DRAFT MINUTES OF THE PENSIONS COMMITTEE HELD ON TUESDAY, 16TH JUNE 2021

THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED HERE:
https://youtu.be/QGNKFjiYOB0

Chair:	**Cllr Robert Chapman in the Chair**
Councillors in Attendance:	**Cllr Cllr Kam Adams (Vice-Chair), Cllr Michael Desmond, Cllr Patrick Spence and Cllr Nick Sharman**
Co- Optee:	**Jonathan Malins- Smith**
Apologies:	**Cllr Polly Billington and Cllr Sem Moema**
Officers in Attendance:	**Ian Williams (Acting Chief Executive), Jackie Moylan (Director, Financial Management) and Angelie Walker (Senior Solicitor), Andrew Spragg (Governance Services Team Leader) and Rabiya Khatun (Governance Services Officer)**

Apologies for Absence

Apologies for absence were received from Cllrs Billington and Moema and Henry Colthurst.

Cllrs Gordon and Hayhurst joined the meeting remotely at 19.00 hours

1. Appointment of the Chair and Vice- Chair of the Pensions Committee for the Municipal Year 2021/22

1.1 **RESOLVED:** That the appointments of Cllr Chapman as the Chair and Cllr Adams as Vice-Chair of the Pensions Committee, as agreed by Full Council on 27 April 2021, be noted.

2. Terms of Reference of the Pensions Committee for the Municipal Year 2021/22

2.1 RESOLVED: That the terms of reference of the Pensions Committee for the

Municipal Year 2021/22 be noted.

3. Minutes of the Previous Meeting

3.1 **RESOLVED:** That the minutes of the meeting held on 15th March 2021 be agreed as a true and accurate record of proceedings.

4. Declarations of Interest - Members to declare as appropriate

4.1 The following Members declared a disclosable interest for the municipal year 2021/22:

- Cllrs Chapman and Hayhurst declared that they were members of the LGPS;
- Cllr Gordon and Jonathan Malins-Smith declared that they were deferred members of the LGPS; and
- Cllr Adams declared that his wife was a member of the LGPS

4.2 Cllr Desmond confirmed that he was not a member of the LGPS.

5. Training - TCFD & the Stewardship Code

5.1 Andrew Johnston, Iain Campbell and Simon Jones, Hymans Robertson delivered the training on Task Climate Financial Disclosure (TCFD) and the UK Stewardship Code, both important aspects of the further development of the Fund's work on responsible investment. A brief summary of the training is provided below:

- Responsible Investment timetable
- TCFD and Stewardship – Timeline for achieving submissions
- TCFD
  -TCFD recommendations were based on four thematic areas: Governance, Strategy, Risk Management and Metrics and Targets
  - Recommended disclosures
  - Key tasks
  - Risk Management processes
- 2020 UK Stewardship Code overview and submission deadline 30 April 2022
- Evaluating the current position on Stewardship Code

5.2 Following the presentation, Members asked a number of questions and in response Andrew Johnston and Simon Jones replied that:

- With regard to the metrics being important for showing a fund manager's reporting process as well as the outcome on issues such as voting on climate resolutions, Simon Jones said there were generally a range of metrics that could be looked at in relation to what fund managers were doing and whether they were acting as expected in terms of voting including data from sources such as a company's strategies tackling climate risk and measuring these. As part of

members' fiduciary responsibility, it would benefit the Committee to prepare and deal with climate risk in advance of any formal reporting obligations being enforced on the LGPS in the future. Climate risk also overlapped with the broader development of the responsible investment policy and the requirements for the Stewardship Code reporting

