

APPENDIX 1

Annual Report of the Pensions Committee
2015-2016

DRAFT

ANNUAL REPORT OF THE PENSIONS COMMITTEE 2015/16

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 2015/16 municipal year the Pensions Committee undertook an extensive work and training programme, meeting 7 times during the year. The Committee carries with it a considerable responsibility to ensure that the Pension Fund, which is valued at just under £1.2bn and has over 22,000 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 back all previous members of the Committee, and there were no departures during the year. Key officers to the Fund remained the Corporate Director of Finance and Resources, the Assistant Director, Financial Management, and the 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 consultants.

1.4 Key areas of focus for the Committee during the year revolved around ensuring that the Fund is able to meet the challenges posed by Central Government around investment reform. To this end the Committee has been very supportive of the establishment of the London Collective Investment Vehicle (CIV) with key officers being heavily involved in the working groups that set out the original plans and development of the CIV right through to the Financial Conduct Authority (FCA) Authorisation. The Mayor of the Council and Corporate Director of Finance and Resources were also on the Interim Board of the company during its initial set-up stages. The Committee fully support the development of the CIV but believe its future success will depend on the extent of flexibility, rather than compulsion, national government allows.

1.5 The Fund has also supported collaborative working more generally, playing a key role in the development the National LGPS Procurement Framework.

1.6 The Pensions Committee has also focused heavily on how it can manage the potential impacts of climate change on the financial position of the Fund, holding a special strategy meeting in January 2016 to allow for a full discussion of the issues. This has resulted in the development of a series of resolutions set out below, with work beginning in Q4 2015/16 to be taken forward into the new municipal year:

- Develop a policy statement regarding the London Borough of Hackney's approach to fossil fuel investment for inclusion within the new Investment Strategy Statement;
- Agree to monitor carbon risk within the London Borough of Hackney Pension Fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund;
- Review options for the Pension Fund's passive UK equity mandate;
- Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of the climate changes issues with managers when making investment decisions;
- Maintain an active engagement approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance;
- Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/ low carbon or clean energy fund(s);
- Review options for switching some of the existing property mandate into a low carbon property fund; and
- In recognition of the financial risks posed by climate change, resolve to amend the Fund's risk register to reflect this as a risk

1.7 The Pensions Committee commenced two investment programmes during the year, with investments of £53m and £48m being made to new multi-asset and emerging market funds respectively. These were fully invested by 31st December 2015.

1.8 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.

1.9 Details on the work and training undertaken by Committee during the municipal year 2015/16 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 2015/16 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 2015/16 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 2015/16												
	24th June		16th July	21st September		18th November(Strategy)		13th January		28th January (Strategy)	23rd March	
	Meeting	Training	Meeting	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	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	A	P	P	P	P	P	P	P	P	P
Cllr Brian Bell	P	P	P	A	A	P	P	P	P	P	A	A
Cllr Feryal Demirci	P	P	A	A	A	P	P	A	A	P	A	A
Cllr Jonathan McShane	A	A	A	P	P	P	P	A	A	A	A	A
Cllr Geoff Taylor	P	P	P	P	P	P	P	P	P	P	P	P
Co-Opted Members												
Neil Isaac	P	P	P	P	P	P	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 2015/16 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 22,510 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 58 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:

3.2 Governance

3.2.1 Compliance with The Pension Regulator's new Code of Practice featured strongly on the Committee's agenda during 2015/16. Although following the Code itself is not a legal requirement, it sets out how the Regulator expects the requirements of the Public Sector Pensions Act 2013 should be met. The Regulator has the power to take action where the provisions of the Act are not being met, and will use the Code as a core reference document in deciding on the appropriate action to take. The Committee has considered whether the management of the LB Hackney

Pension Fund meets the standards set out in the Code through use of a compliance checklist, and ensured that appropriate processes are being developed for the few areas in which the Fund has not yet achieved full compliance.

