Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES		
PENSION FUND – QUARTERLY UPDATE **Pensions Committee** **24th January 2017**	**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

- Pensions Committee 23rd March 2016 – Approval of Pension Fund Budget 2016/17
- Pensions Sub-Committee 17th March 2014 – Approval of 2013 Actuarial Valuation and Funding Strategy Statement

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. The Fund is currently mid valuation, with the 2016 due to be finalised shortly. 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 is 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.

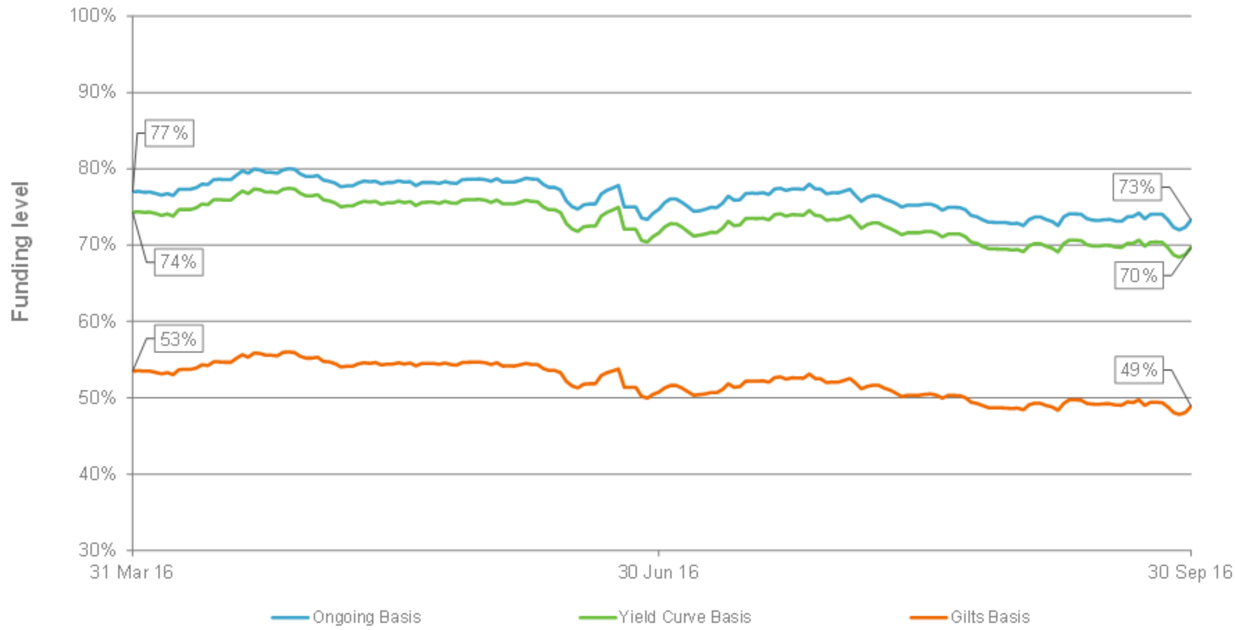
5.5 There are no immediate legal implications arising from this report.

6. FUNDING POSITION BASED ON 2016 TRIENNIAL VALUATION

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 2016 set the contribution rates which have been applied from 1st April 2017. As at the end of September 2016, the funding level was 73% compared to 77% as at the end of March 2016.

6.2 The chart below highlights the funding position as at 31st March 2016 (77%) compared to 30th September 2016 (73%) showing a slight decrease in the funding position over that period

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



6.3 The funding level of 73% at 30th September 2016 is based on the position of the Fund having assets of £1,315m and liabilities of £1,792m, i.e. for every £1 of liabilities the Fund has the equivalent of 73p of assets. It should be noted that the monetary deficit remains high, and has increased from £350m in March 2016 to £478 in September 2016, an increase of £128m. 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.

7. GOVERNANCE UPDATE

7.1 During 2015/16 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 have been 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 issued the majority of the remaining statements by 31st December 2016. This breach was reported to the Pensions Regulator

7.4 Queries still remain over approximately 600 members originally reported as active who are now believed to be either deferred or no liability members. The Pensions Administration team have been working with Equiniti to cleanse the data; it is thought these issues have occurred as a result of auto-enrolment and contractual enrolment (and subsequent opt outs) not being correctly reported. This issue has been raised with the Fund actuary, and, whilst it is not considered likely to significantly impact upon the valuation, an additional check of the data submitted will be carried out. The issue has also been picked up to consider in testing of the reports generated by iTrent, the Council's new payroll system

7.5 The ongoing concerns over data quality have been discussed with the Pension Board, who have asked that officers make a formal report to the Council's Director of ICT as the payroll contract holder, setting out a schedule of any remaining data and reports required from Northgate HR until the end of the contract. This report is being made alongside ongoing work on implementation of the new payroll contract with Midland HR; this is being worked on by officers from the Pensions Administration team in conjunction with Equiniti.

