

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 26TH MARCH, 2019

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

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) and Sean Eratt (Legal Services).

Also in Attendance: Andrew Johnston – Hymans Robertson
Catherine Pearce - Aon
Erik Pickett - Club Vita LPP
Nikolay Yankov - Club Vita LPP

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 and Desmond declared a non-pecuniary interest as deferred members of the LGPS.

2.2 It was noted that Members of the LGPS had their interest recorded in the annual declarations of interest form.

3 Consideration of The Minutes of The Previous Meeting

The following amendments were noted:

- Paragraph 4.2 – amend Johnston to Roberston.
- Paragraph 4.8 - the action to be included as part of the resolution

The Chair provided an update regarding the draft letter to London CIV.

RESOLVED that the minutes of the previous meeting held on 12 December 2018 be agreed as an accurate record subject to the above amendments.

4 Training & Longevity Update -Club Vita

4.1 Rachel Cowburn introduced the report and the representatives of Club Vita LPP.

4.2 Erik Pickett and Nikolay Yankov, Club Vita LPP gave a presentation on the latest developments in longevity:

What is Club Vita

Club Vita

- UK based centre of excellence for improving understanding of human longevity
- Community of organisations with a shared interest in longevity and belief that the 'bigger' the data, the lower the 'statistical' noise
- Provider of longevity risk informatics to support pension funds risk management strategies and enable market innovation

Club Vita's data bank

- Records for over 2.9m UK pensioners
- Over 1.4m death records
- Segmented by affluence, postcode, health and more

Two steps to calculate life expectancy

- Baseline longevity
- Future trends

Current longevity

VitaCurves baseline model

- Rich data set gives us a best in class baseline model
- Postcode, flexible, fully tailored
- Bottom up approach built from individual assumptions
- Allows for changes in demographics over time

Vita's lifestyle effect

Benchmarking - lifestyle, affluence and longevity experience

Impact of updating VitaCurves – Making allowance for the latest data on current mortality will slightly reduce liabilities

Future longevity

National slowdown in life expectancy

What might be driving the slowdown

- Exhausted the era of cardio-vascular improvements with no replacement driver of improvements
- Austerity impacting on health outcomes
- Rise of Dementia
- Strong investment in health care were abnormally good in 2000s
- Frailty decline
- Data anomaly

Longevity trend groups and key features

VitaSegments trend analysis – What is the make-up of your scheme's liabilities

VitaSegments profile of your Fund – Comfortable group significant proportion of liabilities

The Continuous Mortality Investigation (CMI) 2018 model

- What has changes in the new model
- What does it mean for pension schemes

Further information - Membership profiling and our range of scenarios

4.3 Cllr Billington enquired if gender was a factor affecting longevity. Mr Pickett stated that it had been difficult to draw conclusions for the female population as more data analyse was needed and that the analysis was refreshed yearly to ascertain if other factors were impacting on longevity.

4.4 Mr Malins-Smith referred to the map and noted that the statistics were from 2017 and did not reflect the rapid change in the borough including the rise in younger and affluent residents and pension scheme members. In addition, with younger people in the scheme the Fund's liabilities would continue. Mr Pickett stated that statistics were based on data collated over several years and the postcode models were updated annually to provide the most up to date information on the baseline. Data was also changing and continual monitoring was needed to observe any further developments.

4.5 Cllr Hayhurst sought clarification regarding the postcode model and enquired whether the affluence data had been collated from other data sets or earnings data from Pension Funds. Mr Pickett replied that the postcode model had been broken down into full postcodes and that Club Vita collected affluent measures from all its Pensions Funds scheme members' records that included salaries.

4.6 Cllr Adams enquired about the factors that determined life expectancy. Mr Pickett indicated that Club Vita carried out a principal component analysis to identify the factors that had the biggest individual effect and that the model had been built so that if a particular data was not available it could still model life expectancy. The factors that were available were used in measuring life expectancy.

4.7 The Chair enquired about the impact of Alzheimer's disease on longevity. Mr Pickett explained that the number of deaths attributed to Alzheimer's had been risen due to the increase in the aging population and had impacted on life expectancy. Any medical progress in treating or curing this disease would prolong life and increase life expectancy and impact on longevity.

