

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY 22 NOVEMBER 2022

Link to live stream: <https://youtu.be/qmqARrqENdg>

Councillors Present:	Councillor Kam Adams in the Chair Councillor M Can Ozsen and Councillor Lynne Troughton
Apologies:	Councillor Ian Rathbone, Councillor Robert Chapman, Councillor Margaret Gordon and Councillor Joe Walker
Officers in Attendance:	Georgia Lazari (Solicitor - Team Leader), Jackie Moylan (Director of Financial Management), Michael Honeysett (Head of Pensions), Rachel Cowburn (Head of Pension Fund Investment and Actuarial) Rabiya Khatun (Governance Officer)
Also in Attendance:	Jill Davys & Anastasia Guha (Investment Consultant, Reddington) and Catherine Pearce (Governance Consultant, Aon).
Present virtually:	Henry Colhurst (Co-optee) Jonathan Malins- Smith (Co-optee) Cllr Grace Adebayo Cll Alastair Binnie-Lubbock

1 Apologies For Absence

- 1.1 Apologies for absence were received from Councillors Chapman, Gordon, Rathbone and Walker.

2 Declarations of Interest - Members to declare as appropriate

- 2.1 Councillor Troughton declared that she was a member of the LGPS.
2.2 Councillor Adam declared that his partner was a member of the LGPS.

3 Consideration of The Minutes of The Previous Meeting

- 3.1 Members considered the public minutes of the previous meeting held on 29 September 2022.

RESOLVED:

That the public minutes of the Pensions Committee meeting held on 29 September 2022 were approved as a correct record.

4 Training - TCFD (Redington)

4.1 Rachel Cowburn, Head of Pension Fund Investment and Actuarial, introduced the report and Anastasia Guha and Jill Davys from Redington Consultants delivered a training session on the Task Force on Climate Related Financial Disclosures (TCFD) and net zero.

4.2 Members asked questions during the presentation and the responses from the Head of Pension Fund Investment and Actuarial and Anastasia Guha, Redington Consultant, were as follows:

- The Head of Pension Fund Investment and Actuarial stated that scheme membership enquiries and engagement regarding investment policy was relatively low and this could be due to member benefits being set out in law within the Defined Benefit Scheme and not dependent on investment performance. In the past local residents and the members in the Council had actively engaged on this subject matter making enquiries on this policy and had received a response. Any concerns already received could be forwarded to Jonathan Malins-Smith.
- With regard to the investment strategy working in line with the climate approach to net zero, it was emphasised that the Committee's fiduciary responsibility to pay pensions could not be superseded by its response to the climate challenge. It would be a challenge to achieve the climate and net zero commitment by 2040 or even 2050 and highly unlikely by 2030. When looking at the risks to the portfolio, the returns and expected returns it was important to make sure it was a risk-adjusted return to minimise market risk.
- With regard to the concerns expressed regarding data quality, it was stated that data quality was reliable enough for the Committee to set a target. The data quality in the private markets was also not perfect but the estimated financial data could be used to take a decision.
- The climate transition to limit global warming to 1.5°C degrees and reach net zero by 2050 had already begun with improvements being made since the COP conference in 2012 when global warming had been expected to reach 5°C, however, by COP27 in 2022 it had been predicted to be under 3°C. The work undertaken by the private sector and investments, risk-adjusted returns and investing differently to achieve net zero had reduced the worst outcomes. Limiting carbon emissions to the 1.5°C degrees was becoming a challenge to achieve by 2040 but it could be possible by 2050. It was expected that the data could be available by December 2022 and submitted at the next meeting.
- There would be economic growth opportunities as a result of the significant changes in producers and consumers of investment products as the world worked towards decarbonisation. The Committee needed to consider whether fund managers were meeting the Committee's expectations in terms of decarbonisation and hitting the 1.5°C degrees.
- In respect of American and Chinese investments, China had pledged to achieve carbon neutrality by 2060 and modelling of the risks would need to be

undertaken. Any risks would need to be managed as well as taking opportunities to manage investments in the Fund.

- An analysis of the data could be presented at the next meeting and the Committee could be in a position to set climate targets to achieve net zero by March 2023.
- The LBH Pension Fund was relatively clean in terms of fossil fuel investments and the Committee was in a good position to consider divesting from investments where engagement had been unsuccessful. Members could be more ambitious when setting climate targets.

RESOLVED:

That the presentation and training be noted.

5 TCFD Consultation - Draft Response

5.1 Rachel Cowburn, Head of Pension Fund Investment and Actuarial, introduced the report and presented a draft of the Fund's proposed response to the Central Government's consultation on TCFD.

5.2 The Head of Pension Fund Investment and Actuarial, reported that a further response had been received after the publication of the draft response. Members agreed to the inclusion of a request for statutory guidance around fiduciary responsibilities and how Funds should respond in the draft response.

RESOLVED:

To approve the draft response including a further comment.

6 Pension Fund Annual Report and Accounts

6.1 Rachel Cowburn, Head of Pension Fund Investment and Actuarial, introduced the report and highlighted that the draft accounts were in the process of being audited and would be presented at the next meeting.

