APPENDIX 1

Annual Report of the Pensions Committee 2022-2023

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ANNUAL REPORT OF THE PENSIONS COMMITTEE 2022/23

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 £1.87bn at 31 March 2023 and has over 26,000 members.

1.2. 2022/23 has been a busy year for the Hackney Pension Fund, with a focus on completion of the 2022 triennial valuation and development of a revised investment strategy. The Fund has also renewed its third party administration services contract through its existing provider, Equiniti, and made significant improvements to the quality of its membership data.

1.3. Looking at investment matters, 2022/23 was an extremely challenging year in investment markets. Inflation surged across the world, driven primarily by food and energy price inflation. Central banks responded by tightening rapidly, hiking interest rates to try to control the inflation surge and both equity and bond assets generally performed poorly. Early 2023 saw a stronger start for both equities and bonds, although the new environment of high inflation, higher interest rates and slowing growth continues to present investors with significant challenges.

1.4. We did not consider any significant allocation changes during the year, largely as a result of the full investment strategy review which is now taking place following the 2022 valuation. We are continuing to fund commitments to illiquid mandates made at previous strategy reviews, including commitments to private debt mandates and an allocation to renewable infrastructure.

1.5. We signed off the Fund's 2022 triennial valuation at our meeting on 30 March 2023. The valuation showed a funding position of 106%, which represents a significant improvement from the 92% position calculated at the 2019 valuation. A number of factors drove this rise in the funding position, including higher than expected investment returns and changes in actuarial assumptions. The relatively strong funding position has allowed the Council to significantly reduce its contribution rate in recent years; the rate agreed for the Council for 1st April 2023 to 31st March 2026 is 27%, down from 30% in 2022/23.

1.6. 2022/23 has also been another busy year for our administration team. The team has continued to manage the contract with Equiniti, our third party administrator, during the year, delivering ongoing improvements to the Fund's administration service, as well as helping to deliver the Fund's McCloud Programme.

1.7. In recent years, the Committee has closely monitored the Fund's progress in developing new processes for data provision. We are therefore 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 early submission of good quality valuation data to the Fund Actuary. Annual Benefit Statements for 2021/22 were also sent out promptly during summer 2022.

1.8. 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.

1.9. Details on the work and training undertaken by the Committee during the municipal year 2022/23 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work during 2023/24 financial year..

1.10. 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 £1.87 billion pension fund during a period of considerable challenges for both the LGPS and the wider economy.

1.11. Particular thanks are due to Ian Williams, Group Director, Finance and Corporate resources, who left Hackney in July 2023 after 16 years. On behalf of the Committee, I would like to thank Ian for his leadership and dedication and for his support of our work over the last 16 years. I would also like to thank our specialist advisors and the pensions team staff for their hard work 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 2022/23 municipal year –

Cllr Kam Adams (Chair)
Cllr Rob Chapman (Vice-Chair)
Cllr Grace Adebayo
Cllr Margaret Gordon
Cllr Ben Hayhurst
Cllr M Can Oszen
Cllr Ian Rathbone
Cllr Lynne Troughton
Cllr Joe Walker (from September 2022)
Jonathan Mallins-Smith (Co-opted Scheme Member Representative)
Henry Colthurst (Co-opted Employer Representative)

2.2. The table below outlines Members' attendance at Pensions Committee meetings during the 2022/23 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.

Member	Jun 2022	Sept 2022	Nov 2022	Jan 2023	Mar 2023
Cllr Robert Chapman	P	P	A	P	O
Cllr Kam Adams	P	P	P	P	P
Cllr Ben Hayhurst	A	A	O	O	A
Cllr Margaret Gordon	O	O	A	P	O
Cllr Lynne Troughton	P	P	P	O	A
Cllr Grace Adebayo	A	P	O	O	P
Cllr M Can Ozsen	P	A	P	O	O
Cllr Ian Rathbone	A	O	A	P	P
Cllr Joe Walker	N/A	P	A	P	A
Jonathan Malins Smith	P	A	O	O	O
Henry Colthurst	A	O	O	O	O
P = Present (in person)					
A = Absent					
O = Present (online)					

3. WORK UNDERTAKEN DURING 2022/23

3.1. The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.87bn worth of assets with 26,385 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. 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.

3.2.2. Over the last 3 years, the Committee has closely monitored officers' progress in working with both the Council and Equiniti, the Fund administrator, to develop new processes for data provision. We are therefore very pleased to note that a new automated interface process went live early in 2022/23, representing the culmination of several years' work.

3.2.3. The quality of data held by the Fund has since increased significantly, and this is reflected in the early submission of good quality valuation data to the Fund Actuary. Annual Benefit Statements for 2021/22 were also sent out promptly during summer 2022.

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. Performance under the pension administration contract when compared to the service level agreement (SLA), was 96.3% for 2021/22 as a whole, which increased to 97.4% for the year 2022/23.

