

**MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE
HELD ON
WEDNESDAY, 23 NOVEMBER 2021**

THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED HERE:
<https://youtu.be/Sp6P75Z2AUA>

Chair: Cllr Robert Chapman in the Chair

Councillors in Attendance: Cllr Kam Adams, Cllr Michael Desmond, Cllr Patrick Spence and Cllr Lynne Troughton.

Apologies: Cllrs Billington and Sharman

Officers in Attendance: Ian Williams (Group Director Finance & Resources), Jackie Moylan (Director of Financial Management), Michael Honeysett (Interim Head of Pensions), Georgia Lazari (Senior Solicitor), and Rabiya Khatun (Governance Services Officer).

Also in Attendance:
Iain Campbell (Hymans Robertson)
Laura McInroy (Hymans Robertson)
Karen McWilliam (Aon)

1. Apologies for Absence

- 1.1 Apologies for absence were received from Cllrs Billington and Sharman.
- 1.2 Councillors Adams, Gordon (joined at 18.50 hours) and Hayhurst, and Henry Colthurst (Co-optee) and Jonathan Malins-Smith (Co-optee) joined the meeting remotely.

2. Declarations of Interest - Members to declare as appropriate

- 2.1 The following Members declared a disclosable interest at the start of the municipal year 2021/22 as follows:

- 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.

2.2 Cllr Troughton declared she was also a member of the LGPS.

2.3 Karen McWilliam declared an interest in agenda item 7 - as an employee of Aon. The Interim Head of Pensions clarified that item 7 was an update and as no decision was being taken there would be no conflict of interest.

3. Minutes of the Previous Meeting

3.1 **RESOLVED:** That the minutes of the meeting held on 30 September 2021 be agreed as a true and accurate record of proceedings.

(Councillor Michael Desmond joined the meeting at 18.50 hours)

4. Training - Triennial Valuation

4.1 Laura McNroy and Iain Campbell, Hymans Robertson, delivered the training on Triennial Valuation and a brief summary is provided below:

An introduction to 2022 Funding and Investment Strategy reviews:

Introduction to pensions funding

- How the Fund works
- The Fund's ultimate objective
 - The key funding decision is the balance of contributions and future investment performance
- It's all about getting the right balance
- The end game is a balance between
 - an affordable level of ongoing contributions
 - an appropriate level of investment risk (and 'target return')

Approach to contributions and investment strategy review

- Funding strategy
 - In ancient history actuaries assumed financial markets were predictable
- But what if
 - Investment returns don't behave as expected?
 - The Fund wishes to change its strategy along the journey?
 - Inflation-linked benefits cost more/less than we assume?
- Employer budgeting becomes difficult when markets don't stick the plan
- The solution: Funding strategy using an Asset Liability Model

- 5000 projections of the future are carried out testing different contribution rates and investment strategies to see how funding level develops
- Each simulation has different investment returns, interest rates and inflation
- Modelling different contribution patterns and investment strategies to find the appropriate balance
 - There are 2 levers: Investment strategy and contribution patterns
- For each combination, focus on 2 key risk measures
 - Funding level and results for strategy
- Finding the right balance

Looking ahead

- Pensions Committee agenda:
 - January 2022 -Data quality report and Actuarial valuation assumption proposals
 - March 2022 - ALM modelling results - investment strategy and Council contribution rate proposal
 - June 2022- Actuarial Valuation approach and Investment Strategy review
 - September 2022- Whole Fund funding level report and Draft Funding Strategy Statement
 - December 2022 - Changes to employer funding strategies
 - March 2023 - Final valuation report and Funding Strategy Statement

