APPENDIX 1

Annual Report of the Pensions Committee 2021-2022

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ANNUAL REPORT OF THE PENSIONS COMMITTEE 2021/22

1. CHAIR'S INTRODUCTION – COUNCILLOR KAM ADAMS

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 £1.965bn at 31 March 2022 and has nearly 26,000 members.

1.2. 2021/22 has been a busy year for the Hackney Pension Fund, with a focus on the implementation of a revised investment strategy and the development of the Fund's Responsible Investment policy. The Fund has also continued to implement significant improvements to its third party administration service and made significant improvements to the quality of its membership data.

1.3. In 2016, the Pensions Committee set a target for the Fund to reduce exposure to fossil fuel reserves by at least 50% over the 6 years to 2022, with an interim review in 2019. By the time of the interim review, we had reduced exposure to carbon reserves by 31.4%, well over halfway to the target. These results were used to inform a revised investment strategy, which was implemented during 2021/22.

1.4. The final review against the target took place during 2022; the results showed that the Fund had reduced its exposure to carbon reserves by 96.9% between July 2016 and November 2021, demonstrating significant outperformance of the Fund's original target to reduce exposure by 50% by 2022.

1.5. 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. The target has helped highlight the areas of greatest risk within the Fund's investment strategy and helped the Fund integrate carbon risk into the strategy setting process. We are determined to remain at the forefront of Council Pension Funds in tackling the risks of climate change to our investments.

1.6. Looking to investment more widely, 2021/22 saw very variable performance. The first 3 quarters of the year were marked by a relatively benign investment environment, despite concerns over growth and rising inflation. Quarter 4 then saw Russia's invasion of Ukraine in late February, which caused a global shock. Equities declined and bond yields rose, whilst commodity prices soared, contributing to a surge in inflation.

1.7. Over the year to 31st March 2022, the Fund returned 6.1%, below its benchmark of 8.1%. The key driver of this underperformance was the Fund's exposure to growth equities, which suffered a sharp correction during quarter 4. Equities and property were the Fund's strongest performing asset classes in absolute terms; however, as set out above, the Fund's more growth-oriented equity mandates did underperform their benchmark.

1.8. The Fund made a number of significant allocation changes during the year, in line with agreed changes to the investment strategy. The Fund's multi asset allocation has been reduced, with both previous portfolios sold down and the remaining exposure moved to the London CIV. The Fund has also pooled its emerging market equities, and made allocations to a number of other pooled mandates within the London CIV.

1.9. The Fund's actuarial valuation at 31st March 2019 saw a funding level of 92%. Initial results from the 2022 valuation suggest that this had improved to 106% as at 31st March 2022, largely as a result of strong investment performance. Whilst some of these gains have since been eroded as a result of the challenging investment environment during 2022, reduced asset values have been more than offset by decreases in the estimated value of the Fund's liabilities. Whilst the 2022 valuation is yet to be finalised, the Council is set to reduce its contribution rate by 2-3% from 1st April 2023, from 30% to 27-28%.

1.10. 2021/22 has also seen another busy year for our administration team. Improvements to the Fund's administration service have continued to be a major focus with continued work on introducing online member and employer self-service, as well as the ongoing project to manage anticipated regulatory changes following the McCloud judgement on age discrimination.

1.11. 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, which went live early in 2022. The Fund has seen a significant improvement in the quality of data held as a result of the project, which has been reflected in the 2022 valuation and annual benefit statement processes .

1.12. The Committee agrees to 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.

1.13. Details on the work and training undertaken by the 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..

1.14. 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 challenges for both the LGPS and the wider economy.

1.15. Particular thanks are due to Cllr Robert Chapman, who stepped down as Chair of the Committee in May 2022; on behalf of the Committee, I would like to thank him for his leadership and dedication over the last 8 years. 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 Kam Adams
Chair- Pensions Committee

2. COMMITTEE MEMBERSHIP AND ATTENDANCE

2.1. The following Councillors were members of the Committee during the 2021/22 municipal year –

Cllr Robert Chapman (Chair)
Cllr Michael Desmond (Vice Chair)
Cllr Kam Adams
Cllr Polly Billington
Cllr Ben Hayhurst
Cllr Patrick Spence
Cllr Nick Sharman
Cllr Margaret Gordon
Cllr Sem Moema

Cllr Lynne Troughton

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 2021/22 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 2021/22										
	16th June		30th September		23rd November		20th January		10th March	
	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P	P	P
Cllr Michael Desmond (Vice Chair)	P	P	A	A	P	P	P	P	P	P
Cllr Kam Adams	P	P	P	P	P	P	P	P	P	P
Cllr Polly Billington	A	A	P	P	A	A	P	P	A	A
Cllr Ben Hayhurst	P	P	P	P	P	P	A	A	A	A
Cllr Patrick Spence	P	P	A	A	P	P	P	P	A	A
Cllr Nick Sharman	P	P	P	P	A	A	P	P	P	P
Cllr Margaret Gordon	P	P	P	P	P	P	P	P	P	P
Cllr Sem Moema	A	A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cllr Lynne Troughton	N/A	N/A	N/A	N/A	P	P	P	P	P	P
Co-Opted Members										
Henry Colthurst	A	A	A	A	P	P	A	A	P	P
Jonathan Malins-Smith	P	P	P	P	P	P	A	A	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 £1.97bn worth of assets with 25,802 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 2021/22, this had improved significantly to 106%. The rate payable during the year was 30% (31.5% in 2021/22), which also applies to 2022/23.

