Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

REMOTE MEETING

MONDAY, 15 MARCH 2021

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Michael Desmond (Vice-Chair), Cllr Kam Adams, Cllr Polly Billington and Cllr Ben Hayhurst**
Co-optees:	Henry Colthurst and Jonathan Malins-Smith
Officers in Attendance:	Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Interim Head of Pensions), Jackie Moylan (Director, Financial Management), Georgia Lazari (Legal Services Officer) and Rabiya Khatun (Governance Services Officer)
Also in Attendance:	Andrew Johnston – Hymans Roberston Iain Campbell – Hymans Roberston Karen McWilliams – Aon <u>London CIV</u> Jason Fletcher Jacqueline Jackson Pruthvi Odedra Stephanie Aymes Rob Hall

1. Apologies for Absence

1.1 There were no apologies for absence.

2. 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

RESOLVED that the minutes of the meeting held on 27 January 2021 be approved as a correct record.

4. LCIV Update - Responsible Investment and Renewable Infrastructure

4.1 Michael Honeysett introduced the report and advised that there would be two presentations from the London Collective Investment Vehicle (LCIV) relating to an update on their approach to responsible investment and an update on the progress of the development of the renewable infrastructure mandate.

4.2 Jacqueline Jackson London (CIV) gave a presentation on Responsible Investment and Engagement Update as follows:

- Priority themes 2021- climate change and human rights emerge as 2021 priorities
- Responsible investment and engagement -This policy will have three clear objectives to support the customer companies investment objectives, to lead by example and raise the bar responsible investment throughout the industry and to add value to clients through improve services
- Overview – research and review, review and design, implement and disclose
- Implementation – Great and collaborate
- Update on progress - six priority areas: Climate policy, Stewardship policy, Product offering, Capacity to deliver, Culture and Communications
- Climate policy
- Task Force on Climate-related Financial Disclosures
- Policy: client services
- Stewardship
- Recommended priorities
- Working with other Pools
- Capacity and culture
- Reporting

4.3 In response to questions from Members relating to the presentation, representatives from LCIV replied as follows:

- LCIV had prioritised climate because it was the most evidenced financially and socially material issue at the present.
- Responsible investment was not at the expense of returns as it added value and mitigated risks such as climate risks.
- Although LCIV's investments were not Paris aligned, it was significantly better than the benchmark. LCIV had undertaken its first climate risk analysis across all Funds and following the analysis it would be setting a longer term net zero carbon footprint target. To achieve the net zero target, LCIV would also advise on a shorter term Paris aligned target. A short and medium term target would enable LCIV to make progress and achieve the Paris alignment. An assessment would be undertaken with a recommendation of targets forwarded to clients within the next 3 months followed by a consultation exercise undertaken for a further 3 months before a target was announced. The 32 funds within the LCIV had influenced their investments and made them take a more climate positive approach going forward and more funds had been launched that were Paris aligned such as the Renewables Fund. The next step for the LCIV was to engage with its clients to improve their climate footprint and work towards making it more Paris aligned.
- LCIV had used engagement to influence and encourage companies to divest from fossil fuel and to set more ambitious targets. This included Rio Tinto, where it had influenced the company through engagement and provided support. LCIV's fund managers were also encouraged to engage with companies to work towards climate action.

4.4 The exempt presentation at Part 4b relating to the development of the renewable infrastructure mandate was considered during the private session of the meeting.

RESOLVED:
1. Note the presentation by the LCIV.

5. Responsible Investment Timetable

5.1 Michael Honeysett introduced the report presenting the proposed timetable for further review of various aspects of the Committee's responsible investments agenda including on-going engagement with companies and fund managers, approach to the Stewardship Code and Taskforce on Climate Related Financial Disclosures (TCFD) reporting, Committee's investment beliefs, climate change policy and Environmental, Social & Corporate Governance (ESG) aspirations. In addition the report considered the further development of the Fund's current target in respect of fossil fuel exposure and the timetable for this.

