APPENDIX 1

Annual Report of the Pensions Committee 2019-2020

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ANNUAL REPORT OF THE PENSIONS COMMITTEE 2019/20

1. CHAIR'S INTRODUCTION – COUNCILLOR ROBERT CHAPMAN

1.1 The Pensions Committee is responsible for the management of the Pension Fund and acts on behalf of the London Borough of Hackney as the administering authority. We have responsibility for all aspects of managing the Pension Fund, including the Fund's investments, maintaining member records and ensuring that governance arrangements are appropriate. This is a considerable responsibility; the Pension Fund was valued at £1.493bn at 31 March 2020 and has circa 25,000 members.

1.2 2019/20 has been a busy year for the Hackney Pension Fund, with a review of the Fund's carbon exposure carried out and the completion of the 2019 valuation. The Fund has also implemented significant improvements to its third party administration service in addition to dealing with the initial impact of the Covid-19 pandemic towards the end of the year.

1.3 In 2016/17, the Hackney Pension Fund committed to reducing its exposure to fossil fuel reserves by 50% over 6 years, reducing the Fund's exposure to carbon risk and aligning it with the 2 degrees scenario set out in the Paris Agreement. During 2019/20, we carried out an interim review to assess progress against the target at the halfway point. The results show that we have reduced exposure to carbon reserves by 31.4% between July 2016 and June 2019. This places the Fund well over halfway to its target of 50% over 6 years, with 60% of the target reduction already achieved. The Fund is therefore on track to achieve its target ahead of time and could even outperform it.

1.4 We are proud to have responded to this issue early and to have been one of the first LGPS funds to set and transparently monitor performance against a carbon reduction target. The results from this interim assessment of the Fund's carbon exposure will be used to help meet our overall target of at least a 50% reduction in exposure to future CO_2 emissions and to help set our investment strategy for the next 3 years.

1.5 Looking to investment more widely, 2019/20 was an extremely challenging year for investment markets, with the Covid-19 pandemic having a significant impact on markets during the final quarter. Because of this the Fund made a loss on its investments of -4.1% during the year ended March 2020. However this figure remains above the average for local government of -4.8% (CIPFA/PIRC). Whilst we made no significant allocation changes during the year, drawdown to the private debt mandates agreed during 2018/19 is now well underway.

1.6 During the year, the Committee approved the Fund's 2019 actuarial valuation, which saw the funding level improve over the period between April 2016 to March 2019, with the monetary deficit reducing to £130m from £349m. The improvement in the funding level is pleasing to note, and has permitted a decrease in the Council's contribution rate from 33% to 31.5% for 2020/21, with a further reduction to 30.0% planned for 2021/22. This will save the Council's revenue budgets approximately £10m over the next three years. Since 31st March 2019, economic conditions have changed very considerably; whilst the funding level has decreased to 82.4% at 31st March 2020, we are satisfied that the contribution strategy remains appropriate to help the Fund achieve full funding within a 20 year time horizon.

1.7 2019/20 has also been a busy year for our administration team. Our top priority has been to ensure that we maintained our services to our members and pensioners throughout the Covid crisis, which began at the end of this period. While there were some inevitable challenges to overcome we have successfully achieved this.

1.8 The team have worked hard over the year to deliver significant improvements to the Fund's administration services. The improvements include a full update to member communications and scheme guides, an updated and improved employer guide and a new fund website. Further improvements to our online presence are planned for the future, including online member and employer self service.

1.9 The team have also continued a major program of work with the Council's payroll and ICT teams to help improve the quality of data submitted to the Fund. The team have assisted in the development of a new interface for the Council to submit data, as well as working to resolve queries arising as part of the 2019 valuation process. We have experienced significant issues with data quality in recent years and, whilst there is still a great deal of work to be done, the quality of data being submitted has improved markedly in the past 2 years.

1.10 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.

1.11 Details on the work and training undertaken by Committee during the municipal year 2019/20 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work during 2020/21 financial year..