3.2.2 The Committee also reviewed the results of an audit of the administration arrangements for LGPS 2014, carried out by the Fund's Benefit Consultants, AON. The audit covered both the performance of the third party administrators, Equiniti, and the quality and timeliness of data being supplied to the Fund by Employers. The audits highlighted both positive aspects and some areas for improvement; whilst many employers are providing good quality data, others have struggled to provide data by requested deadlines and to the quality standards expected. The Pensions Regulator has raised this as a national issue, as many payroll providers have struggled since the introduction of the new scheme. Officers have been working closely with the relevant parties to resolve the issues, and this work will continue into the new municipal year.

3.2.3 The Committee were also kept updated on the establishment of Hackney's new Local Pension Board under the LGPS Regulations 2013. The Board met twice during 2015/16, with Board members also attending Committee training sessions.

3.2.4 At the start of the municipal year, the Committee reviewed the business plan for the year and also the longer term objectives for the Fund to ensure that they remain appropriate for the Fund.

3.3 Investments/Asset Allocation

3.3.1 2015/16 was a difficult year for the Fund in terms of investment performance, resulting in a slight fall in the overall value of the Fund. Much of the poor performance was driven by the Fund's exposure to global equity markets which saw considerable volatility over the year, with particular concerns over stalling growth in China. The rout during August and September and further slide over the New Year both detracted from performance, although both were followed by periods of recovery. Performance across other asset classes was also mixed, with market sentiment dominated by worries over global growth and central bank policy.

3.3.2 The Committee continued to monitor the investment portfolios and the performance of the Fund Managers it employs on a quarterly basis, as well as reviewing the rolling annual, 3yr and 5yr performance. By the end of the financial year the Pension Fund had seen a slight fall in value of around 0.2% to £1,172m decreasing from £1,175m at the end of March 2015. The Committee met with some investment managers employed by the Fund, with meetings being held as follows:

- Lazard (Global equity mandate) – 21st September 2015
- Threadneedle (Property) – 23rd March 2016

3.3.3 Towards the end of the 2014/15 municipal year, the decision was taken to invest £100m into a new multi-asset fund and an emerging market fund split 50/50. A review of possible options was carried out by officers during Q1 of 2015/16 with the decision on which specific funds to invest in being taken by Committee in July 2015. The outcome of the process was an investment of £53m in Invesco Perpetual's Global Targeted Returns Fund, and an investment of £48m in RBC's Global Emerging Markets Equity Funds; both were fully invested at 31st December 2015.

3.4 Stewardship and Corporate Governance

3.4.1 The Committee appreciates 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 Fund's stewardship arrangements. One issue particularly recognised is that of fossil fuels and their impact on climate change. The Committee has recognised that these issues could present systemic risks to the planet, but could also have a material impact on the financial position of the Pension Fund; it therefore held a dedicated strategy meeting for discussion of these issues in January 2016.

3.4.2 The outcome of the strategy meeting was a series of resolutions around future workstreams designed to help the Fund fully understand its carbon footprint and the risks this poses and, over the longer term, promote decarbonisation of the portfolio through positive investment in low carbon or clean energy funds. Work on meeting the resolutions began in the final quarter of 2015/16, with a review of the options for switching £25m of the existing property mandate into a low carbon property fund. By June 2016, an investment of £10m had been made into the Threadneedle Low Carbon Workplace Fund, with further investments to be made as and when the fund has projects available for investment. Work is also scheduled on other workstreams for later in the year.

3.4.3 The Committee has also considered a range of other measures to enhance its approach to wider corporate governance, ethical and social issues, including reviewing the options for a governance overlay service. The Fund 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.

3.5 Financial Monitoring including Annual Report and Accounts

3.5.1 At the Pensions Committee meeting on 24th June the Committee were presented with the 2014/15 Pension Fund Annual Report and Accounts for approval prior to audit. The Audit was reviewed at the meeting on 29th September; this confirmed that there were no major issues with the accounts and that the auditors were satisfied with their findings.

3.5.2 A draft audit plan for the Pension Fund for the 2015/16 Financial Statements was considered at a meeting on 23rd March 2016.

3.5.3 The Committee also received and approved the Pension Fund Annual Budget for 2016/17 and a review of the position for the budget for 2015/16 at its meeting on the 23rd March 2015. Quarterly budget monitoring was undertaken during the year in order to better monitor the cashflow position of the Fund.

