APPENDIX 1

Annual Report of the Pensions Committee 2016-2017

ANNUAL REPORT OF THE PENSIONS COMMITTEE 2016/17

1. CHAIR'S INTRODUCTION – COUNCILLOR ROBERT CHAPMAN

1.1 The Pensions Committee has responsibility for the management of the Pension Fund acting as quasi-trustees on behalf of the Administering Authority, the London Borough of Hackney.

1.2 During the 2016/17 municipal year the Pensions Committee undertook an extensive work and training programme, and met 5 times during the year. The Committee carries with it a considerable responsibility to ensure that the Pension Fund, which was valued at £1,391m at 31 March 2017 and has over 23,000 scheme members, is managed in an efficient and effective way. The Committee has responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information.

1.3 2016/17 saw the approval of the Fund's 2016 valuation, with the funding level improving to 77%, up from 70% in 2013. The monetary value of the deficit reduced from £406m to £349m. The Fund remains strongly cash flow positive with contributions and transfers in outstripping benefits paid and transfers out by £22.8 million plus a further net inflow from investments of £14.4 million. This is an area in which the Pensions Committee maintains strong oversight given the maturity profile of the Fund and the ongoing austerity programme affecting public services. Active membership of the Fund has remained stable for the present, helping to maintain the strong cash flow position.

1.4 The Fund has continued its collaborative work through the National LGPS Frameworks project, which continues to deliver efficiency savings for both the Hackney Fund and the wider LGPS. Having been a founder member of a number of previous frameworks, Hackney continued its involvement by acting as a founder on the new Third Party Administration services framework.

1.5 Responsible Investment remained an important area of focus for the Committee during 2016/17. Understanding and managing the risks posed to the Fund by climate change has been a priority; in January, the Committee approved a target for the Fund to reduce its exposure to future fossil fuel emissions by 50% over 6 years. In setting its new investment strategy, the Committee has considered how best to meet this target in line with the move to asset pooling; a number of proposals are now being considered for implementation over the medium term.

1.6 The Fund introduced one new investment mandate during the year, investing £25m in Threadneedle's 'Low Carbon Workplace' property fund, in line with the proposals agreed by the Committee in 2015/16 to help measure and manage the risks faced by the Fund from climate change.

1.7 The Committee agrees a training programme each year to ensure that it is able to evidence it has met the requirements of the CIPFA Knowledge and Skills programme and is able to fulfil the governance role with which it is charged. The Committee takes this aspect extremely seriously and training forms a key part of the agenda for each meeting, along with Committee Members and officers attending additional external training on a regular basis.

1.8 Details on the work and training undertaken by Committee during the municipal year 2016/17 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work for the forthcoming year.

2. COMMITTEE MEMBERSHIP AND ATTENDANCE

2.1 The following Councillors were members of the Committee during the 2016/17 municipal year –

Cllr Robert Chapman (Chair)
Cllr Michael Desmond (Vice Chair)
Cllr Kam Adams
Cllr Feryal Demirci
Cllr Patrick Moule
Cllr Geoffrey Taylor

In addition, Jonathan Malins-Smith is co-opted to the Committee as the Scheme Member Representative. The position of Employer Representative is currently vacant following the end of the contract with Hackney Homes and the return of its staff to the Council.

2.2 The table below outlines Members' attendance at Pensions Committee meetings during the 2016/17 municipal year and the training sessions at which members were in attendance. It is noted that Members have a large number of commitments, including other public meetings and ward commitments, and are therefore not always available to attend meetings of the Committee.

Committee Members Attendance 2016/17									
	27th June		19th September		6th December (strategy)	24th January		29th March	
	Meeting	Training	Meeting	Training	Meeting	Meeting	Training	Meeting	Training
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P	P
Cllr Michael Desmond (Vice Chair)	P	P	P	P	P	P	P	P	P
Cllr Kam Adams	P	P	P	P	P	P	P	P	P
Cllr Feryal Demirci	A	A	A	A	A	P	P	P	P
Cllr Patrick Moule	P	P	A	A	P	P	P	P	A
Cllr Geoff Taylor	P	P	P	P	P	P	P	P	P
Co-Opted Members									
Jonathan Malins-Smith	A	A	P	P	P	P	P	P	P
P = Present									
A = Absent									

3. WORK UNDERTAKEN IN THE 2016/17 MUNICIPAL YEAR

3.1 The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.39bn worth of assets with 23,295 scheme members. The Committee is responsible for deciding the broad asset allocation of the Pension Fund along with its strategic direction and for ensuring the long term solvency of the Fund, i.e. the ability to pay the pensions of all past, present and future scheme members. The Committee has considered a wide range of issues and taken a number of key decisions affecting the Pension Fund. The work of the Committee has broadly fallen under the following categories during the Municipal Year:

3.2 Governance

3.2.1 During the year, the Committee approved the Fund's 2016 actuarial valuation, which saw the funding level improve from 70% to 77%, with the monetary deficit reducing to £349m from £406m. The improvement in the funding level is pleasing to note, and has permitted a decrease in the Council's contribution rate from 36.9% to 34.9% for 2017/18, with further incremental reductions planned over the following two years.

