

**MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE
HELD ON
THURSDAY, 30 SEPTEMBER 2021**

**THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED HERE:
<https://youtu.be/LsO36UeREyw>**

Chair: Cllr Robert Chapman in the Chair

Councillors in Attendance: Cllr Kam Adams (Vice-Chair), Cllr Polly Billington and Cllr Nick Sharman

Co-optees: Jonathan Malins-Smith

Apologies: Cllr Michael Desmond and Cllr Patrick Spence

Officers in Attendance: Michael Honeysett (Interim Head of Pensions), Georgia Lazari (Senior Solicitor), Andrew Spragg (Governance Services Team Leader) and Rabiya Khatun (Governance Services Officer)

Also in Attendance: Andrew Johnston (Hymans Robertson)
Laura McInroy (Hymans Robertson)
Karen McWilliam (Aon)

1. Apologies for Absence

1.1 Apologies for absence were received from Cllrs Desmond and Spence and Henry Colthurst.

1.2 Councillors Gordon and Hayhurst joined the meeting remotely.

2. Declarations of Interest - Members to declare as appropriate

2.1 The following Members declared unchanged disclosable interests 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.

3. Minutes of the Previous Meeting

- 3.1 **RESOLVED:** That the minutes of the meeting held on 16 June 2021 be agreed as a true and accurate record of proceedings.

4. Petition - Hackney Palestine Solidarity

- 4.1 The Chair introduced the petition received by Hackney Council from Hackney Palestine Solidarity calling for the LBH Pension Fund to divest from all companies associated within the Occupied Palestinian Territories. He invited Sussan Azar from Hackney Palestine Solidarity and Linda Kelly from Hackney Friends of Israel to make their comments on the petition.

- 4.2 The Chair indicated that he would provide a written response to the petitioner.

RESOLVED:

That the petition from Hackney Palestine Solidarity to Hackney Council be noted.

5. Cashflow Planning

- 5.1 Michael Honeysett, Interim Head of Pensions, introduced the report from the Fund's Investment Consultants in respect of cashflow planning, the Fund's near term cashflow requirements and the longer term outlook taking into account current commitments to the private market and infrastructure.

- 5.2 Andrew Johnston, Hymans Robertson, outlined the contents of the report including cash flow planning, principle of cashflow management, cashflow negativity, the impact on optimal investment strategy, modelling of two separate scenarios, recent cashflow experience, and near term cashflow projections and requirements. The Fund had maintained a £50m cash balance in the BlackRock Ultra Short Bond Fund to meet the capital requirements for mandate calls and this balance would be monitored on a six monthly basis.

- 5.3 In response to questions from members relating to the report, Andrew Johnston, Laura McInroy and Karen McWilliam stated that:

- The dividends received from the equity investments had been re-invested;
- Inflation assumptions had been factored into the scenarios and the projected payroll had been linked to inflation;
- The contributions income was £76.3m in 2020/21 and the figures in the table were the most current figures;
- There are currently more contributions than outgoings

- Permira's pace of drawdowns had been slow and below expectations. The slow deployment of capital was also generating income; and
- It was confirmed that the investment in the BlackRock Ultra Short Bond Fund had been reduced to £50m and they did not expect it to increase again to £90m;

RESOLVED:

- To note the report; and
- To agree to continue to maintain £50m holding in Blackrock Ultra Short Bond Fund.

6. Funding and Investment (De-Risking) Considerations

6.1 Michael Honeysett, Interim Head of Pensions, introduced the report outlining the funding and investment considerations, in particular how recent asset outperformance had impacted the Fund's funding level and what the over 100% funding level could mean for the Fund's ability to meet future benefit payments and the proposed next steps.

6.2 In response to questions from members relating to the report, Laura McInroy and the Interim Head of Pensions replied as follows:

- A contribution rate review would be undertaken in winter and an asset and liability modelling exercise would be carried out;
- With regard to the secondary contribution rate, asset modelling would focus on the total contributions flowing in and total benefit flowing out.
- The Fund was moving from growth to income generation assets; and
- Bonds and corporate bonds continue to provide protection.

RESOLVED:

- To note the report; and
- To agree to bring forward the 2022 council contribution rate review to Q4 2021 and to undertake a refreshed asset and liability modelling exercise.

7. Quarterly Update Report

7.1 Michael Honeysett, Interim Head of Pensions, introduced the report providing an update on key quarterly performance measures, information on the position of the Fund between April and June 2021 and an update on the implementation of the investment strategy.

7.2 The Interim Head of Pensions indicated that as at the end of June 2021, the funding level based on the 2019 valuation was 107% compared to 92% as at the end of March 2019 and that the Fund had outperformed its benchmark. The Fund was in the process of transitioning into the LCIV Paris Aligned Global Alpha Fund, Emerging Market Equity Fund and the Diversified Growth Funds by early October 2021.

