Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES		
PENSION FUND – QUARTERLY UPDATE **Pensions Committee** **19th September 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and reporting of breaches.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

3.1 Pensions Sub-Committee 17th March 2014 – Approval of 2013 Actuarial Valuation and Funding Strategy Statement

3.2 Pensions Sub-Committee 23rd March 2016 – Approval of Pension Fund Budget 2016/17.

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee act as quasi-trustees of the London Borough of Hackney Pension Fund and as such have responsibility for all aspects of the Pension Fund. Quarterly monitoring of the key financial variables which impact the Fund is crucial to ensuring good governance.

4.2 Monitoring the performance of the Fund and its 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 The Committee's responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

4.4 Reporting on administration is also now being included within the quarterly update for Committee as best practice governance. 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.

4.5 Whilst there are no direct immediate 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, LEGAL

5.1 The Pensions Committee, under the Council's Constitution, has delegated responsibility to manage all aspects of the Pension Fund.

5.2 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund every 3 years which in Hackney's case was at 31st March 2013, with the next valuation being finalised as at 31st March 2016. There is no requirement for the Administering Authority to undertake interim valuations, although it has the ability to do so. Nevertheless, given the volatility of the financial markets it would be a matter of good governance and best practice to monitor funding levels between formal valuations to ensure that all necessary steps can be taken in advance of any valuation.

5.3 The Council must monitor the performance of the pension fund in order to comply with its various obligations under the Local Government Pension Scheme Regulations. Those obligations include monitoring performance of investment managers and obtaining advice about investments. Ultimately the Council is required to include a report about the financial performance of the Fund in each year in the Annual Report. The monitoring of performance of the Fund is integral to the functions conferred on the Pensions Committee by the Constitution. The consideration of the present report is consistent with these obligations.

5.4 The Committee's terms of reference provide the responsibility for setting an annual budget for the operation of the Pension Fund and for monitoring income and expenditure against the budget. In considering the draft budget the Committee must be clear that the financial assumptions on which the budget is based are sound and realistic. It must also satisfy itself that the budget is robust enough to accommodate the potential pressures outlined in the report whilst ensuring that the Fund is managed as efficiently as possible to maximise the benefits to members of the Scheme.

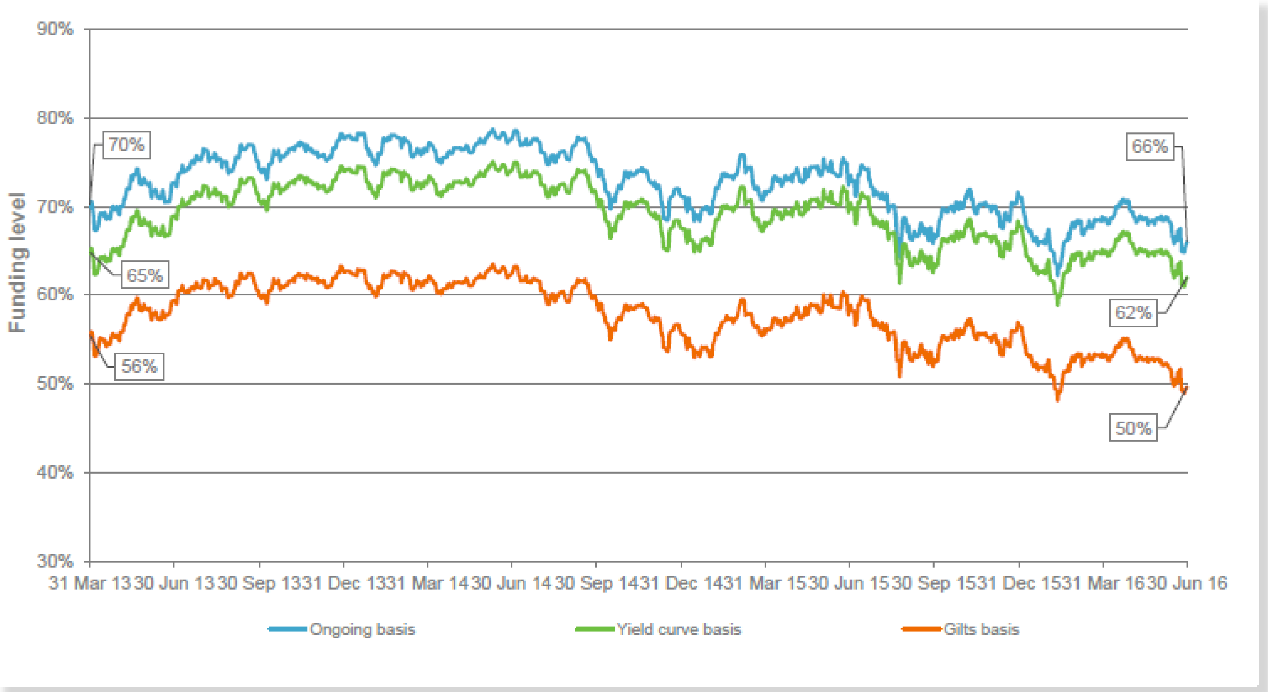
5.5 There are no immediate legal implications arising from this report.

6. FUNDING POSITION

6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The actuarial valuation as at 31st March 2013 set the contribution rates which have been applied from 1st April 2014. As at the end of June 2016, the funding level was 66% compared to 68% as at the end of March 2016.