- Simon Jones confirmed that it was within the role of Committee to set the metrics and targets and that workshops would be scheduled over the coming months to discuss these in more detail. Andrew Johnston added that the draft responsible investment and climate policies would be submitted at the next meeting following discussion at the workshop and that consideration would be given to the potential avenues that could be explored from a reporting perspective to inform the metrics. Andrew Johnston confirmed that members would be able to participate in the process for setting the metrics and targets at the workshops and Jackie Moylan added that a timetable of the Committee's exercises and workshops would be circulated to Members before the next meeting;
- Simon Jones confirmed that some Pension Funds had already submitted their Stewardship Code in the first round including the Environment Agency Pension Fund;
- Andrew Johnston indicated that P6-Communication of stewardship approach to beneficiaries at page 39 had been included as part of good governance and it would also allow Hackney to be accountable to the beneficiaries it represented. Karen McWilliam stated that it was important to communicate with scheme members, however, it is necessary to carefully consider the contents within any communication;
- With regard to P5 - Review of effectiveness, Andrew Johnston clarified that the designated red represented a need for the Committee to formulate a review procedure and the creation of a work plan to regularly review and monitor all policies. Most of the work had been undertaken but they needed to be more robust, formal and process orientated to meet the higher standards;
- Simon Jones stated that the reporting requirement and UK Stewardship Code would be an annual obligation and the Fund would have to demonstrate the work being undertaken to comply with the obligations every year. If any obligation could not be met and to avoid any penalty, the Fund would have to be open and transparent about the course of action it had taken and the outcomes;
- Simon Jones indicated that the Financial Reporting Council staff were sufficiently experienced to evaluate and approve reports having also written the Stewardship Code and successfully run a trial evaluating some early disclosures and publishing reports; and
- Andrew Johnston stated that the Committee had expressed an interest in signing up to the Stewardship Code and that they would be liaising with officers to meet the deadline of April 2022. Any progress relating

to this project would be reported to future Committee meetings.

5.3 The Chair indicated that further work should be undertaken on strengthening collaborative engagement including engaging with other organisations like the UN Principles for Responsible Investment (UNPRI) and that a timetable of training would be circulated in due course.

RESOLVED: The report and training be noted.

(The Committee adjourned for a break at 19.45 and reconvened at 19.50 hours.)

6. Responsible Investment - Fund Manager Policies and Alignment

6.1 Jackie Moylan, Director of Financial Management, introduced the report providing an analysis of the Fund's major investment manager's policies in relation to responsible investment and associated issues in order to show how these compared to those of the Fund.

6.2 Andrew Johnston and Simon Jones, Hymans Robertson, gave a presentation on Responsible Investment and Fund Manager Policies and Alignment and a brief summary is outlined below:

- Summary of the Fund, London Collective Investment Vehicle (LCIV) and Blackrock investment and responsible investment beliefs and policy, climate policies and voting and engagement policies.
- Summary of LCIV and Blackrock culture, signatory lists including signatories to UNPRI and UK Stewardship Code, mandate design and reporting.

6.3 Following the presentation, Members asked a number of questions and in response Andrew Johnston and Simon Jones replied that:

- A breakdown of the Fund's holdings including asset allocation and performance were set out at pages 134-5 of the agenda pack;
- The Fund had a good relationship with the LCIV, which had identified the passive fund managers Legal General and Blackrock. Since the appointment of a new chief Executive at the LCIV, their investment aspirations had become more aligned with the Fund and were gradually becoming a leading pool in responsible investment. It was the Fund's responsibility to set the strategic direction of investments, allocation strategy and select the index;
- A Fund could invest in equities via active or passive investments. The LCIV on behalf of a Fund could challenge an active investment manager to review their holdings of an asset or demonstrate responsible investment rationale for holding an asset. With regard to passive investments, the Fund could not challenge a fund manager to

remove a company from an index as this would be impracticable. However, it would be possible to control passive investments during the mandate design stage by incorporating levels of exclusions built in as standard. It was emphasised that the Committee had determined that

engagement with companies rather than exclusion was in the best interest of scheme members and in compliance with member's fiduciary duties;

- The LCIV had provided low carbon investment funds addressing issues such as climate change and the Hackney Pensions Fund was currently in the process of transitioning funds into the LCIV Sustainable Equity Fund, LCIV Paris Aligned Equities Fund and Blackrock Low Carbon Equity Fund. These funds had no exclusion policy; and
- With regard to monitoring Blackrock's approach to the reporting process, it was highlighted that Blackrock had been assigned an adequate rating and was regularly monitored and the findings reported to the Committee in the Pension Fund's Update reports. Progress had been made regarding some concerns of stewardship and the evidencing of voting decisions.

