PENSIONS COMMITTEE

Thursday, 16 March 2017 at 7.00 p.m.

Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

This meeting is open to the public to attend.

SUPPLEMENTARY AGENDA

Members:
Chair:
Vice Chair**:** Councillor Clare Harrisson

Councillor Gulam Kibria Choudhury, Councillor Andrew Cregan, Councillor Md. Maium Miah, Councillor Abdul Mukit MBE, Councillor Candida Ronald and Councillor Andrew Wood

Tony Childs (Co-optee Admitted Bodies Representative) and Kehinde Akintunde (Unions Representative)

Substitutes:
Councillor Marc Francis, Councillor Ayas Miah and Councillor Rajib Ahmed

[The quorum for this body is 3 voting Members].

Contact for further enquiries:
Nishaat Ismail, Democratic Services.
1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, E14 2BG
E-mail: nishaat.ismail@towerhamlets.gov.uk
Tel: 020 7364 4120
Web:http://www.towerhamlets.gov.uk/committee

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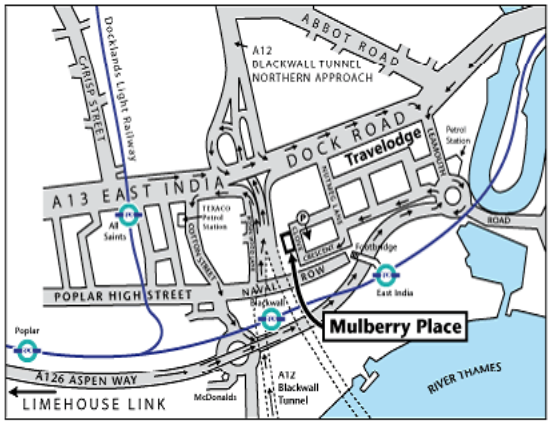

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Non-Executive Report of the: **PENSIONS COMMITTEE** **16 March 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:**
Investment Strategy Statement Effective 1st April 2017	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Reason For Urgency / Lateness

As legislation requires the Council Pension Fund to have an up-to-date approved Investment Strategy Statement in place from 1st April 2017, it is necessary for this report to be considered at the March 2017 meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 introduced a new requirement for an Investment Strategy Statement (ISS) that needs to be approved by the Pension Committee. The ISS will come into effect from 1st April 2017. There is a further requirement that the Pensions Committee regularly reviews the ISS.

This report introduces the Investment Strategy Statement and provides the Committee with an ISS for approval.

Recommendations:

The Pensions Committee is recommended to:

- Approve the new Investment Strategy Statement as shown in Appendix 1.

1. REASONS FOR THE DECISIONS

1.1 The Pensions Committee act in the role of quasi trustees for the Pension Fund and are therefore responsible for the management of £1.31 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension undertakings, which are underwritten by statute.

1.2 The Administering Authority has various regulatory responsibilities to maintain and review policies in relation to its investment strategy and administration of the pension fund. This function has been delegated to the Pensions Committee; hence the Pensions Committee will annually review (as a minimum) and approve any amendments to the statutory policy statements as required by Local Government Pension Scheme regulations.

1.3 The administering authority will prepare and publish its investment strategy by having have regard to the DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

1.4 Following consultation by Fund officers with the pension board, independent adviser, local authority employers such as admitted bodies, scheduled bodies and such persons as it considers appropriate, the administering authority will publish Its investment strategy statement setting out its investment strategy.

1.5 The ISS will be revised and published whenever there is a material change in either the policy on the matters set out in the ISS.

1.6 The ISS should be completed and approved by the Pensions Committee after the completion of each formal valuation

2. ALTERNATIVE OPTIONS

2.1 The requirement to have the ISS and to regularly review is set out in the regulations therefore there is no alternative approach that can be adopted.

3. DETAILS OF REPORT

3.1 In November 2015, a consultation was issued by the Government on replacing and revoking the LGPS (Management and Investment of Funds) Regulations 2009. The aim of the new regulations was to lift existing restrictions on LGPS fund investment powers in order to make it easier for them to pool investments and access benefits of scale. The core principle has been to move to a *prudential approach,* as in the private sector. Accordingly, LGPS administering authorities are required to take full responsibility to determine appropriately diversified investment strategies that take risk into account.

3.2 New regulations (The LGPS (Management and Investment of Funds) Regulations 2016) affecting LGPS funds in England and Wales came into force on 1st November 2016, but give administering authorities until 1 April 2017 to publish their first Investment Strategy Statement (ISS) in accordance with the new rules.