1.12 I would like to take this opportunity of expressing my personal appreciation for the hard work and commitment to the Hackney Pension Fund that the rest of my Committee Members have put in, given the considerable challenges that we face in managing a £1.5 billion pension fund during a period of considerable upheaval for both the LGPS and the wider economy. I would also like to thank the hard work put in by our specialist advisors, the Group Director of Finance and Corporate Resources and his staff over the past year.

Cllr Robert Chapman
Chair- Pensions Committee

2. COMMITTEE MEMBERSHIP AND ATTENDANCE

2.1 The following Councillors were members of the Committee during the 2019/20 municipal year –

Cllr Robert Chapman (Chair)
Cllr Michael Desmond (Vice Chair)
Cllr Kam Adams
Cllr Rebecca Rennison
Cllr Polly Billington
Cllr Ben Hayhurst

In addition, Jonathan Malins-Smith is co-opted to the Committee as the Scheme Member Representative. Henry Colthurst was appointed to the position of Employer Representative during the year, having previously served as a member of the Pensions Board.

2.2 The table below outlines Members' attendance at Pensions Committee meetings during the 2019/20 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 2019/20								
	25 June		10 September		18 December		17 February	
	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P
Cllr Michael Desmond (Vice Chair)	P	P	P	P	A	A	P	P
Cllr Kam Adams	P	P	P	P	A	A	P	P
Cllr Polly Billington	A	A	P	P	A	A	P	P
Clr Rebecca Rennison	P	P	A	A	P	P	P	P
Cllr Ben Hayhurst	P	P	A	A	P	P	P	P
Co-opted Members								
Henry Colthurst	N/A	N/A	P	P	P	P	P	P
Jonathan Malins-Smith	P	P	P	P	P	P	A	A
P=Present								
A=Absent								

3. WORK UNDERTAKEN DURING 2019/20

3.1 The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.49bn worth of assets with 24,931 scheme members. We are 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. During the year, we have 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 year:

3.2 Governance and Administration

3.2.1 We have seen considerable fluctuation in the funding level over the year, driven not only by volatility in asset values but also by rising liability values as a result of changes in inflation and gilt yields. However, at the time the Committee approved the 2019 valuation in March 2020, the overall funding level had improved significantly to 92%. As part of the triennial valuation, the Council's employer contribution rate will reduce further, ultimately to 30% by 2021/22.

3.2.2 Compliance with The Pension Regulator's Code of Practice has continued to feature on our agenda during 2019/20. 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 to be met. The Regulator has the power to take action if the requirements of the Act are not met and uses the Code to help decide what action to take. As part of our responsibility for the governance of the Fund, we use a compliance checklist to help monitor whether or not the Fund is meeting the required standards. We reviewed this checklist in detail in September 2019, and requested additional work in the few areas in which the Fund has not yet achieved full compliance.

3.2.3 In recent years, the Fund has experienced significant issues with the quality of membership data supplied by its employers and particularly that supplied by the Council, the Fund's largest employer. The Council has experienced difficulties with data provision since the introduction of the new Local Government Pension Scheme (LGPS) in 2014. It changed payroll provider in July 2017 and, whilst improvements continue to be made, it has struggled to provide adequate data since. We have monitored this situation closely for some time, particularly as the Fund was required to make a further report to the Pensions Regulator concerning late issuance of Annual Benefits Statements (ABSs) to members for 2018. Given the long-standing nature of its data problems, the Fund entered into a formal engagement with the Pensions Regulator regarding its data quality and the issuance of ABSs for 2019.

3.2.4 During the year, the Committee continued to monitor officers' progress in working with both the Council and Equiniti, the Fund administrator, to develop new processes for data provision. Significant progress has been made in developing an automated interface process to provide data on a monthly basis. Although that work was not complete at the end of the financial year, we are pleased to note that significant progress has been made, both in terms of the timeliness and accuracy of data provision and the relationship between the Council's payroll and ICT teams and the Pension Fund. This progress resulted in significant improvement in the number of ABSs for active members issued on time. In 2018, only 627 statements were issued by the deadline; for 2019, this had increased to over 5,000 statements.