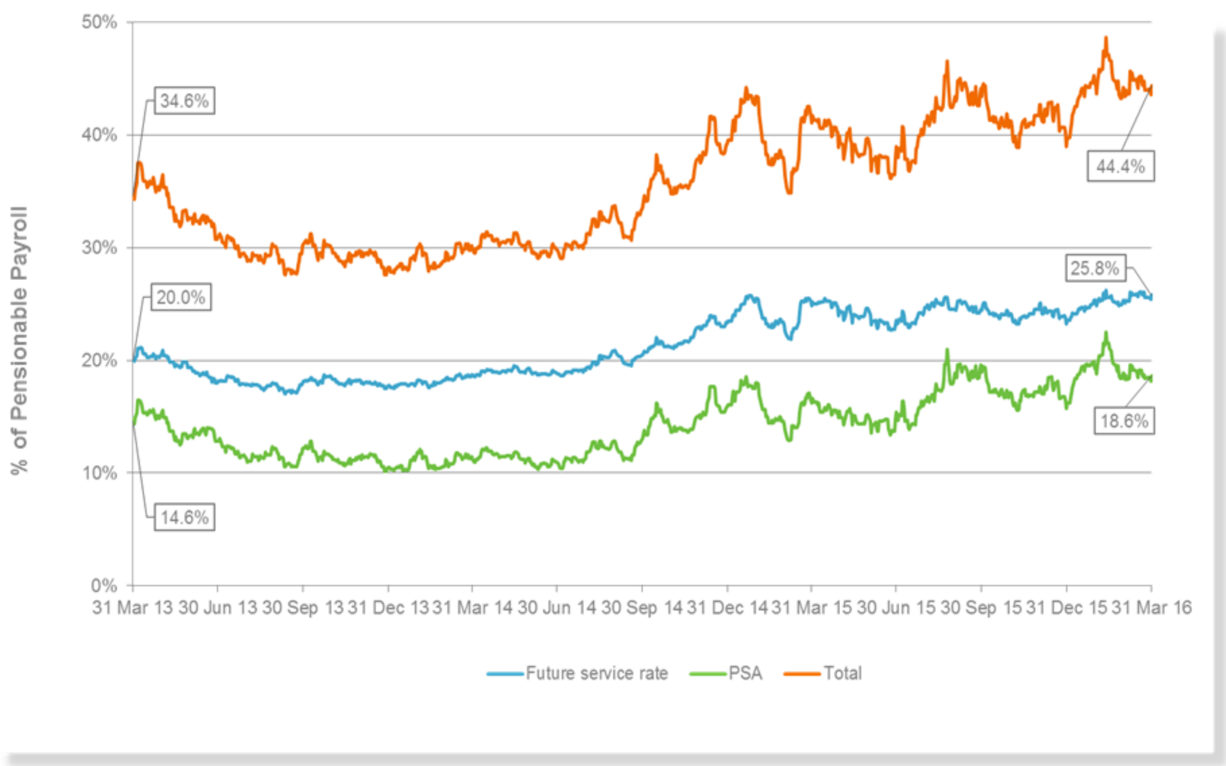
6.2 The chart below highlights the funding position as at 31st March 2013 (70%) compared to 30th June 2016 (66%) showing a slight decrease in the funding position over that period

Progression of Funding Level from 31st March 2013 to 30th June 2016



6.3 The funding level of 66% at 30th June 2016 is based on the position of the Fund having assets of £1,176m and liabilities of £1,781m, i.e. for every £1 of liabilities the Fund has the equivalent of 66p of assets. It should be noted that the monetary deficit remains high, and has increased from £516m in March 2016 to £605 in June 2016, an increase of £89m. This represents an increase in the deficit of £200m since the 2013 valuation. The liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all scheme members, pensioners, deferred members and active members. These will be paid over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities in respect of benefits accruing and to recover any deficit which has arisen.

Progression of Employer's contribution rate from 31st March 2013 to 31st March 2016



6.4 The overall contribution rate at a whole Fund level as at 31st March 2016 is 51.2%, up from 34.6% at the last valuation on 31st March 2013, although this is based on a roll forward of the actuarial assumptions and the data supplied at that time The future service rate calculates the contribution rate required to meet the pension benefits for existing staff going forwards and as at the end of March 2016, would result in a contribution rate of 29.4% up from 20.0% at the previous valuation. The historic service cost (or deficit funding rate) which has seen an increase since the last valuation is currently standing at 21.8%, up from 14.6% at the 31st March 2013. The historic service cost impacts most heavily on the Council, as it is the Council that has the biggest exposure to this area. When new admission bodies are established and staffs are subject to TUPE transfer, the historic liabilities are traditionally retained by the Council, with new bodies being established on a 100% funding basis.

7. GOVERNANCE UPDATE

7.1 During 2015 The Fund's Benefit Consultants, AON, were asked to carry out an audit of the administration arrangements for LGPS 2014. 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 results were reviewed at the January meeting of the Pensions Committee. 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.

7.2 The Pensions Regulator has raised this as a national issue, as many payroll providers have struggled since the introduction of LGPS 2014. Officers have been working closely with the relevant parties to resolve the issues; new data checking procedures are being put in place by both the Hackney Pensions Team and Equiniti to ensure that errors in monthly returns are detected and followed up more quickly.

7.3 Whilst the Pensions Team have been working with the Council's payroll provider and Master Data team to improve the quality of data provided, the year-end data for 2015/16 provided by the Council was not sufficient to produce annual benefit statements for all active members by the 31st August 2016 deadline. All statements for deferred members were sent by the deadline, as were approximately 4000 statements for active members. Equiniti have committed to issuing the remaining 3200 statements by 31st October 2016. This breach has been reported to the Pensions Regulator

7.3 Looking to the longer term, work has begun on implementation of the Council's new payroll contract. The Pensions team is represented on both the Project Board and Working Group, to ensure that reporting requirements for the Fund are taken into account from the start of the project.

7.4 Adverts have now gone to out to all scheme members requesting applications to join the Pension Board. The Board requires 2 new employer representatives and one scheme member representative to meet regulatory requirements – appointments will be carried out in line with the Board's terms of reference and it is anticipated that the process will be completed in October 2016.

8. INVESTMENT UPDATE

8.1 **Asset Allocation Q1 2016/17**

The following table sets out the Fund's asset allocation as at 30 June 2016 against the target allocation. The valuations have been provided by the Scheme's investment managers.

Manager	Mandate	Asset Allocation £	Asset Allocation %	Target Allocation %	Relative %
UBS	UK Equity	278,978,000	23.7	25.0	-1.3
Lazard	Global Equities	192,855,349	16.4	15.5	+0.9
Wellington	Global Value	186,522,924	15.8	15.5	+0.3
RBC	Global Emerging Markets Equities	59,922,574	5.1	4.5	+0.6
Total Equities		**718,278,847**	**61.0**	**60.5**	**+0.5**
BMO	Fixed Income	217,032,000	18.4	17.0	+1.4
Columbia Threadneedle	Property	107,614,535	9.1	10.0	-0.9
Invesco	Multi-Asset	53,972,657	4.6	5.0	-0.4
GMO	Multi-Asset	81,712,962	6.9	7.5	-0.6
Total Fund		**1,177,318,671**	**100**	**100**	-

