APPENDIX 1

Annual Report of the Pensions Committee 2020-2021

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ANNUAL REPORT OF THE PENSIONS COMMITTEE 2020/21

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 £1.864bn at 31 March 2021 and has circa 25,000 members.

1.2 2020/21 has been a busy year for the Hackney Pension Fund, with a focus on the development of a revised investment strategy and the start of a review of the Fund's approach to responsible investment. The Fund has also continued to implement significant improvements to its third party administration service in addition to dealing with the continuing impact of the Covid-19 pandemic throughout the year.

1.3 As reported in 2019/20, the interim review to assess progress against the target of reducing its exposure to fossil fuel reserves by 50% over 6 years showed that we had 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. Following on from that review, the results were used to inform a revised investment strategy agreed during 2020/21 to help meet our overall target of at least a 50% reduction in exposure to future CO2 emissions.

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.

1.5 Looking to investment more widely, 2020/21 was once again a volatile year for investment markets. However, over the year to 31st March 2021, the Fund returned +25.6%, above the local authority pension fund average of +22.7%. The Fund's strongest performing asset class in absolute terms was equities although all asset classes in which the Fund is invested returned positive results. Whilst the Fund made no physical significant allocation changes during the year, drawdown to the private debt mandates agreed during 2018/19 continued throughout the year and the Fund agreed a new investment strategy to be implemented during 2021/22 focusing on pooling assets within the London CIV and more sustainable mandates. The

Fund's approach to investment in infrastructure was also agreed as part of the revised investment strategy.

1.6 The Fund's 2019 actuarial valuation saw the funding level improve to 92%, allowing the Council's contribution rate from 33% to 31.5% for 2020/21, with a further reduction to 30.0% planned for 2021/22. Since 31st March 2019, economic conditions have changed very considerably and as reported in last year's report and accounts, the funding level had decreased to 82.4% at 31st March 2020. I am pleased to report that by the end of 2020/21, the funding level had recovered and improved to 102%, representing a small surplus of £24m as at 31 March 2021, largely a result of the positive investment performance as outlined previously.

1.7 2020/21 has also seen another busy year for our administration team. The team have worked hard over the year to continue to ensure that pensions and other benefits continue to be paid as they fall due despite difficulties posed by the ongoing effects of the Covid pandemic. Improvements to the Fund's administration service have continued to be a major focus with further development of the new fund website and continued work on introducing online member and employer self-service.

1.8 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. We have experienced significant issues with data quality in recent years and, this interface is therefore seen as key to resolving many of these issues going forward. It is anticipated that the new interface will be completed and running live by mid-late 2021/22.

1.9 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.

1.10 Details on the work and training undertaken by Committee during the municipal year 2020/21 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work during 2021/22 financial year..

1.11 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 £1.9 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 2020/21 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 is the co-opted Employer Representative.

2.2 The table below outlines Members' attendance at Pensions Committee meetings during the 2020/21 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 2020/21								
	24 June		30 September		14 January		15 March	
	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	P	P	P	P
Cllr Kam Adams	P	P	P	P	P	P	P	P
Cllr Polly Billington	P	p	P	P	P	P	P	P
Clr Rebecca Rennison	P	P	A	A	P	P	A	A
Cllr Ben Hayhurst	A	A	A	A	P	P	P	P
Co-opted Members								
Henry Colthurst	P	P	A	A	P	P	P	P
Jonathan Malins-Smith	P	P	A	A	P	P	P	P
P=Present								
A=Absent								

3. WORK UNDERTAKEN DURING 2020/21

3.1 The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.86bn worth of assets with 24,937 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 again seen considerable fluctuation in the funding level over the year, driven not only by volatility in asset values but also by changes in liability values as a result of changes in inflation and gilt yields. At the time the Committee approved the 2019 valuation in March 2020, the overall funding level was 92%. By the end of 2020/21, this had improved significantly to 102%. As part of the triennial valuation, the Council's employer contribution rate will reduce further, ultimately to 30% by 2021/22 (31.5% in 2020/21).

3.2.2 Compliance with The Pension Regulator's Code of Practice has continued to feature on our agenda during 2020/21. 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 and request 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 continued to be made, it has still 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.

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.

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, although there has been some impact from the Covid situation, particularly during the early part of the year. New interim processes have been agreed where required in order to ensure an efficient service was provided to members and that benefits continued to be paid in a timely manner. Further improvements to our online presence are planned for the future, including online member and employer self-service during the 2021/22.

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 2020/21 was another volatile year in financial markets. The start of 2020 broke records with markets plummeting as the spread of Covid-19 continued to force lockdowns across the globe. However, as the position improved as a result of the breakthrough regarding vaccinations, by the end of 2020/21 markets had performed strongly.

3.3.2 As a result, over the year to 31st March 2021, the Fund returned +25.6%, outperforming its customised benchmark by 3.4%. This return was above the local authority pension fund average of +22.7% and put the Fund in the 41st 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 performing asset class in absolute terms was equities, particularly global markets. However, all asset classes in which the Fund is invested returned positive results.

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 asset 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 or 2020/21, although the Fund continued 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 agreed during 2020/21 which will see significant new allocations to investments within the London CIV.

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 and improve 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. We continued to fulfil that commitment during 2020/21 as further drawdowns of capital were requested by the managers. This move to private debt results 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 is 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 2019 showed that we had 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 agreed during 2020/21 strengthened the Fund's work in this area with a focus on moving investments into more sustainable mandates within the new pooling arrangements.

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 2021/22.

3.6 Financial Monitoring including Annual Report and Accounts

3.6.1 At the Pensions Committee meeting on 30th September 2020 the Committee were presented with the 2019/20 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. Unfortunately though, due to the impact of Covid and the cyber attack on Hackney Council IT systems, the audit certificate was not issued until 21 October 2021.

3.6.2 A revised Pension Fund Treasury Strategy was approved by the Committee at its meeting in September 2020.

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
Investment Strategy (KSF ?)	30/09/2020
£95k Exit Cap (KSF ?)	14/01/2021
Risk Management (KSF ?)	15/03/2021
Supplemental Training - Committee	**Date**
Infrastructure Investment (KSF ?)	24/06/2020
Pension Fund Report and Accounts (KSF2)	30/09/2020

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 including those set out below:

- Policy Reviews – The Pensions Administration Strategy was 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.
- GMP / Under and Overpayments Policy - The Committee considered a specific under and overpayment policy setting out the parameters for decision making in respect of these situations arising. It further considered the specific approach to such occurrences as a result of the ongoing GMP exercise.

4. WORK PROGRAMME 2021/22

4.1 During the 2021/22 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Report and Accounts 2020/21
- 2021/22 Budget
- Business Plan 2021/24
- London CIV Update
- Investment Strategy, including responsible investment and new target for climate change
- 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