RESOLVED:

- 1. To note this version of the Pension Fund Annual Report and Accounts**
- 2. To approve publication of the draft accounts and distribution to interested parties, ahead of audit and receipt of an audit certificate.**

7 Conflicts of Interest Policy

7.1 Rachel Cowburn, Head of Pension Fund Investment and Actuarial, introduced the report.

7.2 Members commented that the policy should require members to disclose all interests and the examples had been helpful. The Head of Pensions responded that policy would be reviewed after three years and made more user friendly.

RESOLVED:

To approve the updated Conflicts of Interest Policy

8 Renaisi exit arrangements

8.1 The Chair advised that agenda Item 8 contained exempt information and would be considered in the private session of the meeting.

RESOLVED:

To note the contents of the report.

9 Annual Report of the Pensions Committee

9.1 Rachel Cowburn, Head of Pension Fund Investment and Actuarial, introduced the report detailing the role of the Pensions Committee and summarising the key activities and achievements in 2021/22 that demonstrated how the Committee had fulfilled its role as the Scheme Manager for the London Borough of Hackney Pension Fund. The report would be presented to Full Council on 23 November 2022.

RESOLVED to:

1. Note the contents of the report.

2. Council is recommended to note the report.

10 Any Other Business Which in The Opinion Of The Chair Is Urgent

10.1 The Chair considered the questions submitted by Cllr Binnie- Lubbock and Head of Pension Fund Investment and Actuarial and Anastasia Guha responded as follows:

- Question: What proportion of investments, including the pooled arrangements, are currently in renewable infrastructure and what proportion is in companies that primarily extract and trade in fossil fuels?
- Answer: Approximately 1.3% of the Fund's investments are held in renewable infrastructure at present, although this will increase to around 5% over the next 2 years, as it takes time to fully fund the investment. The manager for our renewable infrastructure investment is the London CIV. In terms of the proportion invested in companies extracting and trading in fossil fuels today, a response would be provided in the coming weeks.
- Question: Why are some pension committee members listed as N/A in the attendance list?
- Answer: The membership of the Committee changed during the year 2021/2022- where a Member's attendance is marked as N/A, they were not a Committee Member at the time of the meeting and would not have been expected to attend. There were more than nine members in the table as there changes to the membership during the municipal year.
- Question: Target of being net zero by 2040. How does this align with the council's stated aim to be net-zero by 2030 and rejoin the UK100 group of councils? Will the fund invest in debunked carbon offsetting?
- Answer: The journey to net zero for pension funds is very different to that of local authorities and needs to be approached differently; it is common for LGPS funds to set targets that differ from their host authorities. Net zero for pension funds requires alignment of their investment strategies, and hence underlying investee companies, with net zero. Requiring the companies the Fund invests in to align to a 2030 target would significantly limit the Fund's investment strategy and likely to cause financial detriment, which runs counter to the fiduciary duties of the Committee. The Fund's ambition of net zero by 2040 is early amongst pension funds and is aligned to a 1.5 degree warming strategy, which would require net zero by 2045 - 2055.

- Answer: Anatasica Guha provided details around some of the challenges of the 2030 strategy. There were two different problems with the Pension Fund trying to decarbonise the global economy and the Council was trying to decarbonise its infrastructure and operations which would have an insignificant impact compared to the global economy. Divesting now into clean investments would not assist with transition and the real world decarbonisation. A 2030 target could be considered a statement of intent and an opportunity to plan strategies and implementation of the statement.
- Question: What does the council's stronger engagement approach look like in practice?
- Answer: This refers to engagement with the Fund's investment managers, which is the Fund's primary route of influence with its investee companies. In practice, strengthening our engagement approach means requiring greater oversight by managers of the environmental, social and governance risks within our portfolio, increased engagement on what they are doing to address these and clear follow up on outcomes. The Fund is a relatively small investor and therefore has relatively little impact alone; however, working with its investment managers and other funds is more likely to drive improvements amongst investee companies.
- Question: Should this refer to Cllr Chapman as former chair of the pension's committee?
- Answer: It should refer to Cllr Chapman as Vice Chair.
- Question: Has the Committee considered using its investment to buy social housing.?
- Answer: The Committee can consider this at the next strategy review but all investment decisions were subject to the Council's primary fiduciary duties.

The Chair asked the Head of Pension Fund Investment to provide a written response to Cllr Binnie- Lubbock.

11 Exclusion of The Press And Public

RESOLVED:

THAT the press and public be excluded from the proceedings of the Committee during consideration of Exempt Items 8, and 12 on the agenda on the grounds that it is likely, in view of the nature of the business to be transacted, that were members of the public to be present, there would be a disclosure of exempt business as defined in paragraph 3 of Part 1 of schedule 12A of the Local Government Act 1972, as amended.

12 Consideration of the Exempt Minutes of the Previous Meeting

12.1 Members considered the exempt minutes of the previous meeting held on 29 September 2022.

RESOLVED:

That the exempt minutes of the Pensions Committee meeting held on 29 September 2022 were approved as a correct record.

Duration of the meeting: 7.00 - 9.00 pm