8. INVESTMENT UPDATE

8.1 **Asset Allocation Q2 2016/17**

The following table sets out the Fund's asset allocation as at 30 September 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	300,722,000	24.2	25.0	-0.8
Lazard	Global Equities	204,515,333	16.4	15.5	+0.9
Wellington	Global Value	198,525,442	16.0	15.5	+0.5
RBC	Global Emerging Markets Equities	66,136,655	5.3	4.5	+0.8
Total Equities		**769,899,430**	**61.9**	**60.5**	**+1.4**
BMO	Fixed Income	230,059,000	18.5	17.0	+1.5
Columbia Threadneedle	Property	104,952,665	8.4	10.0	-1.6
Invesco	Multi-Asset	55,097,559	4.4	5.0	-0.6
GMO	Multi-Asset	84,303,353	6.8	7.5	-0.7
Total Fund		**1,244,312,007**	**100**	**100**	**-**

8.2 Performance summary

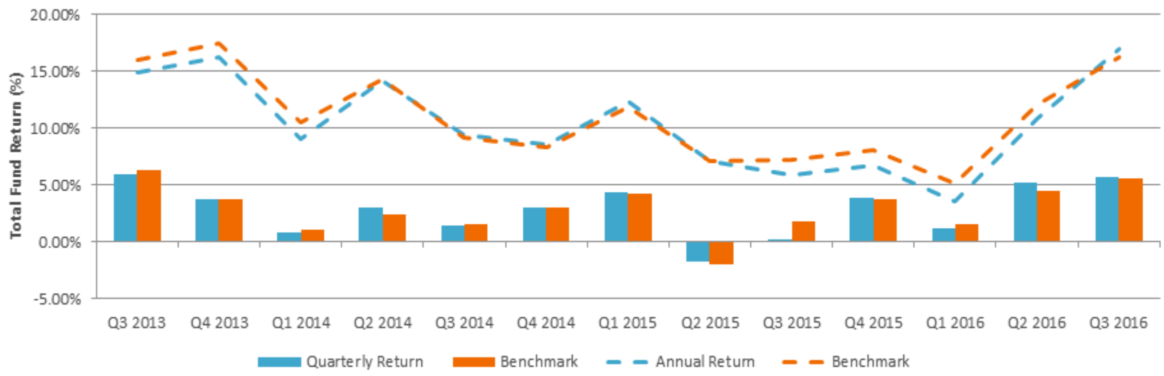
The following table sets out the performance of the Scheme's investment mandates as at 30 September 2016 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

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.

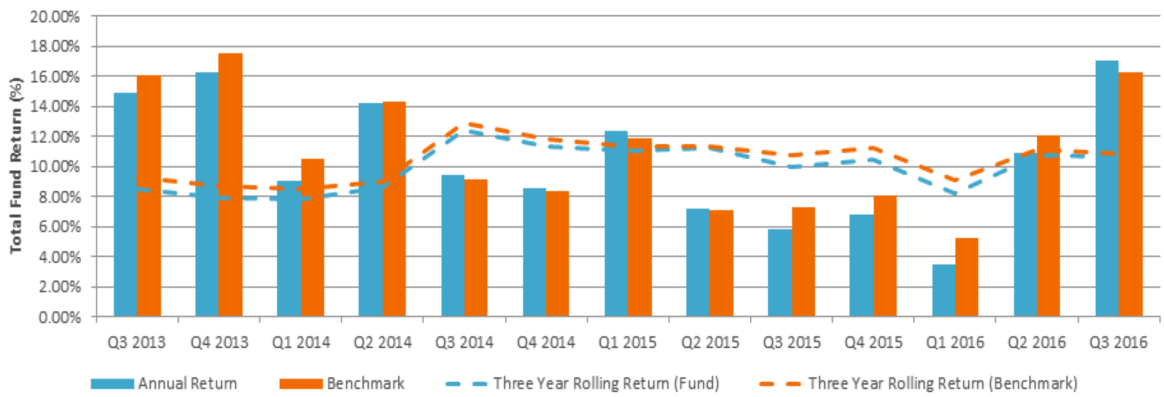
		Wellington Global Eq	Lazard Global Eq	UBS UK eq	RBC EM Eq	Columbia Threadneedle Property	BMO Fixed income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q3 16 (%)	Fund	7.5	6.1	7.8	10.3	-2.7	6.0	3.2	2.3	5.7
	Benchmark	7.1	7.1	7.8	12.2	-0.7	5.9	0.0	0.1	5.6
	Relative	0.4	-0.9	0.0	-1.7	-2.0	0.1	3.2	2.1	0.1
12 month (%)	Fund	26.7	23.4	16.8	n/a	3.4	17.3	4.9	n/a	17.0
	Benchmark	22.5	22.5	16.8		3.4	16.9	0.8		16.3
	Relative	3.4	0.7	0.0		0.0	0.3	4.1		0.6
3 years (% p.a.)	Fund	11.4	10.2	6.6	n/a	11.8	10.6	1.0	n/a	10.7
	Benchmark	10.6	10.6	6.6		11.4	10.6	0.8		10.3
	Relative	0.7	-0.4	0.0		0.4	0.0	0.2		0.4
Since Inception (% p.a.)	Fund	9.2	8,4	8.4	37.6	6.3	7.4	2.7	4.5	
	Benchmark	10.6	8..9	8.3	39.8	5.4	7.1	1.0	0.5	
	Relative	-1.3	-0.5	0.1	-1.6	0.9	0.3	1.7	4.0	
Since inception dates		April 2010	April 2010	August 2003	December 2015	March 2004	September 2003	September 2012	December 2015	

