
Annual Report of the Pensions Committee

2014-2015

ANNUAL REPORT OF THE PENSIONS COMMITTEE 2014/15

1. CHAIR'S INTRODUCTION – COUNCILLOR ROBERT CHAPMAN

- 1.1 The Pensions Committee has responsibility for the management of the Pension Fund acting as quasi-trustees on behalf of the Administering Authority, the London Borough of Hackney.
- 1.2 During the 2014/15 municipal year the Pensions Committee undertook an extensive work and training programme meeting 6 times during the year. Following local elections in May 2014, the previous Chair stood down as a local Councillor and I assumed Chairmanship of the Committee at a time of considerable change and challenge to the Local Government Pension Scheme (LGPS). The Committee carries with it a considerable responsibility to ensure that the management of a Pension Fund valued in excess of £1bn with over 20,000 scheme members is managed in an efficient and effective way. The Committee has responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information.
- 1.3 We welcomed new members to the Committee, Cllr Jonathan McShane and Cllr Feryal Demirci as well as welcoming back previous members. Key officers to the Fund remain the Corporate Director of Finance and Resources, the Assistant Director, Financial Management, Head of Financial Services with the Head of Litigation providing legal support. Officer support is supplemented by a range of external advisers including actuarial, investment and benefits.
- 1.4 Key areas of focus for the Committee during the year revolved around the new governance requirements to establish a Pensions Board along with ensuring that the Fund is able to meet the challenges posed by Central Government to ensure that the Scheme is affordable and sustainable in the future as well as responding to consultations on this issue. To this end the Committee has been very supportive of efforts to work collaboratively with other funds being a key part of the London Collective Investment Vehicle (CIV) development along with participating in the development of the National LGPS Procurement Framework initiatives.
- 1.5 The Pensions Committee has also focused heavily on how it can develop its role in shareholder engagement with the underlying companies in which it invests. It has committed to greater engagement with its managers and to seek to follow the Local Authority Pension Fund Forum recommendations on voting. In addition the Committee agreed signing up to the UK's Stewardship Code and is continuing to investigate ways in which it might further enhance its shareholder engagement activities.
- 1.6 The Pensions Committee agreed the procurement and appointment of actuarial and benefits advisers during the year, along with giving approval to commence two investment programmes of £50m each to be made in to multi-asset and emerging market funds, which should complete early in the new municipal year. The Committee also undertook a number of policy reviews during the year.
- 1.7 The Committee agrees a training programme each year to ensure that it is able to evidence it has met the requirements of the CIPFA Knowledge and Skills

programme and is able to fulfil the governance role with which it is charged. The Committee takes this aspect extremely seriously and training forms a key part of the agenda for each meeting, along with Committee Members and officers attending additional external training on a regular basis.

- 1.8 Details on the work and training undertaken by Committee during the municipal year 2014/15 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work for the forthcoming year.

2. COMMITTEE MEMBERSHIP AND ATTENDANCE

- 2.1 The following Councillors were members of the Committee during the 2014/15 municipal year –

Cllr Robert Chapman (Chair)
 Cllr Michael Desmond (Vice Chair)
 Cllr Brian Bell
 Cllr Feryal Demirci
 Cllr Jonathan McShane
 Cllr Geoffrey Taylor

In addition the Committee has employer and scheme member representation; Neil Isaac was the representative on the Committee for Employers participating in the Pension Fund and Jonathan Malins-Smith was the Scheme Member Representative.

- 2.2 The table below outlines Members' attendance at Pensions Committee meetings during the 2014/15 municipal year and the training sessions at which members were in attendance. It is noted that Members have a large number of commitments, including other public meetings and ward commitments, and are therefore not always available to attend meetings of the Committee.

Committee Members Attendance 2014/15													
	25th June		29th September		8th October (Special)		1st December (Strategy)		14th January		31st March		
	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training	
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P	P	P	P	P	
Cllr Michael Desmond (Vice Chair)	P	P	P	P	P	P	P	P	P	P	A	A	
Cllr Brian Bell	P	P	P	P	A	A	A	A	P	P	P	P	
Cllr Feryal Demirci	P	P	P	P	A	A	P	P	P	P	A	A	
Cllr Jonathan McShane	P	P	P	P	A	A	A	A	A	A	P	P	
Cllr Geoff Taylor	P	P	P	P	P	P	P	P	P	P	P	P	
Co-Opted Members													
Neil Isaac	P	P	P	P	A	A	P	P	P	P	P	P	
Jonathan Malins-Smith	P	P	P	P	P	P	P	P	P	P	P	P	
P = Present													
A = Absent													