3.3 The Department for Communities and Local Government (DCLG) had already, in September 2016, taken the rather unusual step of publishing its statutory guidance—before the Regulations became law. Effective dates aside, the legislation is all but identical to the draft version that was circulated for consultation purposes in November 2015.

3.4 The new Regulations exclude the current explicit limits on specified types of investment and, instead, charge administering authorities with determining the appropriate mix of investments for their funds and the trade-off for more freedom in the formulation of investment strategies is an obligation upon administering authorities to adhere to official guidance and broad powers allowing the Government to intervene if they do not.

3.5 The old regulation requiring that the Fund publish a Statement of Investment Principles (SIP) is replaced by Regulation 7, requiring that the Fund publishes an Investment Strategy Statement (ISS), by 1st April 2017. This ISS must cover:

a. A requirement to use a wide variety of investments,

b. Authority's assessment of the suitability of particular investments & types of investments,

c. Authority's approach to risk, including how it's measured and managed,

d. Authority's approach to collaborative investment, including the use of collective investment vehicles and shared services,

e. Authority's environmental, social and corporate governance policy,

f. Authority's policy on the exercise of rights, including voting rights attached to the investments.

3.6 Members attention is drawn to the main changes from the old documents:

a) ***The investment strategy must be in accordance with guidance issued by the Secretary of State*** – this guidance has been received and complied with.

b) ***Approach to collaborative investment (i.e. pooling)*** – this section will be updated again fully in March 2017 ahead of the required deadline for publishing the ISS (1st April 2017) and will be jointly considered along with the other London CIV pool fund partners.

c) ***The maximum percentage that will be invested in particular asset classes*** – the SIP already described the strategic asset allocation as set for the Investment Strategy, but a maximum has not been declared before. The logic for setting the maximums shown in the ISS is to allow sufficient flexibility for departure from the strategic asset allocation, whether this is due to asset valuation drift or for times of restructuring. Any significant strategic asset allocation benchmark changes in the future would trigger a revision and therefore restatement of the ISS.

3.7 The old regulation requiring administering authorities to state the extent to which they comply with Myners principles for investment decision making no longer applies. However, they should still have regard to the guidance. This section has been kept in the new ISS for Tower Hamlets Funds; with some minor amendments to keep the responses current (see Appendix A).

3.8 In order to ensure that a pool level approach is available for funds, an officer of the Fund worked with the London CIV's Stewardship working group to agreed customisable wording for all London funds with regards to the points on ESG considerations and exercise of voting rights, this approach has been incorporated in the Tower Hamlets Pension Fund ISS.

3.9 At the time of writing this report, the ISS was under consultation with the Fund's employers, the investment advisor and other interested parties. Following the consultation, proposed amendments from stakeholders will be taken to the Pensions Committee meeting of 16th March for consideration and addition to the ISS.

4.0 COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The initial ISS complies with the requirements of the regulations however it is important that this is kept under review and updated on a regular basis. There are no additional financial commitments arising from the recommendations within this report.

5. LEGAL COMMENTS

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. These Regulations represent an update to the LGPS (Management and Investment of Funds) Regulations 2009 and make a number of changes, including dispensing with the current, explicit limits on specified types of investment and instead charging administering authorities with determining the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.

5.2 Regulation 7(5) of the 2016 Regulations, requires an administering authority to consult such persons as it considers appropriate on the proposed contents of its investment strategy. The Council has undertaken consultation on the strategy as set out in paragraph 1.4 above.

5.3 Effective dates aside, no changes have been made to these regulations since their publication in draft form in 2015. Both regulations and guidance have been published with this report as Appendices 1 and 2 respectively.

5.4 Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy Statement in line with the guidance published by the Secretary of State. The first such statement must be published by 1st April 2017; the work described in this paper is essential to ensure that the Authority is able to comply with these regulations.

5.5 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension undertakings, which are underwritten by statute.