4.8 The Chair noted a slight decline in the Fund's total liabilities. Mr Johnston stated that longevity impacted on the Pension Fund's assumptions and investment decisions.

RESOLVED that the contents of the report and presentation be noted.

5 Exposure to Fossil Fuels - Review of Progress

5.1 Rachel Cowburn introduced the report providing an update on the implementation of the Pension Fund's carbon reduction target including an overview of the target set in 2016/17, changes to the Fund's asset allocation since 2016/17 that had helped reduce carbon exposure and a formal review of the progress along with further measures for the future. The formal review would be carried out by Trucost in June 2019 including an interim carbon risk review allowing the results to be considered at a strategy setting exercise scheduled early 2020.

5.2 The Chair stated that the Fund's strategy had been successful in reducing its fossil fuel exposure and welcomed the significant progress made towards meeting

the Council's carbon reduction target and becoming carbon-free Fund by 2050. An interim carbon risk review would be carried out by Trucost in June 2019, which would allow for comparability between the original and interim reports. The Committee would be able to consider the results during the next strategy setting exercise in early 2020 and review the carbon reduction target and investments based on the outcome of the 2019 valuation. The review would include a comparison of the exposure to reserves for the current equity portfolio against the same portfolio in 2016 using current carbon reserves data; an analysis of fund manager's operational emissions and exposure to reserves of the Fund's current equity and bond portfolios, and relative to benchmark; and an analysis of the Fund's alignment to internationally agreed future global warming scenarios

5.3 Cllr Hayhurst referred to the fossil fuel exposure from 7.09% in July 2016 down to 4.51% in December 2018 and asked if there was any analysis of the returns on the remaining 4.51% in particular the difference in the level of holdings and value of holdings, and whether to retain this holding. Ms Cowburn stated that there was no breakdown of the returns on the remaining 4.51% by stock level as the focus was on the monetary value across the Fund's holdings including coal mine, oil and gas, multi utilities and general miners where a company fell in the Carbon Underground 200. Disaggregating the returns by stocks as well as ascertaining full carbon exposure would be a challenge as investments were increasing being made in pooled funds such as London CIV. Pooled funds did not provide stock holding information and since July 2016 until December 2018 the Committee had made significant changes in the Fund's portfolios. It would not be possible to give performance information on individual stocks. Mr Johnston added that future performance could not be based on past performance.

5.4 Cllr Hayhurst requested that going forward if the returns from the pooled fund could be disaggregated to enable Members to discharge their fiduciary duty. Ms Cowburn replied that the future plan was to report performance by sector including passive index trackers, oil and gas sectors. Also, predicting long term trends would be a challenge as the oil and gas sector had recently outperformed the low carbon sector.

5.5 With regard to the difference in quantity and value of stock, Ms Cowburn stated that the Fund looked at the monetary value of its holdings and at present there were no direct holdings in fossil fuel companies. Information on the number of stocks held in the Fund's segregated mandates had been previously available but as the Fund had moved towards pooled investment this information was no longer available and the monetary value measure had become less relevant. The focus in the future would be to analyse the risk to the Fund by analysing carbon reserves and the underlying assets which the Fund could be exposed to through companies.

5.6 Mr Malins-Smith commented that there was an international demand for energy and that the Fund's investments should be diverse. Ms Cowburn stated that the pricing of fossil fuel stocks was volatile and that it would be a challenge to identify long term trends. The Chair emphasised that Members understood their fiduciary responsibility and the risks of stranded assets to the Fund. Ms Cowburn added that the 50% reduction target had been set with regard to member's fiduciary responsibility and not restricting the Fund's investment universe or investment choices. The Council's approach in reducing long term exposure had been to consider financial risks and factors such as social, environmental and corporate

governance (ESG) when investing. The Law Commission and TPR guidance also set out that climate change could be considered a material financial factor in investment making decisions.

