



PENSIONS COMMITTEE

Wednesday, 25 November 2015 at 7.00 p.m.,

**Room MP701, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,
London E14 2BG**

SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

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For further information including the Membership of this body and public information, see the main agenda.

2. MINUTES OF THE PREVIOUS MEETING(S)

1 - 10

To confirm as a correct record the minutes of the meeting of the Committee held on 17 September 2015.
(To follow)

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.15 P.M. ON THURSDAY, 17 SEPTEMBER 2015

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Andrew Cregan (Chair)
Councillor Clare Harrisson
Councillor Suluk Ahmed

Admitted Bodies, Non-Voting Members Present:

John Gray – Non-Voting Member (Admitted Body)

Apologies:

Councillor Abdul Mukit MBE
Councillor Candida Ronald
Councillor Harun Miah
Councillor Mohammed Mufti Miah

Others Present:

Raymond Haines – Independent Investment Adviser
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Officers Present:

Zena Cooke – (Corporate Director, Resources)
Anant Dodia – (Pensions Manager)
Kevin Miles – (Chief Accountant, Resources)
Bola Tobun – (Investments and Treasury Manager, Resources)
Ngozi Adedeji – (Team Leader Housing Services, Legal Services, Law Probity & Governance)
David Knight – (Senior Democratic Services Officer)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 24 February and 23 July 2015 were approved.

3. PETITIONS

No petitions were received relating to matters for which the Committee is responsible.

4. VARIATION TO ORDER OF BUSINESS

Chair **MOVED** to vary order of business to receive training from James Sparsholt and Christy Morrison of LGIM (Agenda item 6.1 Liability Driven Investment)

Accordingly, it was:-

Resolved

That the Order of Business be varied to enable the Committee to consider next consider agenda item 6.1 Liability Driven Investment- Presentation by James Sparsholt and Christy Morrison of LGIM. Thereafter to return to the order of business detailed in the agenda.

Please note that for ease of reference, the deliberations of the Committee in respect of agenda items 6.1 and subsequent decisions taken are set out below in the order detailed in the agenda.

5. REPORTS FOR CONSIDERATION

5.1 Quarterly Report - Key Pension Administration Performance Indicators: April 2015 to June 2015

The Committee received a report that provided Members with the first quarterly monitoring information on the performance of the Pensions Administration Service covering the period, April 2015 - June 2015, Quarter 1, 2015/16.

A summary of the discussions is outlined as follows:

The Committee heard that:

- There has been a reduction in performance in certain areas over the past 3 months. Which it was noted was largely due to new legislative changes and the authority's employment options. New procedures are in place to manage phase 2 of the Council's employment options;
- That a number of key performance indicators (KPIs) are reported on quarterly basis to assess performance in key areas of work. However, some new KPIs on Death Benefit Administration, Benefit Statements and New Joiners are being developed and it was noted these will be reported from Q2 onwards; and

- The final new CARE scheme regulations introduced a requirement for LGPS Funds to issue Annual Benefit Statements by the end of August.
- Annual benefit statements for the 2014/15 should have been issued to all members by the end of 31 August 2015. However, despite the most strenuous efforts, it is unlikely that most LGPS Funds will have met this deadline. Accordingly, the issues faced by Funds this year in particular (New Scheme, new systems) have been raised by the Local Government Association, with the Regulator as mitigating circumstances in the hope that the regulator may agree to treat this year a non-material due to 'teething issues'. A decision is awaited on the outcome of this engagement.
- Deferred members statements for the LBTH fund have issued before the deadline date (31 August 2015) but unfortunately this has not been the case in respect of the active members and they will now receive their statements by 30th September, 2015, this is as a result of a combination of factors arising from the implementation of the new scheme, including:
 - 1st year end under the new scheme.
 - This task required heavy manual intervention; and
 - Like many other Funds LBTH have had to migrate from AXISE to a new administration system in the past year which has taken up a significant amount of time and resource alongside implementing the new scheme (including supporting employers and scheme members).

Accordingly, it was:-

Resolved

To note the contents of the report.

5.2 Pension Fund Investment Performance Review for Quarter End 30 June 2015 - Presented by Bola Tobun

The Committee received a report that informed Members of the performance of the Fund and its investment managers for the quarter ending 30 June 2015. For the quarter, the Fund underperformed the benchmark by -0.5%, delivering a negative absolute return of -2.14% against benchmark return of -1.9%.