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

3.6 LGPS Structural Reform and the London CIV

3.6.1 2015/16 was an extremely eventful year for the LGPS, with fundamental changes being made to the way investments will be managed in the future. On 25th November 2015, the Government published its long awaited Investment Reform Criteria and Guidance alongside a consultation on new draft Investment Regulations to replace the 2009 LGPS (Management and Investment of Funds) Regulations.

3.6.2 This was the culmination of a considerable period of consultation and debate on the future for the management of pension funds in the LGPS. The document sought responses from authorities on how they planned to pool investments in line with the Government's criteria of scale, governance, cost and capacity and commitment to invest in infrastructure. Hackney's initial response was submitted in February 2016, in line with Government deadlines, by the Corporate Director (Finance & Resources) in consultation with the Chair of Pensions Committee.

3.6.3 Having been involved in the establishment of the London Collective Investment Vehicle (CIV), the Hackney Pension Fund was already participating in a pooled vehicle when the Criteria were published. Given the funds committed to participation in the CIV, the pool meets the Government's criteria including the requirement for at least £25bn of assets under management. The CIV was authorised by the FCA in December 2015 and is regulated as an AIFM (Alternative Investment Fund manager). To provide the CIV with the regulatory capital required for authorisation, the Committee approved an investment by the Pension Fund in the CIV of £150,000. This approach was also followed by the other Funds participating in the London CIV.

3.6.4 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.

3.7 Other Collaborative Working

3.7.1 The Committee has been kept informed of the work that the Fund has been involved in on the National LGPS Frameworks for procurement, delivering efficiency savings both for the Fund itself and across the LGPS. The Fund has remained an active participant in the project during 2015/16, being involved in the setup of a framework for third party pension administration as well as the re-letting of the Actuarial, Benefits and Governance Consultancy Framework. This work will continue into the new year, with the setup of a new Stewardship Framework and a planned call-off from the Third Party Administration Framework.

3.8 Training

3.8.1 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; it is therefore vital to ensure that appropriate levels of training are available to Committee Members.

3.8.2 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.

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

Dedicated Training	Date
Pensions Legislation and Governance (KSF1)	24/06/2015
Accounting and Auditing Standards (KSF2)	21/09/2015
Actuarial (KSF6)	18/11/2015
Financial Markets and Product Knowledge (KSF5)	13/01/2016
Property Investment (KSF5)	31/03/2016
Supplemental Training	Date
Pensions Board (KSF1)	24/06/2015
Pension Fund Report & Accounts and Audit (KSF2)	24/06/2015
TPR(KSF1) Code of Practice Compliance	24/06/2015
Investment Update (KSF4, KSF5)	21/09/2015
Collaborative Working Update (KSF3)	21/09/2015
Pensions Update – Key Developments (KSF1)	21/09/2015
Pension Fund Risk Register (KSF4)	13/01/2016
LGPS Investment Reform (KSF1)	13/01/2016
Investment Pooling Update (KSF1, KSF4)	31/03/2016
Actuarial Valuation and Longevity Monitoring (KSF6)	31/03/2016
Strategy Meeting Supplemental Training	Date
Investment Strategy (KSF4, KSF5)	18/11/2015

LGPS Pooling and Collaboration (KSF1, KSF3)	18/11/2015
MiFID II (KSF1)	18/11/2015
Fiduciary Responsibilities (KSF1)	28/01/2016

3.9 Ad-hoc Projects

3.9.1 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.
- 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 2016/17

4.1 During the 2016/17 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Stewardship and Corporate Governance
- Report and Accounts 2016/17
- 2017/18 Budget
- Business Plan 2016/19
- Investment reform/asset pooling update
- Asset allocation review
- Development of new Investment Strategy Statement (ISS), including the Fund's Climate Change Policy
- Update on climate change resolutions, including carbon footprinting
- Quarterly monitoring – covering Funding, Budget, Investment, Administration
- Governance
- Procurement exercise (call off from National Framework) to cover third party administration services
- Fund Manager Reports
- Public Sector Pension Reform and Collaborative Working
- Regulatory changes and consultations
- Pension Fund Risk Register
- Training Programme
- Policy reviews, including administering and employing authorities' discretions policies