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

Performance Summary – Quarterly returns and rolling one year performance



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 Sep	Weight % 30 Sep	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	300,722	24.2%	25.0%	7.8	7.8	-0.03	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	204,515	16.4%	15.5%	6.1	7.1	0.01	-0.15
Wellington	Global Equities	MSCI AC World (50% hedged)	198,525	16.0%	15.5%	7.5	7.1	0.00	0.06
RBC	Global Emerging Market Equities	MSCI Emerging Markets	66,137	5.3%	4.5%	10.3	12.2	0.04	-0.09
Total Equities			**769,899**	**61.9%**	**60.5%**	**7.5**	**7.8**	**0.03**	**-0.18**
BMO	Bonds	Bonds Composite [1]	230,059	18.5%	17.0%	6.0	5.9	0.00	0.02
Columbia Threadneedle	Property	HSBC APUT All Balanced	104,953	8.4%	10.0%	-2.7	-0.7	0.05	-0.18
Invesco	Targeted Return	£LIBOR 3M	55,098	4.4%	5.0%	2.3	0.1	0.02	0.10
GMO	Absolute Return	OECD CPI G7 (GBP)	84,303	6.8%	7.5%	3.2	0.0	0.03	0.22
Total Scheme			**1,244,312**	**100**	**100**	**5.7**	**5.6**	**0.13**	**-0.02**

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:

- At the end of September fund was estimated to be 1.4% overweight total equities.
- Outperformance from Wellington, Invesco and GMO.
- Underweight allocation to Thread needle and overweight allocation to RBC.

Negatives:

- Underperformance from Lazard, RBC and Thread needle.

The table below represents the manager performance over the **12 months to 30 September 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 Sep	Weight % 30 Sep	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	300,722	24.2%	25.0%	16.8	16.8	0.01	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	204,515	16.4%	15.5%	23.4	22.5	0.14	0.13
Wellington	Global Equities	MSCI AC World (50% hedged)	198,525	16.0%	15.5%	26.7	22.5	0.16	0.63
RBC	Global Emerging Market Equities	MSCI Emerging Markets	66,137	5.3%	4.5%	n/a	n/a	0.05	-0.04
Total Equities			**769,899**	**61.9%**	**60.5%**	**21.8**	**20.2**	**0.36**	**0.72**
BMO	Bonds	Bonds Composite [1]	230,059	18.5%	17.0%	17.3	16.9	0.01	0.06
Columbia Threadneedle	Property	HSBC APUT All Balanced	104,953	8.4%	10.0%	3.4	3.4	-0.05	0.00
Invesco	Targeted Return	£LIBOR 3M	55,098	4.4%	5.0%	n/a	n/a	0.03	0.15
GMO	Absolute Return	OECD CPI G7 (GBP)	84,303	6.8%	7.5%	4.9	0.8	-0.01	0.31
Total Scheme			**1,244,312**	**100**	**100**	**17.8**	**16.0**	**0.34**	**1.25**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

2. Asset Allocation and Stock Selection for RBC and Invesco mandates are the 9 month period to 30 September 2016.

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, Wellington, BMO and GMO.
- Outweight to Lazard and Wellington for the majority of the 12 month period to 30 September 2016.

Negatives:

- Underweight to Threadneedle for the majority of the 12 month period to 30 September 2016.

The table below represents the manager performance over the **3 years to 30 September 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 Sep	Weight % 30 Sep	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	300,722	24.2%	25.0%	6.6	6.6	0.12	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	204,515	16.4%	15.5%	10.2	10.6	-0.01	-0.04
Wellington	Global Equities	MSCI AC World (50% hedged)	198,525	16.0%	15.5%	11.4	10.6	-0.02	0.10
RBC [2]	Global Emerging Market Equities	MSCI Emerging Markets	66,137	5.3%	4.5%	n/a	n/a	0.05	-0.04
Total Equities			**769,899**	**61.9%**	**60.5%**	**9.2**	**9.0**	**0.15**	**0.02**
BMO	Bonds	Bonds Composite [1]	230,059	18.5%	17.0%	10.6	10.6	0.17	0.23
Columbia Threadneedle	Property	HSBC APUT All Balanced	104,953	8.4%	10.0%	11.8	11.4	-0.04	-0.70
Invesco [2]	Targeted Return	£LIBOR 3M	55,098	4.4%	5.0%	n/a	n/a	0.03	0.15
GMO	Absolute Return	OECD CPI G7 (GBP)	84,303	6.8%	7.5%	1.0	0.8	0.52	0.04
Total Scheme			**1,244,312**	**100**	**100**	**9.5**	**8.8**	**0.84**	**-0.26**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