6.4 Chair emphasised that the workshops reviewing the responsible investment policy would provide an opportunity for members to explore these issues and influence future proposals.

RESOLVED: That the report be noted.

The Chair changed the order of business at the meeting and considered agenda item 8 before agenda item 7.

7. Funding Strategy Statement Update

7.1 Gemma Sefton, Hymans Robertson introduced the report providing an update on the Government response to the consideration of the payment of employer Exit Credits, the provision of greater flexibility on employer exit payments and the ability to review employer contributions between valuations. It also included proposals incorporating these changes into the draft Funding Strategy Statement and a minor update to reference the uncertainty arising from the Goodwin case.

7.2 Gemma Sefton summarised the exit credits and what the Regulations required of the Fund. Following a ruling last week, it was reported that the wording for the pass-through agreement would need to be amended to incorporate the word "usually" and should now read "…We will usually not pay in a pass-through…" A more detailed paper on employer flexibility would be submitted at the next meeting.

7.3 In response to a question from a Member, Gemma Sefton replied that due to governance issues it would not be feasible to spread out the exit credit even if it remained above surplus over a period of time. The purpose of restricting future exit credits to growth only on the money paid by employers was to allow the Fund to retain any surplus

RESOLVED: Approved the changes to the Funding Strategy Statement subject to incorporation of the wording 'usually' to reflect:

a. The Fund's policy on the payment of Exit Credits;
b. The current position the Fund's in developing its policy on application of the Employer flexibilities regulation; and
c. The uncertainty relating to the Goodwin case.

8. Actuarial Funding Issues and Update

8.1 Jackie Moylan, Director of Financial Management introduced the report providing an update on the evolution of the funding of the Pension Fund along with background to some of the important funding issues that had arisen since the last formal valuation.

8.2 Gemma Sefton, Hymans Robertson, delivered a presentation on the funding issues update and a brief summary is provided below: fiduciary duties;

Funding issues

- How is the Fund funded
  - Investment and return 3.85%
  - Member contributions 6.6% pay
  - Employer contributions 18.7% (£21.9m per annum)
  - In the 2019 valuation assets were worth £1,575m and liabilities £1,709m, and benefits to members and dependents c£50m pension payroll per annum
- Employer funding strategies

Funding issues arising since 2019 valuation

- Impact of Covid-19 market fluctuations
  - Significant volatility in the investment markets
  - Recovery has continued since the vaccine news but economic uncertainty remains
- Impact of Covid-19 on longevity
  - Long term – possible reduction in future life expectancy including global recession, existing patient deterioration, impaired long-term health and new virus strain emerging;
  - Long-term possible increase in future life expectancy including survivorship bias, changing social behaviour and reduction in their pollution and smoking
  - It is too early to understand the long term impact on funding •

  Covid-19 Summary
  - Impact on mortality will be seen at next valuation
  - Market movements were significant but so far funding positions have mostly recovered
  - Some employers' covenant may be adversely impacted

- Exit Credits and Employer flexibilities
  - Contribution review, cessation payment and managed exit - Funds must also pay employers an exit credit should they cease in surplus
  - Funding Strategy Statement being updated to state Fund's policies
- Planning for the 2022 valuation
  - Individual member data cleansing
  - Cash flow data cleansing
  - Training for Committee Members
  - Potential council contribution rate modelling
  - Employer database

8.3 Following the presentation, Members asked a number of questions and in response Gemma Sefton and Andrew Johnston stated that:

- The Council could not revise its annual employer contribution of £21.9m mid cycle as asset returns were not a reason permitted in the employer flexibility, which allowed rates to be adjusted at non-triennial points;
- With regard to asset returns, although there was a high degree of uncertainty within the markets there were positive views in relation to the growth outlook for many assets classes such as equities and the credit risk within fixed income. However, the impact of Covid-19 was a major sources of uncertainty that existed within the markets;
- The updated liability value as at March 2021 had been included in the document and adjustments had also been made for the optimism in the outlook for markets; and
- Work would be carried out in the Autumn on the membership data cleansing after the issuing of the Annual Benefits Statements in August 2021 and an update could be provided at the next meeting.