5.2 In response to questions from members, Mr Honeysett replied as follows:

- With regard to LCIV's commitment to divestment and meeting the Paris alignment, the 32 boroughs could work with LCIV to influence the development of new funds and the fund managers setting up mandates. LCIV also offered a range of different mandates to meet different investors needs. There was also an opportunity for the Pension Fund to contribute to the development of LCIV's policies including the voting and engagement policy
- The Stewardship and TCFD training would be delivered by Hymans Robertson
- Mr Honeysett undertook to produce a list of stocks for the Fund's mandates to identify where stocks were invested in and transferred to
- Officers undertook to also look at the impact of disinvestment when reviewing the ESG policies and the need for investors and fund managers to consider a job replacement strategy for those jobs that would be lost in the fossil fuel industry
- It was anticipated that the revised investment strategy and asset allocation would bring the Fund in line with the 1.5°C target

5.3 The Chair noted that a workshop was needed on responsible investment and more focus on developing LCIV's responsible investment policy and cooperation with other organisations including possibly signing up in the future to the UN's Principles on Responsible Investment and the International Investor Group on Climate Change (IGCC).

RESOLVED to:

1. Note and approve the proposed timetable for the review of the Fund's responsible investment activities as set out in the Appendix to the report

2. Note the timetable and further work required in order to develop the climate change policy further and to set a new target during 2022 as set out in section 7 of this report.

The meeting was adjourned at 7.45pm for a break and reconvened at 7.50pm.

6. Pension Fund Risk Register - Training/Update

6.1 Michael Honeysett introduced the updated Pension Fund Risk Register setting out the key risks to which the Fund is exposed. The register also detailed the controls in place to manage these risks and further actions that were planned to reduce the impact and likelihood of them occurring.

6.2 Karen McWilliam delivered the training on Risk Management and the presentation covered the following areas:

CIPFA LGPS risk management guidance

- Risk management cycle:
  - risk identification
  - risk analysis
  - risk control
  - monitoring
- CIPFA guidance-LGPS risk:
  - assessment and investment
  - liability
  - employer
  - resources and skill
  - administrative and communicative
  - reputational
  - regulatory and compliance
- CIPFA guidance governance suggestions

Hackney Pension Fund Risk Management Policy

- The risk philosophy for the management of the Fund.
- Hackney Pension Fund Risk Register
- Hackney pension fund this register 2020 updates: governance, funding and investment, administration and communications

6.3 Ms McWilliam emphasised that it was not possible to eliminate all risks, however, the risk register would highlight areas of risk, and the audit report and Pension Board could also identify areas of risk. The risk register had been reviewed in 2020 with a number of changes made to the document, but external challenges including regulatory changes and McCloud judgement could also have an impact on risk.

6.4 In response to questions from members relating to the training, Ms McWilliam and Mr Honeysett replied as follows:

- Ms McWilliam explained the difference between current risk and target risk, and that the definition of likelihood and impact including examples were provided in key definitions within the Risk Register. With regard to the McCloud risk, the work associated with this could impact on work as usual and could possibly be a challenge to deliver due to the magnitude of work involved in the process for determining if a member was impacted. It was believed that a small number of members would be impacted but the process had to be undertaken for all scheme members. Officers were currently awaiting guidance from the Scheme Advisory Board and Local Government Association regarding the timeline for the implementation of the judgement. There had also been operational issues in obtaining data from the Council as a result of the cyber attack as well as the data between 2014 until 2017 from the old payroll system, which the Council was working to recover. The scheme actuary had undertaken work on the financial implications of the McCloud judgement on the Fund and provided an estimated cost within the triennial valuation, which had been confirmed recently.

Communications would be sent to individual employers within weeks setting out whether McCloud had impacted on them. The 29 employers impacted would see their liabilities increase by between 0.1% to 1.2% and 14 employers would not be affected as they had no employees meeting the rectification criteria
- Poor membership data and poor year-end data had been identified as a high risk due to its effect on the statutory deadline for annual benefit statements. The Council had been developing an interface to resolve these issues and this was currently in the testing stage
- External regulatory changes were deemed another high risk that could impact on the Fund, such as the £95k cap
- The Council had introduced measures early to minimise the risk of Covid-19 on the pensions administration, which had allowed it to continue paying its members benefits on time and making death grant payments. The in-house Pensions team were able to adapt to homeworking as its systems were in place prior to Covid-19. However, Equiniti had been severely affected during the first lockdown and lessons had been learnt.

