes in value.

k) Financial liabilities

The Fund recognises financial liabilities at fair value (with the exception of creditors measured on an amortised cost basis), as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liability are recognised by the Fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note only (Note 19).

m) Additional Voluntary Contributions (AVCs)

The Hackney Pension Fund provides an Additional Voluntary Contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC approved provider. AVCs are paid by members to the AVC provider and are used specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events.

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events.

Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (Note 25).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

It has not been necessary to make any material critical judgements in applying the accounting policies in 2021-22.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Pension Fund Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. The Fund Actuary, Hymans Robertson, provides expert advice about the assumptions to be applied.

The pension fund liability shown in Note 19 is calculated on an IAS19 basis, with economic assumptions updated annually. It is therefore subject to a significant risk of material adjustment in forthcoming financial years. The effect of changes to individual assumptions can be measured, as set out in the table below:

Change in assumptions at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in 'real discount rate'	2%	52
0.1% p.a. increase in the 'salary increase rate'	0%	3
0.1% increase in the 'pension increase rate (CPI)'	2%	48
1 year increase in member life expectancy	4%	106

- To quantify the impact of a change in the financial assumptions used, the Fund actuary has calculated and compared the value of scheme liabilities as at 31 March 2022 on varying bases. The approach taken is consistent with that adopted for IAS19.
- Please note that the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

Unquoted Investment Assets

The Fund's unquoted investments (such as private debt) are not regularly traded and are valued using techniques that require significant judgement in determining appropriate assumptions. The valuation of these investments therefore involves a degree of uncertainty. Additionally, the Fund relies on obtaining investor reports and financial statements from the relevant fund managers; the difficulties inherent in valuing these investments means that pricing information may not be available in a timely fashion.

Within the financial statements, these assets are held at fair value in accordance with the requirements of the Code and IFRS 13. They are classified at Level 3 i.e. assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable data. More detail on the basis of valuation and key sensitivities for these assets can be found in Note 16.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2022 and up to the date when these accounts were authorised, which require any adjustments to these accounts.

The Fund remains alert to ongoing developments in the Russian invasion of Ukraine. In determining whether post balance sheet events require the accounts to be adjusted, the Fund's management has considered whether events after 31 March 2022 provide any further information about the effect of sanctions applied prior to 31 March 2022. The Fund has determined that this is not the case and that no adjustments are required to the amounts recognised in the accounts.

7. CONTRIBUTIONS RECEIVABLE

By Category	2021/22 £'000	2020/21 £'000
Employers' Contributions split by:		
Normal Funding	(39,163)	(37,935)
Deficit Funding	(22,289)	(24,395)
Members' Contributions	(14,652)	(13,996)
Total	**(76,104)**	**(76,326)**

By Employer	2021/22 £'000	2020/21 £'000
London Borough of Hackney	(71,633)	(72,042)
Scheduled Bodies	(4,133)	(3,965)
Admitted Bodies	(338)	(319)
Total	**(76,104)**	**(76,326)**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

	2021/22 £'000	2020/21 £'000
Individual Transfers	(5,026)	(4,625)
Total	**(5,026)**	**(4,625)**

9. BENEFITS PAYABLE

By Category	2021/22 £'000	2020/21 £'000
Pensions	51,261	50,708
Commutation and Lump Sum Retirement Benefits	9,220	11,785
Lump Sum Death Benefits	2,177	1,035
Total	**62,658**	**63,528**

By Employer	2021/22	2020/21
London Borough of Hackney	58,211	59,129
Scheduled Bodies	2,919	2,900
Admitted Bodies	1,528	1,499
Total	**62,658**	**63,528**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021/22 £'000	2020/21 £'000
Refunds to Members leaving service	160	209
Group Transfers	-	-
Individual Transfers	8,157	6,185
Employer Exit Credits	97	-
Total	**8,414**	**6,394**

11. MANAGEMENT EXPENSES

	2021/22 £'000	2020/21 £'000
Administrative Costs	785	849
Investment Management Expenses*	13,020	9,988
Oversight and Governance Costs	1,369	1,166
Total	**15,174**	**12,003**

The investment management expenses disclosed above include non-invoiced management, transaction and other costs paid/payable to the Fund's investment managers of £11,057k (£8,234k in 20/21). The disclosure of the non-invoiced costs is made to the Fund via the Cost Transparency InitiativeTemplate. The introduction of the template is helping to ensure more accurate fee disclosures by managers, with greater detail provided with regards to transaction costs. Audit Fees of £21k including an additional fee variation for 2019/20 audit (£16k in 20/21) were incurred and are included in Oversight and Governance Costs in the above table.

11.A INVESTMENT MANAGEMENT EXPENSES

2021/22 Asset Class	Management Fees £'000	Transaction Costs £'000	Custody Fees £'000	Performance Fees £'000	Total £'000
Bonds	433	51	-	-	484
Equities	-	-	-	-	-
Pooled Investments	4,556	2,856	132	-	7,544
Pooled Property Investments	2,599	584	-	20	3,203
Private Debt	1,678	4	21	-	1,703
Infrastructure	39	-	4	-	43
Cash	-	-	12	-	12
Custodian	-	-	31	-	31
Total	**9,305**	**3,495**	**200**	**20**	**13,020**

2020/21 Asset Class	Management Fees £'000	Transaction Costs £'000	Custody Fees £'000	Performance Fees £'000	Total £'000
Bonds	439	-	-	-	439
Equities	99	-	-	-	99
Pooled Investments	3,351	1,867	129	-	5,347
Pooled Property Investments	2,724	184	-	-	2,908
Private Debt	1,147	2	6	-	1,155
Cash	-	-	5	-	5
Custodian	-	-	35	-	35
Total	**7,760**	**2,053**	**175**	**-**	**9,988**

An estimate of £99k for management fees of an equities fund manager that exited the Fund was settled in 2020/21.

12. INVESTMENT INCOME

	2021/22 £'000	2020/21 £'000
Fixed Interest Securities	(3,736)	(4,179)
Equity Dividends	(6,712)	(9,065)
Index Linked Securities	(183)	(185)
Pooled Investment Income	(7,424)	(5,471)
Interest on Cash Deposits	(26)	(68)
Other Income	(1,171)	(1,151)
Total	**(19,252)**	**(20,119)**

2020/21 has been restated to reflect a reclassification of private debt income from "Other Income" to "Pooled Investment Income"

13. INVESTMENTS

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets.

a. Analysis of Investments

A breakdown of investments held by the Fund's external managers across the various asset classes is below:

Investment type		Market value 31 March 2022 £'000	Market value 31 March 2021 £'000
Investment Assets:			
Fixed Interest Securities		**187,045**	**184,247**
Index Linked Securities		**50,951**	**53,706**
Equities	Long-Term Investment	**150**	**150**
Pooled Investments	Corporate Fixed Interest	109,947	106,803
	Diversified Growth Funds	140,709	171,050
	Property	187,783	155,736
	Emerging Markets Equity - Active	76,415	97,123
	Global Equity - Active	528,491	290,405
	Global & UK Equity - Passive	422,056	671,220
	Private Debt	202,600	101,263
	Infrastructure	24,900	-
		1,692,901	**1,593,600**
Derivative Contracts			
	Forward Currency	24	60
	Futures	448	135
		472	**195**
Other Investment Assets			
	Cash Deposits	4,880	10,606
	Other Investment Balances	1,846	1,879
		6,726	**12,485**
Total Investment Assets		**1,938,245**	**1,844,383**
Investment Liabilities:			
Derivative Contracts			
	Forward Currency	(151)	(0)
	Futures	(181)	(133)
		(332)	**(133)**
Other Investment Liabilities		**-**	**-**
Total Investment Liabilities		**(332)**	**(133)**
Net Investment Assets		**1,937,913**	**1,844,250**

b. Investments analysed by fund managers

As at 31 March 2022 the Fund's investments are managed by nine investment managers within the London CIV and five investment managers outside of the London CIV according to defined benchmarks which are set out in the Investment Strategy Statement (ISS). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000 2021/22	% of investment assets 2021/22	Value £'000 2020/21	% of investment assets 2020/21
Investments managed by London CIV:				
BlackRock (Global & UK Equity Index)	422,086	21.8%	671,249	36.4%
LCIV/RBC (Global Active Equity)	316,647	16.3%	290,405	15.7%
LCIV/JP Morgan (Global Emerging Markets)	76,415	3.9%	-	0.0%
LCIV/Baillie Gifford (Global Multi Asset)	140,709	7.3%	-	0.0%
LCIV/Baillie Gifford (Global Equities)	211,844	10.9%	-	0.0%
LCIV/Churchill & Pemberton (Private Debt)	73,242	3.8%	-	0.0%
LCIV/BlackRock, Quinbrook,Stonepeak & Foresight (Infrastructure)	24,900	1.3%	-	0.0%
	1,265,843	**65.3%**	**961,654**	**52.1%**
Investments managed outside of London CIV:				
BMO (Fixed Interest)	254,430	13.1%	255,782	13.9%
Threadneedle (Property)	187,783	9.7%	155,736	8.4%
GMO (Global Real Return)	-	0.0%	104,421	5.7%
BlackRock (Ultra Short Bond Fund)	93,513	4.8%	88,974	4.8%
RBC (Global Emerging Market Equities)	-	0.0%	97,123	5.3%
Invesco (Global Multi Asset)	-	0.0%	66,629	3.6%
Churchill (Private Debt)	58,428	3.0%	54,041	2.9%
Permira (Private Debt)	70,930	3.7%	47,222	2.6%
Other investments (including MMFs & Derivatives)	6,986	0.4%	12,668	0.7%
	672,070	**34.7%**	**882,596**	**47.9%**
Total	**1,937,913**	**100%**	**1,844,250**	**100%**

c. Reconciliation of movements in investments and derivatives

For each asset class, the opening position is reconciled with the closing position as set out in the tables below.

Investment type	Market Value 31/03/2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2022
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	184,247	63,128	(48,323)	(12,007)	187,045
Index Linked Securities	53,706	-	(5,179)	2,424	50,951
Equities	150	-	-	-	150
Pooled Investment Vehicles	1,593,600	815,507	(801,094)	84,888	1,692,901
Derivative Contracts					
Forward Currency Contracts	60	2,137	(2,270)	(54)	(127)
Futures	2	3,329	(3,104)	40	267
	1,831,765	**884,101**	**(859,970)**	**75,291**	**1,931,187**
Other Investment balances:					
Cash Deposits	10,606				4,880
Receivable for Sales	-				-
Investment Income due	1,879				1,846
Payable for Purchases	-				-
Net Investment Assets	**1,844,250**			**75,291**	**1,937,913**

The increase in market value of £75,291k is £11,113k less than the change in market value on the Fund Account of £86,404k, as the above movement includes indirect manager fees.

Investment type	Market Value 31/03/2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2021
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	169,466	146,238	(131,837)	380	184,247
Index Linked Securities	63,733	3,194	(15,199)	1,978	53,706
Equities	150	-	-	-	150
Pooled Investment Vehicles	1,235,875	119,019	(100,590)	339,296	1,593,600
Derivative Contracts					
Forward Currency Contracts	625	2,124	(3,634)	945	60
Futures	144	2,363	(3,398)	893	2
	1,469,993	**272,938**	**(254,658)**	**343,492**	**1,831,765**
Other Investment balances:					
Cash Deposits	12,328				10,606
Receivable for Sales	-				-
Investment Income due	2,160				1,879
Payable for Purchases	(4,362)				-
Net Investment Assets	**1,480,119**			**343,492**	**1,844,250**

The increase in market value of £343,492k is £7,971k less than the change in market value on the Fund Account of £351,463k, as the above movement includes indirect manager fees.

Derivative payments and receipts correspond to the sterling equivalent amount of forward foreign exchange and futures contracts settled during the year. Further disclosure regarding derivative contracts can be found in Note 14.

d. Investments exceeding 5% of net assets

The following investments represent more than 5% of the net assets of the fund:

Security	Market Value 31 March 2022	% of total fund	Market Value 31 March 2021	% of total fund
	£'000		£'000	
LCIV 'RBC' Sustainable Equity Fund	316,647	16.1%	290,405	15.6%
BlackRock ACS World Low Carbon Equity Fund	241,530	12.3%	208,108	11.2%
LCIV Global Alpha Growth Paris-Aligned Fund	211,844	10.8%	-	0.0%
BlackRock Aquila Life UK Equity Fund	180,556	9.2%	310,330	16.7%
Threadneedle Property Fund (TPEN)	163,091	8.3%	130,750	7.0%
LCIV 'Baillie Gifford' Diversified Growth Fund	140,709	7.2%	-	0.0%
BlackRock Aquila Life MSCI World Equity Fund	-	0.0%	152,811	8.2%
GMO (Global Real Return)	-	0.0%	104,421	5.6%

e. Stock Lending

The Fund did not undertake any direct stock lending activity during the year, but acknowledges that within pooled investments fund managers may participate in this activity.

14. ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

The Fund may hold derivatives for risk management purposes, or to facilitate efficient portfolio management. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and its investment managers. The Fund does not hold derivatives for speculative purposes.

Forward currency contracts

To maintain appropriate diversification and take advantage of overseas investment income, a proportion (maximum 30%) of the Fund's bond portfolio can be held in overseas bonds. Within the portfolio, the Fund permits a maximum allowance to non-sterling currencies of 5%. The Fund's bond manager (BMO) therefore makes use of forward currency contracts to hedge non-sterling exposure, but is not permitted to create currency positions through derivatives alone.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. A breakdown of forward contracts held by the Fund as at 31 March 2022 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
		£'000		£'000	£'000
Assets					
One to six months	GBP	3,086	USD	(4,047)	12
	GBP	3,087	USD	(4,047)	12
Total Assets					**24**
Liabilities					
One to six months	GBP	7,380	EUR	(8,813)	(76)
	GBP	7,379	EUR	(8,813)	(76)
Total Liabilities					**(151)**
Net Forward Contracts 2021/22					**(127)**

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
		£'000		£'000	£'000
Assets					
One to six months	GBP	6,505	EUR	(7,604)	25
	GBP	3,633	USD	(5005)	5
	GBP	19	AUD	(34)	0
	GBP	6,506	EUR	(7,604)	25
	GBP	3,632	USD	(5005)	5
Total Assets					**60**
Liabilities					
One to six months	EUR	309	GBP	(263)	(0)
	AUD	16	GBP	(9)	(0)
	AUD	25	GBP	(14)	(0)
	AUD	64	GBP	(35)	(0)
Total Liabilities					**(0)**
Net Forward Contracts 2020/21					**60**

Futures

The Fund's bond manager, BMO, is permitted to use bond futures for both risk management purposes and to facilitate efficient portfolio management. Specifically, the mandate permits BMO to use bond futures to make adjustments to the portfolio yield curve, with the restriction that total portfolio duration may not be negative in the following maturity buckets: 0-5yrs, 5-10yrs, 10-15yrs, 15-20yrs, 20+yrs.

The Outstanding futures contracts are as shown below. The economic exposure represents the notional asset value purchased under futures contracts and is therefore subject to market movements.

Investment Type	Expires	Economic Exposure	Market value 31-Mar-22	Economic Exposure	Market value 31-Mar-21
		£'000	£'000	£'000	£'000
Assets					
UK Bonds	Under one year	-	-	(8,293)	39
Overseas Bonds	Under one year	(13,972)	448	(55)	96
Total Assets			**448**		**135**
Liabilities					
UK Bonds	Under one year	(4,001)	(23)	(3,317)	(17)
Overseas Bonds	Under one year	434	(158)	17,603	(116)
Total Liabilities			**(181)**		**(133)**
Net Futures			**267**		**2**

15. FINANCIAL INSTRUMENTS

a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category.

Investment type	2021/2022 Designated as Fair Value through Profit & Loss	2021/2022 Financial Assets at amortised costs	2021/2022 Financial Liabilities at amortised costs	2020/2021 Designated as Fair Value through Profit & Loss	2020/2021 Financial Assets at amortised costs	2020/2021 Financial Liabilities at amortised costs
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed Interest Securities	187,045	-	-	184,247	-	-
Index Linked Securities	50,951	-	-	53,706	-	-
Equities	150	-	-	150	-	-
Pooled Investments	1,505,118	-	-	1,437,864	-	-
Pooled Property funds	187,783	-	-	155,736	-	-
Derivative Contracts	472	-	-	195	-	-
Cash	-	22,880	-	-	22,028	-
Other Investment Balances	4,968	-	-	4,994	-	-
Debtors	-	9,296	-	-	8,377	-
	1,936,487	32,176	-	1,836,892	30,405	-
Financial Liabilities						
Derivative Contracts	(332)	-	-	(133)	-	-
Other Investment Balances	(22)	-	-	(15)	-	-
Creditors	-	-	(3,797)	-	-	(3,173)
	(354)	-	(3,797)	(148)	-	(3,173)
Total	**1,936,133**	**32,176**	**(3,797)**	**1,836,744**	**30,405**	**(3,173)**
Grand Total		**1,964,512**			**1,863,976**	

b. Net gains and losses on financial instruments

The majority of the financial assets and liabilities are classed at fair value. The following table summarises the net gains and losses as profit or losses associated with, the disposal of and changes in, the market value of investments and recognised within the Pension Fund account as 'Returns on Investments'.