3.2.2. 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. The Fund was required to make a number of reports to the Pensions Regulator in respect of late issuance of Annual Benefit Statements as a result.

3.2.3. 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. The Committee is very pleased to note that a new automated interface process went live early in 2022/23, representing the culmination of several years' work. The quality of data held by the Fund has since increased significantly, and this is reflected in the timely production of Annual Benefit Statements for 2021/22 and the good progress made on the 2022 valuation.

3.2.4. The administration team continued to manage the contract with Equiniti, our third party administrator, during the year, delivering ongoing improvements to the Fund's administration service. One major ongoing project has been the delivery of new employer and member online services. These were delayed due to the onset of the COVID-19 outbreak in the UK in late March 2020 which unfortunately halted the planned rollout and training programme.

3.2.5. The first phase of the employer online portal work is now in progress. The inhouse Hackney pension team has worked closely with the project delivery manager from Equiniti and have agreed a detailed specification proposal. Employer training for the portal was held and follow-up work is now in progress with the employers. The council, the largest employer, has now moved into the "live" environment and monthly salary and contributions data is being uploaded each month directly into Equiniti's administration system. Several other smaller employers are now also uploading into the live environment, and the team are engaging with the remaining employers.

3.2.6. The team are also working on the McCloud Programme, which will ensure the Fund is able to manage anticipated regulatory changes following the McCloud judgement on age discrimination. The regulations needed to implement the McCloud remedy within the LGPS have still not been published; however, the team are working to ensure that the Fund is as prepared as possible on the basis of the available information.

3.2.7. In recent years the risk of cybercrime has become much more evident, with the serious cyber attack on Hackney Council in October 2020 being a good example. Cyber-attacks on pension schemes are a significant risk and LGPS administering authorities are arguably at higher risk than other schemes due to the volume of data transfers between the administering authority and employers in the funds, as well as the high levels of assets of the funds. This is therefore an area of considerable interest to the Pensions Regulator.

3.2.8. The Committee and Officers have worked with the Fund's governance consultant, Aon, to develop a Cyber Security Strategy for the Fund, which was approved by the Committee in March 2022. A key element of delivering this strategy will be working in partnership with Hackney Council as the Host Authority for the Fund, whilst still ensuring that the Pensions Committee and Fund officers have appropriate ownership of the risk and understands where Fund specific action and internal controls are required. Officers are now working with Aon to implement the strategy; initial security assessments have already been completed for the Council and Equiniti.

3.2.9. 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. The first 3 quarters of the year were marked by a relatively benign investment environment, despite concerns over growth and rising inflation. Quarter 4 then saw Russia's invasion of Ukraine in late February, which caused a global shock. Equities declined and bond yields rose, whilst commodity prices soared, contributing to a surge in inflation.

3.3.2. Over the year to 31st March 2022, the Fund returned 6.1%, below its benchmark of 8.1%. Equities and property were the Fund's strongest performing asset classes in absolute terms, although some mandates notably underperformed relative to their benchmarks.

3.3.3. The Fund made a number of significant allocation changes during the year, in line with agreed changes to the investment strategy. The Fund's multi asset allocation has been reduced, with both previous portfolios sold down and the remaining exposure moved to the London CIV. The Fund has also pooled its emerging market equities, and made allocations to a number of other pooled mandates within the London CIV.

3.3.4. These include a new private debt allocation, which takes the Fund's total commitment to the asset class to 20%, and an allocation to renewable infrastructure. Initial commitments were made to these mandates late in 2020/21, with drawdowns commencing in 2021/22. Both allocations reflect the ongoing shift in the Fund's investment strategy towards income generating investments, which are becoming increasingly necessary as the Fund matures and benefit payments increase.

3.3.5. Given that funding allocations to illiquid asset classes requires the regular drawdown of capital over time, the Committee reviewed the Fund's approach to cash management during the year. Advised by the Fund' investment consultant, Hymans Robertson, the Committee considered how best to manage the short term demands that funding the new allocations would place on the Fund's cashflows. The recent spike in inflation has added additional pressures and rendered regular review of the Fund's cash management approach even more important.

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. 2021/22 saw the Fund's second significant pooling transition exercise, following its first investments via the London CIV in 2018/19. The revised investment strategy, agreed during 2020/21, saw a number of new allocations to London CIV mandates, including active global equity, private debt, multi asset and renewable infrastructure.