5.7 Cllr Hayhurst asked why some organisations could make claims that they were carbon free without evidence. Ms Cowburn stated that she was not aware of any local authority Pension Fund that was carbon free and that Hackney had been working with other Pension Funds adopting a similar approach to reducing exposure within the existing parameters of a Fund's investment strategy and fiduciary responsibility. The Chair emphasised that the Hackney Pension Fund had set a clear carbon reduction target that could be measured and reviewed. Ms Cowburn explained that some charitable foundations had also made strong public commitments and progress towards carbon reduction target and that these charitable organisations had fewer obligations and a different focus regarding fiduciary duty and less constraints and liabilities than LGPS Funds. Charities were also unrestricted in investment choices as they were set up for particular purpose of raising funds and did not have to pay pensions.

5.8 The Chair enquired about the change in the terms of reference. Ms Cowburn stated that it reflected changes in international policy background and focused on different climate rule scenarios with particular focus on IPCC 1.45%.

5.9 Cllr Billington referred to the global warming of 2°C in the previous assessment to 1.5°C and asked if any adjustments were needed and the other factors to be considered at the review. Ms Cowburn confirmed that discussions had taken place with the supplier with regard to the adjustment of the parameter to 1.5 °C. The strategy exercise would focus on the outcome of the interim review, updates on the impact of fossil fuels and the Council's target to becoming carbon-free by 2050. Renewable energy would also be considered at the meeting in 2020.

5.10 Cllr Billington enquired how Members could scrutinise the investment strategies at the London CIV. Ms Cowburn stated that officers and Members represented the Pension Fund at the London CIV boards ensuring that they engaged and contributed to the responsible investment strategy, investment strategies and getting low carbon investment on the London CIV's agenda. The Chair emphasised that engagement was important.

5.11 A representative of the Hackney Divest addressed the Committee welcoming the Council's climate emergency declaration and enquired how Fund would be responding to the declaration. A representative referred to an insurance company that had committed to fully divest from fossil fuel.

5.12 The Chair highlighted that the Committee had adopted an interim strategy to address climate change risk and officers were delivering on the reduction target. In addition, Members had a fiduciary duty to consider the returns for scheme members and shareholders as well as climate change risks. The reduction target would be reviewed in 2020.

5.13 Discussion relating to the exempt appendices is set out in the exempt minutes.

RESOLVED to:

- 1. Note the contents of the report.**
- 2. Approve the proposal to commission a formal interim carbon risk audit at an expected cost of £10-£20k.**

6 Pension Fund Actuarial Valuation 2019 - Introduction & Cost Cap

6.1 Rachel Cowburn introduced the report and Mr Johnston outlined the 2019 valuation process and the indicative timetable and Treasury Cost Cap mechanisms.

RESOLVED to note the contents of the report.

7 Pension Fund Quarterly Update

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

7.2 Addressing the Fund's funding level and investment performance, Ms Cowburn reported that as at the end of December 2018 the funding level was 74.5% compared to 77% as at end of March 2016. There had been a significant decrease in funding level from the previous quarter of 81.3% and the poor investment performance had resulted from an extremely challenging quarter in investment markets. The funding level of 74.5% had been based on the Fund having assets worth £1,396m and liabilities of £1,874m. The monetary deficit had increased from £350m in March 2016 to £479m in December 2018. The deterioration in funding level had resulted from increases in the estimated liability value as well as a reduction in total assets that had been driven by changes in inflation of gilt yields.

7.3 The Chair enquired about the current position of the Fund. Ms Cowburn stated that the Fund's recent position had slightly improved. Mr Johnston emphasised that there had been an increase in assets and liabilities. Equity levels were almost back to normal and Brexit concerns had led to a 30 basis points change in gilt yields that had resulted in an increase in liabilities.

7.4 Cllr Billington asked whether safeguarding from risks such as interest rates should be considered at the next investment strategy review. Mr Johnston stated that as pension scheme was ongoing the Committee should focus on key risks such as whether interest rate sensitivity was a real risk or due to particular circumstances.