	31 March 2022	31 March 2021
	£'000	£'000
Fair Value through Profit and Loss	75,265	343,424
Financial Assets measured at amortised cost	26	68
Financial Liabilities measured at amortised cost	-	-
Total	**75,291**	**343,492**

The increase in market value of £75,291k is £11,113k less than the change in market value on the Fund Account of £86,404k, as the above movement includes indirect manager fees.

c. Fair Value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The fair value may differ from the carrying value where an investment is in an asset that is not traded such as a local authority company, however in most instances the carrying value will equate to the fair value.

	31 March 2022		31 March 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through Profit and Loss	1,936,487	1,936,487	1,836,892	1,836,892
Financial Assets measured at amortised cost	32,176	32,176	30,405	30,405
Total Financial Assets	**1,968,663**	**1,968,663**	**1,867,297**	**1,867,297**
Financial Liabilities				
Fair Value through Profit and Loss	(354)	(354)	(148)	(148)
Financial Liabilities measured at amortised cost	(3,797)	(3,797)	(3,173)	(3,173)
Total Financial Liabilities	**(4,151)**	**(4,151)**	**(3,321)**	**(3,321)**
Grand Total	**1,964,512**		**1,863,976**	

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation of Financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market investments are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Such instruments would include unquoted debt investments (such as private debt) and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Basis of Valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. The exceptions are the £150k of Regulatory Capital to the London Collective Investment Vehicle (LCIV), required from each member of the pool and the current year initial investments in LCIV Private Debt Fund and LCIV Renewable Infrastructure Fund, which have all been carried at cost (shown in Note 16). There has been no change in the valuation techniques used during the year.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Description of Asset	Level	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting Valuations
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Futures (Derivatives)	Level 1	Published exchange price at the year-end	Not required	Not required
Amounts receivable from investment sales	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Investment debtors and creditors	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Fixed Interest Securities	Level 2	Market Value based on current yields		Not required
Index Linked Securities	Level 2	Market Value based on current yields		Not required
Pooled investments – Equity funds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Ultra short bonds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Diversified growth funds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Forward Foreign Exchange (Derivatives)	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – Property funds	Level 3	Closing single price at end of the accounting period. Threadneedle have provided additional disclosures around the valuations for these funds given the impact on the Coronavirus pandemic on property markets	NAV per share – valuation of the underlying property assets is based on CBRE methodology	Difficulties in applying standard valuation methodology (CBRE) as a result of the Coronavirus pandemic and resulting lack of property transactions
Pooled investments – Private debt funds	Level 3	Most recent valuations updated for cashflow transactions and foreign exchange movements to the end of the accounting period	Cashflow transactions, i.e. distributions or capital calls, foreign exchange movements. Audited financial statements for underlying assets	Material events between the date of the financial statements provided and the pension fund's own reporting date; differences between audited and unaudited accounts
Pooled investments - Infrastructure fund	Level 3	Most recent valuations updated for cashflow transactions.	Cashflow transactions, i.e. distributions or capital calls. Audited financial statements for underlying assets	Material events between the date of the financial statements provided and the pension fund's own reporting date; differences between audited and unaudited accounts

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2022	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	5,416	1,515,638	415,433
Financial Assets measured at amortised cost	32,176	-	-
Total Financial Assets	**37,592**	**1,515,638**	**415,433**
Financial Liabilities			
Fair Value through Profit and Loss	(203)	(151)	-
Financial Liabilities measured at amortised cost	-	(3,797)	-
Total Financial Liabilities	**(203)**	**(3,948)**	**-**
Net Financial Assets	**37,389**	**1,511,690**	**415,433**

	Level 1	Level 2	Level 3	Total
Values at 31 March 2022	**£'000**	**£'000**	**£'000**	**£'000**
Financial Assets				
Fair Value through profit and loss				
Fixed Interest Securities	-	187,045	-	187,045
Index Linked Securities	-	50,951	-	50,951
Equities	-	-	150	150
Pooled Investment Vehicles	-	1,277,618	227,500	1,505,118
Pooled Property Funds	-	-	187,783	187,783
Derivative Contracts	448	24	-	472
Other Investment Balances	4,968	-	-	4,968
Total Financial Assets at FVTPL	**5,416**	**1,515,638**	**415,433**	**1,936,487**
Financial Liabilities				
Fair Value through profit and loss				
Derivative Contracts	(181)	(151)	-	(332)
Other Investment Balances	(22)	-	-	(22)
Total Financial Liabilities at FVTPL	**(203)**	**(151)**	**-**	**(354)**
Net Financial Assets at FVTPL	**5,213**	**1,515,487**	**415,433**	**1,936,133**

Values at 31 March 2021	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000
Financial Assets			
Fair Value through Profit and Loss	5,129	1,574,614	257,149
Financial Assets measured at amortised cost	30,405	-	-
Total Financial Assets	**35,534**	**1,574,614**	**257,149**
Financial Liabilities			
Fair Value through Profit and Loss	(148)	-	-
Financial Liabilities measured at amortised cost	-	(3,173)	-
Total Financial Liabilities	**(148)**	**(3,173)**	**-**
Net Financial Assets	**35,386**	**1,571,441**	**257,149**

Values at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Fair Value through profit and loss				
Fixed Interest Securities	-	184,247	-	184,247
Index Linked Securities	-	53,706	-	53,706
Equities	-	-	150	150
Pooled Investment Vehicles	-	1,336,601	101,263	1,437,864
Pooled Property Funds	-	-	155,736	155,736
Derivative Contracts	135	60	-	195
Other Investment Balances	4,994	-	-	4,994
Total Financial Assets at FVTPL	**5,129**	**1,574,614**	**257,149**	**1,836,892**
Financial Liabilities				
Fair Value through profit and loss				
Derivative Contracts	(133)	-	-	(133)
Other Investment Balances	(15)	-	-	(15)
Total Financial Liabilities at FVTPL	**(148)**	**-**	**-**	**(148)**
Net Financial Assets at FVTPL	**4,981**	**1,574,614**	**257,149**	**1,836,744**

Reconciliation of Fair Value Measurement and Transfers Within Level 3

2021/22	Opening Balance	Transfers into Lvl 3	Transfers Out of Lvl 3	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/ Losses	Closing Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity - LCIV	150	-	-	-	-	-	-	150
Pooled Investments - Private Debt	101,263	-	-	131,659	(32,624)	2,302		202,600
Pooled Investments - Property Funds	155,736	-	-	-	-	-	32,047	187,783
Pooled Investments - Infrastructure	-	-	-	28,772	(3,872)	-	-	24,900
Total	**257,149**	**-**	**-**	**160,431**	**(36,496)**	**2,302**	**32,047**	**415,433**

During 2021/22 the Fund began to make capital investments toward its commitment in pooled renewable infrastructure.

The following assets have been carried at cost:

Values at 31 March 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investment in London CIV Ltd			150
LCIV Private Debt Fund			73,242
LCIV Renewable Infrastructure Fund			24,900
Investments held at cost	**0**	**0**	**98,292**

Unquoted equities in the London CIV asset pool are valued at cost, i.e. transaction price. The inputs available to the Fund to calculate fair value are limited, and the fund considers that the original transaction price represents an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2022 as the reliability of any observable or unobservable inputs used to calculate fair value cannot be assessed with certainty.

The LCIV Private Debt and LCIV Renewable Infrastructure Funds have been valued as Level 3 Investments which are initially recognised at cost and subsequently measured at fair value. There is a time lag on receiving valuations for these funds after each quarter of the year.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13.

2020/21	Opening Balance	Transfers into Lvl 3	Transfers Out of Lvl 3	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/ Losses	Closing Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity - LCIV	150	-	-	-	-	-	-	150
Pooled Investments - Private Debt	52,415	-	-	52,411		(3,563)		101,263
Pooled Investments - Property Funds	153,689	-	-	-	-	2,047	-	155,736
Fixed Interest - O/S Private Sector	78	-	-	-	(78)	-	-	-

Total	**206,332**	**-**	**-**	**52,411**	**(78)**	**(1,516)**	**-**	**257,149**

Sensitivity of assets valued at level 3

The fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

2021/22	Potential Variation in Fair Value	Value at 31 March 2021	Potential Value on Increase	Potential Value on Decrease
	£'000	£'000	£'000	£'000
Equity	+/- 19.9%	150	180	120
Private Debt	+/- 9.0%	202,600	220,834	184,366
Property	+/- 15.0%	187,783	215,950	159,616
Infrastructure	+/- 14.6%	24,900	28,535	21,265
Total		**415,433**	**465,499**	**365,367**

2020/21	Potential Variation in Fair Value	Value at 31 March 2021	Potential Value on Increase	Potential Value on Decrease
	£'000	£'000	£'000	£'000
Equity	+/- 16.7%	150	175	125
Private Debt	+/- 4.6%	101,263	105,921	96,605
Property	+/- 14.2%	155,736	177,851	133,621
Total		**257,149**	**283,947**	**230,351**

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long term risk is that the Fund's assets will be insufficient to meet its liabilities, in other words, the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Investment Strategy Statement (ISS) with the aim of minimising the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

Consequently the Fund is exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risk. A policy of diversification for its asset classes and investment managers helps the Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures put in place to manage risk.

The management of risk is a key objective of the Fund and is part of the ongoing decision making process for the Pensions Committee. Risk management policies, such as the Risk Register for the Pension Fund, identify and analyse the risks faced by the Council's pensions operations. Measures to control and manage risks are also included within the risk register. Policies and the Risk Register are reviewed by Pensions Committee and also by Officers on a frequent basis.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign exchange risk and other price risk. The Fund holds a variety of investments which expose it to market risk and details of the Fund's investment portfolio are set out in Note 13.

The Fund manages exposure to market risk in the following main areas:

- Regularly reviewing the pension fund investment strategy.
- Regular monitoring of asset allocation and investment performance.
- A policy of security and manager diversification.

On a daily basis Investment Managers will manage market risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure the agreed limit on maximum exposure to any one issuer or any class of asset is not breached.

Other Price Risk

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded in various markets. The Pensions Committee regularly reviews its asset allocation policy and seeks to diversify the assets that it holds. Diversification helps to ensure that the Fund has a balance of investments which offer different levels of risk and return. Pooled Funds are used where these represent the most efficient means of investing in an asset class. The breakdown between managers and asset class can be seen in Note 13.

Other Price Risk – Sensitivity Analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the funds' asset allocations.

Asset class	1 year expected volatility (%)	% of Fund
Infrastructure Equity	14.6	1.3
UK Equities	19.9	0.0
Global Equities (ex UK)	20.1	49.3
Emerging Market Equities	27.0	4.0
Property	15.0	9.7
Corporate Bonds (short term)	3.5	3.9
Corporate Bonds (medium term)	8.1	2.0
Corporate Bonds (long term)	9.9	1.0
UK Fixed Gilts (short term)	2.1	0.8
UK Fixed Gilts (medium term)	6.8	1.9
UK Fixed Gilts (long term)	9.2	2.1
UK Index Linked Gilts (medium term)	7.3	0.3
UK Index Linked Gilts (long term)	9.2	2.3
Cash	0.3	3.8
Diversified Growth Fund	9.1	7.3
Senior Loans	9.0	10.3
Total fund volatility	**12.1**	**100.0**

The total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using the Economic Scenario Service, a proprietary stochastic asset model maintained by Hymans Robertson LLP. The model uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The overall fund volatility has been calculated based on the asset valuations provided by the Fund's custodian, HSBC, and market values (bid) provided by the Administering Authority, as at 31 March 2022. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2022		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,937,913	12.1	2,172,400	1,703,426
	1,937,913	**12.1**	**2,172,400**	**1,703,426**

31 March 2021		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,844,250	10.3	2,034,208	1,654,292
	1,844,250	**10.3**	**2,034,208**	**1,654,292**

The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by a number of factors including further benefit accruals, contributions and differences between expected and actual investment returns. The calculations assume that all other factors and assumptions, in particular exchange rates, remain unchanged.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements. Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's Treasury Management Strategy as agreed by the Pensions Committee.

The Fund's direct exposure to interest rate movement as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Balance at 31 March 2022	Balance at 31 March 2021
	£'000	£'000
Cash Deposits	4,880	10,606
Cash Balances	21,099	14,522
Fixed Interest Securities	296,992	291,051
Total	**322,971**	**316,179**

Interest Rate Risk – Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis points (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effects in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:-

Asset Type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	4,880	49	(49)
Cash Balances	21,099	211	(211)
Fixed Interest Securities*	296,992	(26,432)	26,432
Total	**322,971**	**(26,172)**	**26,172**

Asset Type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	10,606	106	(106)
Cash Balances	14,522	145	(145)
Fixed Interest Securities*	291,051	(31,201)	31,201
Total	**316,179**	**(30,950)**	**30,950**

* Note that an increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa. Unlike for cash and its equivalents the change is due both to the impact of the duration (on average between 10-11 years) period of the bonds and the inverse relationship between bond prices and interest rates.

Currency Risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than its functional currency (GBP). As a result the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse impact on the portion of the Fund's assets or liabilities denominated in currencies other than sterling.

Investment Managers will manage foreign exchange risk by the means of passive hedging and enter into forward currency contracts to protect assets which have exposure to currencies other than sterling (further details are in Note 14).

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2022 and as at the previous period end:

Currency Exposure – asset type	Asset Value as at 31 March 2022	Asset Value as at 31 March 2021
	£'000	£'000
Equities	-	-
Fixed Interest Securities	22,215	20,560
Indexed Linked Securities	-	-
Pooled Investment Vehicle	58,428	54,041
Cash and Deposits	543	573
Total	**81,185**	**75,174**

Currency Rate Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment consultant, the estimated volatility for individual currency was assessed and used for the following sensitivity analysis.

31 March 2022		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	81,185	9.5	88,898	73,472
Total change in assets			**7,713**	**(7,713)**

31 March 2021		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	75,174	9.8	82,541	67,807
Total change in assets			**7,367**	**(7,367)**

This analysis assumes that all other variables, in particular interest rates, remain constant and that these changes occur immediately. In practice any changes will occur over time.

b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

A majority of the assets of the Fund are held by the Fund's custodian, HSBC Global Services. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with Lloyds Bank.

The Pensions Committee and senior officers monitor this risk by keeping under review the credit rating and financial positions of the custodian and banks the Fund uses.

Any excess cash from the Fund's bank accounts is invested in accordance with the Pension Fund's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure. In addition, excess cash held with the custodian is swept into a liquidity fund to provide further diversification.

The Fund's holdings under the arrangements described above were held with the following:

Summary	Rating (Fitch)	Balance at 31 March 2022	Balance at 31 March 2021
		£'000	£'000
Cash (Current Assets)			
Lloyds Bank Plc	A+	21,099	14,522
Cash Deposits (Investment Assets)			
Cash held outside fund managers and custodian			
Money Market Funds (Various)	AAA	3,100	3,100
Cash held by fund managers and custodian			
Cash	AA-	1,780	7,506
Call Accounts (Various)	AA- to A	-	-
Total		**25,979**	**25,128**

c) Liquidity Risk

Liquidity risk corresponds to the pension fund's ability to meet its financial obligations when they come due with sufficient and readily available cash resources.

The Fund's investments are substantially made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund's key exposure to illiquid assets is via its private debt mandate, currently valued at £202,600K and its infrastructure mandate currently valued at £24,900K. Whilst the Fund has no direct property exposure, it is invested in a single-priced, open-ended property fund. Whilst the Fund itself offers daily liquidity, the illiquid nature of the underlying assets exposes the Fund to a degree of liquidity risk

The Fund maintains investments in cash and cash equivalents outside of the investment assets held by the custodian that are highly liquid and can be used for payables and expenses such as pension payments, transfers out, etc. The Fund's cash position is monitored on a daily basis by both the pension administrator and the pensions team.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Pensions Committee in collaboration with the Fund's actuary regularly review the Funding Strategy which considers the results of the triennial valuations to ensure the long-term solvency of the Fund as a whole, and that sufficient funds are available to meet all benefits as they fall due for payment. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

18. FUNDING ARRANGEMENTS

The actuarial valuation of the Pension Fund is carried out every three years, in line with the Local Government Pension Scheme Regulations 2013. The purpose is to set employer contribution rates for the forthcoming triennial period. This is carried out by an independent actuary appointed by the Fund and the last valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The contribution rates are set at a level sufficient to meet the cost of future benefits accruing and to eliminate, over a period of time, the deficit arising from past service. The valuation is carried out in accordance with the Fund's Funding Strategy Statement (FSS) a copy of which can be found on the Pension Fund website https://hackneypension.co.uk/ and a copy is also included in the Pension Fund Annual Report and Accounts.