3. WORK UNDERTAKEN IN THE 2014/15 MUNICIPAL YEAR

- 3.1 The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.17bn worth of assets with 21,581 scheme members. The Committee is responsible for deciding the broad asset allocation of the Pension Fund along with its strategic direction and for ensuring the long term solvency of the Fund, i.e. the ability to pay the pensions of all past, present and future scheme members. The Committee has considered a total of 56 papers during the year covering a wide range of issues and taking some key decisions that affect the Pension Fund. The work of the Committee has broadly fallen under the following categories during the Municipal Year:

Governance

- 3.2.1 New regulatory requirements to establish a Pensions Board to assist the Administering Authority featured strongly on the Committee's agenda ensuring that the Administering Authority was in a position to meet regulatory requirements despite delays in the legislation being issued. In addition, the Committee considered the wider governance requirements being introduced including the role of the Pensions Regulator and the Code of Practice, work which is being carried forwards into the new municipal year.
- 3.2.2 In addition the Committee undertook a review of its Governance Policy and Compliance Statement ensuring that it was updated to reflect the new regulatory requirements. This has also involved the Committee considering and approving a new Training Policy and a Conflicts of Interest Policy in order to ensure that it is compliant with the new Code.
- 3.2.3 At the start of the municipal year, the Committee reviews the business plan for the year and also the longer term objectives for the Fund to ensure that they remain appropriate for the Fund.

Investments/Asset Allocation

- 3.2.4 The Fund benefitted from strength in asset classes over the year, with a positive year for all assets, equities, bonds and property to varying degrees, this was despite some volatility due to geopolitical concerns in the Ukraine and Middle East. Economic recovery continued in the US and UK boosted by lower oil prices and even European markets were showing some strength by the year end. The Committee continued to monitor the investment portfolios and the performance of the Fund Managers it employs on a quarterly basis. By the end of the financial year the Pension Fund had seen a rise in value of around 14% to £1,175m increasing from £1,029m at the end of March 2014.
- 3.2.5 Towards the end of the year, the decision was taken to invest £100m into a new multi-asset fund and an emerging market fund split 50/50. The review of possible options is currently underway and a decision on which specific funds to invest will be taken by Committee early in the new municipal year.

3.2.6 During the year 2014/15 the Pensions Sub-Committee met with investment managers employed by the Fund on a rolling programme with a series of meetings as set out below:

- UBS (Passive UK Equities) – December
- Wellington (Global Equities) – January

3.2.7 In addition to the meetings held with Fund Managers, the Committee has also reviewed the performance of all the managers and the overall performance of the Fund on a quarterly basis as well as reviewing the rolling annual performance. The Committee also looked in some depth at the impact of the currency hedging that the Fund has in place for its global equity portfolios.

3.2.8 The Committee approved an updated Statement of Investment Principles (SIP), which sets out the Fund's objectives, funding position and investment policies to reflect the asset allocation to multi-asset absolute return strategies during the year.

Stewardship and Corporate Governance

3.2.9 The Committee recognises that it has responsibilities as a shareholder in the underlying companies that it holds in the portfolio and considerable time and discussion has taken place on ways to improve the Funds stewardship arrangements including having a strategy meeting dedicated to the subject which included a training session on Fiduciary Responsibility and Responsible Investing.

3.2.10 As a result of the discussions held at the strategy meeting and at subsequent meetings the Committee have agreed to seek additional assurances from its managers on their approach to corporate governance and ethical and social considerations when they invest the Fund's money. It has reaffirmed its membership of the Local Authority Pension Fund Forum (LAPFF), which is a collection of Local Authority funds who by acting collectively are able to apply pressure to management of companies to try to improve their governance standards.

3.2.11 The Committee also confirmed that it wanted to be a signatory to the UK's Stewardship Code, which sets out how the Fund will approach its stewardship of companies. The Committee are also considering a range of other measures to enhance its approach to wider corporate governance, ethical and social issues.

Financial Monitoring including Annual Report and Accounts

3.2.12 At the Pensions Committee meeting on 25th June the Committee were presented with the Pension Fund Annual Report and Accounts for approval prior to audit. The Audit was reviewed at its meeting on 29th September confirming that there were no major issues with the accounts and that the auditors were satisfied with their findings.

3.2.13 A draft audit plan for the Pension Fund for the 2014/15 Financial Statements was considered at a meeting on 31st March 2015.

3.2.14 The Committee also received and approved the Pension Fund Annual Budget for 2015/16 and a review of the position for the budget for 2014/15 at its meeting on

the 31st March 2015. Quarterly budget monitoring was also undertaken during the year in order to better monitor the cashflow position of the Fund.

- 3.2.15 The Committee reviewed and approved an updated Treasury Management Strategy for the Pension Fund at its meeting in January.