6.2 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

6.3 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

7.1 Achieving value for money should be and is an objective considered for the LBTH Fund as part of all policy reviews. Clearer, less bureaucratic policies and procedures aid in reducing administration costs. Additionally, adherence to regulatory and legislative requirements avoids potential expensive investigatory procedures and fines.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 The Fund through its participation with Local Authority Pension Fund Forum (LAPFF) supported progress towards an orderly transition to a low carbon economy. This is by actively working with other asset owners, fund managers, companies, academia, policy makers and others in investment industry.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

9.2 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. The recommendations provided on

this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices

- Appendix 1 - Investment Strategy Statement Policy, February 2017
- Appendix 2 - Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016
- Appendix 3 – DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- As listed above as appendices

Officer contact details for documents:

- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

TOWER HAMLETS

The London Borough of Tower Hamlets Pension Fund
Investment Strategy Statement
February 2017

Investment Strategy Statement (February 2017)

1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the Tower Hamlets Pension Fund ("the Fund"), which is administered by Tower Hamlets Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.2 The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS, which was approved by the Committee on 16th March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

1.3 The Committee will invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund.

1.4 The Pensions Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review. Asset allocation decisions are taken in the best long term interest of Fund employers and member beneficiaries.

1.5 The ISS should be read in conjunction with the Fund's Funding Strategy Statement, which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

2.0 Long-term view of investments

2.1 The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.2 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

2.3 The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

2.4 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers. Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Although, it is more important to avoid being a forced seller in short term market setbacks.

2.5 Participation in economic growth is a major source of long term equity return. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash. Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

2.6 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

2.7 The fund carried out an Asset Outperformance Assumption modelling exercise in conjunction with the 2016 actuarial valuation. A number of investment strategies were modelled and the future evolution of the Fund was considered. The Committee set a target of having a minimum 70% chance of achieving their long term funding target – returning to a fully funded position within the next 20 years. They also considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

2.8 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.9 In line with the above overall objective the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required total Fund returns, and the resulting diversity across the whole Fund. Prior to any such decisions being made the Fund will take appropriate external independent advice.

2.10 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Authority will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations from the agreed strategy will be reported to the Pensions Committee, the Pensions Board and the Section 151 Officer so that appropriate corrective actions can be undertaken.

2.11 The long term asset class returns assumed within the modelling exercise were as follows:

Asset Class	**Median expected return 10 years (%pa)**	**Median expected return 20 years (%pa)**
UK equities	5.0	5.9
Global equities	4.6	5.6
Diversified Growth Funds	5.9	7.0
UK Property	2.8	3.7
Absolute Bonds	2.6	3.6

3. The investment objectives of the Fund

a) The long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of 20 years from April 2016. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

b) The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 2% over the long term, a nominal return of 4.2% assuming inflation (CPI) to be 2.2%.

c) In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, State Street, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

d) The Fund will target an outperformance of this over 10 years, within a diversified portfolio to stabilise returns and reduce volatility throughout the period.

e) The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

4. Strategy Review and Strategic Benchmark

4.1 A full Strategic Investment Review will be undertaken by the Fund every three to six years by specialist professional advisors. The investment strategy (including the core investment objectives and asset allocations) will be capable of sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

4.2 The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund.

4.3 As is appropriate all asset classes and products will be kept under continual review. In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by the Pensions Committee, professional advice will be sought. If there are any instances where advice received is not to be acted upon reporting to both the Committee and the Pensions Board will ensue.

Asset classes

4.4 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in

pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

4.5 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

4.6 The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

4.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation, s151 officer and her officers have the delegated authority to rebalance the Fund to its strategic assets allocation.

Table 1: Fund allocation

Asset class	Targeted Strategic Asset Allocation %	Investments Range (%)
UK equities	*20%*	*(15% - 25%)*
Global equities	*40%*	*(35% - 45%)*
Total equities	**60%**	**(50% - 70%)**
Property	12%	(10% - 15%)
Diversified Growth Funds	10%	(8% - 15%)
Gilts	3%	(2% - 7%)
Corporate bonds	15%	(10% - 20%)
Total	**100%**	**100%**

5. Restrictions on investment

5.1 The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

5.2 The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

5.3 The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

5.4 The Pensions Committee reviews the suitability of the asset allocation of the Fund on a yearly basis, following advice from the officers, investment consultant and independent advisor.