The objectives of the Fund's funding policy include the following:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers.
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.
- To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations.
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.
- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2019 valuation was based on a market value of the Fund's assets as at 31 March 2019, which amounted to £1,575 million and revealed a pension deficit of £131 million, representing a funding level of 92% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the actuary include anticipated pay, pension inflation, and mortality rates. The whole fund primary contribution rates applying from 1 April 2020 until 31 March 2023 and based on the 2019 valuation report are as follows:

Year	Employer Contribution rate
2020/21	18.7%
2021/22	18.7%
2022/23	18.7%

The rates payable by the London Borough of Hackney and other participating scheduled and admission bodies vary from the contribution rate for the Fund as a whole according to the employer's individual circumstances.

The Fund's actuary, Hymans Robertson, has calculated the contribution rate using the Projected Unit Method. This assesses the cost of benefits (as a percentage of pay) accruing to existing members during the year following the valuation, allowing for future salary increases.

The minimum required contributions (both primary and secondary) payable by each employer are set out in the Rates and Adjustments Certificate. Each employer must pay the percentage rate or monetary amount specified in the certificate, whilst the frequency of payment is prescribed by the Local Government Pension Scheme Regulations 2013.

The principal 2019 valuation report assumptions which informed the contributions payable from 1 April 2020 were:

Financial Assumptions based on 2019 Valuation Report

Assumption	Rate	Explanation
Investment return (discount rate)	3.85%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	2.3% – CPI	
Salary increases*	2.6%	0.3% pa over CPI
Pension increases	In line with CPI	Assumed to be 0.9% less than RPI

*plus an allowance for promotional pay increases.

Mortality Assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Mortality assumptions at age 65	Male	Female
Current pensioners	21.2	23.4
Future pensioners (assumed current age 45)	22.4	25.1

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes an accounting valuation of the Fund's liabilities on an IAS 19 basis every year. This uses membership data from the funding valuation with economic assumptions adjusted for the current financial year. This valuation is used for statutory accounting purposes and uses different assumptions from the triennial funding valuation, (see Note 18), which is used to determine the contribution rates payable by employers.

The actuarial present value of promised retirement benefits at the accounting date 31st March 2022, calculated in line with IAS 19 assumptions, is estimated to be £2,656 million (£2,742 million in 2020/21).

Present Value of Promised Retirement Benefits	31 March 2022	31 March 2021
	£m	£m
Active members	1,049	1,018
Deferred members	779	835
Pensioners	828	889
Total	**2,656**	**2,742**

The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The financial assumptions used for the IAS19 2022 valuation have been revised from the 2019 valuation report as set out in the table below:

Assumption	2022	2021
Pension increase rate assumption	3.20%	2.75%
Salary increase rate	3.50%	3.05%
Discount rate	2.7%	1.95%

20. CURRENT ASSETS

The following is an analysis of the **non-investment** debtor and cash balances carried on the Net Asset Statement.

	31 March 2022 £'000	31 March 2021 £'000
Short-Term Debtors:		
Contributions due	7,222	6,272
Sundry debtors	1,767	1,792
Cash Balances	21,099	14,522
VAT	82	155
Total	**30,170**	**22,741**

20a. LONG TERM DEBTORS

The lifetime allowance (LTA) is the overall limit on tax free pension funds a member can accrue during their lifetime. Where a member exceeds the LTA a tax charge is incurred.

The annual allowance (AA) is the overall limit on tax free pension funds a member can accrue during the year. Where a member exceeds the AA a tax charge is incurred.

Members can elect to pay the charge themselves or have the fund pay on their behalf to be recovered through reduced benefits. The following figure represents the balance of amounts paid over to HMRC for those members who have exceeded the life-time or annual-allowance pension tax free allowance less repayments recovered through a reduction of member benefits on retirement.

	31 March 2022 £'000	31 March 2021 £'000
Long-Term Debtors:		
Reimbursement of LTA / AA	226	158
Total	**226**	**158**

21. CURRENT LIABILITIES

The following is an analysis of the non-investment creditors balance carried on the Net Asset Statement.

Creditors	31 March 2022 £'000	31 March 2021 £'000
Short-Term Creditors:		
Benefits Payable	(1,670)	(1,031)
Sundry Creditors	(2,127)	(2,142)
Total	**(3,797)**	**(3,173)**

22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund, in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions.

The total value of sums invested in the AVC funds as at 31 March 2022 was £5.030 million (£5.037million as at 31 March 2021). Contributions received into the AVC facility during the year amounted to £0.197 million (£0.203 million in 2020/21). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

23. RELATED PARTY TRANSACTIONS

London Borough of Hackney

The Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £58.46 million to the Fund in 2021/22 (2020/21: £59.34 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.42 million in 2021/22 (£0.36 million in 2020/21) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury Management Strategy.

London Collective Investment Vehicle

The London CIV is a collective investment vehicle established by London Councils on behalf of the London Boroughs and the City of London Corporation. It consists of an ACS (Authorised Contractual Scheme) Operator, which is a limited company wholly owned by the 32 participating authorities, and the ACS fund itself. The Council is therefore a shareholder in the operating company. During 2015/16, the Pension Fund made an investment of £150k in the CIV to provide it with sufficient regulatory capital.

The Fund incurred costs of £110k in 2021/22 (£110k in 2020/21) in relation to charges from the London CIV Ltd (the operating company).

The Fund incurred costs of £151k in 2021/22 (£32k in 2020/21) in relation to the custody and management of investments held and managed within the London CIV regional asset pool.

Governance

The following Pensions Committee Members were deferred members of the Local Government Pension Scheme (LGPS) during the year; Cllr Michael Desmond (Vice-Chair).

The following Pensions Committee Members were pensioner members of the Local Government Pension Scheme (LGPS) during the year; Cllr Robert Chapman (Chair)

Jonathan Malins-Smith, Scheme Member Representative, is also a deferred member of the Pension Scheme

24. KEY MANAGEMENT PERSONNEL

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31 March 2022 these employees included:

Group Director of Finance and Corporate Resources, Director of Financial Management, Head of Pensions, Pensions Manager and Group Accountant

All of these employees were also members of the pension scheme. The financial value of their relationship with the Fund (in accordance with IAS 24) is set out below:

	31 March 2022	31 March 2021
	£'000	£'000
Short term benefits	238	192
Long term/post-retirement benefits	44	36
Total	**282**	**228**

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of the London Borough of Hackney.

25. CONTINGENT ASSETS, CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2022 were £203,586k (31 March 2021: £327,153k). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private debt parts of the portfolio and pooled renewables infrastructure fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

Outstanding Capital Commitment	31 March 2022	31 March 2021
	£'000	£'000
Pooled Private Debt Funds	138,486	237,153
Pooled Renewables Infrastructure Fund	65,100	90,000
Total	**203,586**	**327,153**

26. IMPAIRMENT LOSSES

During 2021/22 there were £0k impairment losses to recognise (2020/21: £0k) for non-recovery of pension overpayments. Investment-related losses related to the Covid-19 pandemic and the impact of the Ukraine-Russia conflict are accounted for through the change in market value of investments.

Hackney

Title of Report	Quarterly Update Report
For Consideration By	Pensions Committee
Meeting Date	29th September 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 April and June 2022. The report also provides an update on the position with regards to the Fund's planned carbon risk target and updates the Committee on planned changes to the arrangements for the appointment of co-opted members.

2. Recommendations

2.1. The Pensions Committee is recommended to:

- Approve in principle the introduction of a formal appointment process and term of office for the Scheme Member Representative and Employer Representative as set out in Section 10
- Agree that the current co-opted representatives should remain in post until 31 March 2024
- Delegate to the Head of Pensions the task of updating the Fund's Governance Policy and Compliance Statement as appropriate to reflect the new terms of appointment for co-opted members.
- Note the remainder of 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. The Fund's actuary, Hymans Robertson, usually provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. However, this Committee agenda includes a paper setting out the initial whole fund results of the 2022 valuation, which has been carried out using new membership experience data and updated economic assumptions.

6.2. The provision of the Quarterly funding update will resume at the January Committee, when an estimated updated funding position based on the 2022 valuation assumptions will be provided.

7. Investment Update

7.1. Appendix 1 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 6.3%, equalling the benchmark return%. Over the last 12 months, the Fund has underperformed the benchmark by 2.8%, producing overall returns of -5.0%. Over the last 3 years, returns of 4.4% have been achieved, out-performimg the benchmark by 0.5%.

7.2. The key driver of the recent underperformance remains 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 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 have 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. The current position with regards to undrawn capital commitments is set out in the table below:

	Capital commitment	Funds drawn as at August 2022	Undrawn commitment
Permira	£95m	£74m	£21m
Churchill	£71m	£66m	£5m
LCIV Private Debt	£180m	£77m	£103m
LCIV Renewable Infrastructure	£90m	£26m	£64m
Total			£193m

8.4. There is a separate report on this Committee Agenda regarding the Fund's cash management approach in relation to its undrawn capital commitments.

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.

9.2. The LAPFF Quarterly Engagement report is attached at Appendix 2 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. On 1st September 2022 the Government published its LGPS: Governance and reporting of climate change risks consultation. The Government intends to make TCFD (Taskforce on Climate-related Financial Disclosures) reporting mandatory for the LGPS by 2023/24, with the first mandatory TCFD reports due in December 2024.

9.5. The requirements outlined are similar to those currently applied to private sector occupational pension schemes. Responses to the consultation are invited by 24th November; a draft response will be brought to the November Pensions Committee. A link to the consultation be found below: https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

9.6. The Committee has requested that the Fund be in a position to set a new climate change target by January 2023. Setting a target based on a climate risk metric is likely to become mandatory for the LGPS by 2023/24 as part of the introduction of mandatory TCFD reporting as outlined above. To provide a suitable baseline, and ensure that any target set remains appropriate under the proposed new reporting regime, it is suggested that the Fund undertakes a TCFD-compliant assessment of its portfolio as 31 March 2022.

9.7. Officers are therefore exploring options with climate data providers for the assessment of the Fund's portfolio. It is understood that the Committee particularly wishes to have a scenario analysis carried out on the basis of a 1.5°C warming scenario; this appears to be possible based on feedback from a potential supplier. At present, the Fund is on track to complete its first TCFD assessment by January 2023; this information can then be used to set an appropriate climate risk target for the Fund.

10. <u>**Appointment of Co-opted Representatives**</u>

10.1. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council (i.e. co-opted members). Hackney Council's Constitution sets out that the membership of the Pensions Committee should include two non-voting co-opted members: a scheme member representative and an employer representative. These positions are currently held by Jonathan Malins-Smith and Henry Colthurst respectively.

10.2. The Council's Constitution does not state anything about the length of appointment in relation to the co-opted members but it does state that one of the responsibilities of the Pensions Committee will be to keep its terms of reference under review. It is best practice for appointments of committees and boards to be regularly reviewed and subject to defined periods. The current positions have not been subject to review for a number of years, other than as a result of a co-opted member retiring. It is therefore proposed that the Pensions Committee should agree to an ongoing process to ensure that the co-opted members' positions are subject to defined periods with appropriate appointment or re-appointments at the end of any such term.

10.3. It would be appropriate to adopt a four-year term so that it is equivalent to local authority councillors albeit with a potential review date that is not at the same point as Council elections, to assist in providing continuity within the Committee should there be a large change in Hackney Council elected members on the Committee. It would also be sensible to include an element of flexibility with the period (for example, to assist in aligning with Pension Board appointments) as well as the opportunity for re-appointments.

10.4. It is recommended that that Committee agrees the following provisions relating to the Pensions Committee co-opted members:

Eligibility:

- The co-opted employer representative must be an employee or office holder of an employer participating in the Hackney Pension Fund (other than Hackney Council) which has active scheme members.
- The co-opted scheme member representative must be an active, deferred or pensioner scheme member of the Hackney Pension Fund.

Term of appointment:

The co-opted employer and scheme member representatives will be appointed for a period of four years, which can be extended by the appointments panel for a further period of two years. Any co-opted employer or scheme member representative may be appointed for further terms. An appointment is immediately terminated if the eligibility requirements cease to be met.

Appointment:

An appointments panel will determine and oversee the appointment process and decide which individuals should be appointed to the Pensions Committee. The appointments panel will consist of:

- The Chair of the Pensions Committee or such other Pensions Committee member determined by the Chair
- Either the Group Director, Finance and Corporate Resources or Director, Financial Management
- The Head of Pensions

10.5. To allow the new procedures to be put into place, it is recommended that the existing co-opted members' terms cease on 31 March 2024, at which point both will have been in post for more than four years. Therefore, subject to agreeing a process with the appointments panel, a recruitment process would need to be undertaken over late 2023/early 2024.

10.6. Finally, it is recommended that the Committee delegates to the Head of Pensions the task of updating the Fund's Governance Policy and Compliance Statement as appropriate to reflect the new terms of appointment for co-opted members.

11. <u>Pension Administration</u>

11.1. Pension Administration Management Performance

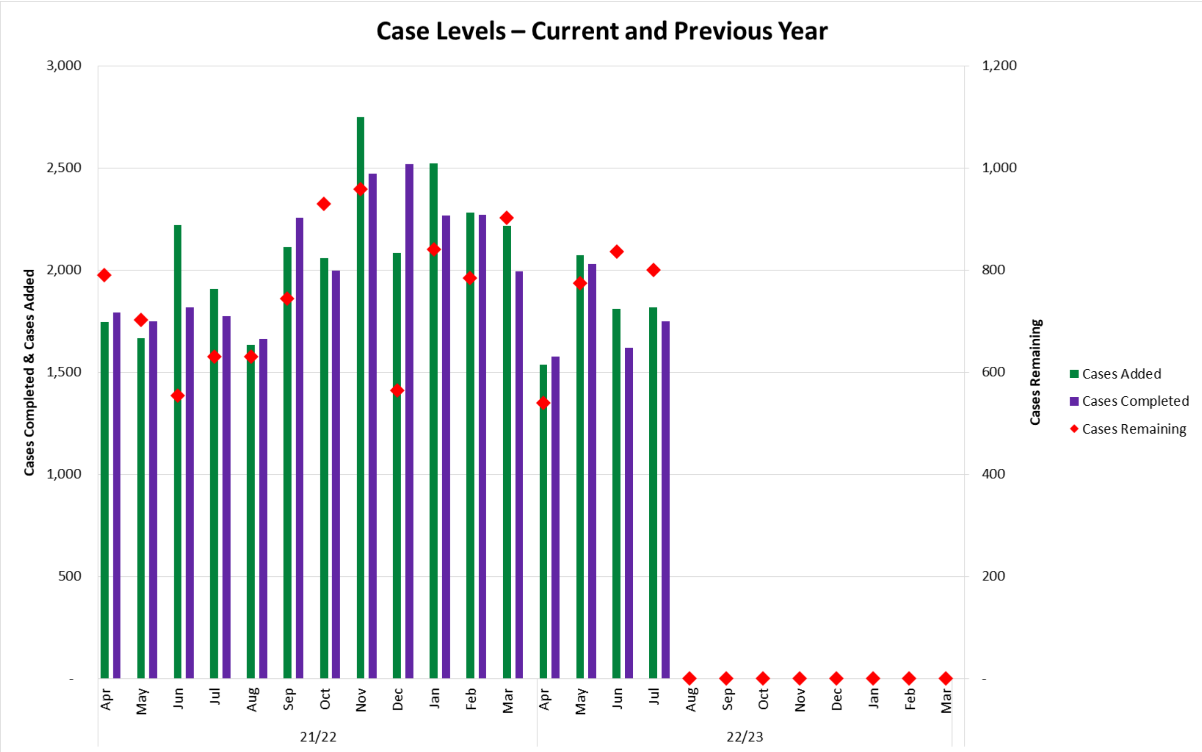
The following sections provide information on the numbers of cases being received and processed by Equiniti, as well as their performance against the Fund's service level agreement standards (SLAs).