4.2 In response to questions from members, Laura McInroy and Iain Campbell replied as follows:

- There was no general benchmarking among local authorities on setting contribution rates over the long term. The modelling would allow members to understand the levels of contributions and also the levels risks as well as whether the Fund would likely deliver its long term objectives of meeting all the benefits;
- The modelling allowed for various levels of future inflation, which would be provided by the Economics Scenario Service and their assumptions on inflation would be based on the current performance of the financial markets, what the market data would be suggesting for future performance and the Bank of England target.
- With regard to varying the contribution strategy to take advantage of the slump in the financial markets during early 2020 and accelerate contributions, Laura McInroy stated that the Fund had a long term funding strategy and this strategy should not be varied based on short term movements in the market. The Fund's long term investment approach had resulted in the Fund outperforming after the markets had recovered from this fall;
- The modelling would be run against various scenarios to show the results in order to find the most appropriate balance between investment strategy and contribution rate;

- The Council's current contribution rate was set at 30% and in terms of costs the Director of Financial Management stated it was approximately £850k -£900k for each percentage point; and
- With regard to the possibility of having to raise the contribution rates due to a reduction in the workforce and contributions in recent years, the Group Director of Finance and Resources emphasised that while the workforce was smaller as a consequence of the austerity cuts, the Council had also undertaken an active and extensive insourcing exercise. More employees from outsourced services had been brought on the Council's payroll which had allowed them to access the LGPS, and a series of workshops had been held over many months for staff to join the pension scheme. The Fund had also been very active in taking forward the work on auto-enrolment and it currently had a healthy funding level and was cashflow positive.

RESOLVED:

To note the report and the associated training.

5. PF Annual Report and Accounts 2020/21

- 5.1 Michael Honeysett, Interim Head of Pensions, introduced the pre-audit Pension Fund Annual Report and Accounts, which set out the financial position of the Pension Fund for the year ended 31st March 2021. He reported that by the end of 2020/21 the funding level had recovered to 102%, the Fund remained cash flow positive, and the audit was due to commence in December 2022.
- 5.2 The Chair emphasised that this had been an exceptionally challenging year for Members, staff and advisers and thanked all those involved in getting the Fund in a good financial position.

RESOLVED to:

1. Note this version of the Pension Fund Annual Report and Accounts.
2. Approve publication of the draft accounts and distribution to interested parties, ahead of audit and receipt of an audit certificate.

6. CIPFA Knowledge and Skills Policy

- 6.1 Karen McWilliam, Aon, introduced the report outlining the improvements and changes to the Pension Fund's Knowledge and Skills Policy following updates to the CIPFA Code of Practice on LGPS Knowledge and Skills (2021), and the CIPFA Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers.
- 6.2 The policy had been reviewed and updated to meet the requirements of the new Code 2021 and to ensure that the knowledge and skills of the key decision makers complied with best practice as well as legal requirements. The three specific objectives were: ensuring that the Fund was appropriately managed

and its services were delivered by people who had the requisite knowledge and skills and expertise, ensuring that those persons responsible for governing the Fund had sufficient knowledge and skills to be able to evaluate and challenge the advice received and decisions were robust and well based, and those persons responsible for the management and governance of the Fund were committed to attending and engaging with suggested training. This would also include looking at wider training opportunities such as virtual events.

- 6.3 Members noted that in agreeing to the policy there would be mandatory training in order to meet the requirements of the new code.

RESOLVED:

To approve the updated Hackney Pension Fund Knowledge and Skills Policy as set out at Appendix 1.

7. Tenders Update

- 7.1 Michael Honeysett, Interim Head of Pensions, introduced the report outlining three contracts for services: the Actuarial Services and Investment Consultancy; Benefits and Governance Services; and the Custodian Services within the Pension Fund that were due for renewal and the requirement for further extensions on some of these contracts in order to complete the tendering process over the next six months. The extensions requested until April 2022 would allow the Fund to procure the new contracts through the Investment Consultancy Services, and Actuarial, Benefits and Governance Frameworks.
- 7.2 Following the recent transition of investment mandates to London Collective Investment Vehicle (LCIV) and no hedging being available in these mandates, the Fund now required a separate Foreign Currency Hedging contract in order to implement the Committee's decision to currency hedge 30% of the Fund's exposure. The hedging contract would be procured in line with the Council's procurement processes and as the value of the contract was relatively low and considered low risk it would be granted under officer approval.
- 7.3 In response to questions from members regarding the tenders, the Interim Head of Pensions replied as follows:
- A short training session specifically on foreign currency hedging could be scheduled for all members when hedging was next considered by the Committee;
 - It was confirmed that the expiry dates of the contracts would be staggered when they were renewed under the new frameworks with the exception of the Actuarial Services and Investment Consultancy Contracts, which were interlinked and tendered at the same time;
 - The Committee had agreed to reduce currency hedging from 50% to 30% at its meeting scheduled in March 2021;

