

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 24TH JANUARY, 2017

Councillors Present: Councillor Robert Chapman in the Chair

**Cllr Kam Adams, Cllr Feryal Demirci,
Cllr Michael Desmond (Vice-Chair),
Cllr Patrick Moule and Cllr Geoff Taylor**

Officers in Attendance: Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), and Stephen Rix (Legal Services)

Also in Attendance: Karen McWilliam - AON
Andrew Johnson } Hymans Robertson
Members of the public & Members of Divest
Hackney

1 APOLOGIES FOR ABSENCE

1.1 There were no apologies for absence.

2 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

2.1 Councillors Chapman, Demirci, Desmond and Taylor declared a non-pecuniary interest as deferred members of the LGPS.

3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETING

3.1 **RESOLVED** that the previous minutes of the meeting held on 6th December 2016 were agreed as a correct record.

4 TRAINING - PENSIONS LEGISLATION AND GOVERNANCE (AON)

4.1 Rachel Cowburn, Head of Investment & Actuarial Services presented the report on the Members' training session.

4.2 Karen McWilliam, AON gave a presentation on the Pensions Legislation and Governance. A summary of the presentation is set out below:

Pensions Legislation and Governance

- Responsible Fund Owners
- The National LGPS (E&W)
- The Legislative Framework
- LGPS specifics
- Other legislation
- Who manages the Funds
- Who are the Administering Authorities
- Governance structure for Administering Authorities
- The Hackney Pension Fund – decisions and delivery
- Our key stakeholders
- Fiduciary responsibility : Recent Queen’s Counsel opinion
- Managing conflict of interest
- When it goes wrong
- Key Policies and Strategies (required by law)
- CIPFA Myners’ Principles
 1. Effective decision making
 2. Clear objectives
 3. Risk and liabilities
 4. Performance assessment
 5. Responsible ownership
 6. Transparency and reporting
- Scheme Advisory Board (national)
- The Pensions Regulator’s extended role (April 2015)

Reporting breaches

- An individual responsibility for you – reporting breaches
- What should be reported
- TPR Toolkit: Reporting Breaches
- Instructions for TPR toolkit –
<https://education.thepensionsregulator.gov.uk/login/index.php>

4.3 Mr Colthurst asked whether investing with the London CIV would have an impact on the Fund’s investment responsibilities and whether there were a range of options to address any underfunding in the Pension Fund. Ms McWilliam stated that the London CIV’s investment strategy was in line with Hackney’s Fund strategy and that the purpose of the CIV was to put in place investment strategies to enable Pension Funds to invest in line their investment strategy. With regard to the issue of potential underfunding, Ms McWilliam advised that the Fund had some flexibility to address any underfunding, in particular reviewing employer contributions and funding strategies.

4.4 Councillor Adams sought clarification regarding the impact of the London CIV on the Pension Fund’s current responsibility of selecting and monitoring Fund Managers. Ms McWilliam explained that the CIV would undertake the asset selection process on behalf of LGPS schemes and provide Funds

with opportunities for investments. The Oversight and Governance Working Group's role would be to monitor and ensure that the London CIV acted in the interest of its member Councils. Mr Williams advised that the London CIV was in the process of finalising the selection of the Active Global Equity Fund Manager.

RESOLVED to note the presentation and contents of the report.

5 CIV UPDATE - FIXED INCOME PRESENTATION

5.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the report providing an update from the London Collective Investment Vehicle (CIV) on the progress to date and future planning.

5.2 Jill Davys, Client Management CIV gave a presentation on the CIV Progress and Fund Development and a summary is set out below:

Fund Development

- London CIV – Early collaboration on commonality basis to deliver financial benefits to London Funds
- Investment Regulations 2016
- London CIV meets government criteria
- Investment Strategy Statement requires annual reporting of asset transfers to the Pool.
- London CIV principles to work closely with Funds to deliver their current and future needs

Challenges to delivery:

- Opening CQC sub-funds
- Capacity constraints
- Opening each sub-fund
- Global Equity Procurement
- Appointment of two consultants- Mercer & Redington
- 9 Investment strategies including Emerging Markets and Sustainable Equities
- Tenders reviewed
- Preferred Managers under consideration
- Borough engagement
- Sub- Funds – H2 2017
- Triennial valuation in 2016
- Pension Fund maturity
- Greater demand for cashflow
- Fixed income markets
- Look for options alongside traditional fixed income
- Building blocks
- Current timeline
- Client relation changes

