MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

THURSDAY 10 MARCH 2022

Link to view the meeting:
https://youtu.be/c5E-nPOPuoU or https://youtu.be/9TOiNIXRZP4

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Michael Desmond, Cllr Kam Adams (Vice-Chair), Cllr Nick Sharman and Cllr Lynne Troughton**
Co-optees:	**Jonathan Malins-Smith and Henry Colthurst**
Apologies:	**Cllr Ben Hayhurst and Cllr Polly Billington**
Officers in Attendance:	Jackie Moylan (Director of Financial Management), Michael Honeysett (Interim Head of Pensions), Rachel Cowburn (Head of Pension Fund Investments and Actuarial), Georgia Lazari (Solicitor - Team Leader) and Rabiya Khatun (Governance Officer)
Also in Attendance:	Andrew Johnston (Hymans Robertson) Simon Jones (Hymans Robertson) Karen McWilliam (Aon)

1 **Apologies For Absence**

1.1 Apologies for absence were received from Cllrs Billington and Hayhurst.

1.2 Jonathan Malins- Smith and Henry Colthurst joined the meeting remotely.

1.3 Cllr Troughton left the meeting at 19.15 hours.

2 **Declarations of Interest - Members to declare as appropriate**

2.1 The following Members declared that there was no change to the disclosable interests stated at the start of the municipal year 2021/22:

- Cllrs Chapman, Hayhurst and Troughton 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 Karen McWilliam and Andrew Johnston declared an interest in agenda item 6 – Procurement and Contracts Update as employees of Aon and Hymans Robertson respectively and left the room during consideration of this item.

3 **Consideration of The Minutes of The Previous Meeting**

3.1 There were no minutes of the meeting for approval.

4 **Responsible Investment Policy**

4.1 The Head of Pension Fund Investments and Actuarial introduced the report setting out the results of a carbon risk audit carried out by TruCost on the equity portfolio to measure the Fund's carbon footprint and exposure to future CO2 emissions and the progress made against the Fund's target to reduce exposure to future CO2 emissions. It also set out the next steps for the Fund in terms of both climate change reporting and the Fund's approach to Responsible Investment more widely.

4.2 It was highlighted that the results of the audit showed that the Fund had reduced its exposure to future CO_2 emissions by 96.9% since July 2016, significantly outperforming the Fund's target of a 50% reduction by 2022 without negatively impacting on performance. The proposed changes to the Fund's monitoring of carbon metrics had been part of a wider planned update to the Fund's approach to Responsible Investment, which would focus on setting out the Committee's priorities for Responsible Investment and strengthening the Fund's engagement approach. The updated Responsible Investment policy set out the new three key priorities, approach to exclusion and strengthening the Fund's engagement approach.

4.3 In response to questions from Members relating to the report, the Head of Pension Fund Investments and Actuarial, Andrew Johnston and Simon Jones from Hymans Robertson responded as follows:

- In terms of performance and relative performance, the Fund's performance had been benchmarked against LGPS peers as this gave an indication of how the Fund had performed relative to funds of a similar size, life cycle and investment strategies. The challenge in performance comparison was that there were limited defined benefit pension funds open to both new and existing scheme members;
- Since 2016 the measuring of carbon risk had changed and monitoring carbon exposure more frequently was now possible as data had become more widely available and cheaper. More guidance was also available in particular from the Task Force on Climate-Related Financial Disclosures (TCFD) which had recommended using a whole metrics of carbon metrics to monitor things such as emissions from invested companies, reserves and the plans companies had in place to achieve alignment with the Paris Agreement. With regard to the remaining 3% carbon exposure, the emphasis would be to look at underlying companies and their preparations for transition and alignment with the Paris Agreement. The Fund's overarching ambition to align with the Council's commitment to deliver net zero emissions by 2040 and in line with the IPCC's goal of limiting global

warming to 1.5C was achievable with more frequent measuring and monitoring taking place in line with TCFD recommendations.