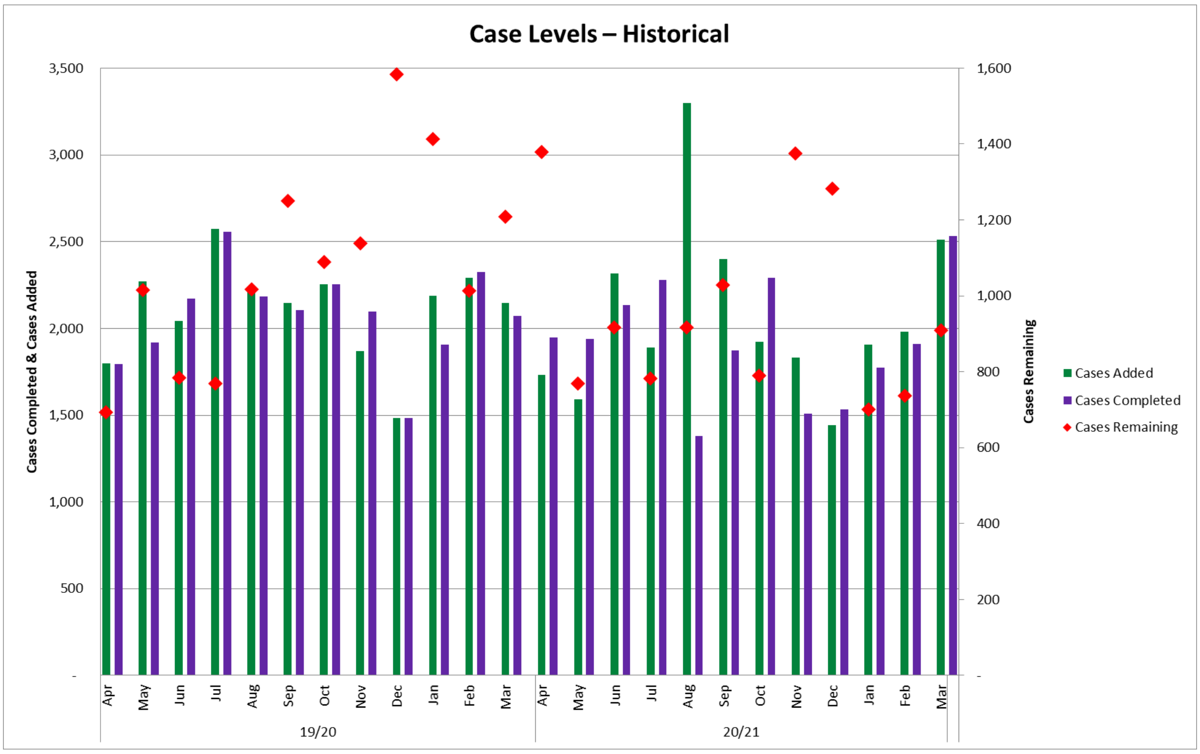
Case Levels

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 April 2022 to July 2022, the number of cases received has had a slight drop with the lowest number of cases received in April, with May, June and July then being nearer to the number of cases received on average per month in the 2021/22 year. The number of cases completed by Equiniti is slightly lower than those completed in the previous quarter- this could be due to receiving less cases.





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.

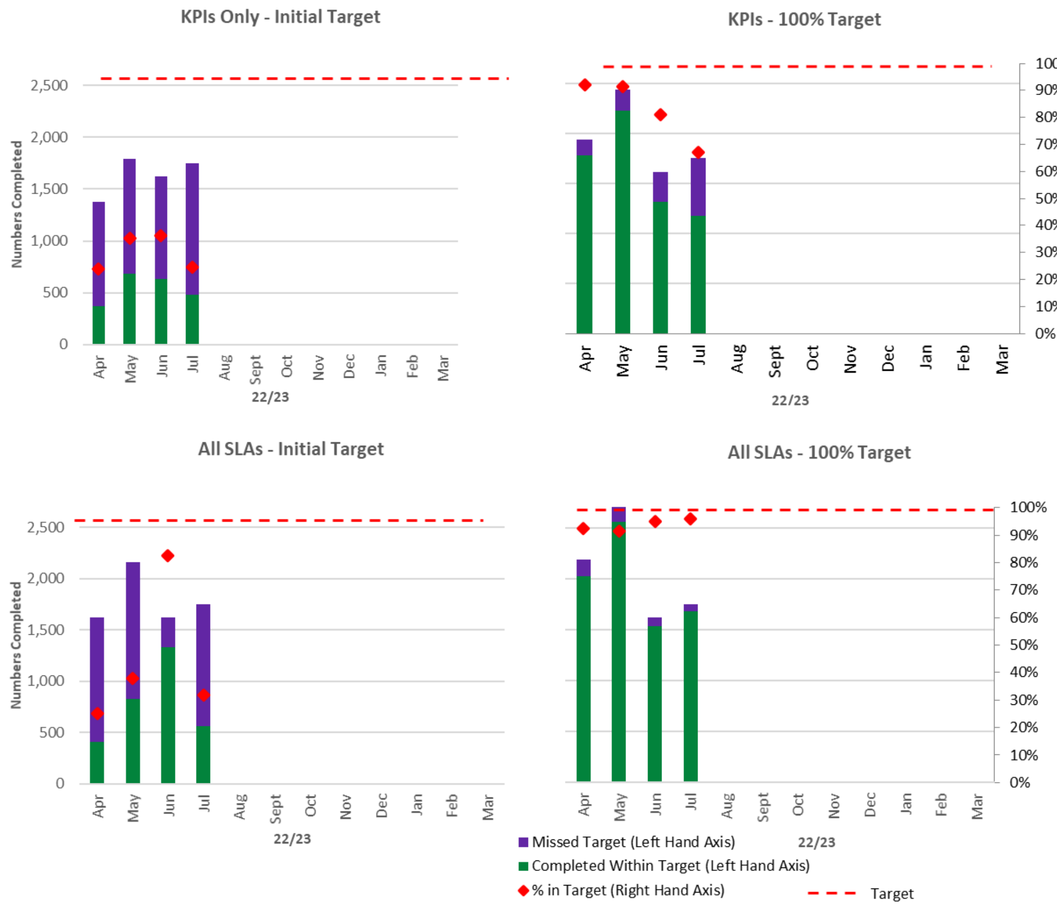
For most SLAs there are two targets:

- 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 2022. 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 April 2022 to July 2022, Equiniti have continued to perform close to the 100% target in all measures with a decrease in the KPI target measure for June, and a further decrease for July. This decrease has occurred due to resourcing issues and also the fact that a key priority for the Fund during this period is the preliminary work required for the preparation and distribution of the Annual Benefit Statements. The numbers of cases completed in the initial target- both relating to all measures and for the KPIs are consistent with that in the previous quarter.



11.2. **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
Q1 2022/23	1	0	0	3	0
Q1 2021/22	3	1	2	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
Q1 2022/23	2	2	0	0	0
Q1 2021/22	4	2	1	1	0

11.3. **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 – Two applications were submitted in this quarter. One was against the administering authority in relation to an historic orphaned AVC which was partially upheld. The second was against the members former employer, the council, in relation to the non release of pension benefits on the grounds of ill health. This appeal was not upheld.

Stage 2 – One application was received in this quarter against the administering authority in relation to a transfer out and was not upheld.

11.4. **Other work undertaken**

Third Party Administration Implementation update

As previously reported, the major outstanding point of delivery under the 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. At the time of writing the year end process has now been completed, and therefore, 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, EQ followed the usual year end submission process.

As a result of previous lessons learnt the process was 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.

All statements have been issued by the legal deadline this year as outlined below:

- Active member benefit statements 6,939 (which also includes any pension credit members).

Equiniti are continuing to work through circa 20-30 records which have data queries on and if any of these do require a statement these will be issued as and when the query is resolved.

- Deferred member benefit statements
    - statements issued: 7,271
    - statements not able to be issued due to no current address: 1,663 (see address tracing section below).

All pensioner members were also sent the annual membership newsletter.

Pension Saving Statements

The Finance Act 2006 sets out that individuals can only save up to £40,000 each year in their pension funds (a lower amount applies for some of the very highest earners). For a defined benefit scheme such as the LGPS, this is calculated as the overall growth in their benefits over the year. The Pension Fund is required to send a Pensions Savings Statement to notify any member whose benefits within the Hackney Pension Fund have exceeded £40,000. These statements must be issued by 6th October in respect of the previous financial year.

Equiniti's projects team are currently working on the Pension Saving Statements, and an update will be provided on these 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 was initially 49%.

This left some 1,200 addresses which required a chaser verification letter. These were issued in May 2022 and to date some 240 responses were received and the addresses have been updated as necessary.

A first verification letter was also sent to 270 addresses which were generated as part of a deep dive into a further set of records which held no last known addresses. 129 responses were received and the necessary updates have been made to these records. This led to the remaining 140 records receiving a chaser letter in July and 32 responses were received to these.

<u>McCloud Programme Update</u>

The Public Service Pension and Judicial Offices Act 2022 enables the Department of Levelling up, Housing and Communities (DLUHC) to make the regulations needed to implement the McCloud remedy within the LGPS.

Draft LGPS Regulations were initially expected before the Summer Recess (provisionally 21 July 2022) with plans for DLUHC to consult on a second set of regulations in the Autumn which is expected to cover areas such as tax and compensation. This timetable has now been pushed out to the late 2022 for both DLUHC's response to its 2020 consultation and the regulations themselves. It is not currently known if two sets of regulations are to be expected or whether this delay will mean just one set of regulations are published. The coming in to force date of the regulations is now 1 October 2023, in line with the expected timeframe for the unfunded schemes. Therefore, the programme is now working to the 1 October 2023 as the coming into force date.

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 although some actions have been paused due to the delay in the regulatory timetable. The Ongoing Administration and Systems workstream is still behind where we would want it to be at this stage of the project. This is unlikely to be resolved whilst progress is continuing to be made regarding the contractual arrangements with the Fund's third-party administration and software provider, Equiniti, given that their current contract expires on 31 December 2022. 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 Compendia software is key to delivering the McCloud programme, particularly in relation to the Data, Communications and Ongoing Administration 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 were previously updated to include both the uncertainty of future contract/software arrangements and the impact of the delay in the regulatory timetable as key risks. These risks will be discussed further at the next round of workstream meetings and updated, as appropriate.

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 further 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 was put forward to the Programme Management Group for approval at the meeting, on 26 July. Following this meeting, the PMG had some further comments on the DAP document which has resulted in some further amendments being needed. Therefore, separate discussions are ongoing regarding this and once these are concluded the updated DAP document will need to be submitted to PMG for approval. A data meeting was held on 14 September where it was determined that many actions are on hold due to the delay in the regulatory timetable. The next data meeting has been scheduled for 8th November.

- The Communications workstream is up to date, with most of the actions such as reviewing BAU communications deferred until regulations are issued by DLUHC. A communication workstream meeting was held on 15 September 2022 where it was determined that many actions are on hold due to the delay in the regulatory timetable. The next communication meeting is scheduled for 14 December.

- 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 is progressing as expected. Equiniti provided their project plans outlining milestones and timings for key activities and updated these following Aon's feedback ahead of the workstream meeting on 17 May 2022. Equiniti's revised plans have now been reviewed further by Aon and comments fed back to Equiniti. It has been agreed to put these plans to the PMG for approval following the regulations and DLUHC guidance being issued. The next workstream meeting has been scheduled for 14 December.

- 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 is currently on hold pending a decision on the Equiniti contract. 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 draft 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).

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, which has now changed. The biggest risk for the programme at the present time remains 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 28 September 2022 where this will be discussed further, and key risks updated as appropriate. A further update will be provided at the next Committee meeting.

Guaranteed Minimum Pension (GMP) Reconciliation

As you will recall, the Committee was provided with an update on the number of members affected by the GMP reconciliation exercise and some data analysis was provided. Underpaid pensioners had their pensions corrected (and the arrears paid) in the October 2021 pensioner payroll, and overpaid pensioners had their pensions decreased from the November 2021 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 Equiniti has provided some more details on these groups. Resources from Equiniti's project team have been put in place to commence work on this in late September/early October (following the completion of the annual benefit statement cycle and the pension saving statements). An update will be provided at subsequent committee's.

11. Reporting Breaches

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

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

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 Electoral Services prepared by	Name Angelie Walker Title Senior Solicitor Email angelie.walker@hackney.gov.uk Tel 020 8356 6012

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London Borough of Hackney Pension Fund

Q2 2022 Investment Monitoring Report

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

Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority

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 -6.3%, matching the returns of the benchmark.

The Growth allocation performed negatively over the quarter as equity markets continued to fall due to concerns around central bank policy tightening, slowing earnings momentum, and geopolitical uncertainty.

In bond markets, Government bond yields rose as markets moved to price in significant further increases in interest rates. Credit spreads have risen considerably since the start of the year and are well above long-term median levels. Property was a relative bright spot.

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.

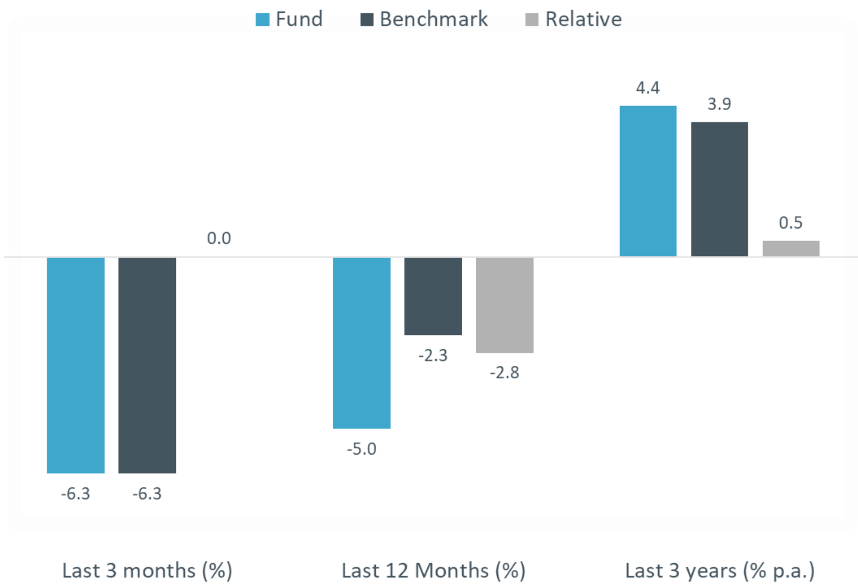
Income

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	57.9%	55.9%	2.1%
Income	24.4%	27.0%	-2.7%
Protection	17.7%	17.1%	0.6%

Asset Allocation

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

This page includes;

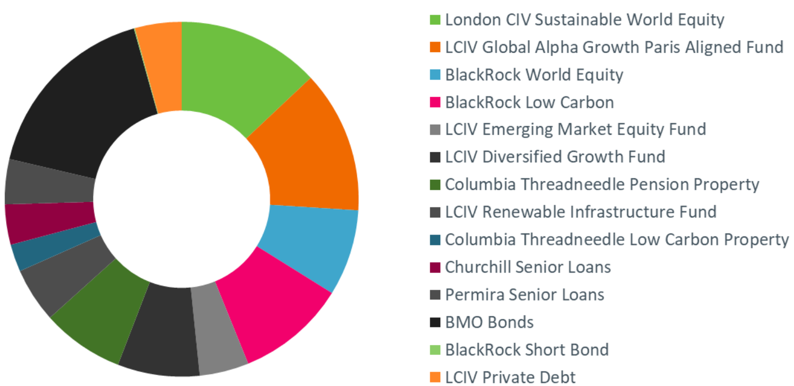
- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

The LCIV Renewable Infrastructure mandate valuation, and the LCIV Private Debt mandate valuation as at 30 June 2022 were not available at the time this report was drafted, the figures used are the Q1 2022 values.