5.5 It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

5.6 The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
Equities	
UK Equities	FTSE All Share
Global Equities	MSCI All Countries World Index
Bonds and Cash	
UK Gilts Over 5 Years	FTSE UK Gilts Index-Linked Over 5 Years Index
Absolute Return Bonds	3 Months LIBOR plus 2%
Cash	LIBID 7 Day
Alternatives	
Property Unit Trusts	UK IPD Monthly Index Property
Diversified Growth Fund	3 Months LIBOR plus 3%

6.0 Managers

6.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

6.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

6.3 The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset

class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

6.4 The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

6.5 The Fund's current structure and benchmarks are set out in the table below.

Current Managers and Mandates				
Manager	**Mandate**	**Benchmark Allocation**	**Investment Ranges**	**Performance Target**
Baillie Gifford (LCIV)	Global Equities (Active & Growth)	18%	16-20%	Outperform benchmark by 2-3% over a rolling 3 year period
	Diversified Growth	5%	4-8%	3 Months LIBOR +3% per annum
GMO	Global Equities (Active & Value)	23%	20-25%	Outperform benchmark by 1.5% over a rolling 3 year period
Insight	Pooled Bonds (Absolute Return)	6%	4-8%	3 Months LIBOR +2% per annum
Goldman Sachs	Pooled Bonds (Absolute Return)	6%	4-8%	3 Months LIBOR +2% per annum
Legal & General	UK Equities (Passive)	20%	16-24%	FTSE All share
	UK Index Linked (Passive)	5%	3-6%	FTSE A Gov Index Linked >5yrs
Ruffer (LCIV)	Diversified Growth	5%	4-8%	3 Months LIBOR +3% per annum
Schroders	Property	12%	10-14%	Outperform benchmark by 0.75% over a rolling 3 year period

7.0 The approach to Risk

7.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a programme in place that aims

to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

7.2 The principal risks affecting the Fund and the Fund's approach to managing these risks and the contingency plans that are in place are set below:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. (The impacts is reducing the value of investments/assets and requiring increased employer's contributions).

7.3 The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

7.4 The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

7.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

7.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

7.7 **Asset risks**

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

7.8 The Committee measure and manage asset risks as follows:

a) The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has delegated rebalancing arrangements to s151 officer and her officers to ensure the Fund's "actual allocation" does not deviate from its maximum limits. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property; the Committee has recognised the need for access to liquidity in the short term.

b) The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Detail of the Fund's approach to managing ESG risks is set out later in this document.

c) The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

7.9 **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

7.10 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7.11 A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in the Fund's risk register and policy documents.

8. Pooling of investments

8.1 The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool. The proposed structure and basis on which the LCIV Pool will operate was set out in the July 2016 submission to Government.

8.2 The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

8.3 The Fund has already transitioned assets into the London CIV with a value of AUM of £382.5m or 30% of the assets as at 31st December 2016 and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

8.4 The Fund holds 25% or £327.4m of AUM as at 31st December 2016 in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being.

8.5 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

8.6 Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2020.

Structure and governance of the LCIV Pool

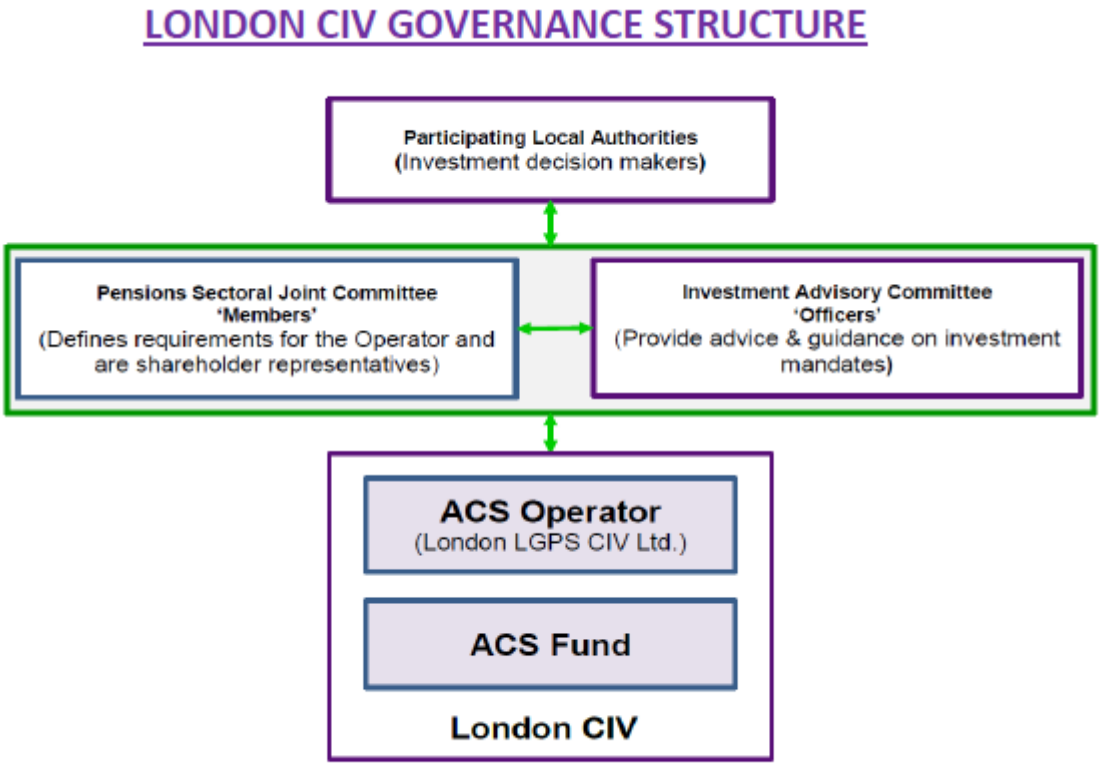
8.7 The July 2016 submission to Government of the LCIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