It was noted that the Fund is slightly ahead its benchmark for the last twelve months to end of June 2015, the Fund returned 7.2%, and this exceeds the benchmark by 0.2%. Whilst for longer term performance the Fund posted three year returns of 10.7% ahead the benchmark return of 10% and posted five year returns of 9.2% against benchmark return of 9.0%.

Whilst for this quarter end the Committee was informed that four out of the eight mandates matched or achieved returns above the benchmark. The Fund performance was below the benchmark over the quarter, which was mainly

due to poor returns from Ruffer, Baillie Gifford (DGF), Investec and Schroder Property Funds.

Finally, the Committee was informed that the Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight. An outline of the discussions may be summarised as follows:

The Committee:

- Heard that the market value of the assets as of 30th for Baillie Gifford & Co was £220.9m and not £2200.9m as listed in the report;
- Noted the performance, gross of fees of the individual managers relative to the appropriate benchmarks over the past five years;
- Was advised that the Portfolio returned over the quarter by Schroder (Property) was 0.5% and not 2.8% below the benchmark of 3.3% as listed in the report; and
- Was informed that the Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager. Accordingly, the Committee noted that Investec (Bonds) had delivered a return of -1.2% on the Fund that they managed against a performance benchmark return of 0.6%. The main reason for this underperformance being the currency exposure where returns had been adversely affected by US dollar weakness and sterling strength.

Accordingly, it was:-

Resolved

To note the contents of the report.

5.3 Training and Development For Members - Presented by Bola Tobun

The Committee received a report that outlined the need for a training and development programme for Members. The report explained the requirement for good governance of the Pension Fund and the framework of legislation, regulation and guidance which the Fund must comply with and that therefore there is a need for a formal training programme for Members and Observers of the Pensions Committee.

The report also referred to the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010). This provided a framework for the training and development of Elected Members and other representatives on public sector pension scheme decision making bodies such as the Tower

Hamlets Pensions Committee. As a result of discussions on this report the Committee noted that:

- The former Pensions committee agreed a Training Policy. Since the approval of the Training Policy, training has been provided in the form of presentations to the entire Committee and through opportunities for individuals to attend training courses such as those provided by the Local Government Employers organisation;
- Whilst there are no immediate legal consequences arising from this report it is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge;
- Training addresses the required knowledge and skills needed for Members to understand their duties and responsibilities as a trustee and how best to fulfil these effectively, efficiently and in accordance with regulatory requirements;
- The training provided by the Tower Hamlets and other Local Government Pension Funds in recent years had improved the knowledge and skills of those who serve on decision making bodies responsible for the Local Government Pension Scheme; and
- There has been a lack of an agreed definition of the knowledge and skills that those who serve on such decision making bodies require. This deficiency has however now been addressed by the local authority accountancy body CIPFA in one of its publication “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010). (Referred to elsewhere in this report as the “CIPFA knowledge and skills framework (2010)”.

Accordingly, it was:-

Resolved

1. That the CIPFA “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010) is adopted as the basis for its training and development programme; and
2. That a proposed schedule of training and development is prepared and presented to the Pensions Committee.

6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

6.1 Liability Driven Investment - Presentation by LGIM

The Chair to invite James Sparsholt and Christy Morrison to present the item on Investment Training. The presentation covered a wide range of issues including the following How big is the bond market; How do bonds work; Who issues and who buys bonds; The Characteristics of UK government bonds “Gilts”; What drives government bond prices/yields and the Impact of changes

in interest rates and inflation. The main points of the discussion maybe summarised as follows.

The Committee heard that:

- LGIM had managed assets for Tower Hamlets pension Fund since 2010;
- Total Assets with LGIM as at 31 August 2015 were valued at c. £275m;
- LGIM were providing low-cost index funds that consistently deliver; and
- LGIM manage to a central benchmark.

Accordingly LGIM had:

- Added value consistently across a wide range of index funds;
- Reduced the fee rate of approximately 0.044%; and
- Focused on minimising transaction costs which had resulted in £20k in cost savings since inception, equivalent to 33% of total costs.

Accordingly, it was:-

Resolved

To note the contents of the report.

6.2 Training Policy - Presentation by Bola Tobun

The Committee noted that the adoption of the CIPFA knowledge and skills framework (2010) referred to in Item 4.3 indicates that the Committee is following national guidance on the content of training for Committee Members and Observers.