3.2.5 The administration team continued to implement the new contract with Equiniti, our third party administrator, during the year, offering significant improvements to the Fund's administration service. The improvements include a full update to member communications and scheme guides, an updated and improved employer guide and a new fund website. Further improvements to our online presence are planned for the future, including online member and employer self-service during the 2020/21.

3.2.6 At the start of the municipal year, we reviewed the business plan for the year, setting out a timetable for both activities required to meet the Fund's objectives for the year and for the regular review of policy documents. The Business Plan also sets out draft Committee agendas for review to ensure that key items of business are dealt with at appropriate intervals.

3.3 Investments/Asset Allocation

3.3.1 2019/20 was a highly volatile year in financial markets. The first half of the year saw modest rises in markets against a backdrop of ongoing political uncertainty and geopolitical tension. The autumn saw markets rally strongly, buoyed by a breakthrough in US-China trade talks and a clearer picture for Brexit following the UK election. The start of 2020, however, broke records for all the wrong reasons, with markets plummeting as the spread of Covid-19 forced lockdowns across the globe.

3.3.2 Over the year to 31st March 2020, the Fund returned -4.1%, underperforming its customised benchmark by 0.3%. However, this return was above the local authority pension fund average of -4.8% and put the Fund in the 48th percentile of funds signed up to PIRC's Local Authority Pension Performance Analytics service (about 2/3rd of local authority funds).

3.3.3 The Fund's strongest performer in absolute terms was its active fixed income allocation which returned 4.1% net of fees. All other asset classes in which the Fund is invested returned negative results with the Fund's emerging markets equity allocation being the worst performing with a return of -16.8%.

3.3.4 The Fund made no significant allocation changes during the year; however, it should be noted that both private debt mandates are still in the drawdown phase and so the previous decisions to invest in this asset class via reduced equity allocation continued to be implemented during the year.

3.4 LGPS Structural Reform and the London CIV

3.4.1 Asset pooling is now firmly underway across the LGPS, with all 8 assets pools in England and Wales now operational. Decisions around manager selection are now moving to asset pools where suitable strategies are available; however, investment strategy decisions remain firmly with individual funds. Asset allocation and investment strategy decisions for the Hackney Pension Fund are therefore still made by the Pensions Committee as the body responsible for the management of the Fund.

3.4.2 The Fund's current Investment Strategy Statement sets out its medium term plans for moving its assets to the London CIV. With no common mandates with other London boroughs, the Fund had no assets moved to the pool automatically. However, the first mandates under the pooling regime were invested during 2018/19. No further investments were made via the London CIV during 2019/20, although the Fund continues to work with the LCIV and the fund's investment advisors to look at opportunities in this area. This will be a key focus of the revised investment strategy to be agreed during 2020/21.

3.4.3 Cllr Robert Chapman, Chair of the Hackney Pensions Committee, and Ian Williams, S151 officer for Hackney, have both continued to sit on the Shareholder Committee of the LCIV, further underlining the Fund's commitment to the pooling arrangements.

3.4.4 The move to mandatory asset pooling has created a number of challenges for both LGPS funds and asset pools themselves. We have been generally supportive of the move to asset pooling; we have looked to maintain a positive relationship with the London CIV whilst challenging where appropriate to ensure that the CIV acts in the interests of its client funds and helps us to deliver our strategic investment requirements.

3.5 Responsible Investment

3.5.1 As a Committee, we take very seriously the Fund's responsibilities as a shareholder in the companies that it holds, 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. We recognise that these issues present systemic risks to the planet, but could also have a material impact on the financial position of the Pension Fund. We therefore have a long running work plan in place to ensure that this issue is addressed within the Fund's investment strategy.

3.5.2 In 2017, we committed to reducing the Fund's exposure to fossil fuel reserves by 50%, reducing the Fund's exposure to carbon risk and aligning it with the 2 degrees scenario set out in the Paris Agreement. During 2018/19 we made significant changes to our equity portfolio to help meet this target, making substantial investments in two different strategies aimed at reducing our carbon exposure.

