

## MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 29TH MARCH, 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

**Co- Optee:** Jonathan Malins- Smith

**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 Divest Hackney (20)

### 1 APOLOGIES FOR ABSENCE

1.1 There were no apologies for absence.

1.2 Apologies for lateness were received from Councillor Moule.

### 1 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

2.1 Councillors Chapman, Desmond, Demirci 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 minutes of the previous meeting held on 24 January 2017 were agreed as a correct record subject to the amendment at paragraph 6.6 'whether wood burner boilers were part of the carbon assets'.

### 4 TRAINING (FINANCIAL MARKETS AND PRODUCT KNOWLEDGE)

4.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the training on financial markets and product knowledge, which would assist members in considering some of the factors involved in implementing their strategic commitments.

- 4.2 Andrew Johnston, Hyman Robertsons, delivered the training and a brief summary of the areas covered are set out below:

#### Financial markets and product knowledge

- An understanding of financial markets and products is essential
- Knowledge required depends on level of external delegation
- Full range of assets
- Traditional asset classes - Equities/Bonds/property
- What is equity
- Structural components of equity decisions
- What is a bond
- Main types of bonds
- Rating categories
- Bond – Yield/Credit spread/Duration/Present value
- Why invest in bonds – Diversification/Market Return/Source of Income/ “Match“ liabilities
- Relationship between price and yield
- Property
- Alternative assets: Which alternative
- Why diversity
- Benefits of diversification

**RESOLVED to note the contents of the report and presentation.**

### **5 INVESTMENT STRATEGY STATEMENT**

- 5.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report providing an updated draft new Investment Strategy Statement (ISS) which would be introduced from 1<sup>st</sup> April 2017 in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The updated strategy reflected the outcomes of a strategy review exercise carried out following the 2016 actuarial valuation.
- 5.2 The Chair reported that following the review exercise held in February 2017 the draft statement would be updated to reflect Member’s views and would include future infrastructure and local investments, clarify the Fund’s long term position not to invest in fossil fuel and further consideration of the investment outcomes over possible ranges in particular the risks in the ranges. The updated draft statement would be circulated to Members.
- 5.3 Councillor Desmond stressed the importance of working collaboratively to reduce Fund Manager’s fees and that the Committee had taken a rational and responsible approach to reduce the Fund’s carbon exposure by partially disinvesting from fossil fuel and also discharging their duty of investing in investments achieving high returns.
- 5.4 Councillor Demirci added that the Committee’s approach to disinvestment from fossil fuel was responsible and the reduction target was deliverable. A few neighbouring boroughs proposing higher targets should be invited to future meetings to discuss their proposals and how it would be delivered and

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measured. Mr Williams thanked officers for their work on the document and members of Hackney Divest in engaging in the process.

- 5.5 A representative from Hackney Divest submitted a petition that requested Members consider increasing the 50% target to reduce the Fund's carbon exposure and to regularly review and possibly increase the target prior to the six years valuation cycles. Mr Williams said that the target was comparable to other London boroughs and was realistic and achievable. The Chair stressed that officers and Members would continue to engage with Hackney Divest on this issue.
- 5.4 The Committee considered the exempt appendices within the submitted report at a private meeting.

**RESOLVED:**

- 1. A reduction from 60.5% to 50.5% in the Fund's target exposure to equities**
- 2. A target 10% allocation to multi asset credit. It is recommended that any approved change be implemented in collaboration with the London CIV, with officers and advisers working together with the CIV to identify suitable strategies before returning to the Pensions Committee with a recommendation.**
- 3. If approved, consider the delegation of initial research into suitable multi asset credit approaches to the Group Director, Finance and Corporate Resources.**
- 4. To approve the draft Investment Strategy Statement for publication.**

**6 PENSION FUND- QUARTERLY UPDATE (INCLUDING UPDATE ON LOW CARBON WORKPLACE FUND)**

- 6.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the Pension Fund's quarterly update, including an update on the funding position, investment performance, engagement and corporate governance, and budget monitoring.
- 6.2 The Chair noted GMO's disappointing performance this quarter and requested that the Fund Manager should be invited to a future meeting to clarify its strategy and performance.
- 6.3 The Chair referred to the ongoing issue with payroll and Ms Cowburn indicated that the issues remained in relation to the quality of data submitted from payroll.

**RESOLVED to note the contents of the report.**

**7 PENSION FUND ACTUARIAL VALUATION 2016**

- 7.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report setting out the Actuarial Valuation as at 31<sup>st</sup> March 2016 and minimum contribution rates. Ms Cowburn outlined the key points in the report.
- 7.2 The Chair noted that the funding level had risen to 77% from 70% in the 2016 valuation and the Council's common contribution rate would fall from 36.9% to 30.8% achieving savings of approximately £2m in the Council's General Fund.