RESOLVED: Noted the paper produced by the Fund's Actuary, Hymans Robertson, at Appendix 1 of the report.

9. Quarterly Update Report

9.1 Jackie Moylan, Director of Financial Management introduced the Quarterly Update report providing an update on key performance measures including the funding position, investment performance, responsible investment and reporting of breaches, and implementation of the investment strategy.

9.2 The Chair noted the funding level as at 31 March 2021 was 102% and if these levels were sustained the Committee would need to consider the Fund's de-risking strategy. Andrew Johnston summarised de-risking and reported that the Committee had determined against de-risking based on the analysis carried out in January 2021. It was not yet necessary to consider de-risking but it would be sensible to have a plan in place and a report would be submitted at the meeting in September 2021.

RESOLVED: The report was noted.

10. Regulatory Update Report

10.1 Jackie Moylan, Director of Financial Management introduced the report providing an update on the recent regulatory and oversight developments

which would affect the management of the Fund and could require resources to be deployed to ensure compliance.

10.2 Karen McWIlliam, Aon, summarised the four regulatory changes and its impact on the Pension Fund:

- The Pensions Regulator (TPR) was due to publish a new Code of Practice by the end of 2021 which would apply to UK pension schemes. It contained new and existing requirements and best practice. The Fund was mainly compliant with the existing code and would be in a good position when the new code was introduced but further work was being undertaken in areas such as cyber reliance and greater documentation of ICT processes and procedures;
- The Scheme Advisory Board had published its final report as part of the Good Governance Review in February 2021 and had made a range of recommendations to improve governance standards such as conflicts of interest and knowledge and understanding;
- The Written Ministerial Statement on McCloud had been issued in May 2021 and a full Government response to the consultation would be published later this year. The new LGPS regulations were anticipated to come into force in April 2023; and
- CIPFA's Knowledge and Skills Code Framework was due to be published imminently and following publication it would be necessary for the Fund to review its current knowledge and skills policy

10.3 Members asked a number of questions and in response Karen McWilliam confirmed that:

- With regard to whether an appointed scheme member representative could contribute to the producing of a policy on the representation of scheme members and its approach to voting rights, it was clarified that this was currently a recommendation until MHCLG issued statutory guidance and that the voting rights of the Committee's members and Co-optees were set out in the Council's Constitution; and
- The Pensions Committee would be ultimately responsible for any compliance of regulations as set out in the Committee's Terms of Reference within the Council's Constitution and any further compliance work would involve developing compliance statements.

RESOLVED: The report was noted.

11. Fund Administration Policy Updates

11.1 Jackie Moylan, Director of Financial Management introduced the report and highlighted that the Communications Strategy, Voluntary Scheme Pays and Administering Authority Discretions policies had been updated following a review of the Fund's policies.

11.2 The Chair added that these were minor technical changes and that a review of the Communications Strategy was necessary to consider how the Fund communicated strategies to its scheme members and a mechanism for members to express their views on strategies such as responsible investment.

RESOLVED: Approved the three updated policies, which are Communications, Voluntary Scheme Pays and Administering Authority Discretions Policy.

12. Committee Member Training Options

12.1 Jackie Moylan, Director of Financial Management advised that a paper and questionnaires would be circulated to members seeking their views on future training options including virtual training and drop in sessions, especially for new members of the Committee.

12.2 Members suggested the following areas be considered for the training sessions:

- Benefits of passive vs active investments including exclusion elements; and
- The Pensions Fund's investments, responsibilities and obligations.

12.3 The Chair indicated that Committee members could also directly contact him to discuss any training needs.

RESOLVED: The verbal update was noted.

13. Exempt Minutes of the Previous Meeting 15 March 2021

RESOLVED: That the exempt minutes of the meeting held on 15th March 2021 be agreed as a true and accurate record of proceedings.

14. Any Other Business

14.1 In response to a query regarding the procedure of appointing a Chair in the absence of the Chair or Vice- Chair at a Pensions Committee meeting, Andrew Spragg replied that those Members present could propose and nominate a Chair at the meeting subject to the meeting satisfying the quorum requirement

Duration of the the meeting: 18:30 - 21.25

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