8.2 **Performance summary**

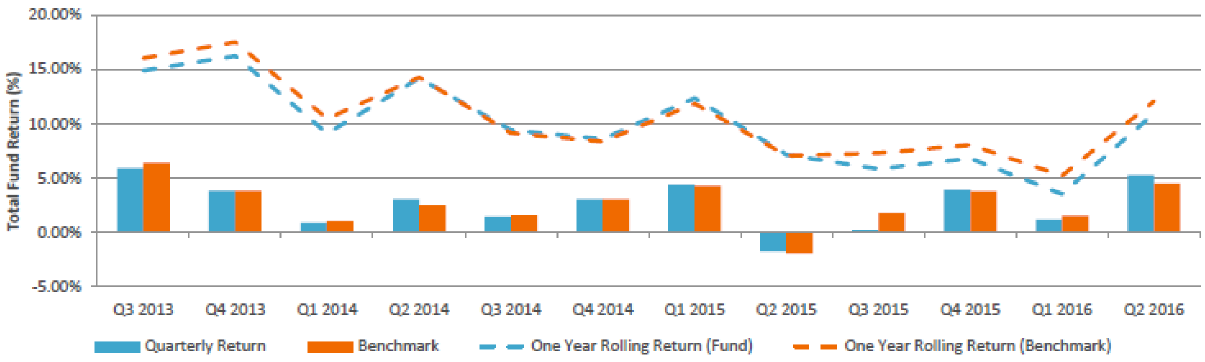
The following table sets out the performance of the Scheme's investment mandates as at 30 June 2016 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

The table also shows the total Scheme performance against benchmark as calculated by Hymans Robertson. The performance and benchmark numbers have been provided by the Scheme's investment managers.

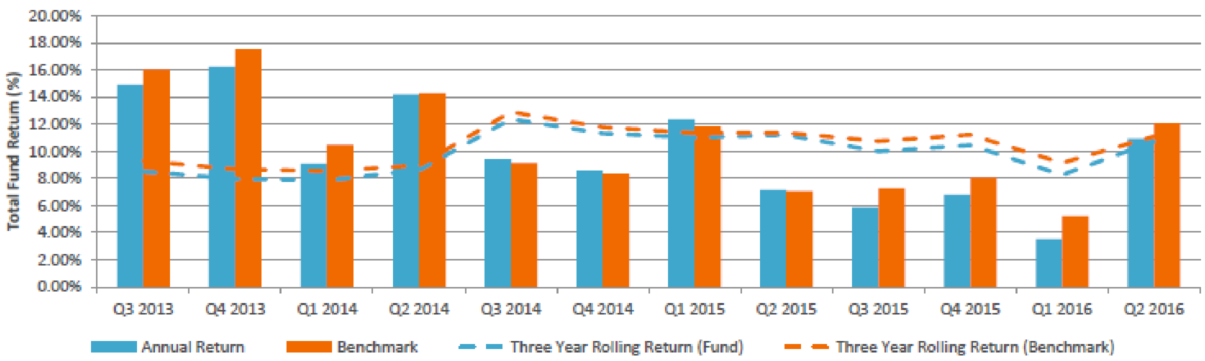
		Wellington Global Eq	Lazard Global Eq	UBS UK eq	RBC EM Eq	Columbia Threadneedle Property	BMO Fixed income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q2 16 (%)	Fund	5.5	8.8	4.7	11.2	1.5	6.6	0.3	0.1	5.3
	Benchmark	5.6	5.6	4.7	8.2	0.1	6.7	0.6	0.2	4.5
	Relative	-0.1	3.0	0.0	2.8	1.4	-0.1	-0.3	-0.2	0.8
12 month (%)	Fund	1.7	4.5	2.3	n/a	9.7	12.6	-5.1	n/a	5.1
	Benchmark	5.9	5.9	2.2		7.2	12.7	0.4		6.3
	Relative	-4.0	-1.3	0.1		2.3	-0.1	-5.5		-1.1
3 years (% p.a.)	Fund	7.3	8.7	5.9	n/a	13.6	8.9	0.8	n/a	7.7
	Benchmark	9.2	9.2	5.9		12.5	8.9	0.9		8.3
	Relative	-1.7	-0.5	0.0		1.0	0.0	-0.1		-0.6
Since Inception (% p.a.)	Fund	7.4	7.5	6.8	3.6	8.6	7.9	1.4	0.3	6.5
	Benchmark	7.9	7.9	6.7	3.2	8.6	7.7	0.3	0.1	6.9
	Relative	-0.5	-0.4	0.1	0.4	0.0	0.2	1.1	0.2	-0.4
Since inception dates		April 2010	April 2010	August 2003	December 2015	March 2004	March 2012	September 2012	December 2015	-

8.3 The tables below show quarterly and annual returns, together with rolling 1 and 3 year performance respectively

2.1 Performance summary – Quarterly returns and rolling one year performance



2.2 Performance summary – Annual returns and rolling three year performance



8.4 Performance analysis

The table below represents the manager performance over the quarter and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 30 Jun	Weight % 30 Jun	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	278,978	23.7%	25.0%	4.7	4.7	0.00	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	192,855	16.4%	15.5%	8.8	5.6	0.00	0.48
Wellington	Global Equities	MSCI AC World (50% hedged)	186,523	15.8%	15.5%	5.5	5.6	0.00	-0.01
RBC	Global Emerging Market Equities	MSCI Emerging Markets	59,923	5.1%	4.5%	11.2	8.2	0.01	0.13
Total Equities			**718,279**	**60.9%**	**60.5%**	**6.5**	**5.4**	**0.01**	**0.59**
BMO	Bonds	Bonds Composite [1]	217,032	18.4%	17.0%	6.6	6.7	0.02	-0.01
Threadneedle	Property	HSBC APUT All Balanced	107,615	9.1%	10.0%	1.5	0.1	-0.01	0.14
Invesco	Targeted Return	£LIBOR 3M	53,973	4.6%	5.0%	0.3	0.2	0.01	0.01
GMO	Absolute Return	OECD CPI G7 (GBP)	81,713	6.9%	7.5%	0.3	0.6	0.01	-0.02
Total Scheme			**1,178,611**	**100**	**100**	**5.3**	**4.5**	**0.04**	**0.71**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs
Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives

- Outperformance from Lazard, RBC and Columbia Threadneedle.

Negatives

- There were no material detractors to relative Fund performance during the period.

The table below represents the manager performance over the 12 months to 30 June 2016 and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 30 June	Weight % 30 June	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	278,978,000	23.7%	25.0%	2.3	2.2	0.00	-0.03
Lazard	Global Equities	MSCI AC World (50% hedged)	192,855,349	16.4%	15.5%	4.5	5.9	-0.04	-0.26
Wellington	Global Equities	MSCI AC World (50% hedged)	186,522,924	15.8%	15.5%	1.7	5.9	-0.05	-0.78
RBC	Global Emerging Market Equities	MSCI Emerging Markets	59,922,574	5.1%	4.5%	n/a	n/a	n/a	n/a
Total Equities			**718,278,847**	**60.9%**	**60.5%**	**4.0**	**5.5**	**-0.08**	**-0.96**
BMO	Bonds	Bonds Composite [1]	217,032,000	18.4%	17.0%	12.6	12.7	-0.06	-0.01
Threadneedle	Property	HSBC APUT All Balanced	107,614,535	9.1%	10.0%	9.7	7.2	-0.04	0.24
Invesco	Targeted Return	£LIBOR 3M	53,972,657	4.6%	5.0%	n/a	n/a	n/a	n/a
GMO	Absolute Return	OECD CPI G7 (GBP)	81,712,962	6.9%	7.5%	-5.1	0.4	0.01	-0.41
Total Scheme			**1,178,611,001**	**100%**	**100%**	**5.1**	**6.3**	**0.14**	**-1.06**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs
Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives
- Outperformance from Columbia Threadneedle.