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q1 2022	Q2 2022			
London CIV Sustainable World Equity	Active	316.6	288.9	16.0%	13.0%	3.0%
LCIV Global Alpha Growth Paris Aligned Fund	Active	211.8	186.4	10.3%	13.0%	-2.7%
BlackRock World Equity	Passive	180.6	154.7	8.6%	7.9%	0.7%
BlackRock Low Carbon	Passive	241.5	215.2	11.9%	10.0%	1.9%
LCIV Emerging Market Equity Fund	Active	76.4	70.8	3.9%	4.5%	-0.6%
LCIV Diversified Growth Fund	Active	140.7	128.4	7.1%	7.5%	-0.4%
Total Growth		**1,167.7**	**1,044.4**	**57.9%**	**55.9%**	**2.1%**
LCIV Renewable Infrastructure Fund	Active	24.9	26.3	1.5%	5.0%	-3.5%
Columbia Threadneedle Pension Property	Active	163.1	171.2	9.5%	7.5%	2.0%
Columbia Threadneedle Low Carbon Property	Active	24.7	24.5	1.4%	2.5%	-1.1%
Churchill Senior Loans	Active	58.4	66.2	3.7%	3.7%	0.0%
Permira Senior Loans	Active	70.0	74.0	4.1%	4.1%	0.0%
LCIV Private Debt	Active	73.2	76.9	4.3%	4.3%	0.0%
Total Income		**414.3**	**439.1**	**24.4%**	**27.0%**	**-2.7%**
BMO Bonds	Active	256.2	229.3	12.7%	17.0%	-4.3%
BlackRock Short Bond	Passive	93.5	90.2	5.0%	0.1%	4.9%
Total Protection		**349.7**	**319.5**	**17.7%**	**17.1%**	**0.6%**
Total Scheme		**1,931.7**	**1,803.0**	**100%**	**100%**	**0%**

Asset class exposures



HYMANS ROBERTSON

- 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 and LCIV Private Debt mandate are not yet available.
- The Churchill 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 30 June 2022 has been as follows:
    - 3m: 8.4%
    - 6m: 11.5%
    - 12m: 11.0%

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	-8.8	-9.1	0.4	-8.6	-0.2	-8.7	-2.1	-6.8	-0.1	-8.7	9.0	8.9	0.1	-0.1	9.1
LCIV Global Alpha Growth Paris Aligned Fund	-12.0	-8.9	-3.5	-8.4	-4.0	-	-	-	-	-	-	-	-	-	-
LCIV Emerging Market Equity Fund	-7.0	-4.0	-3.1	-4.0	-3.1	-	-	-	-	-	-	-	-	-	-
BlackRock World Equity	-14.3	-14.5	0.2	-14.5	0.2	-10.8	-11.3	0.5	-11.3	0.5	7.2	7.0	0.2	-11.3	20.9
BlackRock Low Carbon	-11.0	-10.4	-0.7	-10.4	-0.7	-3.7	-3.3	-0.5	-3.3	-0.5	8.6	8.5	0.1	-3.3	12.3
LCIV Diversified Growth Fund	-8.8	1.1	-9.8	1.1	-9.8	-	-	-	-	-	-	-	-	-	-
Income															
Columbia Threadneedle Pension Property	4.6	3.9	0.7	4.2	0.4	24.0	23.3	0.6	24.3	-0.2	9.3	9.2	0.0	10.2	-0.9
Columbia Threadneedle Low Carbon Property	0.3	1.4	-1.1	1.7	-1.3	2.9	13.1	-9.1	14.1	-9.9	2.3	0.4	1.9	1.4	0.9
Churchill Senior Loans	5.9	-3.1	9.3	1.6	4.3	15.1	2.5	12.3	6.3	8.3	3.8	3.8	0.1	6.4	-2.4
Permira Senior Loans	1.3	1.2	0.1	1.8	-0.4	16.7	4.4	11.7	7.0	9.0	-	-	-	7.2	-
Protection															
BMO Bonds	-10.5	-10.4	-0.2	-10.1	-0.5	-14.8	-14.6	-0.3	-13.6	-1.4	-2.6	-3.1	0.5	-2.1	-0.5
BlackRock Short Bond	0.3	0.2	0.1	0.2	0.1	0.2	0.3	0.0	0.3	0.0	0.5	0.3	0.2	0.3	0.2
Total	-6.3	-6.3	0.0			-5.0	-2.3	-2.8			4.4	3.9	0.5		

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.*

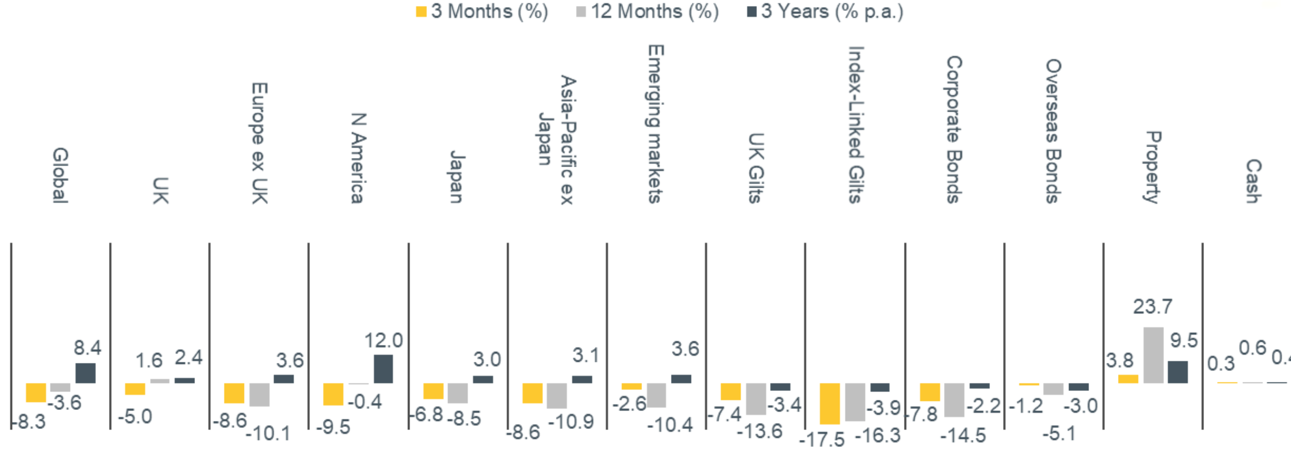
Soaring inflation and higher borrowing costs have continued to squeeze consumer's real incomes, with consumer confidence surveys plunging as a result. The persistence of these inflationary pressures, coupled with the prospect of tighter financial conditions, has given rise to fears of recession, and has resulted in revised consensus forecasts for global growth of 2.9% in 2022 and 2.8% in 2023 (down from 4.1% and 3.2%, respectively, at the start of the year.)

While headline inflation continues to rise across developed markets, year-on-year US and UK core inflation, which excludes volatile energy and food prices, eased slightly, but remained elevated, at 6.0% and 5.9%, respectively. While US and UK inflation pressures look more broad-based, a large proportion of eurozone inflation still owes to volatile energy and food prices, with Eurozone core CPI increasing to 3.8% year-on-year.

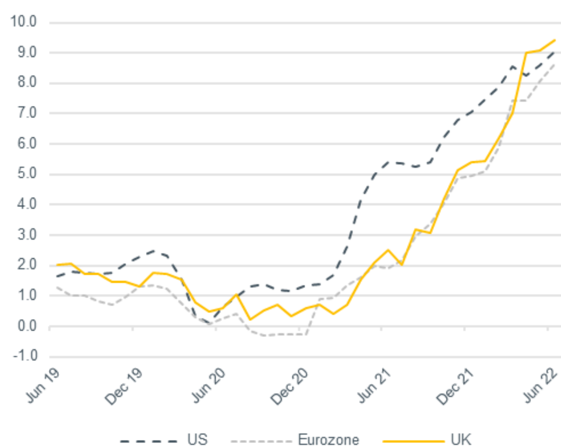
Despite severe supply side issues and risks to growth, central banks appear determined to bring down inflation. The Bank of England rose rates for the fifth consecutive time and the Fed delivered a bumper 0.75% p.a. increase, taking their base rates to 1.25% p.a. and 1.75% p.a., respectively. The European Central Bank have indicated a first rate hike is likely in July, and the end to negative rates by the end of Q3 2022.

Government bond yields rose as markets moved to price in significant further increases in interest rates, with UK 10-year gilt yields increasing 0.6% p.a. to 2.2% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.8% p.a., from 4.4% p.a. to 3.6% p.a. as real yields rose more than their nominal counterparts.

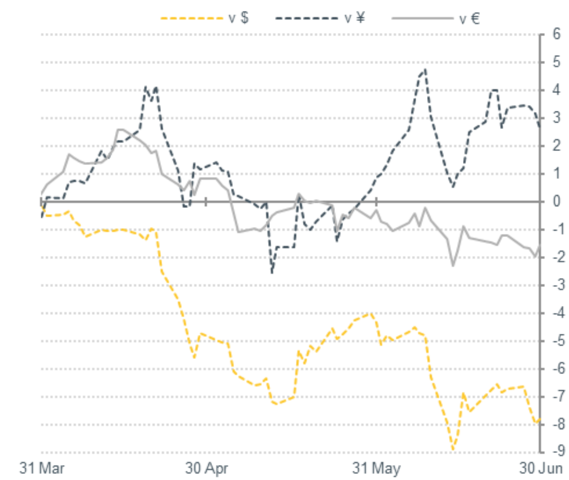
Historic returns for world markets [1]



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, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

With both inflation and growth concerns weighing on credit markets, global investment-grade credit spreads rose 0.5% p.a., to 1.8% p.a.; while US and European speculative-grade spreads both rose 2.4% p.a., to 5.9% p.a. and 6.4% p.a., respectively.

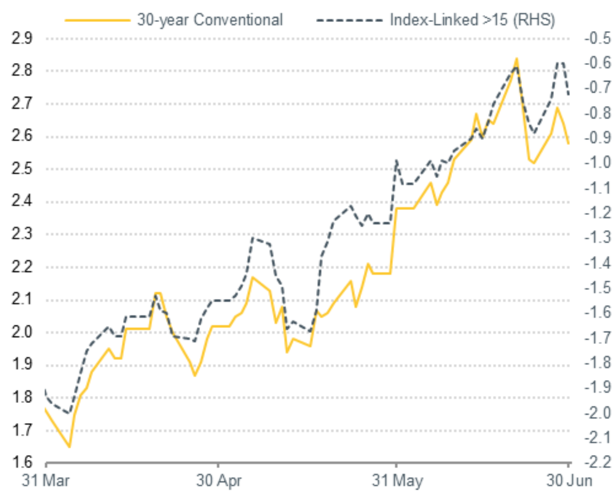
Commodity prices fell over the quarter, with expectations of lower demand leading to a fall in industrial metals prices as rising real yields weighed on precious metal prices.

Despite ongoing upwards revisions to consensus analyst earnings forecasts, global equities fell 8.3% over the quarter, as increases in expectations for the path of interest rates extended the recent decline in equity market valuations. The technology sector notably underperformed on the back of rising rates while returns within the consumer discretionary sector were impacted by a weakening consumer outlook. In contrast, consumer staples outperformed, as investors perhaps placed a premium on the sector's inherent pricing power.

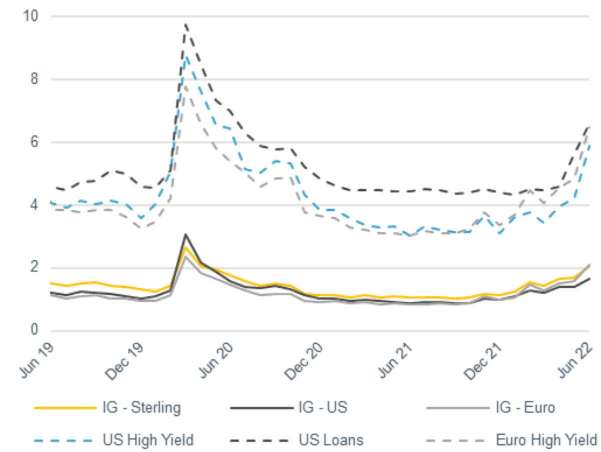
North America underperformed, owing to its large exposure to the technology sector. Meanwhile, above-average exposure to energy, metals, and miners, saw the UK continue its recent outperformance. The easing of lockdown restrictions in China provided some relative support to Emerging and Asian markets equities.

Property remained a relative bright spot, with the MSCI UK IPD total return index rising 9.6% year-to-date; largely owing to a 11.9% rise in industrial capital values. Return on the all-property index, including income, was 23.7% in the 12 months to end-June.

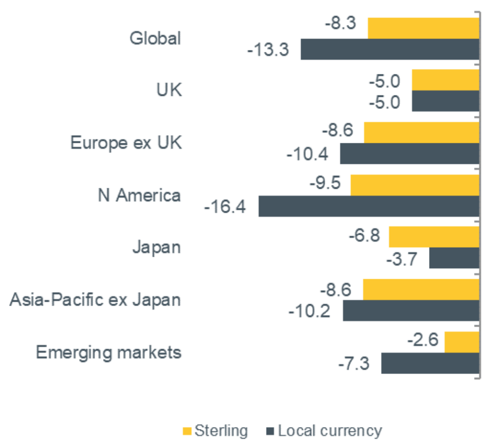
Gilt yields chart (% p.a.)



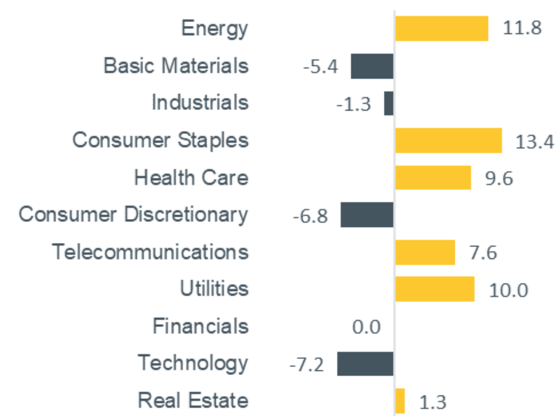
Investment and speculative grade credit spreads (% p.a.)



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.

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.

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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.

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Quarterly Engagement Report

April-June 2022

Local Authority Pension Fund Forum

Climate Voting Alerts, Banking, Electric Vehicles, Mining, Jet Zero, Sainsbury's

HUMAN RIGHTS

Bento Rodigues district which was covered with mud after a dam owned by Vale SA and BHP burst in Mariana, Brazil

New LAPFF climate and human rights initiatives

Objective: LAPFF announced two major initiatives this quarter, one related to climate change and one related to human rights. The climate change initiative is linked to LAPFF's work on 'Say on Climate'. LAPFF aims to issue up to 50 voting alerts to members on company climate plans over the course of the next twelve months. The goal of this initiative is to drive home the importance of ensuring investors weigh in meaningfully on corporate climate strategies and initiatives.

The human rights initiative is a visit by LAPFF Chair, Cllr Doug McMurdo, to communities affected by the Mariana and Brumadinho tailings dam collapses in Minas Gerais, Brazil. LAPFF announced this visit a couple of years ago, but it was postponed by Covid.

Achieved: LAPFF has already issued a number of climate-related voting alerts. While LAPFF is pleased to see an increasing number of company resolutions seeking investor support for corporate climate plans, the goal is not to rubber stamp these plans. The resolutions will be assessed on their merits, not merely on the basis that plans have been put to a vote.

LAPFF has recommended votes in favour of shareholder resolutions, at **Caterpillar, Monster Beverages, J-Power, Sumitomo Mitsui Financial Group** and **Dollar Tree Inc**. The recommendations supported disclosure of interim and long-term greenhouse gas (GHG) targets aligned with the Paris Agreement's aim to keep the global temperature rise to 1.5°C, company reporting on plans to reduce GHG emissions and annual reporting on progress.

In relation to Brazil, the urgency of LAPFF's visit is driven home by the findings of a major report on mining and human rights issued by LAPFF at the beginning of the quarter. This report covers concerns that there has not been nearly enough progress on housing reparations, among other issues, following the Mariana tailings dam collapse.

The report covers more than the Brazilian tailings dam collapses. It also covers

MINING

mining impacts by Anglo American, BHP, Glencore, Rio Tinto, and Vale in Australia, Colombia, Papua New Guinea, Madagascar, Mongolia, and the US. This report has been issued alongside a new human rights strategy for LAPFF that is focused on ensuring corporate impacts that lead to improved human rights outcomes.

In Progress: Both the climate and human rights initiatives are means for LAPFF to escalate its engagement in areas deemed highly important by LAPFF members. The 'Say on Climate' initiative will be assessed for its role in encouraging companies to take climate measures in line with the Paris Agreement. The trip to Brazil will be assessed for its role in speeding up reparations for affected communities.

Vale

Objective: LAPFF Chair, Cllr McMurdo, was able to meet with Vale Chair, José Penido, in person when he came to London in early April as part of his investor road show. The objective of the meeting was to discuss further what Vale could do to improve its response to the Mariana tailings dam collapse and to discuss LAPFF's visit to Brazil.

Achieved: Mr Penido was very open to LAPFF's input, discussing with Cllr McMurdo his time at Samarco – operator of the dam that collapsed at Mariana – prior to the dam collapse. LAPFF also conveyed a concern that Vale's investor presentations focus too heavily on technical aspects of the company's response to tailings dam safety.

While these aspects are important, LAPFF is keen to see evidence that Vale is also consulting affected communities effectively as an additional early warning measure, and to ensure that community needs are being met. For example, although Vale has stated that it has erected additional safety walls at high-risk dams, affected communities have conveyed to LAPFF that these walls would trap them in if there were to be a dam collapse at any of these sites. It is therefore critical that the company and communities have good communication to ensure adequate and appropriate safety measures are taken.