2. Asset Allocation and Stock Selection for RBC and Invesco mandates are the 9 month period to 30 September 2016.

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 Wellington, Thread needle and GMO.
- Overweight to Wellington and equities for the majority of the 3 year period to 30 September 2016.

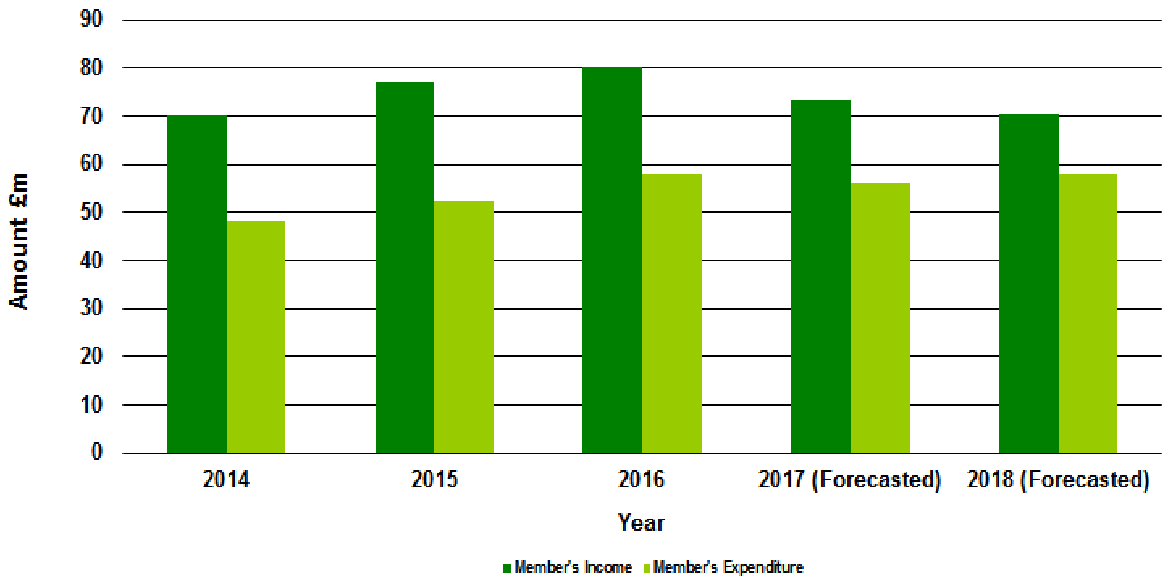
Negatives:

- Underperformance from Lazards.
- Underweight to Thread needle for the majority of the 3 year period to 30 September 2016.

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 2016-17 Budget Monitoring

The 2016-17 outturn against budget is detailed in the table below followed with comments on the variances.

Description	2016-17 Budget	2016-17 Actuals to Date	2016-17 Forecasted	2016-17 Outturn	2016-17 Variance from Budget
	£'000	£'000	£'000	£'000	£'000
Member Income					
Employers Contributions	56,590	36,646	29,551	66,198	9,608
Employees Contributions	11,767	7,102	4,942	12,045	277
Transfers In	4,871	2,627	2,244	4,871	0
Member Income Total	**73,228**	**46,375**	**36,738**	**83,113**	**9,885**
Member Expenditure					
Pensions	-40,239	-30,424	-11,107	-41,531	-1,293
Lump Sum Commutations and Death Grants	-11,057	-10,125	-932	-11,057	0
Transfer Out	-4,717	-4,544	-173	-4,717	0
Refund Of Contributions	-176	-126	-50	-176	0
Member Expenditure Total	**-56,189**	**-45,219**	**-12,262**	**-57,482**	**-1,293**
Net Member Surplus	**17,039**	**1,156**	**24,475**	**25,631**	**8,593**
Management Expenses					
Administration, Investment Management and Governance & Oversight	-5,519	-1,573	-3,812	-5,385	134
Net Administration Expenditure	**-5,519**	**-1,573**	**-3,812**	**-5,385**	**134**
Surplus from Operations	**11,520**	**-417**	**20,664**	**20,246**	**8,727**
Investment Income/Expenditure					
Investment Income	14,338	4,191	8,980	13,171	-1,168
Net Investment Income/Expenditure	**14,338**	**4,191**	**8,980**	**13,171**	**-1,168**
Cash flow before Investment Performance	**25,858**	**3,774**	**29,643**	**33,417**	**7,559**

Below are the explanation to the above key variances:

Membership Income:

Membership Income has been forecasted at £83m which is £10m more than the budgeted membership income. A detailed review of contributions is done every month to make sure contributions are paid within the SLA. Variance on the employer contribution line is attributable to £2.827m HH deficit on cessation and £1.2m strain cost. The remaining £5m is attributable to the reduction done in the budgeted amount £56,590 for 2016-17 compared to £61,594. Reduction in budget reflected decrease in membership by 5% on year on year due to downward pressure on staff numbers. Budgets will be realigned again this year and will also reflect HH deficit on cessation amount £2.827m which will carry on for the next eight years.