Negatives
- Underperformance from Lazard, Wellington and GMO
- Overweight to equities for the majority of the 12 month period to 30 June 2016.
- Overweight to Lazard for the majority of the 12 month period to 30 June 2016.

The table below represents the manager performance over the 3 years to 30 June 2016 and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 30 June	Weight % 30 June	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	278,978,000	23.7%	25.0%	5.9	5.9	-0.01	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	192,855,349	16.4%	15.5%	8.7	9.2	-0.02	0.00
Wellington	Global Equities	MSCI AC World (50% hedged)	186,522,924	15.8%	15.5%	7.3	9.2	-0.02	0.00
RBC	Global Emerging Market Equities	MSCI Emerging Markets	59,922,574	5.1%	4.5%	n/a	n/a	n/a	n/a
Total Equities			**718,278,847**	**60.9%**	**60.5%**	**8.8**	**8.7**	**-0.05**	**0.02**
BMO	Bonds	Bonds Composite [1]	217,032,000	18.4%	17.0%	8.9	8.9	-0.02	0.01
Threadneedle	Property	HSBC APUT All Balanced	107,614,535	9.1%	10.0%	13.6	12.5	-0.07	0.00
Invesco	Targeted Return	£LIBOR 3M	53,972,657	4.6%	5.0%	n/a	n/a	n/a	n/a
GMO	Absolute Return	OECD CPI G7 (GBP)	81,712,962	6.9%	7.5%	0.8	0.9	0.05	-0.03
Total Scheme			**1,178,611,001**	**100%**	**100%**	**7.7**	**8.3**	**-0.08**	**-0.37**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs
Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives
- Outperformance from Columbia Threadneedle.

Negatives

- Underperformance from Lazard and Wellington.
- Overweight to equities for the majority of the 3 year period to 30 June 2016.
- Overweight to Lazard and Wellington.

The table below represents the manager performance over the period since 31 March 2010 and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 30 Jun	Weight % 30 Jun	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	278,978	23.7%	26.2%	6.8	6.7	0.03	0.01
Lazard	Global Equities	MSCI AC World (50% hedged)	192,855	16.4%	17.8%	7.5	7.9	-0.03	-0.03
Wellington	Global Equities	MSCI AC World (50% hedged)	186,523	15.8%	17.8%	7.4	7.9	-0.03	-0.09
RBC	Global Emerging Market Equities	MSCI Emerging Markets	59,923	5.1%	0.0%	3.6	3.2	0.00	0.02
Total Equities			**718,279**	**60.9%**	**61.8%**	**7.4**	**7.6**	**-0.03**	**-0.09**
F&C	Bonds	Bonds Composite [1]	217,032	18.4%	18.9%	7.9	7.7	-0.02	0.03
Threadneedle	Property	HSBC APUT All Balanced	107,615	9.1%	10.0%	8.6	8.6	-0.03	-0.01
Invesco	Targeted Return	£LIBOR 3M	53,973	4.6%	0.0%	0.3	0.1	0.00	0.01
GMO	Absolute Return	OECD CPI G7 (GBP)	81,713	6.9%	9.3%	1.4	0.3	0.03	0.02
Other			0	0.0%	0.0%	-1.6	2.1	0.00	-0.22
Total Scheme			**1,178,611**	**100%**	**100%**	**6.5**	**6.9**	**-0.05**	**-0.27**

1. Fund return and benchmark return for the RBC and Invesco mandates are since inception – 11 December 2015 and 15 December 2015 respectively

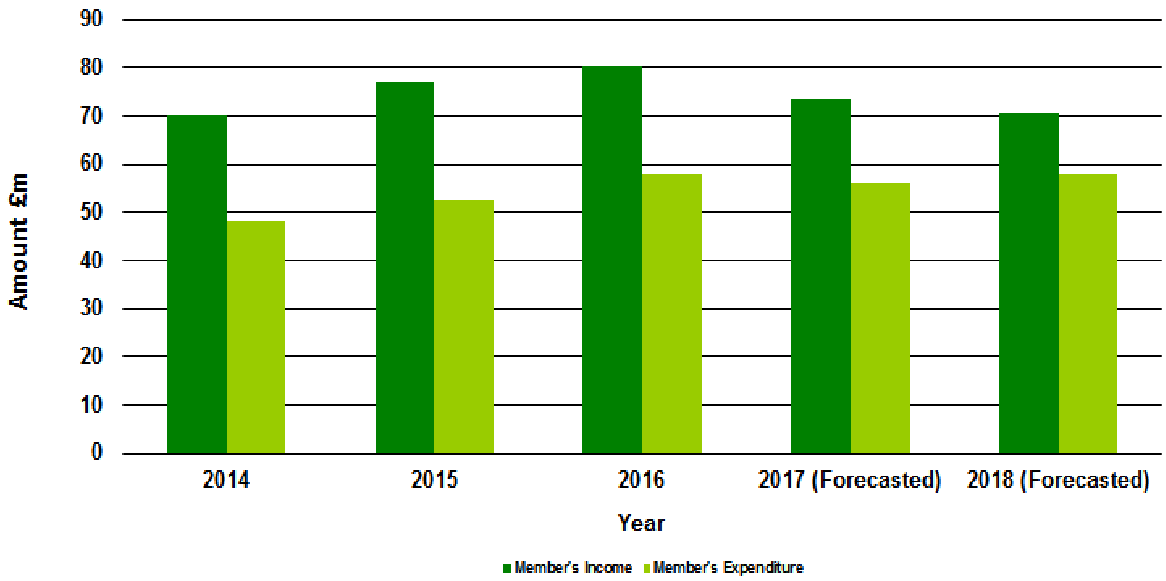
Positives
- Outperformance by RBC, BMO and GMO.
- Underweight UBS and GMO.