In Progress: LAPFF will meet with Mr Penido and other Vale staff, as well as affected community members, during the visit to Brazil to understand better the obstacles to progress. Afterwards, a further assessment will be made about how to progress in a more effective manner.

Rio Tinto

Objective: For the first time in two years, Rio Tinto was able to hold its AGM in person, while also making provisions for investors to attend online. LAPFF Chair, Cllr Doug McMurdo, attended in person, both to ask a question and to speak with Rio Tinto representatives.

Achieved: Cllr McMurdo asked whether Rio Tinto would be willing to review its processes for undertaking social and environmental impact assessments. This question stemmed from a concern in the LAPFF mining and human rights report that Rio Tinto's current processes of this nature are missing major environmental, social, and governance (ESG) risks. Cllr McMurdo then had follow-up conversations with Rio Tinto CEO, Jakob Stausholm, the incoming Chair, Dominic Barton, and outgoing Chair, Simon Thompson.

This concern about impact assessments surfaced in part from LAPFF's conversations with affected community groups, two of which LAPFF met at the AGM. Cllr McMurdo met with Yvonne Orengo of the Andrew Lees Trust, which advocates for communities affected by Rio Tinto's QMM mine in Madagascar. He also met with Roger Featherstone and Henry C Munoz, of the Arizona Mining Reform Coalition, who are concerned about the impact of Rio Tinto and BHP's joint venture, Resolution Copper, on surrounding Indigenous and settled communities.

Later in the quarter, Cllr McMurdo met Rio Tinto executives at an investor event in London. Among other topics discussed were block cave mining and the financial materiality of social and environmental impacts by companies.

In Progress: Rio Tinto extended further invitations for engagement to Cllr McMurdo and LAPFF, and LAPFF will seek to discuss the topic of impact assessments further with company representatives at the highest level of decision-making.

Mining Voting Alerts

Objective: Each year, LAPFF issues a select number of voting alerts for companies where it is deemed necessary to escalate an engagement or highlight a particular problem with ESG practices. One problem in this is that companies, by and large, are not putting their climate plans to a vote every year. They are merely putting their disclosure on progress to a vote. It is LAPFF's view that the scale of the climate crisis is such that there should be annual votes on company plans and strategies to reflect the rapidly hardening scientific position and narrowing window for effective action in this area.

Achieved: Amongst the global miners, LAPFF alerts for Rio Tinto, Vale, and Glencore have been issued to date.

In relation to Rio Tinto, LAPFF recommended a vote against the annual report and accounts on three grounds. First, there was concern that a fair and just transition was not adequately addressed. Second, LAPFF found the company's description of the risks related to its Resolution Copper joint venture project with BHP in Arizona deficient. Third, it was not clear to LAPFF that the company's auditors had accounted for climate-related financial risks. LAPFF also recommended a vote to oppose Rio Tinto's climate plan. While the company's plan is better than its past plans and those of a number of its competitors, there remain many concerns about its real-world impacts.

In relation to Glencore, LAPFF opposed the annual report and the company's climate progress report. LAPFF has engaged with Glencore for nearly five years on the company's internal controls, requesting an independent assessment in response to a range of bribery and corruption charges the company has been facing around the world. In reviewing company developments presented in the annual report, LAPFF was dismayed to see what appeared to be a superficial and insular approach to the topic. Therefore, a recommendation to oppose the annual report and accounts was issued. This recommendation was followed a few weeks later by Glencore pleading guilty to bribery charges under the US Foreign Corrupt Practices Act, along with paying over $1.1 billion in fines. The company pleaded guilty to corruption charges in the UK later in the quarter. LAPFF also issued a recommendation to oppose the company's climate progress plan, in part because it appears to rely too heavily on unproven technologies such as direct air capture and carbon capture and storage, as well as too little focus on Scope 3 emissions.

For Vale, LAPFF recommended votes to oppose the chairs of the sustainability committee and the people, compensation and governance committee. These recommendations were based on the continued slow response to reparations after the Mariana tailings dam collapse in 2015. Through research for the LAPFF mining and human rights report, concerns also surfaced about an inadequate response to the Brumadinho tailings dam collapse of 2019. Consequently, LAPFF also recommended votes to oppose the compensation resolutions on the grounds that Vale's approach to compensation failed to establish adequate accountability of its executive team for the impacts of the two dam collapses.

In Progress: LAPFF has written to Glencore for a meeting to discuss governance, climate, and human rights and is continuing to engage with all three companies on these issues and others.

Technology Voting Alerts

Objective: Amazon, Meta Platforms, and Alphabet all faced a slew of shareholder resolutions this year. Similarly for mining companies, these technology firms were selected for LAPFF voting alerts to highlight particular ESG concerns. The topics of the resolutions covered a range of issues, including lobbying, climate, and board accountability. However, the overwhelming number of resolutions covered human rights, including labour rights. These resolutions mostly aligned with LAPFF's policies in all the areas mentioned.

Achieved: LAPFF issued voting alerts for all three companies and covered all but one or two shareholder resolutions.

For Amazon, 11 resolutions addressing human rights due diligence, worker safety and working conditions, including freedom of association, and tax reporting were among those receiving recommendations of support from LAPFF. These recommendations stemmed in part from participation in a webinar with Amazon warehouse staff in the US and Spain who voiced concerns about working conditions, including a massive anti-union campaign by the company. LAPFF is therefore keen to see more reporting from the company on how it addresses these issues.

Amazon faced resolutions addressing human rights due diligence, worker safety and working conditions, including freedom of association, and tax reporting

Meta Platforms, formerly Facebook, also faced multiple shareholder resolutions, with LAPFF supporting resolutions on corporate governance, misinformation reporting, and human rights impact assessments, among others. It was noted that the company has not escaped scrutiny for its governance and human rights practices through its name change.

Alphabet, of which Google is now just one company, faced the longest list of shareholder resolutions, with LAPFF supporting 16 of them. LAPFF supported shareholder concerns about Alphabet's climate practices, human rights (including racial equity) and privacy, and board diversity.

In Progress: LAPFF's overriding concerns with all three companies were their insular approach to addressing shareholder concerns in their responses to each resolution and their failure to address their companies' impacts on society and the environment. The insularity issue stems in part from the fact that the shareholding structures are skewed heavily toward the interests of the three founder directors at each company. The lack of focus on their impacts was evidenced by the companies' emphasis on their commitments, policies, and practices, without assessing how these stances and activities affected their wider stakeholder bases. LAPFF is seeking to make progress with the companies in each of these two areas.

Oil and Gas Voting Alerts

Objective: LAPFF issued voting alerts for both BP and Shell, opposing the companies' climate plans and supporting the 'Follow This' shareholder resolutions. The plans of the oil and gas majors are of particular importance for a society-wide fair and just transition, with LAPFF keen to escalate concerns through voting alerts and recommendations against their plans.

Achieved: We made our vote recommendation for BP in the context of our view that the company is ahead of other extractive companies, including Shell, and that BP expresses the issue of decarbonisation in clear terms; there is a limited carbon budget.

LAPFF met both the Chair and CEO of BP and was encouraged that the company welcomed our positive engagement, whilst being extremely disappointed with

COMPANY ENGAGEMENT

The Shell Oil refinery in Pernis, the Netherlands

our voting alert. However, they acknowledge our position, and are pleased we are willing to be a "critical friend" and work with them over the coming months to gain a better understanding of our respective positions – it is definitely a company willing to talk, discuss and improve.

Shell's investor relations team responded to the LAPFF voting alert by requesting that LAPFF acknowledge 89% of investors voting at last year's AGM supported the company's climate plan. In LAPFF's view, this outcome is more a poor reflection on the majority of investors than it is a vote of support for Shell's plans, especially since a Dutch court effectively endorsed LAPFF's condemnation of the company's plan the week after last year's AGM. Shell's intransigence is also a particular concern given reports on the effect of 'carbon bomb' projects in the oil and gas sector.

In Progress: LAPFF will continue to engage with the oil and gas majors, to highlight the need for Paris-aligned transition plans. From LAPFF's perspective, the industry often resembles a race to the bottom, with the worst-performing companies dragging down progress of the more promising ones. LAPFF will raise issues around just transition plans, explore what actions shareholders can take, coordinate with other stakeholders and impress upon oil and gas companies the need for viable decarbonisation plans.

Bank Meetings and Voting Alerts

Objectives: In April, LAPFF had a useful meeting with the Standard Chartered Chair, José Viñals, to determine how the company was progressing its work with clients on carbon emission reductions and aligning them with its approach to the energy transition. A meeting with Barclays representatives sought to better understand progress made on the company's climate change strategy, as well as how the company was addressing identified gaps. A meeting was also held with HSBC representatives to determine progress on climate transition planning, given the commitment to publish a bank-wide plan in 2023.

Achieved: On the debate of absolute versus intensity targets, Standard Chartered considered that having absolute emissions targets may restrict helping clients reduce emissions in the long run. A voting alert was issued to members on the 'pathway to net zero by 2050' resolution. LAPFF advised members not to support due to the lack of targets in place to demonstrate the transition is fully aligned with a 1.5°C scenario.

At Barclays, progress was welcomed on setting some financed emission targets and provision of a timeline for setting others. There was also support for the company climate strategy focussing on net zero operations and supply chain pathways. A voting alert was issued recognising this, but due to concerns of intensity emission reduction targets rather than absolute targets, members were advised to oppose the resolution to approve the 2022 Climate Strategy.

The HSBC meeting focussed on client transition plans and how investments can help drive their climate agendas.

In Progress: For all the banks, targets have been set for some sectors and plans are in place to set them for remaining sectors. A focus of engagement remains, particularly around the new financing for the oil and gas sector given that the International Energy Agency has said that no new oil and natural gas fields are needed in the net zero pathway.

Occupied Palestinian Territories (OPT)

Objective: LAPFF reached out to several companies this quarter, continuing to push for them to undertake human rights impact assessments with regards to the Occupied Palestinian Territories (OPT) and for those that do to publish them.

Achieved: LAPFF first met with Booking Holdings in 2021 with a follow up meeting held this quarter. LAPFF spoke with the company about publishing a human rights statement which it has now subsequently done. It would appear that the company recognises it has a way to go in developing its human rights strategy across all conflict zones but is continuing to apply due diligence on its operations. LAPFF continued to emphasise its position, insisting that companies undertake independent, third-party human rights impact assessments.

General Mills reached out in May to announce that it had sold its stake in a joint venture in East Jerusalem, leaving it with no further business operations in Israel.

In Progress: LAPFF's position remains that companies undertaking human rights impact assessments is the best way for investors to understand the risks associated with their investments in the region.

COMPANY ENGAGEMENT

Electric Vehicles

Objective: LAPFF has previously engaged with automotive manufacturers on their approach to a net zero economy, but an essential part of this transition is ensuring that it is done so in a 'fair and just' manner. LAPFF reached out to several car manufacturers to discuss their approaches to raw material sourcing and how companies ensure that this is done in a responsible manner.

Achieved: LAPFF met with two manufacturers so far, speaking to Investor Relations representatives from both BMW and Mercedes-Benz, who recently split from Daimler AG, separating the car and truck arms of the business. Mercedes provided a brief overview of its approach to decarbonising its vehicles alongside some information on its due diligence but did not provide in-depth details on how it was ensuring minerals were responsibly sourced.

LAPFF's conversation with BMW provided some insight into the company's processes and how it is managing a just transition. BMW sources minerals directly for its battery producers, which it sees as a positive step in shortening the supply chain and maintaining better transparency. It was positive to hear that although the company does not source materials from the Democratic Republic of the Congo (DRC), it was actively working with NGO's and bodies on the ground to attempt to rectify a range of human rights and environmental issues that are ongoing in the region.

In Progress: LAPFF is currently waiting for further materials to be released by Mercedes and will likely seek further meetings with both BMW and Mercedes. Several companies have not responded to meeting requests which are currently being followed up. A meeting with Ford is planned for Q3.

J Sainsbury plc

Objective: LAPFF met with Sainsbury's to discuss a resolution filed at its upcoming AGM in relation to the company becoming accredited by the Living Wage Foundation.

Achieved: Following a collaborative engagement earlier in the year, Sainsbury's subsequently matched rates for the living wage in Outer London to the wages paid in Inner London. LAPFF met with the company to discuss its position on the resolution and what the company was doing to support its employees.

In Progress: LAPFF maintains a rapport with Sainsbury's on a wide range of issues and is monitoring the company's approach to pay.

Nestlé

Objective: As You Sow hosted a collaborative call with Nestle to discuss the company's approach to plastic packaging and how it was working to reduce the environmental impacts that plastics have.

Achieved: The company spoke to initiatives around moving towards a circular economy, noting several located in developing countries aimed at recycling as much plastic as was produced in those regions, even if the plastic did not come from the company's own production. Nestle representatives talked about the move towards making more single use plastics, such as sachets, more recyclable in the future, and the potential for more sustainable alternatives. However it was not made clear what such alternatives would be.

In Progress: A circular economy for plastics relies on a lot of factors other than just being able to recycle the plastic itself. LAPFF is supportive of the notion that companies should be looking at alternatives to plastic where they can, to ensure that the environmental damage currently caused can be curtailed.

Suzano

Objective: Suzano is one of the Climate Action 100+ (CA100+) focus companies for which LAPFF is a co-lead. The other co-lead for this engagement is Portuguese Investment Bank BPI. Suzano is assessed on a range of climate indicators which is reviewed annually to track progress. Concerns were raised over the ambition associated with the company's emissions reduction targets as well as disclosures relating to its climate policy engagement.

Achieved: LAPFF met with the company to discuss progress in its carbon mitigation strategy. The company's existing carbon reduction targets include an ambition to reduce the GHG emissions intensity of Scopes 1 and 2 by 15% by 2030. Also included is an ambition to remove up to 40 million tonnes of carbon by 2025, this being associated with carbon sequestration from the operation of its plantations. LAPFF asked the extent to which these targets could be considered ambitious given the Scopes 1 and 2 target equates to a 1.5% annual reduction on an intensity basis. Also, company reporting highlights that 25 million tons of carbon was removed during 2020 and 2021, which would leave three years to achieve equivalent sequestration. The company

COMPANY ENGAGEMENT

highlighted that it already operated from one of the lowest carbon intensity bases when compared to peers, meaning that the easier to abate emissions had been addressed, making additional reductions more challenging.

During 2021 Suzano joined the Business Ambition for 1.5°C and Race to Zero initiatives and signed the commitment to the Science-Based Target Initiative (SBTi). Participation in the latter had been raised by LAPFF in prior engagements with the company. Suzano elaborated that it will launch, within the deadline established by the initiative, a decarbonisation target in alignment with the 1.5°C ambition, considering all the technical and scientific criteria of SBTi.

Suzano has also become a member of the CDP Supply Chain on Climate Change looking to addressing emissions throughout the value chain. This marks real progress for the company, focussing on supply chain-based emissions has been an issue LAPFF has consistently raised with Suzano.

In Progress: The company highlighted that it had brought forward the 40 million tonnes of carbon reduction target forward from 2030 to 2025 but did not anticipate amending the target further. Further questions were raised on disclosures around trade association membership and escalation strategies if member organisations did not align with the company's own approach to addressing climate change. The SBTi is scheduled to release relevant sector guidance during Q3 2022.

National Grid

Objective: Having secured a 'Say on Climate' resolution at the AGM, LAPFF and other lead CA100+ investors had two meetings to assess progress in the company's climate transition plan.

Achieved: The first meeting with National Grid representatives was timed one day after the company issued its annual report, its Responsible Business report and notice of meeting for the AGM. It was evident that significant progress had been made, notably in disclosing a science-based medium-term Scope 3 emissions target, as well as a long-term Scope 3 target for 2050. The company has made a 'strategic pivot' to electricity in the UK, selling its majority stake in the gas transmission business and its Rhode Island Business. However, there are still challenges in New York state and Massachusetts in addressing the decarbonisation of heat. These concerns were also discussed at a later meeting with the chair, Paula Rosput Reynolds, in June.

In Progress: A voting alert has been issued for the company AGM which will take place in mid-July.

London Stock Exchange Group

Objective: A meeting with the Head of Sustainability sought to gain a better perspective of how the company can shape and promote the adoption of best practice Climate Transition Plans and to provide challenge on targets for 'real zero' for the group and for companies in its influence. This was a follow-up to the 'Say on Climate' collaborative letter sent to all listed UK companies last year asking them to put their transition plan to the vote.

Achieved: The importance of the quality of data supplied through company disclosure was identified. As an active member of the UN Sustainable Stock Exchange, the group has created its own disclosure guidance for London-listed firms, as well as providing educational resources around climate; sharing 'scorings' privately with companies and providing guidance on reporting to encourage and engage companies. The challenge for 'real zero' has in part been recognised through the group moving its own net zero targets from 2050 to 2040.