The ‘transfers in’ budget is currently projected to be on budget but is subject to change as there is considerable volatility/unpredictability associated within this activity.

Membership Expenditure:

Projected forecast for Membership Expenditure shows an increase of £1m which is within the tolerance level.

Commutations and death grants, refund of contributions and transfers out are currently projected to be on budget but are subject to change as there is considerable volatility/unpredictability associated within these activities.

Management Expenses:

Management expenses include expenditure on Pension Administration, Investment Management and Governance & Oversight. Management Expenses are more or less in line with the budget. The forecast can change in future depending on Investment Management costs which are based on increase or decrease in asset values.

Investment Income:

Income is projected to be less than the forecasted income by nearly £1.2m but due to volatility of returns it is difficult to gauge with any certainty whether this trend will continue for the remainder of the year.

9.3 **2017-18 Pension Fund budget:**

As indicated in the above comments Pension Budgets will be realigned with the final outturn for 2016-17 and also for any future events and changes.

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**	

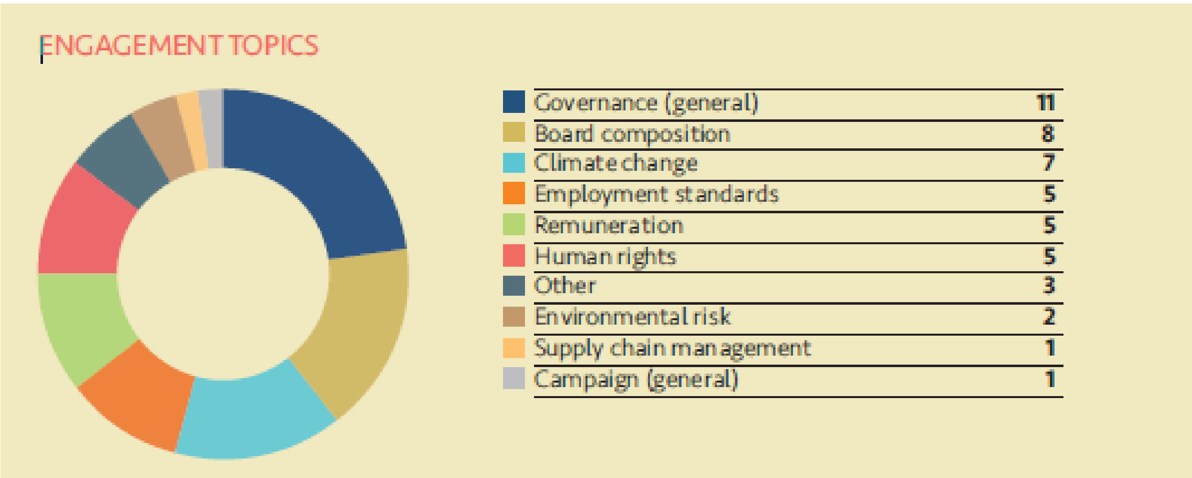
10. ENGAGEMENT AND CORPORATE GOVERNANCE

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 September 2016, £10m had been moved from the Fund's existing Threadneedle TPEN Property mandate into the Threadneedle Low Carbon Workplace Fund, with a further £10m cash investment made in October 2016. £5m of the Fund's original £25m commitment now remains for drawdown.

10.3 A key element of the planned work programme was a carbon footprinting exercise – the results of this were delivered at the 19th September Committee meeting, and it has since been used to inform a carbon reduction commitment contained within 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 48 engagements over the quarter, attending 8 AGMs. Key topics of engagement included governance, board composition, and climate change.



10.5 The Fund has direct holdings in 2 of the companies referenced in the report; Alphabet and Unilever. LAPFF has co-signed a letter with other investors to Alphabet, parent company to Google, requesting further disclosure about its tax practices. Google has faced a number of legal challenges to the amount of tax it pays in various countries.

10.6 Cllr Doug McMurdo of the LAPFF Executive met with Andrew Stephen and Clare Cavana of Unilever to discuss the Company's business model and Sustainable Living Plan. Unilever has been held up in many quarters as a leader in integrating environmental, social and governance issues into its business model and strategy. This meeting led to a further meeting on tax and LAPFF looks to have progressed in establishing an engagement relationship with Unilever.