3.2.5. In late 2022, we agreed to renew our contract with Equiniti for third party administration services until December 2025. The renewed contract includes provision for an upgrade of the Fund's version of Compendia, Equiniti's proprietary administration software, to the new Compedia Touch in early 2024. The upgrade should help reduce the requirement for manual calculations as well helping the Fund to manage the regulatory changes required for the McCloud programme.

3.2.6. The Committee receives regular updates on progress on the McCloud Programme, which ensures the Fund is able to manage the regulatory changes following the McCloud judgement on age discrimination. We receive quarterly risk updates through the Fund risk register, as well as more detailed briefings when required. Work on data collection and validation is well underway and is largely progressing as planned, although we continue to closely monitor key risks, including those relating to the pending administration system upgrade to Compendia Touch.

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 been working 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, with reviews now due for the custodian, actuary and asset pool.

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. **Funding & Investment**

3.3.1. The Committee signed off the Fund's 2022 triennial valuation at its meeting on 30 March 2023. The valuation showed a funding position of 106%, which represents a significant improvement from the 92% position calculated at the 2019 valuation. A number of factors drove this rise in the funding position, including higher than expected investment returns and changes in actuarial assumptions.

3.3.2. The most significant contributor to the increase in funding level was higher than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates. Expectations about the future, which inform the assumptions used to value the liabilities, also changed since the previous valuation. The most significant changes were:

- Future inflation: this is expected to be on average higher than at the 2019 valuation due to the current level of high inflation.
- Investment returns: due to changes in financial markets, future investment returns are now expected to be slightly higher than at the last valuation.

3.3.3. The 2022 valuation set employers' contribution rates for from 1st April 2023 to 31st March 2026. Broadly speaking, the trend at this valuation has been for primary rates to have increased since 2019 due to rising inflation, whilst secondary rates have generally reduced due to strong investment performance since the previous valuation. Fund officers held an employer forum in February 2023 to allow employers the opportunity to hear about the valuation process from the actuary and discuss their proposed employer rates.

3.3.4. The relatively strong funding position has allowed the Council to significantly reduce its contribution rate in recent years; the rate agreed for the Council for 1st April 2023 to 31st March 2026 is 27%, down from 30% in 2022/23.

3.3.5. Looking at investment matters, 2022 was an extremely challenging year in investment markets. Inflation surged across the world, driven primarily by food and energy price inflation. Central banks responded by tightening rapidly, hiking interest rates to try to control the inflation surge. Government bond yields rose rapidly, and credit assets in general performed very poorly. Equity markets also struggled, with very few sectors performing well - only the energy sector, to which the Fund has relatively low exposure, delivered a strong performance.

3.3.6. Early 2023 saw a stronger start for both equities and bonds, which was marred by concerns over bank failures after the collapse of Silicon Valley Bank and eventual rescue of Credit Suisse. The new environment of high inflation, higher interest rates and slowing growth continues to present investors with significant challenges as we move into 2023/24.

3.3.7. Over the year to 31st March 2023, the Fund returned -5.0%, below the LGPS Universe average of -1.6%. One key driver of this underperformance was the Fund's asset allocation, with a low exposure to alternatives and relatively high exposure to bonds. The other key driver was poor equity performance from the Fund's active managers, which is being closely monitored by the Pensions Committee.

3.3.8. The Committee did not consider any significant allocation changes during the year, largely as a result of the full investment strategy review which is now taking place following the 2022 valuation. We are continuing to fund commitments to illiquid mandates made at previous strategy reviews, including commitments to private debt mandates and an allocation to renewable infrastructure. 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.

3.3.9. The Fund changed its investment consultant during the year, appointing Redington Ltd in October 2022 following a competitive tender process. As a Committee we are developing a strong working relationship with Redington, who have so far assisted us in updating our climate targets and reviewing the investment strategy following the 2022 valuation.

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. The Fund carried out its second significant pooling transition exercise in 2021/22, following its first investments via the London CIV in 2018/19. The transition exercise saw a number of new allocations to London CIV mandates, including active global equity, private debt, multi asset and renewable infrastructure. Further allocations to the London CIV are expected as part of the Fund's 2023 strategy review.

3.4.3. Cllr Robert Chapman, Vice Chair of the Hackney Pensions Committee, and Ian Williams, S151 officer for Hackney until July 2023, both continued to sit on the Shareholder Committee of the LCIV during the year, 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 responsible investment and stewardship arrangements.

3.5.2. 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.

3.5.3. 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; the Fund was ultimately able to reduce its exposure to carbon reserves by 96.9%, demonstrating significant outperformance of the original target. 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.

3.5.4. The target ultimately 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, however, determined to remain at the forefront of Local Authority pension funds in tackling the risks of climate change to our investments.