7.5 Cllr Desmond referred to drop in overall active membership from 7,558 in 2017/18 to 6,911 in 2018/19. Ms Stacey advised a data cleansing exercise had been undertaken and a number of un-notified leavers and opt outs had been identified and had now been processed following receipt of the correct paperwork from the employers. There had also been a reclassification of 'work in progress' with cases being undertaken for active members now being moved to a 'restricted' status that removed them from the active membership numbers and the current figures were now more accurate. Ms Cowburn added that auto enrolment had increased the work for the administrator as some employees had opted in for short periods.

RESOLVED to note the contents of the report.

8 GMP Reconciliation

8.1 Julie Stacey introduced the report providing an update on the Fund's Guaranteed Minimum Pensions reconciliation exercise and the progress of Phase 2 of the reconciliation exercise including the factors for increasing the budget to complete this phase. Ms Stacey outlined the proposal and budget for beginning the next phase of the project Phase 3a – Certification & Rectification (Initiation stage).

RESOLVED to:

- 1. Approve additional budget of £56k to complete the outstanding Phase 2 work required on the remaining pensioner and deferred members and active members with pre-1997 service.**
- 2. Approve an initial budget of £60k to allow Phase 3 to commence.**

9 Pension Administration Strategy 2019/22

9.1 Julie Stacey introduced the final version of Pension Administration Strategy for 2019/22, which had been out for consultation and updated to reflect the changes to the Fund's third party administration contract.

RESOLVED to approve updated Pension Administration Strategy for publication.

10 Pension Fund Communications Strategy Statement 2019/21

10.1 Michael Honeysett introduced the updated draft Communications Strategy Statement for the Pension Fund following a review of the strategy.

10.2 Members asked if the Pension Fund's strategy could be publicised widely within the borough via Hackney Today to provide information and encourage interest in the Fund. Mr Williams indicated that the Team undertook pensions training sessions to raise awareness amongst scheme members including pre-retirement and scheme update seminars and would explore putting an article in Hackney Today. Ms Stacey added that an annual newsletter was sent to scheme members setting out asset allocations and a satisfaction survey was sent following contact with Equinti. It was reported that of the 300 surveys sent to scheme members no surveys had been returned.

RESOLVED to approve the Communications Strategy Statement 2019/21.

11 Admissions Policy & Funding Strategy Statement - Admitted Bodies (2019)

11.1 Rachel Cowburn outlined the updates to the Pension Fund Admissions Policy and Pension Fund's Funding Strategy Statement. The existing policy incorporated the changes in regulation in particular the introduction of the Exit Credit payment by an administering authority to exiting employers. With regard to new contracts, those employers with any risk sharing arrangements in place when entering the Pension Fund would not be entitled to receive an exit credit when ceasing the scheme.

RESOLVED to approve the updated Admissions Policy, Employer Admissions to the Fund (2019).

12 Conflicts of Interest Policy

12.1 Rachel Cowburn provided an update to the Fund's Conflicts of Interest Policy and an overview of the changes made to the policy since the last review. Ms Cowburn advised that a conflict of interest form would be sent to Committee members for them to declare any potential conflicts of interest.

12.2 Ms Cowburn clarified that Members would be approving the policy and requested that the word 'draft' be deleted from the recommendation.

12.3 Mr Malins-Smith requested the updated document be reviewed and any job titles corrected.

12.4 In response to a query from Mr Malins-Smith, Mr Eratt advised that the AON representative in her capacity as an adviser of the Committee could remain during a discussion of a potential conflict of interest during the private session of the meeting.

12.5 Discussion during the private session of the meeting is set out in the exempt minutes.

RESOLVED to approve the updated Conflicts of Interest Policy subject to corrections to a job title.

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

13.1 There was no other urgent business.

14 Exclusion of the Press and Public

RESOLVED

That the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of the exempt items 5 (appendix 3) and 12 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.

15 Consideration of the Exempt Minutes of the Previous Meeting

RESOLVED that the exempt minutes of the previous meeting held on 12 December 2018 be agreed as an accurate record.

Duration of the meeting: 6.30-8.55pm

Contact:

Tuesday, 26th March, 2019

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