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- 7.3 Councillor Moule asked if the valuation modelling had factored the potential impact of public sector pay rises. Ms Cowburn confirmed that the financial assumptions had factored a pay rise of 1% until 2020 and that it would be difficult to model beyond 2020 and factor in pay inflation without adversely impacting on the Fund's liabilities and Council's contribution rates.

**RESOLVED to approve the 2016 Actuarial Valuation.**

## **8 DRAFT FUNDING STRATEGY STATEMENT**

- 8.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report providing an updated Funding Strategy Statement for the Fund, which had been revised following the 2016 actuarial valuation. The draft strategy statement had been circulated to employers seeking their views on how the Fund sets contribution rates.
- 8.2 In response to a question from the Chair regarding discretions for employers considering their contractual arrangements, Ms Cowburn stated that there is an element of discretion when admission bodies are either in deficit or surplus and they have defined contract term date then the contribution rate can be varied.
- 8.3 Councillor Demirci sought clarification regarding differences between Academies and Colleges. Ms Cowburn stated that Academies pay different rates depending on their location and organisational structure.

**RESOLVED to approve the draft Funding Strategy Statement for publication.**

## **9 PENSION FUND BUDGET 2017-18**

- 9.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the 2017-18 budget for the Pension Fund and indicative for the following 2 years, along with an update of the 2016/17 outturn versus budget.
- 9.2 Ms Cowburn highlighted that many factors could impact on the budget such as significant movements in income and expenditure, pay rises and changes in the number of active members.

**RESOLVED to approve the budget for 2017-18 attached at Appendix 1 of the report.**

## **10 PENSION ADMINISTRATION STRATEGY 2017/18**

- 10.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report setting out an updated version of the Pension Administration Strategy to reflect recent regulatory changes including the introduction of the requirement for a local Pensions Board and the role of the Pensions Regulator.
- 10.2 Ms Cowburn outlined the key changes and stated that closer monitoring of employers with persistent and small breaches were being undertaken.

**RESOLVED to approve the updated Pension Administration Strategy for publication.**

## **11 PENSION FUND AUDIT ARRANGEMENTS 2016-17 ANNUAL REPORT & ACCOUNTS**

- 11.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report relating to the the arrangements for the audit of the Pension Fund Report and Accounts for the financial year 2016-17.

**RESOLVED to note the contents of the report.**

## **12 GUARANTEED MINIMUM PENSIONS (GMP) RECONCILIATIONS UPDATE**

- 12.1 Rachel Cowburn, Head of Investments & Actuarial Services provided an update on the Fund's GMP reconciliation (Guaranteed Minimum Pensions) exercise, in particular the progress of Phase 1 of the reconciliation exercise and also outlined the factors for consideration before commencing Phase 2.
- 12.2 Karen McWilliam, Aon, reported that the first phase had been completed and work was being undertaken to proceed to Phase 2 of the reconciliation exercise. The exercise would enable Hackney to maintain accurate records for its scheme members in order to minimise the long term risk associated with holding incorrect records.
- 13.2 Members noted the exempt appendices within the report.

**RESOLVED to consider granting formal approval for the commencement of Phase 2, subject to the regular review of estimated costs as set out in Appendix 1 to this report.**

## **13 SELF ASSESSMENT AND PERFORMANCE OF ADVISERS**

- 13.1 Rachel Cowburn, Head of Investments & Actuarial Services outlined the background to the Annual Self-Assessment Questionnaire and Performance of Advisers Assessment.

**RESOLVED to:**

- 1. Note the report.**
- 2. Individually complete the self-assessment and assessment of advisers questionnaire.**

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

- 14.1 Members were reminded that a meeting of the Special Pensions Committee will be held on 25<sup>th</sup> April 2017 commencing at 4.00pm.

## **15 EXCLUSION OF THE PRESS AND PUBLIC**

**RESOLVED that the press and public be excluded from the proceedings of the Pensions Committee meeting on 29 March 2017 during consideration of the Exempt Appendix at item 5 - Investment Strategy Statement on the agenda on the grounds that it is likely, in the view of the nature of the business to be**

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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.

**16 CONSIDERATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING**

**RESOLVED** that the exempt minutes of the previous meeting held on 24 January 2017 were agreed as a correct record.

**Duration of the meeting:** 6.30-8.00pm

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