8.8 The below diagrams sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities.

8.9 As an AIFM, London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

8.10 The Pensions Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.

8.11 Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.

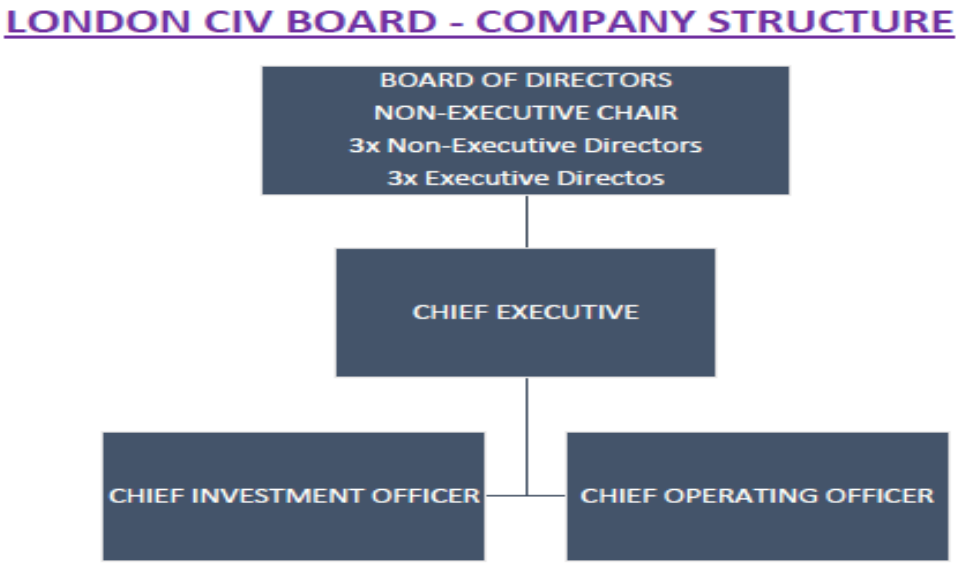


8.12 At the company level for London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers. The Board of the CIV has ultimate responsibility for all aspects of management of the Company. The board will at all times retain and exercise overall control. As a result the board composition seeks to achieve a balance of skills, competencies and expertise to govern on behalf of the shareholders.

8.13 The board will challenge the business, has a strong focus on oversight of both the organisation and third parties, and understands its duties as a regulated Company. The board have a mix of relevant investment, operational and financial experience having

held senior roles at regulated entities combined with a strong understanding of local government and the requirements of its shareholders. The governance practices will be commensurate with the business and nature of the investment funds it manages.

8.14 The board is comprised of seven members both executive and non-executive with a range of skills. The non-executive directors are independent third parties with experience gained from either local government or careers in financial services and each have in-depth understanding of their respective fields. The executive team are responsible for the day-to-day operations of the business and setting the strategic direction of the Company. The non-executive directors will provide independent judgment and challenge to the board based on their respective experience.



9. Social, environmental or corporate governance

9.1 It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

9.2 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training on and information sessions on matters of social, environmental and corporate governance.

9.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

9.4 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

9.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

9.6 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

9.7 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Voting rights

9.8 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

9.9 The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

9.10 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to

account where they have not voted in accordance with the LAPFF directions in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee has elected to monitor the voting decisions made by all its investment managers on a regular basis.

9.11 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

9.12 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council / Pension Fund website.

Stewardship

9.13 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

9.14 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

9.15 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

9.16 LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

In addition the Fund:

(a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

(b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

(c) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest

(d) joins wider lobbying activities where appropriate opportunities arise.

Appendix A - Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Full compliance

The Pensions Committee and Pensions Board are supported in their decision making/assisting roles by the Corporate Director, Resources and the Investment and Treasury Manager.