Negatives
- Underperformance from Lazard.
- Underweight to Wellington and Columbia Threadneedle.
- "Other" – underperformance from terminated mandates with FX concepts, PIMCO and BlackRock GTAA

9. BUDGET MONITORING

9.1 2016-17, 2017-18 and 2018-19 rolling budgets:

The Pension Fund budget was approved by pensions Committee at its 23rd March 2016 meeting. The paper presented set out rolling forecast budgets to 2018-19, which predict an ongoing cash flow positive position for the Fund, summarised in the chart below



9.2 2015-16 Budget Monitoring

The 2015-16 outturn against budget is detailed in the table below with comments on the variances.

2015/16 Budget and Outturn	2015-16 Budget £'000	2015-16 Outturn £'000	2015-16 Variance %	Comments
Member Income				
Employers' Contribution	61,594	62,162	0.9	Within tolerance
Employees' Contribution	12,566	12,259	(2.4)	Within tolerance
Transfers In	3,863	5,917	53.8	Significantly higher than forecast, but dependent on member decisions
Member Income Total	**78,023**	**80,338**	**3.0**	
Member Expenditure				
Pensions	(44,545)	(39,576)	11.2	Lower than forecast, but accounted for through removal of a reporting line(unfunded pensions)
Lump Sum Commutations and Death Grants	(8,787)	(12,918)	(47.0)	Difficult to forecast,as dependent on individual circumstances
Refund of Contributions	(102)	(166)	(61.8)	Refunds have increased significantly following auto-enrolment and the extension of the vesting period to 2 years
Transfers Out	(8,729)	(4,998)	42.7	Significantly lower than forecast, but dependent on member decisions
Member Expenditure Total	**(62,163)**	**(57,658)**	**7.2**	
Net Member Surplus	**15,860**	**22,680**	**43.0**	
Management Expenses				
Administration, Investment Management and Governance & Oversight	(3,948)	(5,256)	(33.2)	Higher than forecast as a result of increased governance costs
Net Administration Expenditure	**(3,948)**	**(5,256)**	**(33.2)**	
Surplus from Operations	**11,912**	**17,424**	**46.3**	
Investment Income/Expenditure				
Investment Income	14,700	14,751	0.3	Within tolerance
Net Investment Income/Expenditure	**14,700**	**14,751**	**0.3**	
Cash Flow before Investment Performance	**26,612**	**32,175**	**20.9**	

9.3 The Pensions Committee has reviewed the budget for 2016/17 which continues to forecast a cash flow surplus for the year of £13.2 million before investment income, leaving the Fund strongly cashflow positive. Taking investment income into account, the surplus is expected to be around £27.6 million. The following year is also projecting a similar, slightly lower surplus.

Description	2015-16 Outturn £'000	2016-17 Budget £'000	2017-18 Budget £'000	Comments
Member Income				
Employers' Contribution	62,162	56,590	54,352	Forecasts reflect assumed salary increases combined with expected decrease in membership by 5% year on year due to downward pressure on staff numbers.
Employees' Contribution	12,259	11,767	11,302	
Transfers In	5,917	4,871	4,678	Same assumptions as for contributions applied.
Member Income Total	**80,338**	**73,228**	**70,332**	
Member Expenditure				
Pensions	(39,576)	(40,239)	(41,454)	No Pension Increase is assumed for 2016-17; a rate of 1% has been applied for each of the next 2 years. A year on year increase in the number of pensioners of 2% has been applied across the 3 year period.
Lump Sum Commutations and Death Grants	(12,918)	(11,057)	(11,391)	Slight increase, but it is difficult to predict level of death grants.
Refund of Contributions	(166)	(176)	(178)	Adjusted for CPI; no increase for 16-17, 1% thereafter.
Transfers Out	(4,998)	(4,717)	(4,859)	Increase in expenditure reflects anticipated increase in number of pensioners and deferred members, along with inflationary increase.
Member Expenditure Total	**(57,658)**	**(56,189)**	**(57,882)**	
Net Member Surplus	**22,680**	**17,039**	**12,449**	
Management Expenses				
Administration, Investment Management and Governance & Oversight	(5,256)	(5,519)	(5,795)	Budget revised in line with final outturn – 5% pa increase applied owing to increased governance burden
Net Administration Expenditure	(5,256)	(5,519)	(5,735)	
Surplus from Operations	**17,424**	**11,520**	**6,654**	
Investment Income/Expenditure				
Investment Income	14,751	14,338	14,338	Investment income expected to remain constant across the period.
Net Investment Income/Expenditure	**14,751**	**14,338**	**14,338**	
Cash Flow before Investment Performance	**32,175**	**25,858**	**20,992**	

9.4 The Committee are asked to note a minor amendment proposed to the budget for management expenses. This has been adjusted from the figure presented at approval of the budget to take account or higher than expected actuals in 2015-16. This higher total has remained in the budget to take account of potential increases in management costs associated with asset pooling and a more complex governance regime. More detailed information on actuals against budget for 2016/17 will be available for Q2.

10. ENGAGEMENT AND CORPORATE GOVERNANCE

10.1 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 and also voting recommendations and how managers have responded. In addition the update will include key topical issues concerning environmental and social governance issues in order to provide scope for discussion on these key issues.

10.2 A further special strategy meeting of the Pensions Committee took place at the end of January 2016 to consider the Fund's approach to fossil fuel investment. The outcome of this 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 Q4 2015/16, with a review of the options for switching some of the existing property mandate into a low carbon property fund. By June 2016, £10m had been moved from the Fund's existing Threadneedle TPEN Property mandate into the Threadneedle Low Carbon Workplace Fund, with further investments to be made as and when the Fund has projects available for investment.

10.3 A key element of the planned work programme is a carbon footprinting exercise – the results of this will be delivered at the 19th September Committee meeting. These results will then be used to inform other workstreams, including the development of the Investment Strategy Statement.

10.4 The table below shows LAPFF's engagement activities over the quarter, listed by company, area of interest and engagement activity. LAPFF members conducted 60 engagement over the quarter, attending 13 AGMs. Topics of engagement included tax, social/environmental risk, climate change, remuneration and Board composition.