- 7.3 The Interim Head of Pensions reported that 6,400 deferred Annual Benefit Statements (ABS) had not been issued by the statutory deadline and this breach would be reported to the TPR. Due to communication issues within Equiniti, Equiniti had not informed the LBH Pensions Team or other teams within Equiniti, that it had made a decision to focus on issuing active members' ABS.
- 7.4 In response to questions from members relating to the report, the Interim Head of Pensions and Karen McWilliam replied as follows:
- The Fund had reported a breach previously in 2019 when ABS had not been issued partly as a result of issues with the Council's payroll data, which had been resolved;
 - With regard to reviewing the contract with the possibility of bringing the service in-house, the tender for the contract had been undertaken recently but the market for administrators was small with only two private sector organisations in it. The service was complex and overall Equiniti had been performing well with the ABS being a one off issue;
 - All pensions schemes were required to carry out the GMP reconciliation exercise and following the exercise 71 pensioners had an increase in their pensions and approximately 400 pensioners had a decrease with the largest cut being approximately £2,000. Pensioners that had been underpaid would receive the arrears plus interest and there would be no reclaiming of any overpayments as determined by the Committee;
 - Letters had been posted this week to those pensioners that had been overpaid giving them two months notice of the future cuts to their pensions. There had been no feedback yet, however, it was emphasised that the Fund was legally obligated to reduce the overpaid benefits identified from the reconciliation exercise;
 - Equiniti's day-to-day work had been of good standard and this deferred ABS issue had been a one off mistake which had been disappointing. The new four year contract signed with Equiniti included more robust performance indicators and the KPIs would be monitored rigorously;
 - The Council had considered a joint in-house service but this was not feasible as the Council's in-house team was small and costs would be high.
- 7.5 The Chair asked officers to consider the possibility of in-sourcing the service after this contract expired.

RESOLVED:

To note the report.

8. Funding Strategy Statement - Employer Flexibilities

- 8.1 Michael Honeysett, Interim Head of Pensions, introduced the report setting out the further additions to the approved Funding Strategy Statement (FSS) relating to employer flexibility as provided for in updated regulations.

- 8.2 In response to questions from members relating to the report, the Interim Head of Pensions replied as follows:
- Smaller employers exiting the Fund and in surplus could request a review and for those exiting employers in deficit there were a few options. Each employer's circumstances would be assessed on a case-by-case basis but a decision would be guided by the principles set out in the Fund's Employer Flexibilities. It was expected that there would be no adverse impact on the Fund;
 - With regard to bringing forward the employer flexibilities provisions, this would not change the Fund's position.

RESOLVED:

- To approve the further changes to the Funding Strategy Statement to reflect the Fund's policy on the application of the Employer flexibilities regulations; and
- To agree that Officers should consult employers in the Fund on the proposed changes to the FSS as required by regulations.

9. Responsible Investment Update

9.1 Michael Honeysett, Interim Head of Pensions, introduced the report providing a summary of the discussions that had taken place at a workshop focusing on responsible investment and climate change held on 22 September 2021.

9.2 The main messages arising from the workshop included:

- The Fund should continue to engage with companies and fund managers as this would be more beneficial than divestment;
- There had to be a just transition from fossil fuels and alternatives considered for affected communities;
- The human rights considerations were broad;
- Based on the WACI measure, the progress against the Fund's current climate target had been very successful and ahead of target. However, re-engaging with Trucost's carbon footprint exercise was necessary in order to measure the progress on a consistent basis; and
- Improving the quality of data available was important for future metrics reporting.

9.3 The Interim Head of Pensions advised that further work was being undertaken on the stewardship code and the creation of an additional post in the Pensions Investment Team to deal with responsible investment related work and a further update would be provided in January 2022.

9.4 In response to questions from members relating to the report, the Interim Head of Pensions replied that the Pensions Team was currently in the process of drawing up a job description for the new officer. Members also indicated their

support for the additional post to progress the work required on the Stewardship code and regulatory changes being made to pensions schemes.

9.5 Members made the following comments:

- It was important to assess and engage with companies and fund managers before any decision was taken to divest;
- The Committee needed to set more ambitious benchmarking targets to assess the Fund against;
- The Committee needed to consider whether to divest from coal companies; and
- It was important to allow for transitioning before considering divesting from companies directly involved in fossil fuel and to look at alternatives for the communities dependent on this industry.

9.6 Andrew Johnston and the Interim Head of Pensions responded that members needed to understand the Fund's different exposures to fossil fuel and to review its investment strategy to make it better.

9.7 The Fund had successfully reduced its carbon exposure and would continue to review its asset allocation strategy to ultimately divest from coal companies.

RESOLVED:

To note the report

10. Any Other Business the Chair Considers to be Urgent

10.1 Members noted the Special meeting of the Pensions Committee scheduled on 23 November 2021 commencing at 6.30pm and a further meeting to be scheduled in December 2021 for the additional work relating to responsible investment.

End of Meeting.

Duration of the meeting: 18:30

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