- With regard to the specific approaches and measurements to achieve the target, it was highlighted that the TCFD recommendations were very detailed and widely recognised by larger pension schemes. The TCFD recommendations were expected to become requirements on LGPS schemes and the overlap between the TCFD requirements and net zero framework was substantive. In addition to monitoring, consideration needed to be given to metrics that were relevant such as the alignment metrics and setting stewardship and engagement goals to monitor those acting on behalf of the Fund. The Chair indicated that he would like TruCost to deliver a presentation when it submitted its report at the next meeting;
- Having more metrics and measuring other parts of the Fund's portfolio would allow asset owners to apply pressure on fund managers and investing companies to drive the change in reducing carbon emissions;
- With regard to setting a new target based on the updated metrics, it was emphasised that the year 2040 was a statement of ambition. Members were cautioned against setting an earlier date as this could impact on interim targets and could have unintended consequences such as forcing the Fund to divest from companies that were slowly moving through the transition process. In addition, if the Fund's portfolio achieved net zero more quickly than the world it would still be subject to the risk of climate change; and
- Guidance for asset owners had been given to ask investing companies their plans for transition to net zero and engaging to encourage change in behaviour.

4.4 The Chair asked officers to consider collaborations with other organisations such as IIGC and PRI as part of responsible investment.

RESOLVED

1. **Note the reduction in exposure to future CO2 emissions by 96.9% since 2016, which significantly outperforms the Fund's target of a 50% reduction.**
2. **Agree the Fund's ambition to deliver net zero emissions across its functions by 2040, ten years earlier than the target set by the Government, and in line with the Intergovernmental Panel on Climate Change's higher confidence threshold for limiting global warming to 1.5C above pre-industrial revolution average.**
3. **Agree that the Fund should monitor carbon exposure using a set of metrics in line with recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD.)**
4. **Approve the draft Responsible Investment Policy.**

5 Risk Policy

5.1 The Head of Pension Fund Investments and Actuarial introduced the report setting out the updated risk policy.

5.2 In response to questions from Members relating to the report, the Head of Pension Fund Investments and Actuarial and Interim Head of Pensions responded as follows:

- In terms of the risk of high inflation to the Fund and currency hedging, the Committee had already agreed currency hedging at 30% within its investment strategy and this approach could not be amended based on current global issues. The current hedging was considered appropriate in the longer term and could be reviewed during the next valuation;
- It was confirmed that the Fund's investment mandates currently had no currency hedging and that the team were in the process of procuring a hedging provider and an update would be provided at the next meeting;
- The Head of Pension Fund Investments and Actuarial agreed to provide members information on the Fund's other exposures to currency following the meeting;
- The Fund's low carbon and sustainable equity fund had major exposure to the dollar and Euro currencies and therefore mitigation was necessary;
- The current inflationary pressures were short term issues while the Fund had taken a long term view to inflation and currency hedging.

RESOLVED to:
1. Approve the updated Risk Policy.
2. Note the risk register update for 2021/22.

(Karen McWilliam and Andrew Johnston left the meeting before consideration of item 6.)

6 **Procurement & Contracts Update**

6.1 The Head of Pension Fund Investments and Actuarial introduced the report setting out the current position and requirement for further extensions on several contracts for services within the Pension Fund which were due for renewal. These included the actuarial services and investment consultancy currently provided by Hymans Robertson, benefits and governance services provided by Aon and global custody services provided by HSBC. The coronavirus pandemic had disrupted the procurement process for these services and consideration had been given to the Committee's request to align the procurement interviews with Committee's meeting dates.

6.2 In response to questions relating to the report, the Head of Pension Fund Investments and Actuarial responded as follows:
- Hymans Robertson's Investment Consultancy contract had been in place for many years and the contract had been renewed periodically;
- It would be a challenge to obtain this consultancy service in-house as the Pension Fund covered a wide range of areas and specialist legal advice on benefit issues could not always be obtained within the Council;
- The Pensions team consisted of five members of staff in administration, four staff in investment and accounts, Director of Financial Management and Corporate Director of Finance and Resources as well as advice from the Council's Legal Services.