6.5 The Chair asked Members to send any comments or feedback on changes to the risk register to Mr Honeysett.

RESOLVED to:

1. **Consider the Risk Register and the risks identified**
2. **Feedback separately to officers outside of the meeting on suggested changes, which will be taken into consideration in future iterations of the register and in the quarterly update report.**

7 Pension Fund Business Plan 2021/22 - 2023/24

7.1 Michael Honeysett introduced the report in respect of the Pension Fund Business Plan for the period covering 2021/22 to 2023/24, which also sets out the key tasks the Fund needed to undertake to fulfil its strategic objectives for the next three years. It also included the proposed budget for 2021/22, a draft plan of work and communications plan for the financial year 2021/22. The agendas for future meetings would be subject to change in order to reflect the members' areas of concerns such as stewardship.

7.2 In response to questions from members, Mr Honeysett replied as follows:
- The Fund remained cash flow positive
- Officers would assess whether a dedicated Responsible Investment Officer post, with specialised knowledge and expertise, was required for the work to be undertaken on responsible investment going forward
- Confirmed a report would be submitted to a future meeting on the membership, appointment of Co-optees and process for replacements on the Pensions Committee and Board
- The funding gap was considered in the triennial valuation and as part of the contributions set for next three years. The funding from the contributions was expected to close the funding gap over 17 to 20 years.
- Hymans Robertson would be keeping a watch on the Fund's commercial portfolio due to the economic stress and changes in personnel

(The Chair left the meeting due to some technical issues at 8.30pm and Cllr Desmond took the Chair during his absence.)

7.3 Some members emphasised that the Committee’s focus should remain on closing the funding gap and that any additional costs in employing a Responsible Investment Officer would add to the financial burden on the Fund. Furthermore, climate change investment and disinvestment were making responsible investment more mainstream.

7.4 The Chair indicated that the Committee would support the Pensions team if they required any additional resources to undertake their work.

RESOLVED to:

1. **Approve the business plan for 2021/22 to 2023/24 including the 2021/22 budget**

8. Quarterly Update Report

8.1 Michael Honeysett introduced the update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, administration performance and reporting of breaches between October and December 2020.

8.2 Mr Honeysett emphasised that the funding level had improved from 87% to 92%, and that those members affected by the GMP reconciliation exercise relating to overpayment and underpayment would have their benefits resolved by July 2021. The interface was being tested and if successful it would provide accurate and timely data for the Pensions team.

RESOLVED:

1. **To note the report.**

The meeting was adjourned at 8.33pm for a break and reconvened at 8.38pm.

9. Investment Strategy

9.1 The Chair advised that the report was exempt and would be considered during the private session of the meeting.

(Cllr Chapman was in the Chair at 8.38pm)

10 Investment Strategy Implementation Timetable (PUBLIC REPORT)

10.1 Michael Honeysett introduced the report proposing the approach to implement the Committee’s recent investment decisions following the 2020 investment strategy review. It also set out the actions required for implementation and a timetable for carrying these out.

10.2 The exempt appendix within the submitted report was considered during the private session of the meeting.

RESOLVED to:

1. **Approve the implementation plan as set out in the Appendix to this report, with authority for officers, with relevant advice from advisers, to take the required actions.**

2. **Note that Officers will provide the Committee with a quarterly update regarding progress on the implementation of the Plan along with associated costs incurred.**

11. Private Lending Performance Update (PUBLIC REPORT)

11.1 Michael Honeysett introduced the report providing an update on the two private lending mandates invested in via Churchill and Premira and the actual performance to date of both fund managers and the associated mandates, and an overview of private lending in general.

11.2 The exempt appendix within the submitted report was considered during the private session of the meeting.

RESOLVED to:

1. **Note the presentation provided by our investment consultants from Hymans Robertson.**

12. ANY OTHER BUSINESS, WHICH IN THE OPINION OF THE CHAIR IS URGENT

There was no other urgent business

13. 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 Exempt items 4b, 9, 10, 11 and 14 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.

14. Consideration of The Exempt Minutes of The Previous Meeting

RESOLVED that the exempt minutes of the meeting held on 27 January 2021 be approved as a correct record.

Duration of the meeting: 6.30- 9.15pm

Contact:
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