Responsible investment

- Joint Committee

- Joint Committee working group to consider area of Stewardship, Voting and ESG going forwards
 - IAC Working Group on Stewardship
 - Stewardship Code Compliance Statement
 - Sustainable Equities as part of global equity procurement
 - Cross- Pool Working Group
- 5.3 Councillor Desmond enquired whether Fund Managers regularly monitored their investments to identify any risks and sought further information regarding infrastructure investment. Ms Davys advised that Fund Managers regularly monitored the companies in their investment portfolio and engaged in issues of corporate governance. In addition, the London CIV would also challenge Fund Managers exposure to individual companies. With regard to infrastructure, this particular investment was a complex as some infrastructure projects carried higher risks such as Crossrail. Ms Davys advised that the Committee should consider delegating authority for any future infrastructure investments as these required a speedy decision due the short period of time the products were available. Ms Davys indicated that the CIV could provide further information on infrastructure investments at a future meeting.
- 5.4 Mr Colthurst sought clarification regarding the Sub- Funds. Ms Davys reported that the CIV currently had up to 30 Sub-Funds and that a Fund Manager would manage an investment strategy as a Sub-Fund. Furthermore, the investment strategies would be determined by the 32 borough members within the CIV.
- 5.5 Councillor Adams enquired about the Cross- Pool Working Group. Ms Davys responded that this working group considered all issues relating to pooling including stewardship and infrastructure and also engaged with other authorities sharing the benefits of pooling.
- 5.6 The Chair indicated that there was a demand for an investment strategy formulating Environmental, Social and Governance (ESG) considerations and that the Pension Fund could be constrained in its investment strategy should there be no ESG investment vehicle in place. Ms Davys stated that the London CIV was working with the Chair to identify the Pensions Fund's needs and to ensure that suitable investment strategies are made available whilst consulting with the other 31 funds to ascertain demand for a strategy. London CIV was currently procuring Sustainable Equities as part of the global equity procurement. If a demand was identified London CIV would review and develop its model.

RESOLVED to note the contents of the report.

6 INVESTMENT STRATEGY STATEMENT

- 6.1 Ian Williams, Group Director of Finance and Corporate Resources introduced the updated draft new Investment Strategy Statement, to be introduced from 1st April 2017 in line with the Local Government Pension

Scheme (Management and Investment of Funds) Regulations 2016. Mr Williams reported that consultation with stakeholders on the draft statement would take place prior to the approval of the statement on 29 March 2017. The Pension Fund had set a clear target to reduce exposure to fossil fuel and would invest £20m in a low carbon work fund with a further £5m investment in the next month.

- 6.2 Ms Cowburn stated that the Committee had committed to reducing the Fund's exposure to fossil fuel reserve by 50% in a period of 6 years covering two valuation cycles. This was an ambitious target which would be measured and periodically reviewed and officers would be working with Hymans Roberston Consultants on any potential changes to asset allocations. It was stressed that Members had to consider carbon risk alongside other risks to the Fund such as reduced diversification which could affect the performance of the Fund.
- 6.3 In response to Councillor Demirci's question regarding the setting of the target, Ms Cowburn stated that the target was ambitious but realistic taking into consideration the Fund's long term objective to become a carbon free Pension Fund. Periodic reviews would be carried out in terms of monitoring and achieving the target and identifying risks to the Fund and it would therefore be a challenge to set a date for full divestment from fossil fuel as many factors had to be taken into consideration such as reduced diversification. The Fund's approach would be primarily to reduce the risk associated with fossil fuel exposure.
- 6.4 Mr Colthurst asked how the reduction would be measured and the potential loss of high yield stocks invested in fossil fuel. Ms Cowburn stated that a specialist firm had been employed to undertake the carbon footprint project, however it would be a challenge to implement an exclusion policy as there may be no suitable alternative investment products that did not result in funding risks and could be in conflict with members' fiduciary responsibility. At this stage it would be difficult to quantify income and potential loss from divestment.
- 6.5 Mr Malins- Smith sought clarification regarding investment in carbon assets. Ms Cowburn explained that 'investment in carbon assets' means where there is exposure to fossil fuel reserves such as mining which was a significant contributor to the carbon footprint.
- 6.6 Mr Malins – Smith asked whether wood burning boilers emitted high levels of fossil fuel like coal. Ms Cowburn stated that some reference to the old fossil fuel could be incorporated into the statement.
- 6.7 Councillor Demirci commented that reducing exposure to stranded assets would be a positive step forward. Ms Cowburn said that it was important to get a balance in reducing investments as it could have an impact on the Fund.

- 6.8 Councillor Desmond stressed that it was important to publicise the draft investment strategy statement so that scheme members were given the opportunity to make representations. Ms Cowburn advised that they were still in the process of consulting with stakeholders and a published investment strategy statement would be available to the LGPS scheme members.
- 6.9 Councillor Moule enquired about the percentage of the Pension Fund exposed to carbon fuel. Ms Cowburn said that the Fund's investments in carbon were being monitored and it would be a challenge to get an accurate measure as the Fund had significant holdings in British oil companies that had less exposure to fossil fuel than mining or coal companies.
- 6.10 Councillor Moule asked if consideration had been given to divesting solely from coal as it represented the greatest risk to climate change. Ms Cowburn indicated that this approach would be unsuitable as the Fund's exposure to fossil fuel was concentrated within the UK Passive Equity Fund which had a coal company in the portfolio.
- 6.11 Mr Malins-Smith indicated whether it would be appropriate to commit to the London CIV at this stage without knowing the number of Sub Funds and investment strategies on offer. Mr Malins-Smith added that the current Fund Managers should consider incorporating the ESG considerations. Ms Cowburn stated that the Chair and Mr Williams were also members of the London CIV working groups and had been working in partnership with other councils on potential investment strategies. Ms Cowburn advised that the London CIV's investment strategies would be incorporated in the Fund's investment strategy statement.
- 6.12 The Chair asked how the target set for reducing the exposure to fossil fuel would be monitored. Ms Cowburn stated that the Fund would monitor and review the investment strategy every three years and any updates would be reported to the Committee.
- 6.13 Representatives of Divest Hackney thanked Members for the progress made in divesting from fossil fuel but stressed that further work was necessary especially a firm commitment to meet the 50% target and to ensure that the Sustainable Equities Fund vehicle was in place to deliver on the reduction.
- 6.14 The Chair assured those present of the Committee's commitment to reduce the Fund's exposure to fossil fuel and ensure that the investment strategies were in place to deliver this reduction. Ms Cowburn reiterated that the London CIV comprised 32 Pension Funds and that there had to be a demand to this investment strategy before it could be delivered by the CIV. Both Hackney and Waltham Forest had a similar approach to divesting from fossil fuel and it was possible to meet the target taking into consideration the pooling agenda.