In Progress: It was considered it would be useful to progress a meeting with the senior independent director.

Anglo American

Objective: Alongside LAPFF's engagement with Anglo American on mining and human rights, LAPFF engages the company on its approach to carbon emissions. This includes participating in CA100+ engagements. These engagements focus on CA100+ expectations, including targets, capital expenditure and lobbying.

Achieved: As the engagement is part of a long-standing series of meetings, the discussion focused on the detail of how the company was seeking to reduce emissions. It was useful to hear how they were working with their customers to seek to reduce Scope 3 emissions and how they were approaching reducing their own emissions through renewables. Anglo American has started to hold ESG updates twice a year for investors. LAPFF was interested and pleased to see that there was a heavy emphasis on water issues by the company, especially since water was a major concern raised by affected communities in LAPFF's research for its mining and human rights report. LAPFF also appreciated Anglo American's active engagement with the mining and human rights report and the concerns it raised about the company

In Progress: Engagement will continue with the company, including around making a commitment to 1.5°C scenario across Scopes 1 to 3.

Arcelor Mittal

Objective: LAPFF attended the ArcelorMittal AGM, in its role as joint-lead investor with CA100+, to ask about company ambitions for a carbon emissions reduction target aligned with a 1.5°C scenario, for a commitment to a short-term reduction target, and to put the zero-carbon strategy to shareholders for approval at the 2023 AGM.

Achieved: Aditya Mittal, the CEO, responded to the questions. He considered incorrect to conclude that the target was not 1.5°C-aligned, and believed the company was at the cutting edge and making significant progress. On shorter-term progress, he detailed various projects that exemplified progression on decarbonisation in Canada, Spain, France and Belgium, the Canadian project being the most advanced by using hydrogen in a direct-reduced iron process. He further indicated that progress would accelerate towards the end of the next decade.

In Progress: On the request for putting the transition plan to shareholder for approval at the next AGM, Mr Mittal noted that shareholder engagement on this question would be monitored before deciding for next year's AGM.

COMPANY ENGAGEMENT

Novartis

Objective: LAPFF has been engaging with pharmaceutical companies to understand if and how the Covid pandemic has changed their business strategies and models. The engagement with Novartis during the quarter was part of this series. The company's approach to the war in Ukraine was also discussed.

Achieved: LAPFF noted that while Novartis does not have a vaccines unit, the company produced a large quantity of the Pfizer vaccine to help with the Covid response. It also appeared that the company has a fairly detailed plan to respond to future pandemics. However, LAPFF found the company's response on its approach to the war in Ukraine less convincing and therefore encouraged Novartis to undertake a human rights impact assessment in relation to the war.

In Progress: LAPFF will seek an engagement with GSK on this issue and will seek further engagement with Sanofi, which to date has issued a written response but has not agreed to a meeting.

LyondellBasell

Objective: A follow-up meeting was held with LyondellBasell representatives as part of CA100+ collaborative engagement. This meeting sought to clarify action on the company's short-term carbon reduction goals as well as its more strategic positioning.

Achieved: LAPFF pressed on the rapidly falling cost-curve for renewable hydrogen, as well as the potential for partnerships in developing this market. On actions for reduction of virgin plastics production, the company considered a tipping point had already been reached.

In Progress: The issue of influencing trade associations was raised with a follow-up meeting being sought around the issue of lobbying.

Total

Objective: Total has recently announced it will divest from Myanmar and has faced significant scrutiny for its investments in Russia. LAPFF Executive member, John Anzani, was keen to discuss the company's approach to operating in and divesting from conflict zones with a company representative.

Achieved: Total has been subject to scrutiny in this area for many years, not least in relation to litigation about its Yadana pipeline project in Myanmar. However, the company has only recently decided to divest from Myanmar, so it was helpful for LAPFF to understand the complex nature of the decision-making that went into this decision. Total's representative described the human rights due diligence process undertaken to reach this decision, as well the process used to decide to remain invested in its Russian operations, in consideration of existing EU sanctions.

In Progress: LAPFF will continue to monitor sanctions legislation pertaining to Russia, Ukraine, and other conflict areas and will engage again with Total on this issue if deemed necessary.

Reliable Accounts

Objective: As reported in the Times, the UK Endorsement Board (UKEB), the body responsible for endorsing International Accounting Standards for the UK post-Brexit, has taken a controversial approach to seeking legal advice.

Achieved: LAPFF pointed out that given that Martin Moore QC had advised both the Institute of Chartered Accountant in England and Wales (ICAEW) – the regulated party – as well as the Financial Reporting Council (FRC) – the regulator – that LAPFF would expect the UKEB to seek legal advice on its statutory duties from elsewhere. Two legal opinions from George Bompas QC for LAPFF took issue with Mr Moore's conclusion. The Times reported that emails had become public whereby a UKEB board member who is a lawyer had said "I have spoken to Martin Moore [QC] and he is fine with supporting Michael Todd [QC] behind the scenes and understands the conflicts issue which prevents us from instructing him."

In Progress: As the FRC is responsible for funding the UKEB and overseeing its due process, the LAPFF Chair wrote to the Chief Executive of the FRC to state how that approach was unacceptable. As a result, meetings have been held with BEIS officials. Fuller reports will be given in due course. Meanwhile, Baroness Bowles has asked a number of questions in Parliament on this subject, that you can view here.

Water Utilities

Objective: Water utility companies have faced significant scrutiny for their environmental performance, specifically the release of raw sewage into rivers to safeguard against flooding. LAPFF has therefore started to engage water companies on having credible plans to minimise the release of raw sewage as well as how companies are seeking to reach net zero given the sector contributes 1% to the UK's total emissions.

Water utility companies have faced significant scrutiny for their environmental performance, including safeguarding against flooding

COMPANY ENGAGEMENT

Achieved: Over the quarter LAPFF met with the chairs of both Severn Trent and United Utilities.

Severn Trent outlined its commitment to reducing pollution and the release of sewage into waterways. It was useful to hear details about the company's plans to ensure that by 2030 their operations will not lead to the harm of rivers. LAPFF recognised that the company performs well in its Environmental Performance Assessment (EPA), even if there is room for improvement. In the meeting, the company outlined their net zero commitments. Whilst insightful, there is less information about how they are seeking to reduce Scope 3 emissions.

The meeting with United Utilities focused on the company's plans and on the challenges of reducing storm overflows. This discussion covered Victorian infrastructure, combined sewers, which collect storm overflow rain runoff as well as sewage, and the costs associated with tackling the issue. Like the meeting with Severn Trent, LAPFF recognised that the company performed well in its EPA and also discussed the challenges around data collection and wider causes of river pollution.

In Progress: LAPFF is seeking to engage with other companies within the sector and will monitor environmental performances.

A farmer works in front of a coking factory in Xiaoyi Shanxi China

COLLABORATIVE ENGAGEMENTS

Rathbones Votes Against Slavery

Objective: LAPFF supports Rathbones Votes Against Slavery engagement, which targets FTSE 350 companies that fail to comply with Section 54 of the Modern Slavery Act.

Achieved: The engagement has had a range of successes, with many companies now compliant with Section 54. LAPFF joined two calls with Segro and Synthomer to discuss the companies' approach to modern slavery and reporting, with both companies appearing to take onboard the need for more transparent reporting, particularly in regards remediation processes.

In Progress: Across engagements where modern slavery is concerned, LAPFF continues to stress the point that if and when instances of modern slavery are found, the company should transparently report on these alongside the remediation processes.

Asia Research and Engagement

Objective: As part of the Asian Transition Plan collaborative initiative, LAPFF supports company engagement in Asia's financial markets, focussing on carbon and coal risks at financial institutions, as well as coal-exposed power companies.

Achieved: Statements were made at the annual meetings of Huaneng Power International, Huadian Power, Industrial and Commercial Bank China, and Bank of China. The power company statements requested commitments to stop coal power capacity addition and to phase out existing coal power capacity. The bank statements asked for commitments to net zero financed emissions in line with China's targets, sector specific pathways in line with national policies, and sustainable finance targets.

In Progress: Regular meetings continue with the coordinating group to progress company engagement meetings.

Global Standard on Climate Lobbying

LAPFF joined founding investor networks in support of a new Global Standard on Responsible Climate Lobbying. This provides a framework to ensure companies' lobbying and political engagement activities are in line with the goal of restricting global temperature rise to 1.5ºC above pre-industrial levels. It calls on companies to formally commit to responsible climate lobbying, disclose funding and other support they provide to trade associations involved in climate change-related lobbying, and act if lobbying activity runs counter to the goals of the Paris Agreement. Linked to this, LAPFF was a signatory to correspondence to CA100+ European companies that had not disclosed information on their climate-related lobbying. This aimed to reinforce disclosure as an industry norm and to provide guidance by pointing the company towards the Global Standard.

Human Rights Collaborations

Objective: PRI has noted that human rights is an area that could use collective action to leverage investor support. LAPFF agrees and has undertaken several collective engagement actions on human rights with various stakeholders during the quarter.

Achieved:
Investor Collaborations
PRI Advance: The first collective engagement is to engage with PRI on its new Advance human rights initiative to see how best LAPFF can play a role. LAPFF attended an investor webinar on the initiative and then met one-on-one with PRI staff to clarify how LAPFF's work on human rights could support and complement the PRI initiative. Discussions are still underway about the best approach.

Conflict Minerals in the Semi-Conductor Supply Chain Sign-On Letter: Stewart Investors coordinated a collaborative investor letter calling a range of companies in the semiconductor supply chain to report on their human rights due diligence processes and provide assurances about their human rights impacts.

Wells Fargo Human Rights Impact Assessment Sign-On Letter: Wells Fargo received criticism about its loan process in relation to the financial crisis of 2008-2009. Concerns remain about its lending practices, so US investors coordinated a collaborative investor letter requesting

COLLABORATIVE ENGAGEMENTS

that the bank undertake a human rights due diligence process in relation to its lending practices.

Affected Worker and Community Collaborations

LAPFF Webinar with Community Members Affected by Anglo American, Glencore, and Vale – LAPFF, with the help of London Mining Network, hosted a webinar with community members affected by Anglo American, Glencore, and Vale projects at Minas Rio, Cerrejón, and Brumadinho, the former and the last in Brazil and Cerrejón in Colombia. The community members spoke about lack of drinking water for communities, in part due to contamination, along with other types of pollution and lack of electricity that they attributed to mining practices.

IndustriALL Social Protection Webinar – IndustriALL, with LAPFF supporting, hosted a webinar with two Thai workers to highlight the often-ignored social protection gap in many workplaces. There was mention of how poor social protection can compromise health and safety. The workers spoke about particular challenges in this area during Covid and how they had to push their employer and others to obtain the social protection they were owed, in part because it is often not clear what balance of accountability states and employers have in offering this protection.

Glencore in Espinar, Peru – Community members from Espinar, Peru joined a webinar chaired by LAPFF Chair Cllr Doug McMurdo to discuss Glencore's impacts on their communities. Of major concern to the communities is the impact of Glencore's mine in the area, Antapaccay, on the drinking water for local communities. Although Glencore maintains that the local water sources are naturally undrinkable, the communities are concerned that it is the impacts of mining rendering the water unsafe. There are a number of other human rights and environmental issues of concern in this case too.

In Progress:
LAPFF will continue to engage with both other investors and affected workers and communities for two purposes. First, LAPFF members want to be sure that their investments are not leading to negative human rights or environmental impacts. Second, these stakeholders provide useful sources of information for LAPFF members to understand their investments better.

CA100+ Transport Group

Objective: LAPFF is a member of the CA100+ Transport Group. The group aims to engage major automakers on their plans to decarbonise their operations and shift to zero emission vehicles.

Achieved: There have been concerns about Toyota's approach to zero emission vehicles. Although the company has been a large producer of hybrid vehicles, plans and capital expenditure on battery electric and other zero emission vehicles have been less developed than some of their peers. This creates potential risks to investors considering the rapid increase in the sale of electric vehicles. During the quarter lead investors met the company. The investor group also met amongst itself to discuss wider developments within the transport sector, including decarbonisation of heavy-duty vehicles. As part of this work, LAPFF signed onto a letter to US regulators regarding heavy duty vehicle emissions standards.

In Progress: LAPFF will continue to engage with the largest automakers on their plans to decarbonise their fleets.

COLLABORATIVE INVESTOR MEETINGS

Institutional Investor Group on Climate Change (IIGCC)

Objective: Participation in weekly meetings coordinated by IIGCC provided useful updates on company progress against the CA100+ benchmark, which assesses the world's largest greenhouse gas emitters on their net zero transitions.

Achieved: The benchmark scoring for these companies will formally be published in September 2022 in time for focussed engagement prior to the next proxy season.

In Progress: Most recently, LAPFF has been participating in the Global Sector Strategies work to help identify policy actions that will have a significant impact on companies' abilities to enhance and deliver on their climate transition plans.

IOPA

Objective: The Investor Initiative for Opioid Accountability seeks transparency from pharmaceutical companies and aims to mitigate further risk across the industry. Members of the coalition have met with a number of companies and have proceeded to file multiple resolutions for 2022 company AGMs across a wide range of issues.

Achieved: Shareholder resolutions organised by the coalition have seen varying levels of support across the quarter but have seen growing numbers of support compared to previous years.

In Progress: LAPFF continues to attend monthly meetings hosted by IOPA and monitors the engagements being held by investors in the coalition.

Investor Initiative for Responsible Care

Objective: The Covid pandemic placed the spotlight on care quality and employment standards within care home sector. In response to these concerns, LAPFF was a founding member of the Investor Initiative for Responsible Care organised by UNI Global. The coalition includes 130 institutional investors with $3.8 trillion in assets and aims to improve employment and care standards to protect shareholder value.

Achieved: Over the quarter, LAPFF, alongside other lead investors, has contacted Real Estate Investment Trusts (REITs) working within the nursing home sector. LAPFF also signed onto a letter regarding EU Care Strategy.

In Progress: Through the initiative LAPFF will continue to engage REITs and care home providers on employment and care standards.

COLLABORATIVE ENGAGEMENTS

CONSULTATION RESPONSES

Transportation consultation responses

Objective: In responding to the UK Department for Transport (DfT) consultations, LAPFF's aim has been to press for legislation that recognises the remaining global carbon budget, and the opportunities as well as constraints this poses for investors.

Achieved: Consultation responses included one on ending the sale of new, non-zero emission buses, coaches, and minibuses and another response to the 'Further Technical Consultation on Jet Zero' to inform the government's strategy for net zero aviation. For the former, it was good to see the earliest date range for the phase-out of non-zero emission buses being proposed as 2025, aligning with the earlier LAPFF submission on the phase out of the sale of new non-zero emission heavy goods vehicles (HGVs).

The government response and outcome to the DfT HGV consultation is now available. In the 'Jet Zero' response, LAPFF set out its views that measures to promote net zero aviation should be considered within the context of overall provision of reliable and affordable transport including surface transport. There was support for the government pushing for domestic flights to be replaced by train journeys and for any remaining domestic flights to be provided by electric aircraft. This is in line with measures being taken by Austria, France, the Netherlands and Spain.

In Progress: LAPFF continues to participate in events to inform such submissions, the most recent being a workshop on the electrification of flight held at Cranfield University.

US National Action Plan on Responsible Business Conduct

Objective: The US last issued a national action plan (NAP) on responsible business conduct (RBC) in 2016. Given the number of developments in this area, not least a range of mandatory human rights due diligence initiatives – including in the US – the country has decided to update its 2016 NAP. Therefore, LAPFF responded to a consultation on the US NAP for RBC to provide thoughts and insights gained through its extensive engagement with companies on this topic.

Achieved: LAPFF's consultation response encouraged the US to review the many human rights due diligence laws being proposed, and in some case adopted, around the world. LAPFF had issued a consultation response in support of the EU's initiative in this area – the EU Directive on Sustainable Corporate Governance – and encouraged the US to look to the EU initiative for ideas. The 2016 NAP also treated climate and environment as tangential to other areas of RBC. LAPFF pointed to the major developments on both climate and environment, including the recognition of a human right to a clean and healthy environment, as evidence that both climate and environment need to be treated as integral components of RBC.

In Progress: LAPFF will now wait to see what the next version of the US NAP on RBC looks like.

CHAIR'S QUOTE

It has been interesting to note – both through voting alerts and engagements - that for all types of companies there is often a failure to report on social and environmental impacts. We hear a lot about what commitments, policies, and practices these companies have, but do their promises and activities work?

I suspect I know the answer to that question. It seems to me that a lot of shareholder money is being wasted on poor initiatives that could be improved through proper engagement with affected stakeholders."