3.2.2 Compliance with The Pension Regulator's Code of Practice has continued to feature on the Committee's agenda during 2016/17. Although following the Code itself is not a legal requirement, it sets out how the Regulator expects the requirements of the Public Sector Pensions Act 2013 should be met. The Regulator has the power to take action where the provisions of the Act are not being met, and will use the Code as a core reference document in deciding on the appropriate action to take. The Committee has considered whether the management of the LB Hackney Pension Fund meets the standards set out in the Code through use of a compliance checklist, and ensured that appropriate processes are being developed for the few areas in which the Fund has not yet achieved full compliance.

3.2.3 The Committee has continued to closely monitor the quality of membership data supplied to the Fund, following a data audit carried out by the Fund's benefit consultants, AON, in 2015/16. The Council, by far the largest employer in the Fund, changed payroll provider in July 2017, meaning that for much of 2015/16, the Council needed to both manage the winding down of the previous contract and prepare for implementation with the new provider. This led to additional challenges with regards to data provision; the Committee have monitored developments closely, whilst officers from the Fund have been closely involved with the implementation project for the new payroll contract. This work has continued into the new municipal year and is likely to continue over the medium term, as the Fund looks to improve ongoing processes as well as completing a data cleansing exercise.

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

3.3 Investments/Asset Allocation

3.3.1 2016/17 has proven a positive, albeit turbulent, year in investment terms. The Fund ended the year valued at £1,391m, compared to £1,172m in 2015/16. Most of the gains have resulted from the Fund's allocation to equity markets, with a weak pound boosting returns from global equities, as well as the performance of the FTSE Allshare with its heavy exposure to foreign currency revenues. Performance across other asset classes has also been largely positive, with property, which suffered following the Brexit vote, the only significant weak point.

3.3.2 The Committee continued to monitor the investment portfolios and the performance of the Fund Managers it employs on a quarterly basis, as well as reviewing the rolling annual, 3yr and 5yr performance. Over the year, the Fund outperformed its customised benchmark by 1.4%, returning 18.9% over the year, compared to 17.5% for the benchmark. Contributors to the overall outperformance included the Fund's equity portfolio, its multi asset holdings, which rebounded strongly following a disappointing 2015/16, and the fixed income portfolio. Detractors from performance included the Fund's emerging markets allocation and pooled property holding.

3.3.3 The Fund introduced one new investment mandate during the year, investing £25m in Threadneedle's 'Low Carbon Workplace' property fund, in line with the proposals agreed by the Committee in 2015/16 to help measure and manage the risks faced by the Fund from climate change. Funds were drawn down in 3 tranches, with £10m funded through switching out of the Fund's existing property mandate in May 2016, followed by 2 further installments of £5m, both funded from cash, in October 2016 and February 2017.

3.3.4 During the year and following the 2016 valuation, the Fund carried out a full review of its investment strategy, setting out an overview of planned changes in its new Investment Strategy Statement (ISS). The most significant of these has been the Committee's decision to reduce the Fund's equity exposure in favour of multi asset credit, in light of the improved funding level and recent increases in equity valuations.

3.4 LGPS Structural Reform and the London CIV

3.4.1 2016/17 continued the theme of major changes for the LGPS, with further fundamental changes being made to the way investments are managed. In September 2016, the Government made and laid the long awaited LGPS (Management and Investment of Funds) 2016 Regulations, as well as publishing associated guidance. The Regulations dispense with the current, explicit limits on specified types of investment and, instead, charge administering authorities with determining the appropriate mix of investments for their funds. The quid pro quo for more freedom in the formulation of investment strategies is an obligation upon administering authorities to adhere to official guidance and broad powers allowing the Government to intervene if they do not.

3.4.2 The new Regulations also removed the requirement for funds to produce a Statement of Investment Principles (SIP), replacing it with the new Investment Strategy Statement (ISS), which must set out in detail not only an administering authority's asset allocation strategy, but also its plans for asset pooling and approach to Environmental, Social and Governance (ESG) consideration, amongst other items. Hackney's ISS was considered on detail by the Committee on numerous occasions during 2016/17, with approval granted for the finalised statement at the March 2017 meeting, ahead of the 1st April deadline.

3.4.3 The Fund's ISS sets out its medium term plans for moving its assets to its asset pool of choice, the London CIV. With no common mandates with other London boroughs, the Fund currently has no assets on the pool; however, planned changes to its asset allocation will start to bring assets onto the pooled structure from 2017/18. Whilst decisions around manager selection for these assets will rest with the pool, the decision on how the Fund will invest and in which investment strategies will remain with the Committee as the body responsible for the management of the Fund

3.5 Stewardship and Corporate Governance

3.5.1 The Committee appreciates that it has responsibilities as a shareholder in the underlying companies that it holds in the portfolio and considerable time and discussion has taken place on ways to improve the Fund's stewardship arrangements. One issue particularly recognised is that of fossil fuels and their impact on climate change. The Committee has recognised that these issues could present systemic risks to the planet, but could also have a material impact on the financial position of the Pension Fund. It therefore has a long running workplan in place to ensure that this issue is addressed within the Fund's investment strategy.