- 7.4 A member requested that the currency hedging training session should also explore how a renewed currency hedging contract would provide value to the Fund and any potential provider should be expected to explain how they would provide value for money as currency hedging could be complex and expensive.
- 7.5 The Chair requested that officers facilitate Committee members' involvement in the procurement process for awarding these contracts via Committee interviews. The interim Head of Pensions indicated that the tender documents could incorporate within the scoring an element of interaction with the Committee and the Chair emphasised that this element should also allow members to be involved in selecting the provider.
- 7.6 The Chair indicated that the meeting on 31 March 2022 would be rescheduled to an earlier date and asked the Interim Head of Pensions to schedule all meetings for the contract award interviews and workshops as early as possible.

RESOLVED:

1. Approve the extension of both the Investment Consultancy and the Actuarial Services Contracts with Hymans Robertson for an additional 6 months to 30th April 2022.
2. Approve the extension of the Benefits & Governance Consultancy Contract with Aon for an additional 6 months to 30th April 2022
3. Note the current position regarding the Custodian Services Contact
4. Note the current position regarding the Foreign Currency Hedging Services Contract

8. Competition Markets Authority (CMA) Order - Review of Investment Consultants Objectives

- 8.1 Michael Honeysett, Interim Head of Pensions, introduced the report setting out a suggested set of updated objectives to be used for the formal assessment of its investment advisers, which would be presented at the next meeting in January 2022 ahead of the submission of the Compliance Statement to meet the requirements of remedy 7 as set out in CMA's Investment Consultancy and Fiduciary Management Market Investigation Order 2019. An extension would be sought on the submission date of the compliance statement and Members' comments and suggestions were sought on the draft investment adviser objectives.
- 8.2 In response to a question about expanding the objectives of future targets to reduce carbon emissions, the Interim Head of Pensions stated that the current targets were based on reducing fossil fuel and after 2022 the objectives in future targets after 2022 would be based on the work undertaken on Responsible Investment and ESG.

RESOLVED:

1. Agree the objectives, as set out in Appendix 1, by which the Fund's Investment Advisers will be assessed against for 2021.
2. Note that Members will be asked to approve a submission to the CMA in line with requirements setting out the Fund's assessment against the set objectives, at the January 2022 meeting.

9. Transitions Update & Investment Strategy Statement

- 9.1 Iain Campbell, Hymans Roberston, introduced the report providing an update on the implementation of phases 1 and 2 of the approved investment strategy in January 2021, and a post trade report setting out the planning and the execution of three major transitions. It also set out an updated interim Investment Strategy Statement for approval taking account of the approved investment strategy and outlined the new target Fund allocation.
- 9.2 Iain Campbell stated that the Fund had completed the transition of moving approximately £500m of assets as set out in Phase 1 asset allocation subject to the draw downs of capital. The investments had been made in the illiquid investment holdings of the LCIV Renewable Energy Infrastructure Fund and LCIV Private Debt Fund. The assets used to fund the remaining draw downs had been earmarked and a clear process of implementation had been put in place. The explicit costs totalled approximately £1m, which had been reasonable for a transition of this type and size. As part of implementing Phase 2, Hymans Roberston would continue to work with LCIV on its product launches and also convey the needs of the Fund. The key areas for the Fund were finding a potential bond mandate, an alternative to replace the current low carbon fund such as the Passive Equity Progressive Paris Aligned (PEPPA), an ESG and low carbon-focussed passive pooled fund and property solutions.
- 9.3 The Chair noted the immense work undertaken to complete Phase 1 of the transition plan and that this transition reflected the Fund's ambition to reduce carbon emissions and increase its activities in relation to responsible investment while maintaining a high performance Fund.
- 9.4 In response to questions from Members regarding transitions, the Interim Head of Pensions replied as follows:
- The Council used the Universe and PIRC reports to compare the performance of Local Authority pensions funds and identify successful investments. Iain Campbell added that Hymans Roberston also undertook research on a wide range of investment products and as an adviser to many local authorities it collated data on the best performing and most suitable investments.
 - The further work undertaken by the Committee regarding values as part of the discussions on Responsible Investments could be considered as part of the Responsible Investment policy and incorporated into a revised Investment Strategy Statement.