Q2 2016 ENGAGEMENT DATA

	Company	Topics	Activity/Outcome	Domicile
1	**Hays**	Governance (General)/ Employment	Meeting/Dialogue	United Kingdom
2	**Centrica**	Climate Change	Meeting/Dialogue	United Kingdom
3	**BP**	Climate Change/ Human Rights	Meeting/Dialogue	United Kingdom
4	**Rio Tinto**	Climate Change	Conference Call/Dialogue	United Kingdom
5	**Total**	Climate Change	Sent Letter/Dialogue	France
6	**Singapore Technologies**	Human Rights	Meeting/Dialogue	Singapore
7	**BP**	Climate Change/ Incentivising Execs	Attended AGM/ Small Improvement	United Kingdom
8	**Rio Tinto**	Climate Change	Attended AGM/Dialogue	UK/Australia
9	**Unilever**	Human Rights/Supply Chain Management	Attended AGM/Dialogue	UK/Netherlands
10	**Anglo American**	Climate Change	Attended AGM/Dialogue	United Kingdom
11	**Anglo American**	Climate Change	Alert Issued/Substantial Improvement	United Kingdom
12	**Tullow Oil**	Board Composition/ Governance	Sent Letter/Dialogue	United Kingdom
13	**Tullow Oil**	Board Composition	Received Letter/Dialogue	United Kingdom
14	**Shell**	Remuneration	Meeting/Dialogue	UK/Netherlands
15	**GKN**	Board Composition	Collaborative Engagement	United Kingdom
16	**ExxonMobil**	Climate Change	Alert Issued/Dialogue	United States
17	**Tullow Oil**	Board Composition	Attended AGM/Dialogue	United Kingdom
18	**Ricoh**	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	Japan
19	**Burberry**	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	United Kingdom
20	**Unilever**	Employment Standards/ Human Rights	Sent Letter/Awaiting Responce	UK/Netherlands
21	**Carillion**	Employment Standards/ Supply Chain Management	Attended AGM/Dialogue	United Kingdom

	Company	Topics	Activity/Outcome	Domicile
22	**RBS**	Remuneration	Attended AGM/Dialogue	United Kingdom
23	**Glencore**	Climate Change	Alert Issued/Substantial Improvement	Switzerland
24	**Chevron**	Climate Change	Alert Issued/Dialogue	United States
25	**National Express**	Employment Standards/ Human Rights	Attended AGM/Dialogue	UK
26	**Royal Dutch Shell**	Climate Change/Campaign	Collaborative Engagement	UK/Netherlands
27	**Telecom Plus**	Board Composition	Sent Letter/Dialogue	UK
28	**ENI**	Climate Change	Collaborative Engagement	Italy
29	**Glencore**	Climate Change	Attended AGM/Substantial	Switzerland
30	**Next**	Employment Standards/ Climate Change	Attended AGM/Dialogue	UK
31	**Royal Dutch Shell**	Climate Change	Collaborative Engagement	UK/Netherlands
32	**Royal Dutch Shell**	Climate Change	Attended AGM/Satisfactory	UK/Netherlands
33	**Standard Life**	Incentivising Execs	Attended AGM/Dialogue	UK
34	**National Express**	Employment Standards/ Human Rights	Sent Letter/Dialogue	UK
35	**Total**	Climate Change	Attended AGM/Dialogue	France
36	**G4S**	Remuneration	Sent Letter/Dialogue	UK
37	**WPP**	Remuneration	Alert Issued/Dialogue	UK
38	**Royal Dutch Shell**	Campaign (General)/ Human Rights	Sent Letter/Dialogue	UK/Netherlands
39	**Tullow Oil**	Board Composition	Meeting/Dialogue	UK
40	**BP**	Remuneration	Sent Letter/Awaiting Resp	UK
41	**BP**	Environmental Risk	Meeting/Dialogue	UK
42	**Glencore**	Environmental Risk	Meeting/Dialogue	Switzerland
43	**Rio Tinto**	Environmental Risk	Meeting/Dialogue	UK/Australia
44	**Total**	Environmental Risk	Meeting/Dialogue	France

10.5 The Fund has 4 direct holdings in the companies listed above; Centrica, Unilever, Shell and ExxonMobil. We have not been able to obtain any further details on LAPFFs engagement with Centrica beyond what is listed in the report above. LAPFF report their engagement with Unilever as a positive one – members attended the Unilever AGM to find out more about the company's Sustainable Living plan, which has been well received.

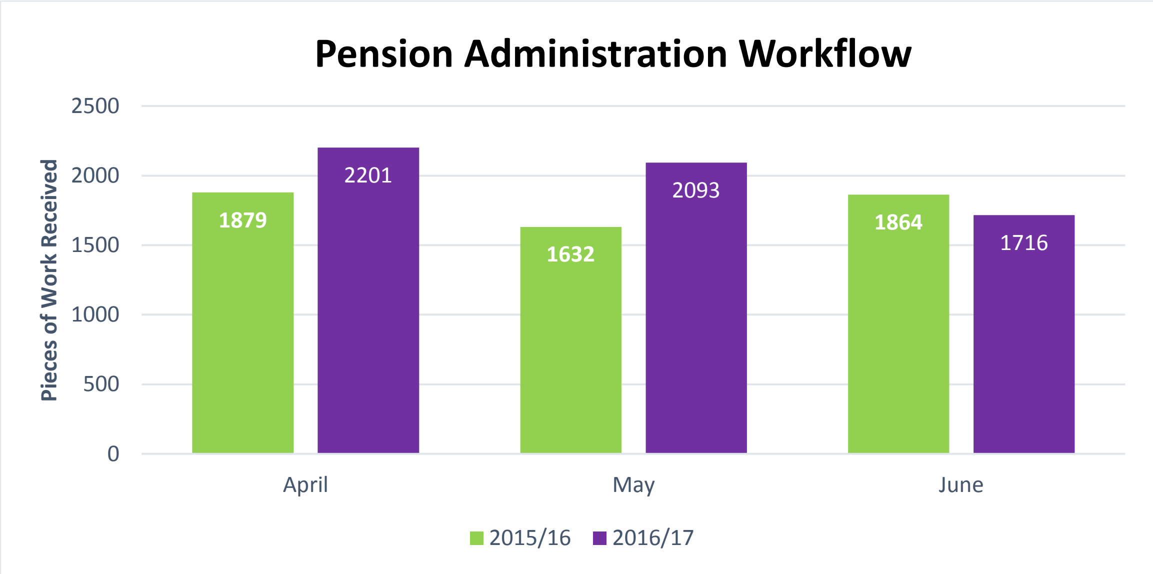
10.6 The engagement with Shell concerned its corporate governance, with particular reference to how it acquired a particular oil field in Nigeria. We will continue to monitor this engagement via LAPFF alerts. The engagement with ExxonMobil concerned support for a strategic resilience resolution, in which shareholders called on Exxon to publish annual assessments of the long term impact on its business model of public climate change policies. Hackney did not on this occasion make a public declaration of support, as we were not made aware of the resolution at the time of the AGM. The Fund is looking at improving both its reporting from managers and its monitoring of these types of events to ensure that we participate wherever possible.