3.4.3. Transition to these new pooled arrangements took place during the autumn of 2021. The Committee approved the approach to transition in March 2021 and reviewed the transition exercise after completion in November 2021.

3.4.4. Cllr Robert Chapman, Vice 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.

3.4.5. 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 2016, the Pensions Committee set a target for the Fund to reduce exposure to fossil fuel reserves by at least 50% over the 6 years to 2022, with an interim review in 2019. By the time of the interim review, we had reduced exposure to carbon reserves by 31.4%, well over halfway to the target. These results were used to inform a revised investment strategy to strengthen the Fund's work in this area, with a focus on moving investments into more sustainable mandates within the new pooling arrangements. This was implemented during autumn 2021.

3.5.3. The final review against the target took place during 2022; the results showed that the Fund had reduced its exposure to carbon reserves by 96.9% between July 2016 and November 2021, demonstrating significant outperformance of the Fund's original target to reduce exposure by 50% by 2022.

3.5.4. 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. The target has helped highlight the areas of greatest risk within the Fund's investment strategy and helped the Fund integrate carbon risk into the strategy setting process.

3.5.5. We are determined to remain at the forefront of Council Pension Funds in tackling the risks of climate change to our investments. The Committee has therefore set a target for the FUnd to reach net zero by 2040, and plans to announce an initial interim target early in 2023. We have also started work on the Fund's first TCFD (Taskforce on Climate-related Financial Disclosures) report well ahead of the December 2024 statutory deadline for LGPS funds. Our initial report will cover the year 2021/22 and will be published in early 2023, nearly 2 years ahead of the deadline.

3.5.6. As set out above, the Fund has made significant strategy changes over the past 6 years, driven by wider economic changes and the government's asset pooling strategy as well as increased awareness of carbon risk. Much of the reduction in the Fund's exposure to carbon risk has been achieved through changes to the investment strategy. As we move into the next phase of asset pooling, we expect to make fewer major strategic changes and focus more on strengthening our engagement approach and working collectively with suppliers and other funds.

3.5.7. In line with this approach, the Committee approved the Fund's Responsible Investment Policy in March 2022. The Policy sets out our priority themes of climate action, developing clean energy systems and investing for the human condition. These incorporate a number of the UN Sustainable Development Goals and will help inform our engagement priorities. º

3.5.8. The Policy sets out the Committee's approach to voting and stewardship more widely, and sets out the role of the Role Investment Working Group (RIWG). The RIWG will have a membership made up of both Councillors and officers and will be responsible for setting the Fund's stewardship priorities and engaging on these with managers and other relevant stakeholders.

3.5.9. 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.

3.6. Financial Monitoring including Annual Report and Accounts

3.6.1. At the Pensions Committee meeting on 23rd November 2021 the Committee were presented with the 2020/21 Pension Fund Annual Report and Accounts for approval, pending completion of the audit.

3.6.2. The Fund's auditors propose to issue an unqualified opinion, modified to include an 'emphasis of matter' paragraph surrounding the valuation of pooled property investments, on the Pension Fund financial statements.

3.6.3. The 'emphasis of matter' paragraph concerns Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's pooled property fund assets as at 31 March 2021. As disclosed at Note 4, these valuations have been reported by the valuers on the basis of 'material valuation uncertainty' in line with guidance from the Royal Institute of Chartered Surveyors (RICS). The auditors' opinion is not modified in respect of this matter.

3.6.4. The 2020/21 Pension Fund Annual Report and Accounts remains in draft form, as we await receipt of the certificate pending resolution of an outstanding query on the Council's accounts.

3.7. Training

3.7.1. 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.

3.7.2. 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.

3.7.3. The topics covered during the year in line with the Knowledge and Skills Framework are outlined in the table below:

Dedicated Training - Committee	Date
TCFD and Stewardship (Investment performance and risk management; financial markets and products knowledge)	16/06/2021
Funding & Investment (Investment performance and risk management; Actuarial methods, standards and practices)	30/09/2021
Triennial Valuation (Actuarial methods, standards and practices)	23/11/2021
Valuation Assumptions (Actuarial methods, standards and practices)	20/01/2022
Cyber Security (pensions governance, pensions services procurement and relationship management)	10/03/2022
Supplemental Training - Committee	**Date**
Funding Issues (Actuarial methods, standards and practices)	16/06/2021
Investment Strategy & Transition (Investment performance and risk management; financial markets and products knowledge)	23/11/2021
Responsible Investment (Investment performance and risk management; financial markets and products knowledge)	10/03/2022

4. Work Programme 2022/23

4.1 During the 2022/23 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Report and Accounts 2021/22
- 2022/23 Budget
- Business Plan 2022/25
- Detailed results - carbon risk audit
- Investment Strategy review, including responsible investment and new target for climate change
- 2022 Valuation
- Third party administration contract review
- Investment Consultancy Procurement
- Custody Procurement
- Cyber Strategy development
- 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