Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 12TH DECEMBER, 2018

Councillors Present:	**Councillor Robert Chapman in the Chair** Cllr Michael Desmond (Vice-Chair), Cllr Kam Adams, Cllr Polly Billington, Cllr Ben Hayhurst and Cllr Rebecca Rennison
Co- Optee	Jonathan Malins-Smith (Scheme Member Representative)
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), Julie Stacey (Head of Pensions Administration), Pradeep Waddon (Head of Treasury and Banking) and Sean Eratt (Legal Services).
Also in Attendance:	Andrew Johnston} Hymans Robertson Simon Jones } Neil Sellstrom - PIRC A representative of LAPFF Karen McWilliam – AON Hackney Divest

1 Apologies For Absence

1.1 There were no apologies for absence.

1 Declarations of Interest - Members to declare as appropriate

2.1 There were no declarations of interest.

3 Consideration of The Minutes of The Previous Meeting

3.1 **RESOLVED that the minutes of the meeting held on 12 September 2018 be confirmed as a correct record.**

A representative of Hackney Divest presented Members with Christmas cards from young children requesting the Fund disinvest from fossil fuel.

4 Responsible Investment - Training/Discussion paper

4.1 Rachel Cowburn introduced the report providing a broad overview of the Fund's approach to Responsible Investment across two dimensions: sustainable investment and effective stewardship. In addition, consideration had been given to the applicable legislation and guidance and best practice across each dimension and the areas where the Pension Fund could look to change and improve its approach.

4.2 Simon Jones, Hymans Johnston delivered training on responsible investment.

An introduction to responsible investment and understanding and addressing the risks of climate change

- The language of responsible investment can be somewhat confusing
- The PRI uses a definition of responsible investment that emphasises the health of the market as a whole.
  - Principles for responsible investment
- We focus on two key dimensions of responsible investment
  - Sustainable investment
  - Effective stewardship
- There are a range of Environmental, Social, Governance (ESG) factors although they affect different companies/ investments in different ways
  - Operational risks
  - Systemic risks
- Investors have responsibility to consider material financial factors and the Law Commission has clarified fiduciary duty.
  - Financial factors
  - Non- financial factors
- Guidance also requires that responsible investment is considered in your decision making
- Investment can also give rise to unwanted reputational risks
- But primarily, unrecognised ESG risks can have a material financial impact on investor outcomes
- These outcomes can be seen in debt as well as equity investment and changing legislation/policy may also affect asset valuations and prospective returns
- Investors have the ability to positively influence corporate behaviour
- There is good evidence that strong governance can be value additive
- There is a spectrum of positions on responsible investment that investors can take although compliance is not an option
  - Core position
  - Active position
  - Leading position
- Responsible investment can be a journey, and investors should start by focusing on the status quo although it is a topic that can be addressed at each stage of the investment process
  - Objectives/constraints
  - Investment strategy
  - Market influences
  - Solutions
  - Monitoring

4.3. Mr Malins- Smith stated that Members needed to focus on reducing the Fund's deficit by either achieving higher returns on investments or setting higher contribution rates for both scheme employers and employees. Ms Cowburn emphasised that the LGPS was a statutory scheme and employee contributions were set nationally. Mr Jones stated that factors under responsible investment could have a material impact on investments. The Chair noted that social factors also affected investment and that there was a correlation between board diversity and investment performance.

4.4 Councillor Billington asked if the Pension Fund's responsible investment profile had been impacted by the climate risk requirement for financial disclosure and ensuring compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Mr Jones stated Hackney had taken steps to reduce its carbon risk exposure within its equity portfolio and had benefited from the recommendations. The TCFD had raised the serious issue of climate change risk in relation to long term financial stability and had set out its recommendations for Fund Managers to comply with. Compliance would also ensure that investors had access to better quality information in order to make financial decisions. Ms Cowburn added that the Committee's decision to set a target for reducing fossil fuel investments had been influenced by other larger London Pension Funds focusing on climate challenges. The long term aim of responsible investment was to work with Fund Managers and aspire to reduce climate risk. Mr Jones stated that engagement with companies was part of responsible investment and that Pension Funds as asset owners needed to respond to climate change challenges by having good policies in place to realise objectives and outcomes.

4.5 Mr Malins-Smith emphasised that the Fund also faced serious investment issues that had to be addressed due the underperformance of the equities exposure. Mr Jones indicated that Members could consider investment strategy, investment structure and embedding financial consideration in its approach for asset classes. In addition, it was important that investment returns and responsible investment were considered as part of an integrated investment decision. The Chair advised that an investment update would be provided at the next meeting.