11 PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q1 2016/17 has significantly increased in comparison to the same period in 2015/16. A total of 6,010 new cases were received during the current quarter, compared to 5,375 during Q1 in 2015/16.

A comparison of the workflow for the administrators between Q1 2015/16 and the reporting quarter is set out below:-

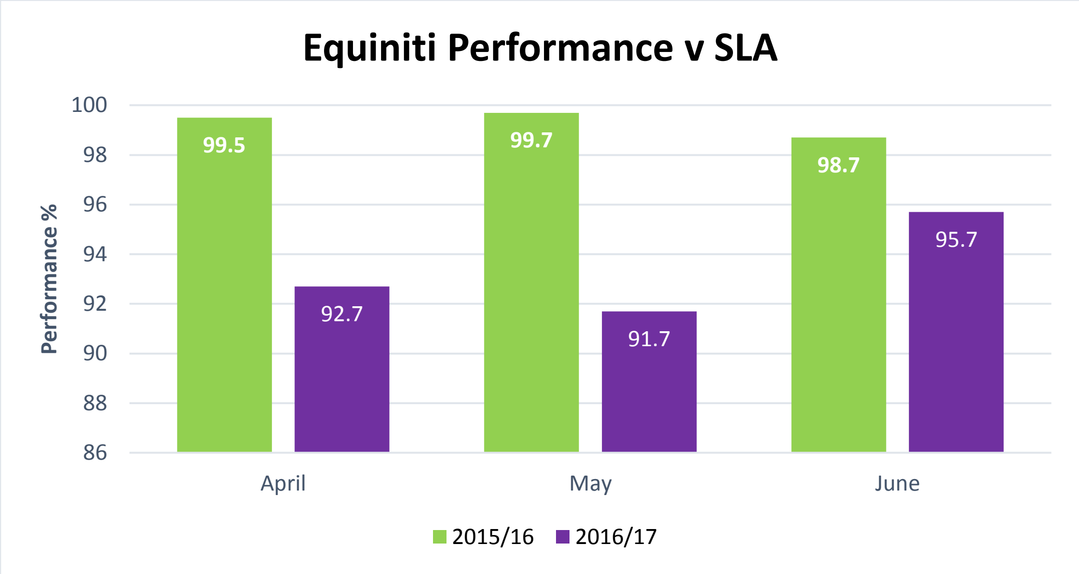


The average number of pieces of work received per month during Q1 2016/17 was 2,003 compared to an average of 1,791 received during the same period in 2015/16.

Much of this workload has been done manually as there is still no suitable working interface from the Council's payroll system that Equiniti can use to update member records automatically. Extra queries have also been raised during the months of April and May with the Fund employers as part of the data verification exercise, in order to ensure more accurate data is available for the annual benefit statements.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Performance against the service level agreement (SLA) was an average of 93.4% for Q1 2016/17 compared to 99.3% for the same period in the previous year.

The administrator's performance against the SLA for Q1 2015/16 and Q1 of the reporting period 2016/17 is set out below:



It should be noted that the administrators' performance for the first quarter of 2016/17 was unusually low in comparison to the same quarter last year, which can be attributed to the increased level of manual work-around that continues to be done to member records. The majority of the additional work is due to the continued lack of an interface from the Council's payroll provider that is fit for purpose and also the complexities of the CARE scheme. The Council is the largest employer in the Fund and has the majority of the work.

The performance is particularly low in the month of May due to the administrators concentrating efforts on the employers annual members data returns that must be checked and verified. Any data queries are then raised with the employers, and member records updated accordingly. Extra data cleanse work is being undertaken by the administrators as the data is required not only for the annual benefit statements this year, but also for the Fund valuation.

The lack of accurate and timely data continues to cause major issues at Equiniti, however, as we are aware of this and the extra work being undertaken during this time, no further concerns or issues were raised in regard to the SLA's.

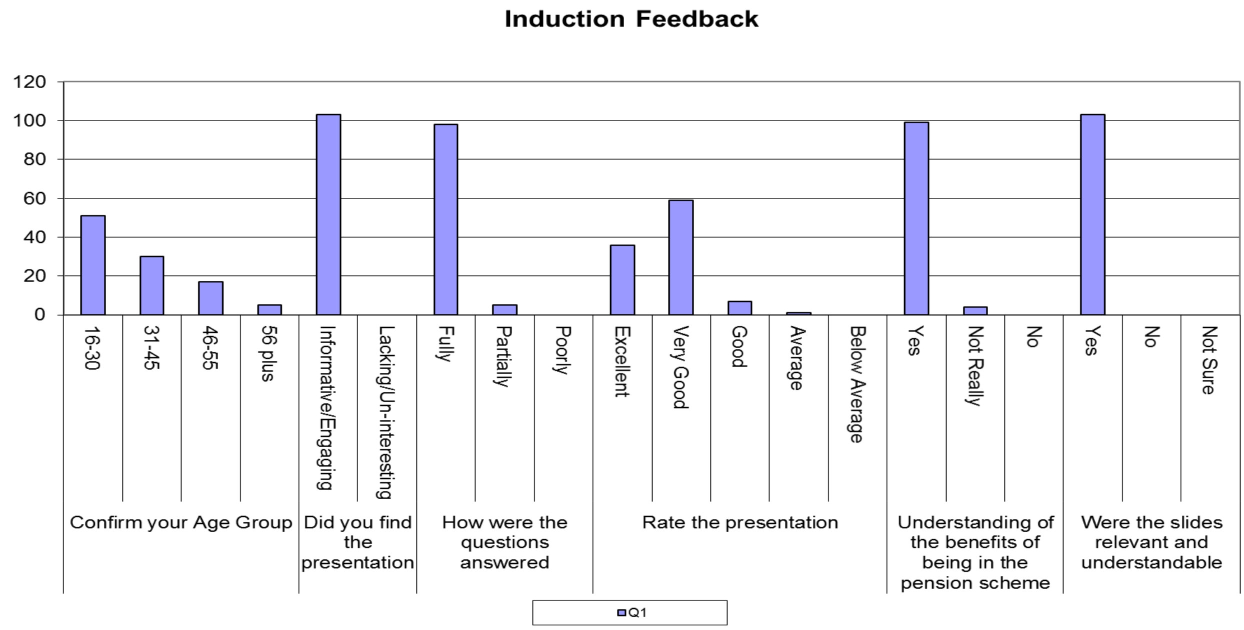
11.2 New Starters and Opt Outs

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q1 2015/16	7,491	150
Q1 2016/17	7,543	135

The opt outs in Q1 2016/17 are slightly lower compared to Q1 2015/16, but the trend remains that, on average, around 100 employees choose to opt out of the scheme each quarter. There were 52 more active members at the end of Q1 2016/17 than there were in the same quarter of 2015/16.