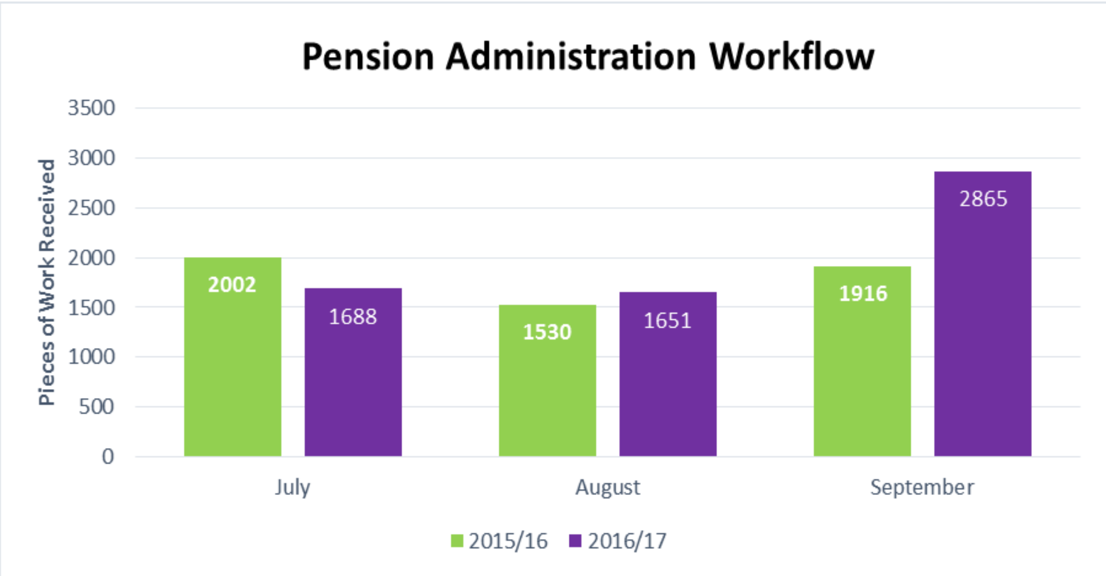
10.7 The Fund holds a number of other companies referenced through its FTSE All share index tracker, most notably BP, Anglo American and SSE. Collaborative engagement with oil & gas, integrated mining and utility companies has continued through the 'Aiming for A' investor group with LAPFF separately also meeting with BP and Anglo American in the last quarter. The utility, SSE, is one of the largest UK emitters, and CllrCameron Rose attended the AGM to ask about the Company's approach to carbon capture and storage (CCS) in light of the government's failure to fund further efforts around this technology. The Company was disappointed with the government's position but still sees CCS as a technology to consider in future.

11 PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q2 2016/17 has significantly increased in comparison to the same period in 2015/16. A total of 6,204 new cases were received during the current quarter, compared to 5,448 during Q2 in 2015/16.

A comparison of the workflow for the administrators between Q2 2015/16 and the reporting quarter is set out below:-

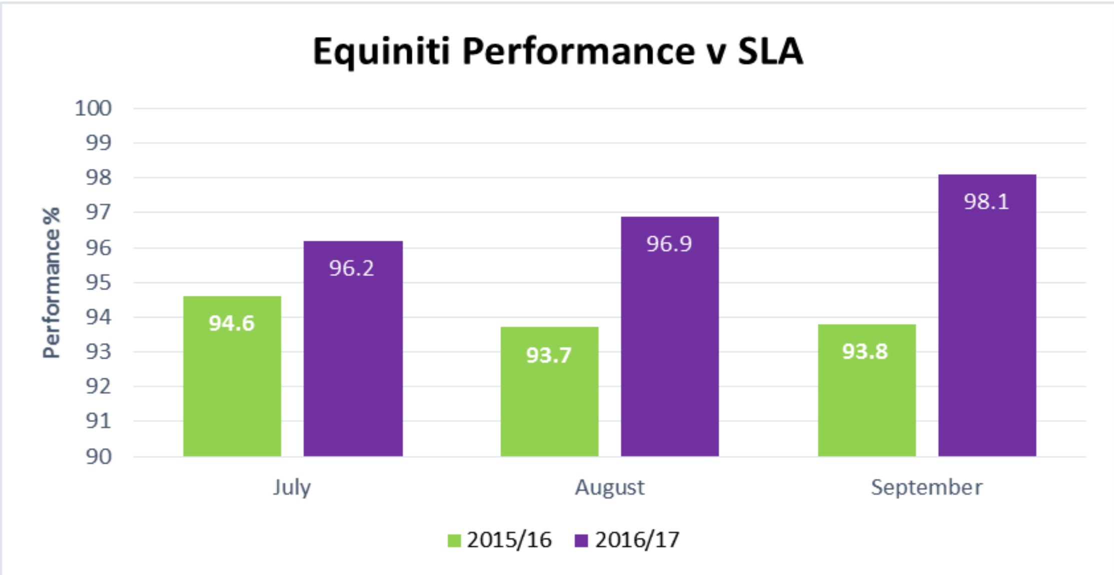


The average number of pieces of work received per month during Q2 2016/17 was 2,068 compared to an average of 1,816 received during the same period in 2015/16.

