

<b>REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES</b>		
<b>CONFLICT IN UKRAINE - PENSION FUND IMPACT</b>  <b>Pensions Board</b> <b>16th March 2022</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>Two</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	<b>AGENDA ITEM NO.</b>

## **1. INTRODUCTION**

- 1.1. This report sets out how the Fund is managing various issues raised by the conflict in Ukraine and provides details of the guidance currently available to the Local Government Pension Scheme (LGPS) and other pension funds on how to respond.

## **2. RECOMMENDATIONS**

- 2.1. The Board is recommended to:
- Note the report

## **3. RELATED DECISIONS**

- 3.1. None

## **4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES**

- 4.1. The current conflict in Ukraine has led to significant volatility in financial markets as a result of both sanctions against Russian organisations and individuals and the inevitable wider financial uncertainty that conflict produces. The wider impacts of the conflict are extremely difficult to predict; however, there are potential investment, administration and governance implications for pension funds and it is important that the Fund is aware of and manages these appropriately.
- 4.2. The risks include financial risks, such as increased market volatility and the impact of sanctions on Russian investments; being aware of and managing these will help the Fund to reduce the risk of financial loss as a result of the conflict.
- 4.3. There are no direct financial implications arising from this report.

## **5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE**

- 5.1. The role of the Pensions Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.2. Taking into account the role of the Pensions Board as set out in the Regulations, the consideration of the Fund's response to conflict in Ukraine would appear to properly fall within the Board's remit.

## 6. BACKGROUND TO THE REPORT

6.1. The current conflict in Ukraine has led to significant volatility in financial markets as a result of both sanctions against Russian organisations and individuals and the inevitable wider financial uncertainty that conflict produces. The wider impacts of the conflict are extremely difficult to predict; however, there are potential investment, administration and governance implications for pension funds and it is important that the Fund is aware of and manages these appropriately.

6.2. The Pensions Regulator (TPR) has issued an information statement for pension fund trustees which can be found here:

<https://www.thepensionsregulator.gov.uk/en/trustees/russia-ukraine-conflict>

The statement sets out the areas trustees should consider in responding to the risks posed by the conflict and sets out some general guidance on managing investment risk and communicating with scheme members.

6.3. The statement recommends that trustees should look to consider the following areas in responding to the risks posed by the conflict.

- for defined benefit (DB) schemes, the short-term liquidity needs and how those needs might be affected by margin calls and the need to meet short-term member benefit payments
- whether the employer or sponsor of the scheme has been affected, which for DB schemes may have consequences for the employer covenant: for example through any direct impacts to employer operations, through wider trading links where suppliers or customers are impacted, or through broader macroeconomic factors such as increased inflation, rising fuel prices or foreign exchange risks
- the likely impact of these events on your scheme's investments including short/medium-term risks

- in light of the potential heightened risk of cyber-attacks in the current environment, whether your cyber safety procedures remain adequate or need further consideration
- the potential for heightened risk of financial crime, including scams, and whether related processes and procedures should be reviewed
- whether investments remain aligned with the policies and principles set out in your statement of investment principles, including environmental, social and governance considerations

- 6.4. The LGPS Scheme Advisory Board (SAB) has also released a note (which can be found [https://lgpsboard.org/images/PDF/BDS/Investments in Russia 4 March 2022.pdf](https://lgpsboard.org/images/PDF/BDS/Investments%20in%20Russia%204%20March%202022.pdf)) here: <https://lgpsboard.org/images/PDF/BDS/Investments in Russia 4 March 2022.pdf>) The note sets out the current UK position on sanctions regarding Russian investments and provides guidance to funds considering their position with regards to their Russian investments.
- 6.5. The Hackney Fund is following the guidance as set out above, in addition to taking advice from its investment consultant. The Fund has some very small exposures to Russia within some of its active equity mandates and is liaising with the relevant managers and Hymans Robertson with regards to these investments.
- 6.6. The Fund is also considering the other areas highlighted in the Regulator's guidance. The Pensions Committee has reviewed the Fund's new Cyber Security Strategy at its 10th March meeting and officers are liaising with the Fund's administrator to manage communication with members.

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## **Appendices**

Appendix 1 - Draft Pension Fund Risk Policy

Appendix 2 - Risk Register