11.3 Scheme Administration

The Financial Services in-house pension team facilitated at weekly induction sessions for 103 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as 'Very Good' or 'Excellent'. And 96% of those who attended the sessions, have said they now have a greater understanding of the benefits of being in the scheme



11.4 Ill Health Pension Benefits.

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The Financial Services in-house pension team process all requests for the release of deferred member's benefits on the grounds of ill health, as well as assisting the Council's Human Resources team with the process for the release of active member's benefits on the grounds of ill health.

Deferred member's ill health benefits are released for life and are based on the benefits accrued to the date of leaving employment, with the addition of pension increase, but they are not enhanced by the previous employer.

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 and is typically only paid to those with very serious health conditions or life limiting health problems – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - 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 is undertaken once the pension has been in payment for 18months.

For tier 3, a scheme member's prognosis is that whilst they are unable to fulfil their current role on medical grounds to retirement, they may be capable of undertaking some form of employment in the relatively near future. However should the members' health deteriorate further, there is provision under the regulations for their benefits to be uplifted from tier 3 to tier 2, if the former employer agrees that their health condition meets the qualifying criteria for the increase.

The chart below sets out the number of ill-health cases that have been processed during Q1 of 2016/17, compared to the same period in the previous year.

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q1 2015/16	11	6	4	0	1
Q1 2016/17	6	1	1	4	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	NUMBER OF CASES	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q1 2015/16	2	0	1	1	0
Q1 2016/17	0	0	0	0	0

11.5 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 2 stages:-

- Stage 1 IDRP's are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.

- Stage 2 IDRP's are determined by the Corporate Director of Finance & Resources taking external specialist technical advice from the Fund's benefits consultants.

The following case was concluded in the 1st quarter 2016/17:

<u>Stage 1</u>

Active member awarded tier 3 ill health retirement benefits by the employer.
Member appealed employers decision on the tier awarded. Stage 1 review advised employer to seek second opinion on member's health and prospects for future work.
Second opinion obtained and employer awarded tier 1 ill health benefits.

Review of benefit calculation done, pension and lump sum adjusted accordingly.

11.6 Other work undertaken in Q1 2016/17

Voluntary Redundancy

We reported in Q2 2015/16 that the Chief Executive announced that as part of a Council wide savings programme, a Voluntary Redundancy (VR) Scheme would be launched from 1 October 2015, and all staff (apart from essential services) would be eligible to apply. After completing their statutory notice period, 179 members of staff left the organisation during Q4 of 2015/16, the majority left on 29 February and the remainder left on 31 March 2016.

There has been a further 39 members of staff leave the organisation during Q1 2016/17, with several more scheduled to leave under the VR scheme on a monthly basis to the end March 2017.

Workplace Pensions - Re-enrolment

As reported to Pensions Committee on 9 September 2013, the Council undertook its mandatory Auto Enrolment duties, and as the London Borough of Hackney is also the employer of staff in Community and Voluntary Controlled Schools for the purposes of AE, it took the lead on behalf of these schools for auto enrolment implementation. This meant automatically enrolling "eligible job holders" - employees who are aged between 22 years and State Pension age (SPA) and to whom they pay gross earnings above the personal allowance threshold - into a "qualifying" pension scheme.

Therefore, employees who were not a member of a qualifying pension scheme on the Council's initial staging date of 1 July 2013, were automatically enrolled into the appropriate pension scheme i.e. LGPS, TPS or NHS. The Council enrolled a total of 1,719 employees into a qualifying pension scheme - 1,549 into the LGPS and 170 into the TPS.

Under the AE regulations, if an employer does not comply, there can be significant financial penalties imposed on it by the Pensions Regulator. These can range from fixed penalties currently set at £400 or escalating penalties ranging from £50 to £10,000 per day.

Regulations also state the automatic enrolment process must be repeated every 3 years, meaning the Council's re-staging date is 1 July 2016, and preparations for this began during the months of April and May 2016. As part of the Re-Enrolment Communications Plan, a poster was designed and distributed across the Hackney campus and to all schools. Pension updates by the Group Director, Finance and Corporate Resources via Hackney central communications, were also made available on the Council's intranet and the pension administrators' website.

Following an assessment of all employees at the re-staging date, 799 employees were eligible to be automatically re-enrolled into a relevant qualifying pension scheme and a further 900 employees, although not eligible for automatic re-enrolment, can elect to join a scheme if they wish.

A grand total of 1,699 letters were sent to staff across the Council, support staff and teaching staff in community and voluntary aided schools, together with AE guides for LGPS and TPS pension schemes.

Category of Worker	Hackney (LGPS)	Schools Support Staff (LGPS)	Hackney Teachers (TPS)	Total
Eligible Jobholders (automatically enrolled)	360	281	158	**799**
Non-Eligible Jobholders/Entitled Workers (not auto enrolled but can elect to join)	441	442	17	**900**
Total	**801**	**723**	**175**	**1,699**

REPORTING BREACHES

11.1 Unreported Breaches Q1 2016/17

Quarte	Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Employer / Org.	Description of breach	Traffic Light System	Reported / Not reported (with justification if not reported and dates)
Q1	Apr-16	Contributions	PJ Naylor - Baden Powell	Late contribution payments	G	Not reported
Q1	May-16	Contributions	Manor House Development Trust	Late contribution payments	G	Not reported
Q1	Jun-16	Contributions	PJ Naylor - Gayhurst	Late contribution supporting documents	G	Not reported
Q1	Jun-16	Contributions	PJ Naylor - Gayhurst	Outstanding contribution payments	G	Not reported

11.2 Reported Breaches Q1 2016/17

Date	Aug 2016
Category	Annual Benefit Statements
Employer/Organisation	Equiniti/Hackney Council
Description of breach	Failed to issue all active and deferred benefit statements by 31st August. All statements have been issued for deferred members by the deadline, along with approximately 4,000 statements for active members. The remaining 3,200 statements will be issued by Oct 31st
Cause of breach	Failure on the part of Hackney Council to submit a year end return
Possible effects of breach	Members not aware of the value of their benefits. Poor data as a result of failure to submit a return could have wider implication e.g. for the valuation
Reaction of Relevant parties	Equiniti have committed to issuing the o/s statements by 31st October 2016. Poor reporting from the Council's payroll provider is a long term issue, currently being addressed through implementation of a new payroll system
Reported/not reported	Reported to TPR August 2016
Outcome of report	Pending

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Background Papers
None