Much of this increased workload, particularly in September, has been due to the administrators continuing to resolve the data issues that have arisen from the year end reports submitted by employers in the Fund. The fact that the Council still has no working interface from the payroll system, and did not submitted a year end file to the administrators within the regulatory timeframe, has exacerbated the problems. As Equiniti cannot update member records automatically, they have continued their efforts to correct the data by manual intervention using the HK221 monthly data submissions sent with the contributions. This has put additional pressure on the administrators and their resources, therefore the Hackney in-house pension team continue to provide assistance to them by interrogating and correcting data as and when it has been released from the payroll provider, before sending it to Equiniti for final verification.

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 97% for Q2 2016/17 compared to 94% for the same period in the previous year.

The administrator's performance against the SLA for Q2 2015/16 and Q2 of the reporting period 2016/17 is set out below:



It should be noted that the administrators' performance for the second quarter of 2016/17 has improved in comparison to the same quarter last year, but this is attributed to the agreed relaxation in the SLAs rather than more efficient working methods. The relaxation in SLAs has been necessary due to the continued increase of manual work-around to member records, with the majority of the additional work due to the continued lack of an interface from the Council's payroll provider that is fit for purpose. The Council is the largest employer in the Fund and therefore has the majority of the work.

Clean and accurate data is required not only for the annual benefit statements this year, but also for the Fund valuation. As data quality is a major issue, it has impacted on the Funds ability to issue all of its annual benefit statements to active members within the regulatory timeframe, i.e. 31 August 2016, with only 4,000 being sent. Extra data cleanse work is continuing at the administrators with the support and assistance of the in-house pensions team at Hackney. The remaining 3,200 active statements will be issued by 31 December 2016.

11.2 New Starters and Opt Outs

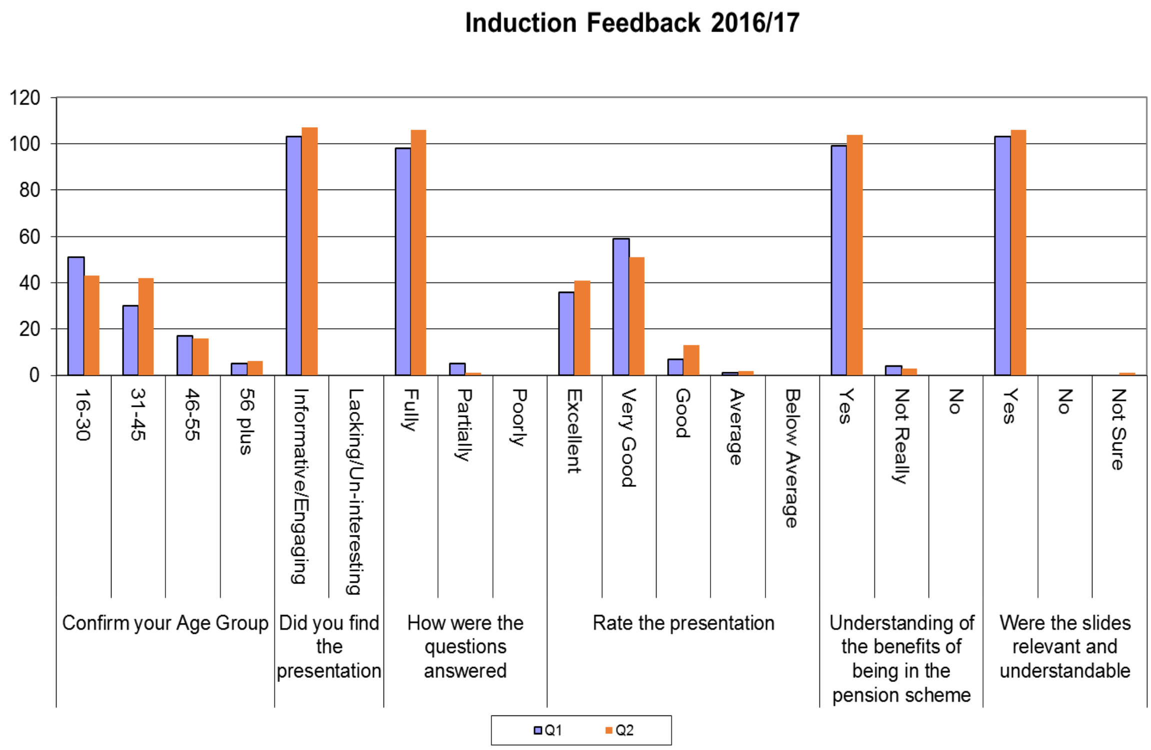
The number of opt outs in Q2 2016/17 were significantly higher compared to Q2 2015/16, as on 1 July 2016 the Council undertook its mandatory Re-Enrolment duties, and as the London Borough of Hackney is also the employer of staff in Community and Voluntary Controlled Schools for the purposes of AE, it took the lead on behalf of these schools re-enrolment duties as well. This meant automatically re-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 – who had previously opted out of a pension scheme, into a "qualifying" pension scheme on 1 July.