Public Sector Pension Reform

- 3.2.16 CLG issued a consultation on structural reform of the LGPS which sought views on options around setting up collective investment vehicles for the LGPS, how many there should be and whether there should be enforced moves into passive equities. The Fund submitted a response, however, the Government has yet to provide its own response to the consultation which produced a large number of responses from funds and indeed the wider investment community. The Committee is ready to consider and react to future consultations. However, it is not simply waiting for future proposals, preferring instead to work collaboratively with other funds both in London and more widely to deliver efficiency savings for both Hackney and other LGPS funds.

Collaborative Working and the London CIV

- 3.2.17 The Pensions Committee has been kept informed of developments to establish the London Collective Investment Vehicle and has supported funding the establishment. This is now nearing a position where the vehicle will be regulated and available to accept funds. The establishment of the London CIV will offer the Fund opportunities for significant cost savings at the same time as providing opportunities to access a range of investment opportunities. However, the decision on how the Fund will invest and in which asset classes will very much remain with the Committee as the body responsible for the management of the Fund.
- 3.2.18 In addition the Committee has been kept informed of the work that the Fund has been involved in to establish National LGPS Frameworks for procurement, again delivering efficiency savings for the Fund and others. Indeed the Fund has used the National Frameworks to call off for procurement of a custodian for the Fund and for actuarial and benefits consultancy services during the municipal year.

Training

- 3.2.19 As part of the process of enabling Committee Members to fulfil their roles as quasi-trustees of the Pension Fund and the need to meet their fiduciary and regulatory responsibilities, the Committee were provided with a training session prior to each meeting. The CIPFA Knowledge and Skills Framework sets out in considerable detail the level of knowledge and skills that are expected of Committee Members who hold responsibility for the management of LGPS Funds, placing a considerable additional burden on ensuring that appropriate levels of training are available Committee Members.
- 3.2.20 The topics covered in the training programme for Members were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them.

3.2.21 The topics covered during the year in line with the Knowledge and Skills Framework are outlined in the table below:

Dedicated Training	Date
LGPS and Pension Fund Fundamentals (KSF1,4,5 & 6)	25/06/14
Actuarial (KSF6)	29/09/14
Fiduciary Responsibility and Responsible Investing (KSF1,4 & 5)	01/12/14
Asset Allocation and De-Risking (KSF4,5 & 6)	14/01/15
Multi-Asset Investments/Strategies (KSF4 & 5)	31/03/15
Supplemental Training	Date
Regulatory – Discretions (KSF1)	29/09/14 & 14/01/15
Pension Fund Report & Accounts and Audit (KSF2)	25/06/14 & 29/09/14
Pensions Board (KSF1)	25/06/14
Currency Hedging (KSF5)	29/09/14
Actuarial & Benefits consultancy procurements (KSF3 & 6)	08/10/14
Global Equities (KSF5)	14/01/15
Longevity Monitoring (KSF6)	14/01/15
Pension Risk Register (KSF4)	14/01/15
Investment Update (KSF4 & 5)	31/03/15
Stewardship Code (KSF5)	31/03/15
Voting and Governance Overlay (KSF5)	31/03/15
The Pensions Regulator Code of Compliance (KSF1)	31/03/15
Strategy Meeting Supplemental Training	Date
Corporate Governance, Stewardship and ESG	01/12/2014

Ad-hoc Projects

3.2.22 The Committee also reviewed a number of other projects during the municipal year covering a range of topics as set out below:

- Pension Fund Risk Register – The Committee considered an updated Pension Fund Risk Register at its Committee meeting in January, ensuring a good understanding of the wider risks facing the Fund.
- Procurement – The Committee undertook a procurement exercise during the year for actuarial and benefit services and re-appointed Hymans as the Fund Actuary, but also appointed AON as benefits adviser to the Fund.
- Discretions – The Committee reviewed and approved the Administering Authority Discretions Policies following a number of minor changes and also reviewed and recommended changes to the Employing Authority Discretions Policies on behalf of the Council to the Corporate Committee.
- Policy Reviews – Both the Communications Policy and the Pensions Administration Strategy were reviewed and approved by the Committee during the year as part of a rolling programme to ensure that policy documents are reviewed on a regular basis and any necessary changes are considered and approved.

4. WORK PROGRAMME 2015/16

4.1 During the 2015/16 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- The Pensions Regulator Code of Practice for Public Sector Pension Funds
- Investment decisions for a multi-asset fund and emerging markets fund
- Stewardship and Corporate Governance
- Report and Accounts 2015/16
- 2016/17 Budget
- Business Plan 2015/18
- Asset Allocation and Investment Strategy
- Quarterly monitoring – covering Funding, Budget, Investment, Administration
- Governance
- Procurement exercises to cover Pension Fund services
- Asset Allocation Review
- Fund Manager Reports
- Public Sector Pension Reform and Collaborative Working
- Regulatory changes and consultations
- Pension Fund Risk Register
- Training Programme
- Policy reviews