- 6.15 The Chair thanked members of Divest Hackney for their contribution on this issue and advised that the exempt appendices to the submitted report would be considered during a private meeting.

RESOLVED to:

- 1. Consider the updated draft of the Investment Strategy Statement and approve for consultation with stakeholders (The Pension Board/Investment Managers/The London CIV) ahead of final approval for publication at the Pensions Committee meeting on 29th March 2017.**
- 2. Approve the proposed commitment for the Fund to reduce its exposure to fossil fuel reserves for inclusion in the Investment Strategy Statement.**

EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED That the press and public be excluded from the proceedings of the meeting during consideration of item 6 - Investment Strategy Statement (exempt appendices), Item 7- Stewardship Framework- Voting and Engagement Overlay Options and Item 8 - Third Party Administration Procurement on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

In accordance with Council procedure rule 8.1, the Chair proposed and Members resolved that the meeting would continue until 10.30pm in order to consider the remaining items on the agenda.

9 DRAFT FUNDING STRATEGY STATEMENT

- 9.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the report on a draft Funding Strategy Statement for consultation with employers and other interested parties in the Pension Fund.

RESOLVED to agree the draft Funding Strategy Statement for consultation with employers and other interested parties

10 PENSION FUND RISK REGISTER

- 10.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the updated Pension Fund Risk Register, which detailed the potential significant risks to which the Fund was exposed and the controls in place to manage these risks.
- 10.2 The Chair referred to the issue of payroll and Ms Cowburn advised that this issue had been identified as a high risk and raised at senior officer levels within the Council. Mr Honeysett reported that a new payroll system was being introduced and that officers were currently finalising the specifications and working on extracting the necessary data from the current system. Ms

Cowburn advised that ICT would be responsible for obtaining the data necessary for producing scheme members statement.

- 10.3 Mr Malins-Smith enquired as to the reason why the Pension Fund had been identified as a high risk when it had achieved 96% fundind level. Ms Cowburn advised that this was recognised as potential a risk so that action could be taken to address any underfunding.

RESOLVED to note the contents of the report.

11 PENSION FUND - QUARTERLY UPDATE

- 11.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the report providing an update on the 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.

RESOLVED to note the contents of the report.

12 PENSION FUND COMMUNICATIONS POLICY STATEMENT 2017/18

- 12.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the report on the updated Communications Policy Statement for the Pension Fund. It was noted that the statement had been refined since it had been considered at a previous meeting and consideration was being given to making the document available to scheme members electronically.
- 12.2 Councillor Demirci asked how Hackney performed in comparison to London Boroughs in terms of online access. Ms Cowburn said that they were moving towards more detailed newsletter and electronic communication and account information for deferred members. Most information in relation to Pensions was available through the Pensions Committee and could be accessed from the Council's website.
- 12.3 The Chair requested a further report setting out Hackney's performance compared to other London boroughs at a future meeting. ACTION: Rachel Cowburn

RESOLVED to approve the updated Communications Policy Statement.

13 TREASURY MANAGEMENT STRATEGY FOR THE PENSION FUND - 2017/18

- 13.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the report setting out the Annual Treasury Management Strategy for the Pension Fund for 2017/18 and the context in which the strategy was set.

13.2 Ms Cowburn confirmed that the cash held by HSBC was in accordance with regulations and Mr Honeysett confirmed that the Pension Fund also invested in line with the Council's investment policy.

RESOLVED to:

- 1. Agree the Treasury Management Strategy for the Pension Fund for 2017/18**
- 2. Delegate responsibility for Pension Fund treasury management to the Group Director, Finance and Corporate Resources, including the authority to add or remove institutions from the approved lending list and amend cash and period limits as necessary inline with the Council's own creditworthiness policy.**

14 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT

14.1 There was no other urgent business.

15 CONSIDERATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED that the exempt minutes of the previous meeting held on 6th December 2016 were agreed as a correct record.

Duration of the meeting: 6.30 - 10.30pm

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