3.5.3 Firstly, we invested 10% (approx. £150m) of the Fund's assets in Blackrock's MSCI Low Carbon Target Fund, to help reduce our exposure to fossil fuels and carbon emissions while maintaining exposure to a wide range of global markets. The allocation was funded by reducing exposure to the FTSE Allshare Index, which represented the Funds most significant exposure to fossil fuel companies. We also invested £195m in RBC GAM's Global Sustainable Equity strategy via the London CIV, which invests in companies with long term, sustainable revenues, with a strong focus on Environmental, Social and Governance (ESG) factors.

3.5.4 In addition to the restructure of the equity portfolio, we made a commitment to a significant allocation to private debt during 2018/19, with mandates of £95m and £65m awarded to Permira and Churchill respectively, although it was recognised that the full allocation will be drawdown in tranches over the following 2 years. This move to private debt will result in a shift from holding cap listed equities to lending to mid-sized companies. Whilst the new strategies do not specifically exclude all fossil fuel exposure, the nature and size of the companies involved means the Pension Fund will be reducing its exposure to large multinational fossil fuel companies. The move has and will continue therefore to help the Fund lower its exposure to fossil fuel reserves, as set out in the Fund's carbon reduction target.

3.5.5 As set out in the introduction to this report, the Fund has already made great strides in reaching its carbon reduction target. The results of the review of progress completed during the year show that we have reduced exposure to carbon reserves by 31.4% between July 2016 and June 2019 - well over halfway to its target of 50% over 6 years, with 60% of the target reduction already achieved. The Fund is therefore on track to achieve its target ahead of time and could even outperform it. The new Investment Strategy to be agreed during 2020/21 will look to strengthen the Fund's work in this area.

3.5.6 The Fund remains a member 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 improve their governance standards. Cllr Rob Chapman, the Chair of the Pensions Committee, now sits as part of the LAPFF executive.

3.5.6 During the year, the Fund has continued to push for effective outcomes within its new, pooled mandates, focusing on engagement with the London CIV to help the pool company develop its approach to stewardship. We have seen a continued increase in the profile of Responsible Investment at the London CIV during the year and hope to see continued progress during 2020/21.

3.6 Financial Monitoring including Annual Report and Accounts

3.6.1 At the Pensions Committee meeting on 10th September 2019 the Committee were presented with the 2018/19 Pension Fund Annual Report and Accounts for approval, pending completion of the audit. The Fund's auditors subsequently issued an unqualified opinion, without modification, on the Pension Fund financial statements and concluded that the Pension Fund financial statements within the Pension Fund's Annual Report were consistent with the Pension Fund financial statements within the Statement of Accounts of the Council.

3.6.2 The Committee reviewed and approved an updated Treasury Management Strategy for the Pension Fund at its meeting in December 2019.

3.8 Training

3.8.1 To enable Committee Members 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 the Committee.

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 the level of 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 - Committee	Date
Asset Pooling (London CIV) (KSF1, KSF5)	25/06/2019
Actuarial Valuation - Introduction (KSF6)	10/09/2019
Actuarial Valuation - Detailed Process (KSF6)	18/12/2019
Responsible Investment (KSF4, KSF5)	17/02/2020
Supplemental Training - Committee	Date

Pension Fund Budget (KSF2)	25/06/2019
Administration Annual Report (Pensions Admin)	25/06/2019
The Pensions Regulator Code Compliance (KSF1)	10/09/2019
Pension Fund Report and Accounts (KSF2)	10/09/2019
CMA Order - Investment Consultancy Objectives (KSF3)	12/12/2019
Dedicated Training - Additional	**Date**
Responsible Investment (KSF4, KSF5)	09/03/2020

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:

- 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 PROGRAMME 2020/21

4.1 During the 2020/21 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Report and Accounts 2019/20
- 2020/21 Budget
- Business Plan 2020/23
- London CIV Update
- Investment Strategy
- Strategic Asset/liability review
- Infrastructure Investment
- Quarterly monitoring – covering Funding, Investment, Governance, Administration
- Membership data quality update
- GMP rectification exercise
- McCloud
- Regulatory changes and consultations
- Pension Fund Risk Register

- Training Programme
- Policy reviews