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q2 2015/16	7,489	103
Q2 2016/17	7,521	308

Only after employees have been automatically re-enrolled into a qualifying pension scheme they then have the right to opt out at any time if they wish. The majority of the 308 opt outs for the quarter are in relation to the re-enrolment exercise.

11.3 Scheme Administration

The Financial Services in-house pension team facilitated at weekly induction sessions for 108 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as ‘Very Good’ or ‘Excellent’.



Of those who attended the sessions in this quarter, 96% 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, both active and deferred, that have been processed during Q2 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
Q2 2015/16	5	2	1	2	0
Q2 2016/17	8	5	0	2	1

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
Q2 2015/16	1	0	0	1	0
Q2 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.

There were no IDRP cases in the 2nd quarter of 2016/17.

11.6 Other work undertaken in Q2 2016/17

Voluntary Redundancy - update

As previously reported, the Chief Executive announced a Voluntary Redundancy (VR) Scheme that launched on 1 October 2015, and all staff (apart from essential services) were 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 with the remainder leaving on or by 31 March 2016.

Staff continue to leave the organisation on a monthly basis as part of this Scheme and during Q2 2016/17 there were 26 members of staff who left, with several more scheduled to leave up to the end of March 2017.

Tracing Exercise

In anticipation of the annual benefit statements due to be issued in August 2016, Equiniti undertook a reconciliation exercise of member's records to ensure they have a complete postal address. Results of that exercise showed that 1,592 deferred members and 283 active members did not have addresses on record.

For those 1,592 deferred members, Equiniti undertook a tracing exercise which resulted in 1,119 addresses being traced with the remainder 473 needing to be forensically traced, and work will commence on this soon. The Hackney in-house pension team were able to interrogate the Council's payroll system to access up to date addresses for the 283 active members and the details were then passed to Equiniti to update the members' records.

12 REPORTING BREACHES

12.1 Reported Breaches Q2 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 December 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	No fine issued, provided statements issued by target date

12.1 Unreported Breaches Q2 2016/17

Quarter	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)
Q2	Jul-16	Annual Benefit Statement	Hackney Learning Trust	Outstanding year end data documents	A	Not reported
Q2	Jul-16	Annual Benefit Statement	Administering Authority	Outstanding year end data documents	A	Not reported
Q2	Jul-16	Contributions	Greenwich Leisure Ltd	Late HK221	G	Not reported
Q2	Jul-16	Contributions	Hackney New School (Secondary School)	Late HK221	G	Not reported
Q2	Jul-16	Contributions	Hackney New School (Primary School)	Late HK221	G	Not reported
Q2	Jul-16	Contributions	Manor House Development Trust	Late contribution payments	A	Not reported
Q2	Jul-16	Contributions	Hackney Learning Trust	Late contribution payments	G	Not reported
Q2	Jul-16	Contributions	Clapton Girls Academy	Late contribution payments	G	Not reported
Q2	Jul-16	Contributions	Capita for Schools	Late contribution payments	G	Not reported
Q2	Aug-16	Contributions	Greenwich	HK221 received 25/08/2016	G	Not reported
Q2	Aug-16	Contributions	Hackney New School	HK221 received 24/08/2016	G	Not reported
Q2	Aug-16	Contributions	Hackney New School Primary	HK221 received 24/08/2016	G	Not reported
Q2	Aug-16	Contributions	Clapton Girls Academy	Payment received on 25/08/2016	G	Not reported
Q2	Aug-16	Contributions	Manor Housing Development	Payment received 23/08/2016	A	Not reported
Q2	Aug-16	Contributions	HLT	Payment received 23/08/2016	A	Not reported
Q2	Aug-16	Contributions	Cardinal Pole	Payment received 23/08/2016	A	Not reported
Q2	Aug-16	Contributions	Capita for Schools	Payment received 25/08/2016	G	Not reported
Q2	Sep-16	Contributions	Clapton Girls Academy	HK221 received 22/09/2016	G	Not reported
Q2	Sep-16	Contributions	HLT	Payment received 20/09/2016	A	Not reported
Q2	Sep-16	Contributions	Cardinal Pole	Payment received 20/09/2016	A	Not reported
Q2	Sep-16	Contributions	Capita for Schools	HK221 received 22/09/2016	G	Not reported
Q2	Sep-16	Contributions	Fit for Sport Gayhurst	Payment received 21/09/2016	G	Not reported

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