3.5.2 During the year, the Committee approved a target for the Fund to reduce its exposure to future fossil fuel emissions by 50% over 6 years. In setting its new investment strategy, the Committee has considered how best to meet this target in line with the move to asset pooling; a number of proposals are now being considered for implementation over the medium term.

3.5.3 The Committee has also considered a range of other measures to enhance its approach to wider corporate governance, ethical and social issues, including reviewing the options for a governance overlay service. The Fund has reaffirmed its membership of the Local Authority Pension Fund Forum (LAPFF), which is a collection of Local Authority funds who by acting collectively are able to apply pressure to management of companies to try to improve their governance standards.

3.6 Financial Monitoring including Annual Report and Accounts

3.6.1 At the Pensions Committee meeting on 19th September the Committee were presented with the 2015/16 Pension Fund Annual Report and Accounts for approval post- audit. The audit confirmed that there were no major issues with the accounts and that the auditors were satisfied with their findings.

3.6.2 A draft audit plan for the Pension Fund for the 2016/17 Financial Statements was considered at a meeting on 29th March 2017.

3.6.3 The Committee also received and approved the Pension Fund Annual Budget for 2017/18 and a review of the position for the budget for 2016/17 at its meeting on the 29th March 2017. Quarterly budget monitoring was undertaken during the year in order to better monitor the cashflow position of the Fund.

3.6.4 The Committee reviewed and approved an updated Treasury Management Strategy for the Pension Fund at its meeting on 24th January 2017.

3.7 Other Collaborative Working

3.7.1 The Committee has been kept informed of the work that the Fund has been involved in on the National LGPS Frameworks for procurement, delivering efficiency savings both for the Fund itself and across the LGPS. The Fund has remained an active participant in the project during 2016/17, being involved in finalising a new framework for third party pension administration. As detailed earlier in the report, the Fund subsequently commenced a mini-competition through the Framework during 2016/17.

3.8 Training

3.8.1 As part of the process of enabling Committee Members to fulfil their roles as quasi-trustees of the Pension Fund and the need to meet their fiduciary and regulatory responsibilities, the Committee were provided with a training session prior to each meeting. The CIPFA Knowledge and Skills Framework sets out in considerable detail the level of knowledge and skills that are expected of Committee Members who hold responsibility for the management of LGPS Funds; it is therefore vital to ensure that appropriate levels of training are available to Committee Members.

3.8.2 The topics covered in the training programme for Members were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them.

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

Dedicated Training	Date
Active versus passive equity investment (KSF4)	27/06/2016
Actuarial Valuation (KSF6)	19/09/2016
Asset Liability Modelling (KSF6, KSF4)	06/12/2016
Pensions Legislation and Governance (KSF1)	24/01/2017
Financial Markets and Product Knowledge (KSF5)	29/03/2017
Supplemental Training	**Date**

Pensions Administration	27/06/2016
Investment Pooling – Legislative and Governance Context (KSF1)	27/06/2016
TPR Code Compliance (KSF1)	19/09/2016
Pension Fund Report and Accounts (KSF2)	19/09/2016
Section 13 GAD Reporting (KSF6)	19/09/2016
Investment Pooling Update (KSF1, KSF5)	24/01/2017
Pension Fund Risk Register (KSF1, KSF4)	24/01/2017
Third Party Administration Procurement (KSF3)	24/01/2017
Actuarial Valuation Final Report (KSF6)	29/03/2017
Investment Strategy Statement (KSF4)	29/03/2017
Strategy Meeting Supplemental Training	**Date**
Investment Strategy (KSF4, KSF5)	06/12/2016
Asset Liability Modelling (KSF6, KSF4)	06/12/2016
Third Party Administration – Procurement (KSF3)	06/12/2016

3.9 Ad-hoc Projects

3.9.1 The Committee also reviewed a number of other projects during the municipal year covering a range of topics as set out below:

- Pension Fund Risk Register – The Committee considered an updated Pension Fund Risk Register at its Committee meeting in January, ensuring a good understanding of the wider risks facing the Fund.
- Policy Reviews – Both the Communications Policy and the Pensions Administration Strategy were reviewed and approved by the Committee during the year as part of a rolling programme to ensure that policy documents are reviewed on a regular basis and any necessary changes are considered and approved.

4. WORK PROGAMME 2017/18

4.1 During the 2017/18 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Stewardship and Corporate Governance
- Report and Accounts 2017/18
- 2018/19 Budget
- Business Plan 2017/20
- Asset pooling update
- Implementation of planned Investment Strategy Changes
- Update on progress of climate change resolutions
- Quarterly monitoring – covering Funding, Budget, Investment, Administration
- Governance
- Membership data quality update/Data cleansing exercise
- Fund Manager Reports
- GMP reconciliation exercise
- Regulatory changes and consultations

- Pension Fund Risk Register
- Training Programme
- Policy reviews, including administering and employing authorities' discretions policies
- Implementation of MiFID II