RESOLVED:

1. Note the reports at Appendix 1 and 2 setting out details regarding the implementation of the approved investment strategy.
2. Approve the interim Investment Strategy Statement for publication on the Fund's website and within the Annual Report and Accounts.

10. Annual Benefits Statements, Pensions Savings Statements and Guaranteed Minimum Pension Update

- 10.1 Karen McWilliam, Aon, introduced the report which provided an update on the 2020/21 Annual Benefit Statement (ABS) exercise, Pensions Savings Statement (PSS) exercise and the progress of the Guaranteed Minimum Pension (GMP) reconciliation project.
- 10.2 Karen McWilliam reported that the failure to issue the deferred ABS statements and some active statements by the regulatory deadline had been reported to The Pensions Regulator (TPR) and they had indicated that no further action would be taken if all the statements were issued by the end of October. It was reported that the statements had now been issued and TPR would be updated accordingly.
- 10.3 The GMP reconciliation exercise was coming to a close with the underpayment cases being resolved in October 2021 and the overpayment cases notified of the changes to their pensions, which would be implemented by November 2021. There were currently under 300 pensioners that were entitled to their GMP before reaching their state pension age and this required more complex and detailed calculations.
- 10.4 Officers had been liaising with Equiniti regarding the PSS and the cause of the error and resolving it. The 20 members that were affected had been notified in writing and approximately two members would be affected by the tax allowance.
- 10.5 In response to questions from members relating to the report, the Interim Head of Pensions replied as follows:
 - Equiniti recognised the need to resolve the issues of staffing shortages and issuing ABS within statutory deadlines. It was reported that Equiniti had now appointed a dedicated person for the ABS work and new processes would be put in place going forward; and
 - The staffing issues had not impacted on the call service available for pensioners.
- 10.6 The Chair advised that he would discuss with officers as to whether to invite Equiniti to a future meeting to discuss its poor performance.

RESOLVED:

To note the report.

11. Governance Policy and Compliance Statement Review

- 11.1 Karen McWilliam, Aon, introduced the report setting out the Fund's updated Governance Policy and Compliance Statement including an updated schedule of delegations from the Committee. The policy included further information such as governance objectives, the key policy documents and governance related risks. The key updates included updated objectives, changes to the governance arrangements and structure, updated key risks to reflect the current governance risks in the Fund's risk register and inclusion of Risk Policy, Breaches Procedure and Conflicts of Interest Policy to the policies section.
- 11.2 The updated schedule of delegations would allow officers to take action on any urgent business within appropriate timescales outside of scheduled meetings and minor amendments to the policy in consultation with the Chair.
- 11.3 It was noted that the references to the Chairman and Deputy Chairman within Appendix B should be amended to Chair and Vice-Chair.

RESOLVED:

To approve the updated Hackney Pension Fund Governance Policy and Compliance Statement including the updated delegations from the Committee as outlined in Appendix B of the Policy.

12. Any Other Business the Chair Considers to be Urgent

- 12.1 There was no other urgent business.

Duration of the meeting: 6.30pm - 8.25pm

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