Local Authority Pension Fund Forum

MEDIA COVERAGE

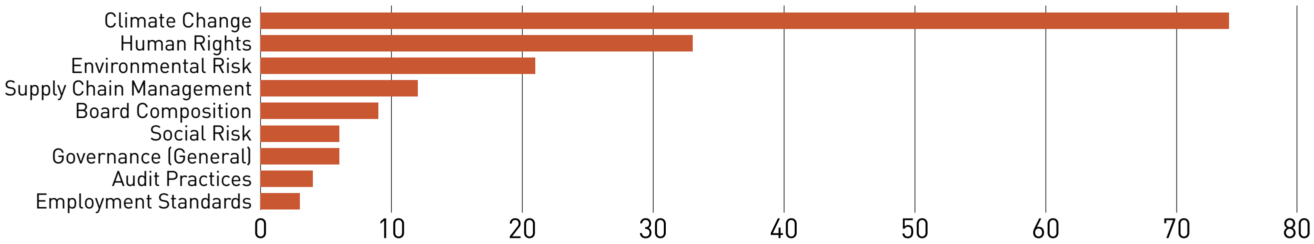
Mining and Human Rights
Pensions Age: LAPFF report on mining and human rights calls for greater investor engagement
Environmental Finance: "LAPFF reveals 'litany' of ESG risks at mining companies
New Internationalist: 'Stop the poison'

Accounts
Pensions Expert: TPR to review Stewardship Code with watchdogs and government
Insurance ERM: IFRS 17 "ripe for judicial review", says UK peer

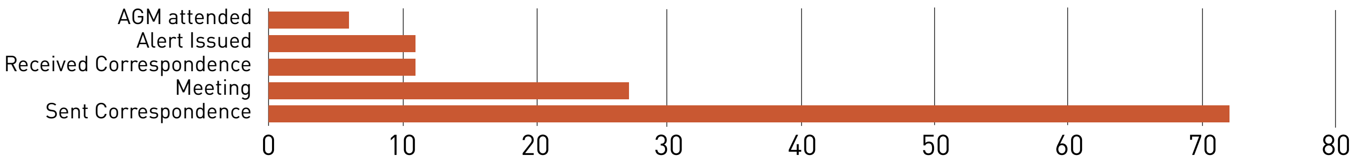
Climate
IPE: LAPFF wants more recognition of electric flight progress
Reuters: Advisory firm PIRC opposes Shell climate plan for lacking ambition
Reuters story also in Canada's Globe and Mail

ENGAGEMENT DATA

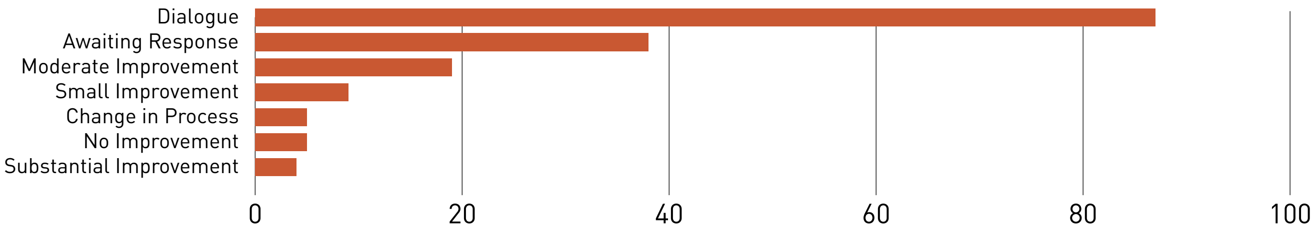
ENGAGEMENT TOPICS



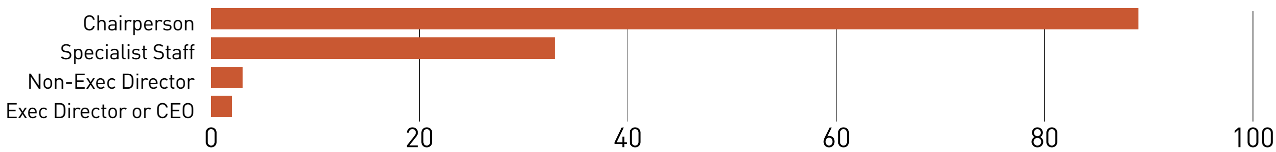
ACTIVITY



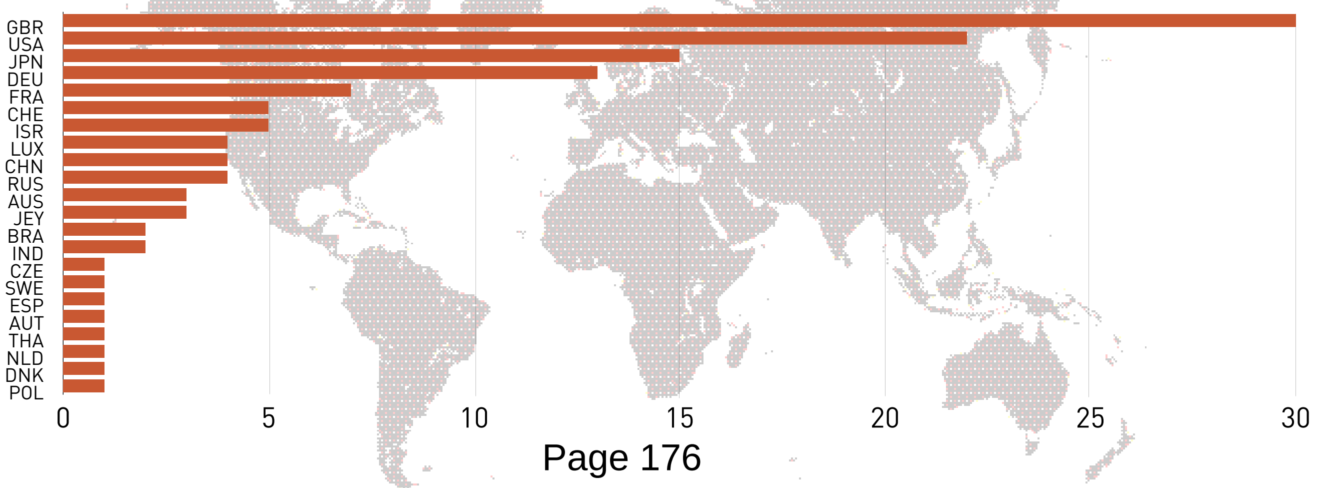
MEETING ENGAGEMENT OUTCOMES



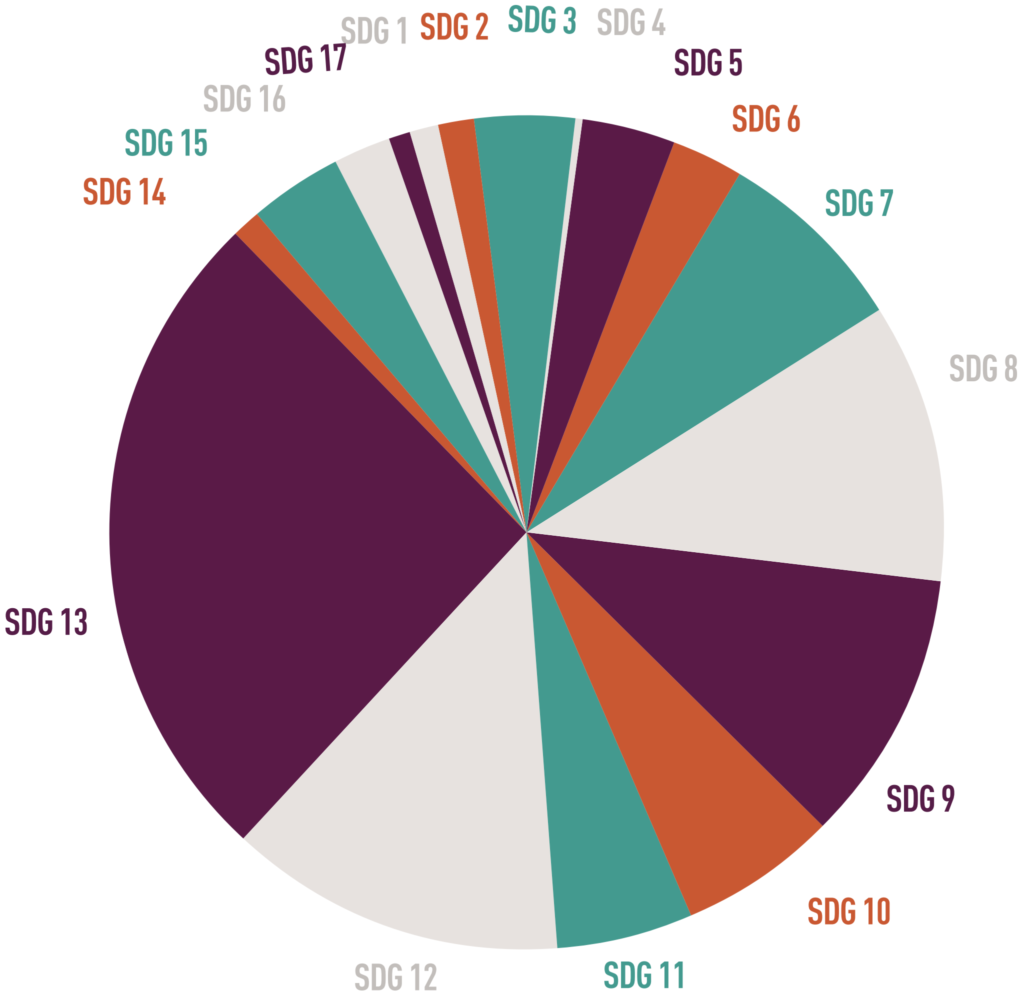
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



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SDG 3: Good Health and Well-Being	13
SDG 4: Quality Education	1
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SDG 8: Decent Work and Economic Growth	37
SDG 9: Industry, Innovation, and Infrastructure	36
SDG 10: Reduced Inequalities	21
SDG 11: Sustainable Cities and Communities	18
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COMPANY PROGRESS REPORT

90 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	Received Correspondence	Climate Change	Moderate Improvement
AIRBNB INC	Sent Correspondence	Human Rights	Awaiting Response
ALPHABET INC	Alert Issued	Human Rights	Dialogue
AMAZON.COM INC.	Alert Issued	Employment Standards	Dialogue
ANGLO AMERICAN PLC	Received Correspondence	Climate Change	Moderate Improvement
AP MOLLER - MAERSK AS	Sent Correspondence	Climate Change	Dialogue
ARCELORMITTAL SA	AGM	Climate Change	Small Improvement
BANDAI NAMCO HOLDINGS INC	Sent Correspondence	Board Composition	Awaiting Response
BANK HAPOALIM B M	Sent Correspondence	Human Rights	Awaiting Response
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BANK OF CHINA LTD	AGM	Climate Change	Dialogue
BARCLAYS BANK PLC	Meeting	Climate Change	Moderate Improvement
BARCLAYS PLC	Alert Issued	Climate Change	Moderate Improvement
BAYERISCHE MOTOREN WERKE AG	Meeting	Environmental Risk	Moderate Improvement
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Sent Correspondence	Human Rights	Dialogue
BHP GROUP LIMITED (AUS)	Sent Correspondence	Governance (General)	No Improvement
BOOKING HOLDINGS INC.	Meeting	Human Rights	Awaiting Response
BRIDGESTONE CORP	Sent Correspondence	Board Composition	Dialogue
BRITVIC PLC	Meeting	Social Risk	Substantial Improvement
CATERPILLAR INC.	Alert Issued	Environmental Risk	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
CEZ AS	Sent Correspondence	Climate Change	Dialogue
CISCO SYSTEMS INC.	Sent Correspondence	Human Rights	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DOLLAR TREE INC	Alert Issued	Climate Change	Dialogue
E.ON SE	Sent Correspondence	Climate Change	Dialogue
ELECTRIC POWER DEVELOPMENT CO	Alert Issued	Climate Change	Dialogue
EXPEDIA GROUP INC	Sent Correspondence	Audit Practices	Awaiting Response
FUJIFILM HLDGS CORP	Sent Correspondence	Board Composition	Awaiting Response
GAZPROM OAO	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Received Correspondence	Human Rights	Substantial Improvement
GENERAL MOTORS COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GLENCORE PLC	Alert Issued	Climate Change	Dialogue
GSK PLC	Sent Correspondence	Climate Change	Awaiting Response
HOLCIM LTD	Sent Correspondence	Climate Change	Dialogue
HONEYWELL INTERNATIONAL INC.	Sent Correspondence	Environmental Risk	Awaiting Response
HSBC HOLDINGS PLC	Meeting	Climate Change	Moderate Improvement
HUADIAN POWER INTL CORP LTD	AGM	Climate Change	Dialogue
HUANENG POWER INTERNATIONAL	AGM	Climate Change	Dialogue
IBERDROLA SA	Sent Correspondence	Climate Change	Dialogue
INDORAMA VENTURES PCL	Sent Correspondence	Human Rights	Awaiting Response
INDUSTRIAL & COMMERCIAL BANK CHINA	AGM	Climate Change	Dialogue
ISRAEL DISCOUNT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
JPMORGAN CHASE & CO.	Sent Correspondence	Climate Change	Awaiting Response
KAMIGUMI CO LTD	Sent Correspondence	Board Composition	Awaiting Response
KUBOTA CORP	Meeting	Board Composition	Small Improvement
LONDON STOCK EXCHANGE GROUP PLC	Meeting	Climate Change	Moderate Improvement
LUKOIL OAO	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Small Improvement
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARKEL CORPORATION	Sent Correspondence	Climate Change	Awaiting Response
MARUBENI CORP	Sent Correspondence	Board Composition	Awaiting Response
MERCEDES-BENZ GROUP AG	Meeting	Human Rights	Dialogue
META PLATFORMS INC	Alert Issued	Governance (General)	Dialogue
MIZRAHI TEFAHOT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
NATIONAL GRID PLC	Meeting	Climate Change	Substantial Improvement
NESTLE SA	Meeting	Social Risk	Small Improvement
NEXTERA ENERGY INC	Received Correspondence	Climate Change	No Improvement
NINTENDO CO LTD	Sent Correspondence	Environmental Risk	Awaiting Response

COMPANY PROGRESS REPORT Continued

NISSAN MOTOR CO LTD	Sent Correspondence	Human Rights	Awaiting Response
NOVARTIS AG	Meeting	Governance (General)	Change in Process
OMV AG	Sent Correspondence	Climate Change	Dialogue
OTSUKA CORPORATION	Sent Correspondence	Board Composition	Awaiting Response
PHILLIPS 66	Sent Correspondence	Climate Change	Dialogue
POLSKA GRUPA ENERGETYCZNA SA	Sent Correspondence	Climate Change	Dialogue
RENAULT SA	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	AGM	Human Rights	No Improvement
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
ROLLS-ROYCE HOLDINGS PLC	Sent Correspondence	Climate Change	Small Improvement
ROSNEFT OIL COMPANY	Sent Correspondence	Climate Change	Dialogue
SAINSBURY (J) PLC	Meeting	Employment Standards	Dialogue
SAINT-GOBAIN SEKURIT INDIA	Sent Correspondence	Climate Change	Dialogue
SEGRO PLC	Meeting	Human Rights	Moderate Improvement
SEVERN TRENT PLC	Meeting	Environmental Risk	Moderate Improvement
SEVERSTAL OAO	Sent Correspondence	Climate Change	Dialogue
SIEMENS AG	Sent Correspondence	Climate Change	Dialogue
SSAB (SVENSKT STAL AB)	Sent Correspondence	Climate Change	Dialogue
STANDARD CHARTERED PLC	Alert Issued	Climate Change	Moderate Improvement
STELLANTIS N.V.	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Alert Issued	Climate Change	Dialogue
SUZANO SA	Meeting	Climate Change	Small Improvement
TESLA INC	Sent Correspondence	Human Rights	Awaiting Response
THYSSENKRUPP AG	Sent Correspondence	Climate Change	Dialogue
TOYOTA MOTOR CORP	Meeting	Environmental Risk	Dialogue
UNILEVER PLC	Meeting	Social Risk	Moderate Improvement
UNIPER SE	Sent Correspondence	Climate Change	Dialogue
UNITED UTILITIES GROUP PLC	Meeting	Environmental Risk	Moderate Improvement
VALE SA	Meeting	Human Rights	Dialogue
VEDANTA LTD	Sent Correspondence	Climate Change	Dialogue
VOLKSWAGEN AG	Received Correspondence	Human Rights	Small Improvement
WELLS FARGO & COMPANY	Sent Correspondence	Human Rights	Dialogue

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)
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 Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

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