RESOLVED to:
1. **Approve the re-procurement of the Actuarial Services Contract (with Hymans Robertson) and Benefits & Governance Consultancy Contract**

(with Aon) via direct call off under Lot 5 of the National LGPS Framework for Actuarial, Benefits & Governance Consultancy Services.

2. **Note the intention to put the above contracts out for competitive tender via the Framework in Spring 2023.**
3. **Approve the extension of the Investment Consultancy Contract with Hymans Robertson for an additional 5 months to 30th September 2022.**
4. **Note the current position regarding the Custodian Services Contact.**

7 **Pensions Administration Strategy**

7.1 Karen McWilliam, Aon, introduced the report on the Fund's Pensions Administration Strategy, which had been updated to reflect the development of the Employer self Service portal for collecting monthly employer data. It was highlighted that many changes in regulations were expected in the next few years.

RESOLVED:
To approve the updated Hackney Pensions Administration Strategy as outlined in Appendix 1 for publication.

8 **Business Plan**

8.1 The Chair introduced the report outlining the Business Plan.

8.2 A member requested refresher training be available for Committee members.

RESOLVED:
To approve the Business Plan for 2022/23 to 2024/25.

9 **Quarterly Update Report**

9.1 The Interim Head of Pensions introduced the report providing an update on the key quarterly performance measures, position of the Fund between November and December and an update on the implementation of the investment strategy.

9.2 It was highlighted that the report did not include the impact of the Russian invasion on the Fund's performance. However, following a recent exercise and analysis of the level of exposure, it was reported that the Fund had approximately 0.05% exposure to Russian related investments.

9.3 In response to questions from members relating to the report, the Interim Head of Pensions, Head of Pension Fund Investments and Actuarial and Andrew Johnston responded as follows:

- The Fund had no direct exposure to Russian investments but had limited exposure of approximately £1m mainly concentrated in the equity portfolio. Officers were working with the relevant Fund Managers with the intention to divest from the Fund's Russian holdings when practicable due to the long term financial risk they presented as the Ukraine conflict and sanctions had led to assets losing value and there was also no possibility of engagement;

- The Committee were advised to focus on two key priority areas, these were engagement with the LCIV and Blackrock mandate managers to continue to understand how decisions were being taken on behalf of the Committee going forward and expressing the Committee's opinions and views, and considering beliefs and divestments;
- With regard to the definition of Russian assets, it was clarified that the exposure of 0.05% represented Russian companies listed on either the Russian stock exchange or other stock exchanges but it did not represent indirect exposure. An exercise had been undertaken but further work was being undertaken to look at the Fund's indirect exposure to look at those companies directly affected by sanctions and the financial risks involved; The Head of Pension Fund Investments and Actuarial undertook to provide an update on the Russian holdings within the Fund;
- It was highlighted that Russian assets were losing value as the conflict continued and also index funds providers had taken the decision to remove Russia from their universe and would no longer hold Russian assets in these index funds. To divest from Russian holdings at present was complicated and in particular from pooled funds as it was not practicable due to the transaction costs involved and also the level of exposure;
- It was confirmed that there had been a deterioration in the funding position, it was approximately 6% worse than represented at the year end. Due to volatility in the markets being less extreme than previously no recommendations were being made to amend the investment strategy; and
- The 32.5% improvement since 2019 had been driven by strong growth asset performance predominantly in equities and rising yields.

9.4 It was noted that members were satisfied with the approach to divest from Russian holdings as soon as practical.

RESOLVED:
To note the report.

10 **Exclusion of The Press And Public**

RESOLVED:
That the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt item 11- Cyber Security Policy on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

11 **Cyber Security Policy**

11.1 The minutes for this item are exempt.

12 **Any Other Business Which in The Opinion Of The Chair Is Urgent**

12.1 Cllr Desmond thanked the Chair and Committee members for their commitment and work and also officers. Cllr Sharman also thanked the Pensions team for their support and professionalism.

Duration of the meeting: 18.48- 21.15 hours