6.3 Economic & Market Outlook by Raymond Haines

Mr Haines, Independent Investment Advisor to the Pensions Committee gave a verbal update providing a highlight on the Councils portfolio of investments and providing an outlook on the economy and market which may be summarised as follows:

- The UK economy has slowed a little in 2015 but domestic demand growth remains relatively strong, helped by lower oil prices. The global outlook remains mixed with a gradual pick-up during the year in the US and the Eurozone, but a slowdown in China, recessions in Russia and Brazil, and increased volatility in emerging markets more generally.;
- There has been improvement in the growth rates positive trend in the US labour markets;
- Inflation has been close to zero this year but seems likely to rise back towards its 2% target by the end of 2016, so interest rates may gradually during the first half of next year.; and

- The fall in oil prices has the potential to act as a powerful stimulant for the British economy, by increasing consumer spending.

6.4 Pensions Board Update - Presented by Bola Tobun

The Committee noted an update on the establishment of the Pension Board including the recruitment of the Chair and the appointment of the representatives of Pension Fund Members.

It was noted that applicants for the position of Chair should have significant financial awareness and investment practice either as a Pension Fund Trustee or in the running of pension funds, preferably within the Local Government Pension Scheme.

Applicants **must not**:

1. be a current elected member or employee of a participating scheme employer, or
2. have a financial or other material interest in either the Administering Authority or any of its constituent employers, or
3. have been an elected member or employee of a participating scheme employer in the past 5 years.
4. be an active, pensioner or deferred member of London Borough of Tower Hamlets Pension Fund.

Whilst with regard to the appointment of the representatives of Pension Fund Members it was noted that there had been a clear and transparent process to engage with all Fund Members. In addition, the Committee considered and agreed that:

A total of three member representatives (two of whom shall be employees of the London Borough of Tower Hamlets shall be appointed from the following sources:

- One member representative who is a LBTH employee shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund. The Unions should nominate an Agreed representative within 28 days of the Governance Officers request. Failure to nominate an agreed representative, the Administering Authority shall recruit and appoint a representative to the Board;
- One member representative shall be appointed following a transparent recruitment process by the Administering Authority and open to all active scheme members of the Fund; and
- One member representative shall be appointed following a transparent recruitment process by the Administering Authority and open to all pensioners of the Fund.

In addition, it was noted that if there were more nominees than seats then a ballot would take place.

Accordingly, it was:-

Resolved to agree the above proposals.

6.5 Common Investment Vehicle (CIV) - Presented by Bola Tobun

The Committee noted that the establishment of a Common Investment Vehicle (CIV) for pensions investment operated on behalf of London Boroughs will require a level of buy in from councils to establish whether the initial interest of boroughs can be converted into real interest to make the initial investment in setting up the CIV worthwhile e.g. that savings could be made from the joint administration of investments and/or benefits administration.

The CIV would allow boroughs to retain autonomy in asset allocation and funding strategy and would contain a host entity working within new governance arrangements. It would establish a choice of funds within each asset class, select fund managers and negotiate and monitor fee levels.

It was noted that participation by London Boroughs would be entirely voluntary and that a quarter of London Boroughs would need to be involved to make the CIV viable.

In addition, the Committee noted the following the recommendations approved at the July meeting:

1. Delegate authority to the Corporate Director of Resources in consultation with the Chair of Pensions Committee to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund;
2. Delegate authority to the Corporate Director of Resources in consultation with the Chair of Pensions Committee to invest sums required for regulatory capital to the London CIV to meet the requirements for FCA (Financial Conduct Authority) registration. Anticipated level of investment £160,000;
3. Agree that where circumstances arise and the Committee is not available for consultation, delegate to the Corporate Director of Resources in consultation with the Chair of Pensions Committee the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.

Finally, the Committee heard that:

The London CIV is in the process of issuing the articles of association and the contractual agreement for boroughs to sign;
It is anticipated to happen prior to the next committee meeting; and
A request would be issued for the Fund to pay the regulatory capital of £160k.

Accordingly, it was:-

Resolved

To instruct Officers to take this forward and provide an update to a future meeting.

7. EXCLUSION OF THE PRESS AND PUBLIC

The Chair **Moved** and it was: -

Resolved

That in accordance with the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contained information defined as exempt or confidential in Part 1 of Schedule 12A to the Local Government, Act 1972.

8. RESTRICTED MINUTE

The Chair **Moved** and it was:-

Resolved

That the restricted minute 5.5 of the meeting of the Overview and Scrutiny Committee held on 23rd July, 2015 be approved as a correct record of the proceedings subject to the amendment of resolution 2;3 and 4 to read "the Chair and Vice-Chair of the Pensions Committee".

The meeting ended at 9.15 p.m.

Chair, Councillor Andrew Cregan
Pensions Committee

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