4.6 A representative from LAPFF discussed the paper circulated at the meeting highlighting that LAPFF represented a total of £230bn of LGPS assets and was the largest shareholder engagement organisation in Europe. The performance service LAPFF offered to members included: company engagement, voting alerts, members briefing, policy guidance, annual reporting, commissioning legal opinion, AGM briefing and attendance, shareholder resolution filing support, quarterly engagement reports, trustee guides and consultation responses. Its current workplan theme included LGPS reform, fringe meetings, networking, training, leadership, research and new initiatives, share buybacks, corporate tax transparency, environmental risk management, holding based engagement, ESG concerns, member liaison, executive pay and AGM and strategy meetings.

4.7 Ms Cowburn referred to the challenges of exercising voting rights in particular as a large investor in the London Collective Investment Vehicle (LCIV) and ensuring that the LCIV voting policy made it mandatory for Fund Managers to vote in line with LAPFF voting alerts. The LAPFF representative indicated that LCIV had been meeting its statutory obligation in respect of responsible investment but faced challenges in formulating a responsible investment strategy in relation to a pooled fund and voting in line with LAPFF voting alerts. Officers were advised to engage with LCIV to clarify its voting process and that LAPFF could also provide a schedule of voting alerts issued and Fund Managers voting. Ms Cowburn explained that it was important to apply pressure on the LCIV to develop a more comprehensive voting policy including responsible investment protocols to ensure its Fund Managers voted in line with LAPFF voting alerts at meetings and a proposal to purchase a voting overlay service, which provided both advice and proxy voting services that enabled the outsourcing of the voting process. This service would allow individual Fund investors within a pooled vehicle to communicate their voting decision to their local adviser and for the adviser to vote on its behalf at shareholder meetings.

4.8 The Chair advised that a letter would be drafted to LCIV regarding the issue of its shareholder voting policy and protocols. The draft letter would be circulated to Members for comments and an update would be provided at a future meeting.

RESOLVED to:

1. **Note the contents of the report.**
2. **Consider priorities for improvement to the Fund's approach to Responsible Investment**

5 LGPS Performance Universe Presentation

5.1 Rachel Cowburn introduced the report from Pensions and Investment Research Consultants (PIRC) Ltd, the provider of the LGPS Performance Universe formerly delivered by WM (State Street).

5.2 Neil Sellstrom, PIRC, gave a presentation on Local Authority Pension Performance Analytics and also circulated the Annual Report 2017/18.

PIRC Pension Performance Analytics

- Our universe
  Has a 30 year history. Measures 62 LGPS Funds and at end of March theses were valued just under £80bn.Collect portfolio and overall fund level data on monthly basis for each fund. Comprehensive database of LGPS Investment available
- Latest year results
  Average LA fund produced return of 4.5%.
- What we did well?
  Property, Hedging, Private Equities and Absolute Return Bond
- And less well
  UK equities, Diversified Growth Funds and cash
- Equities
- What changed?
  Equity exposure fell to its lowest level since LGPS began
  Multi asset credit and diversified income strategies gained ground, move away from index based benchmark towards absolute return benchmark
  Reduction in the level of passive investment
  Major switches across index tracking managers as funds moved to take advantage of reduced fees negotiated at pool level
- Longer term performance has been excellent
  Last ten year return average 7.7% p.a.
- Range of results has been wide
- Strategic asset allocation has been key
- Risk and return – last ten years

- Risk and return – performance by pool
- Active management
- Investment performance
- Does active management meet expectations
- An interesting challenge
- UK equities

5.3 Councillor Hayhurst sought clarification regarding active and passive management. Mr Sellstrom replied that this referred to the benchmark given to the Fund Manager to perform against for example passive manager performance would be benchmarked against the FSTE benchmark. Active managers were expected to meet an agreed outperformance target and would look across all the stocks in the universe for additional returns.

5.4 Councillor Desmond asked if equity included currency fluctuations and whether the prediction for property had been influenced by recent figures. Mr Sellstrom confirmed that equities included currency variations and that Fund Managers managed these variations as part of their portfolio. The performance information relating to property had been based on historical data and was not a guide to future investment performance. However, property had performed strongly since the financial crisis.

RESOLVED to note the contents of the report and presentation.

6 Alternative Credit - Strategy Decision

6.1 Rachel Cowburn introduced the report providing a summary of the review process undertaken by the Fund to identify a suitable private debt strategy and providing an overview of the options available including both strategy selection and implementation. Ms Cowburn outlined the recommendations within the report and the funding of a new private debt mandate by reducing the Fund's exposure in equities.

6.2 The press and public were excluded from the proceedings of the meeting during consideration of exempt appendices.

RESOLVED to:

a. **Approve a target allocation of 10% of Fund assets to private debt, using the strategies selected by Project Monument;**
b. **Approve the recommended structure for the private debt mandate, being a £95m commitment to Permira and £65m commitment to Churchill (representing c.11% of assets);**
c. **Agree to pursue mitigation of currency exposure in the most advantageous manner for the Fund; and**
d. **Approve a temporary allocation of 5.5% (half the proposed total private debt mandate) BlackRock's Sterling Ultra Short Bond Fund to manage cash drawdowns during the investment period for the mandate.**

7 Third Party Administration Contract Implementation update

7.1 Julie Stacey introduced the report providing an update on the new contract with Equiniti for Third Party Administration Services for the Hackney Pension Fund and the benefits to the Fund and its stakeholders.