3.5.5. In January 2023, we therefore set ourselves a new set of carbon targets. The Committee's ambition is for the Fund to achieve net zero emissions by 2040; we have therefore set ourselves 3 shorter term targets to help monitor progress. The targets incentivise both portfolio and real world decarbonisation and are in line with emerging best practice in this field, ensuring that the Fund remains a leader amongst its Local Government peers and other institutional investors.

3.5.6. The targets are:

- to reduce the fund's carbon footprint by 50% by 2030. This will cover carbon emissions across all sectors of the economy, unlike the fund's previous carbon reserves target which focused on energy companies.

- to align the fund's portfolio to a 2C warming scenario by 2030 with a 1.5C goal for 2040. This is a forward-looking target to help the fund focus on driving change in the real economy by investing in assets that make a positive contribution to the transition to net zero.

- to allocate 10% of assets to climate solutions over the next five years. This could include assets that help avoid carbon emissions, such as renewable energy or nature-based solutions such as sustainable forestry which can help remove carbon from the atmosphere.

3.5.7. In November 2022, the Fund responded to Central Government's consultation on TCFD (Taskforce on Climate-related Financial Disclosure)-aligned disclosures. TCFD is a framework for reporting how climate-related risks and opportunities are measured, monitored and managed by companies, asset managers and asset owners. The framework aims to:

- improve climate related data quality.
- increase focus on climate change.
- enable more informed decisions.
- provide a consistent framework for comparison.

3.5.8. In November 2020, the government announced that TCFD-aligned disclosures would be mandatory in the UK across the economy by 2025. LGPS funds were originally due to begin reporting from 2023/24, with reports due by December 2024. A consultation for the LGPS was released by Central Government in September 2022 and the Committee agreed a response at its November 2022 meeting. We agreed in principle with many of the proposals but made a number of comments relating to the practical implementation of the Government's plans.

3.5.9. The implementation of TCFD reporting for the LGPS has been delayed until the 2024/25 reporting year, with the first reports due by December 2025. Like many funds, we are considering producing a voluntary report for 2023/24 to ensure that we are familiar with the process before reporting becomes mandatory.

3.5.10. 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 Vice 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 22nd November 2022 the Committee were presented with the 2021/22 Pension Fund Annual Report and Accounts for approval, pending completion of the audit.

3.6.2. At the time of writing, the audit of the Pensions Fund's 2021/22 financial statements was not yet complete; it is hoped that this work will be completed over the coming weeks.

3.6.3. The 2020/21 Pension Fund Annual Report and Accounts remains in draft form, as we await completion of the audit work.

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
Carbon Risk (Investment performance and risk management; financial markets and products knowledge)	15/06/2022

Procurement (pensions services procurement and relationship management)	29/09/2022
TCFD (Investment performance and risk management; financial markets and products knowledge)	22/11/2022
Investment Strategy & Carbon Targets (Investment performance and risk management; financial markets and products knowledge)	19/01/2023
Investment Strategy (Investment performance and risk management; financial markets and products knowledge)	30/03/2023

5 Members also attended dedicated training sessions run by the Fund's benefits and governance consultant, Aon, which were specifically aimed at new Pensions COmmittee and Board members. The training, which took place over 2 days in June and July 2023, covered a range of topics including:

- Pensions Legislation and LGPS Governance,
- Investment,
- LGPS Administration and Communications and Contract Management
- LGPS Funding, Actuarial, Accounting and Audit

Attendance at training sessions is shown in the table below:

Member	June 2022	September 2022	November 2022	January 2023	March 2023	New member training July 2022	Day 1 Aon training	Day 2 Aon training
Cllr Robert Chapman	P	P	A	P	P	A	A	A
Cllr Kam Adams	P	P	P	P	P	P	P	P
Cllr Ben Hayhurst	A	A	P	A	A	A	A	A
Cllr Margaret Gordon	P	P	A	P	A	P	A	A
Cllr Lynne Troughton	P	P	P	A	A	P	P	A
Cllr Grace Adebayo	A	P	P	A	P	A	P	A
Cllr M Can Ozsen	P	A	P	A	A	A	A	A
Cllr Ian Rathbone	A	P	A	P	P	P	P	P
Cllr Joe Walker	N/A	P	A	P	A	P	P	P

Jonathan Malins Smith	P	A	P	P	P	A	A	A
Henry Colthurst	A	P	P	P	P	A	A	A
P = Present								
A = Absent								

4. WORK PROGRAMME 2023/24

4.1 During the 2023/24 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Report and Accounts 2022/23
- 2023/24 Budget
- Business Plan 2023/26
- Updated Climate Targets
- Investment Strategy review, including a focus on responsible investment
- Actuarial Services and Benefits & Governance Consultancy Procurement
- Cyber Strategy development
- Quarterly monitoring – covering Funding, Investment, Governance, Administration
- Response to LGPS Pooling Consultation
- Review of new TPR Single Code
- McCloud Programme Updates
- Regulatory changes and consultations
- Pension Fund Risk Register
- Training Programme
- Policy reviews