7.2 Councillor Hayhurst enquired about the contract with Equinti. Ms Stacey clarified that the contract with Equniti had been renewed and that the data issues had resulted from the employer not being able to provide good quality data.

7.3 Councillor Billington asked about the impact of the data issue for scheme members. Ms Stacey advised that this issue could potentially affect future pay and therefore it was necessary to ensure that contribution bands and pension service information were up to date. This could be undertaken by looking at the hours, potential part- time issues, historical service prior to CARE and prior service and this information would be used for future pay. However, if this information was incorrect then incorrect benefits would be paid to members. The whole process of data cleansing was continual and automating as much of the processes would also cleanse and improve data. Mr Malins-Smith added that the Head of HR and Electoral Services had been invited to a future meeting of the Pensions Board to address this issue.

RESOLVED:
To note the contents of the report and particularly the improvements the new third party administration contract will provide to the scheme members, employers and Hackney Council in its role as the administering authority to the Fund.

8 Pension Fund Risk Register and Policy Update

8.1 NOTED the Hackney Pension Fund Control Risk Register circulated at the meeting.

8.2 Rachel Cowburn introduced the updated Pension Fund Risk Register that summarised the potential significant risks that the Fund was exposed to and controls in place to manage the risks and an updated Risk Policy.

8.3 The Chair indicated that Members wanted an annual review of all risks and asked Members to directly feedback to Ms Cowburn regarding the format.

RESOLVED to:
- **a. Note the updates to the format of the risk register**
- **b. Approve the updated risk policy**

9 Pensions Fund Quarterly Update

9.1 Rachel Cowburn introduced the report providing an update on the key quarterly performance measures, the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting breaches.

9.2 The Chair queried the rise in the total opt outs for 2018/19 and the fall of 700 active members. Ms Cowburn explained that there had been no underlying factor for the increase in opt outs and it was not a general trend. Ms Stacey replied that it was expected that the number of active members would decrease following data cleansing.

RESOLVED to note the contents of the report.

10 Draft Pension Administration Strategy 2019/22

10.1 Julie Stacey introduced the report on the draft Pension Administration Strategy for 2019/2022, which had been updated to reflect changes to the Fund's third party administration contract.

10.2 Ms Stacey reported that the Pensions Board had recommended an amendment in the first paragraph at page 183 of the strategy from '5 or more' to '3 or more repetitive…'

RESOLVED to:
1. Approve the review period of the Pension Administration Strategy to change from annually to every 3 years, notwithstanding the requirement to review and amend when regulations changes
2. Approve the updated Pension Administration Strategy be issued for consultation with employers and other interested parties subject to the above amendment.

11 Training Needs Analysis

11.1 Ian Williams introduced the report and stated that a questionnaire had been circulated for Members to indicate their training needs, their views on the effectiveness of the Pensions training and setting out their preferences with regards to training styles. This questionnaire would provide officers with information to customise individual training plans and ensure the Fund was complying with the requirements of the CIPFA Knowledge and Skills Framework and in line with Markets in Financial Instruments Directive (MiFID) II.

11.2 With the changes in Committee membership, it was recognised that Members needed individual training sessions and support to meet their individual needs. Members commented that the skills audit should have fewer questions, focus more on knowledge and use plain English. The Chair requested that the skills audit be updated to reflect Members comments, be more user friendly and that the training must be relevant.

11.3 It was noted that the deadline of 31st January 2019 within recommendation 2 be deleted.

RESOLVED to:
1. Note the report
2. Individually complete and return the Training Needs Self-Assessment questionnaire.

12 Pension Fund Treasury Management Strategy

12.1 Rachel Cowburn introduced the Treasury Management Strategy for the Pension Fund for 2019-2022.

RESOLVED to:
1. **Agree the Treasury Management Strategy for the Pension Fund for 2019-2022.**
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 in line with the Council's own creditworthiness policy.

13 Any Other Business Which in The Opinion Of The Chair Is Urgent

Brexit Briefing

13.1 Rachel Cowburn presented the Brexit briefing paper circulated at the meeting. It provided an update on Brexit and the potential impact on the Pension Fund's investments. It was noted that a future meeting could be necessary to enable changes in the Fund's investment strategy following Brexit on 29 March 2019.

RESOLVED that Brexit briefing be noted.

14 Exclusion of The Press And Public

RESOLVED
That the press and public be excluded from the proceedings of the meeting during consideration of the Items 6 – Alternative Credit- Strategy Decision 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.

Duration of the meeting: 6.30 - 9.25 pm

Contact:
Rabiya Khatun
Governance Services
020 8356 6279