Members of the both Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full compliance

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles/Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full compliance

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of

the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Tower Hamlets Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Full compliance

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles/Investment Strategy Statement. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

Full compliance

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern.

The Council requires the Fund Managers to take into account the implications of substantial "extra financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

Full compliance

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website.

Quarterly reports to the Pensions Committee and Pensions Board on the management of the Fund's investments are publicly available on the council's website. http://democracy.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392

Pension's newsletters are sent to all Fund members.

Prepared by: - Bola Tobun (Investment & Treasury Manager)
(For and on behalf of LBTH Pensions Committee)

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STATUTORY INSTRUMENTS

2016 No. 946

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Made - - - -	*21st September 2016*
Laid before Parliament	*23rd September 2016*
Coming into force - -	*1st November 2016*

The Secretary of State makes these Regulations in exercise of the powers conferred by sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013(**a**).

In accordance with section 21(1) of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st November 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

"the 2000 Act" means the Financial Services and Markets Act 2000(**b**);

"the 2013 Regulations" means the Local Government Pension Scheme Regulations 2013(**c**);

"the Transitional Regulations" means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(**d**);

"authority" means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

"fund money" means money that is or should be in a pension fund maintained by an authority;

(**a**) 2013 c. 25; see section 2 of and Schedule 2 to that Act as to how the power is exercisable by the Secretary of State.
(**b**) 2000 c. 8.
(**c**) S.I. 2013/2356.
(**d**) S.I. 2014/525.

"proper advice" means the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters;

"the Scheme" means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011(**a**) (local authority's general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004(**b**) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations "investment" includes—

(a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;

(b) a contribution to a limited partnership in an unquoted securities investment;

(c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(**c**).

(2) The persons within this paragraph are—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities)(**d**) to effect or carry out contracts of insurance of a relevant class;

(b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule(**e**) to effect or carry out contracts of insurance of a relevant class; and

(c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(3) A contract of insurance is of a relevant class for the purposes of paragraphs (1)(c) and (2) if it is—

(a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or

(b) a contract to manage the investments of pension funds, whether or not combined with a contract of insurance covering either conservation of capital or payment of minimum interest.

(4) For the purposes of this regulation—

"limited partnership" has the meaning given in the Limited Partnerships Act 1907(**f**);

"recognised stock exchange" has the same meaning as in section 1005 of the Income Tax Act 2007(**g**);

"traded option" means an option quoted on a recognised stock exchange; and

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(**a**) 2011 c. 20.
(**b**) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.
(**c**) Section 22 was amended by section 7(1) of the Financial Services Act 2012 (c. 21).
(**d**) Part 4A of the 2000 Act was inserted by section 11(2) of the Financial Services Act 2012.
(**e**) Paragraph 15 was amended by S.I. 2003/2066, 2007/3253, 2012/1906,2013/1881 and 2015/575.
(**f**) 1907 c. 24.
(**g**) 2007 c. 3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c. 8).

"unquoted securities investment partnership" means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(**a**), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

(a) the amounts payable by it or payable to it under regulations 15(3)(b), 67 and 68 of the 2013 Regulations (employer's contributions and further payments);

(b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);

(c) all income arising from investment of the fund; and

(d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the references in this regulation to the authority's pension fund is to the fund which is the appropriate fund(**b**) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(**c**) (charges in relation to pension sharing costs).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

(a) paying benefits due under the Scheme; or

(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) "Deposit-taker" for the purposes of paragraph (1) means—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial

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(**a**) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.

(**b**) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the "appropriate administering authority" in relation to a person.

(**c**) 1999 c. 30; see S.I. 2000/1047 and S.I. 2000/1049.

Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(**a**);

(b) an EEA firm of the kind mentioned in paragraph 5(b)(**b**) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(**c**) to accept deposits;

(c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or

(d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority's investment strategy must include—

(a) a requirement to invest fund money in a wide variety of investments;

(b) the authority's assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(**d**).

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

(**a**) S.I. 2001/544; article 5 was amended by S.I. 2002/682.
(**b**) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.
(**c**) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906, 2013/1881 and 2015/575.
(**d**) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to act in accordance with guidance issued under regulation 7(1).

(2) Where this regulation applies in relation to an authority the Secretary of State may make a direction requiring all or any of the following—

(a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within such period of time as is specified in the direction;

(b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;

(c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;

(d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

(a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under regulation 62 of the 2013 Regulations (actuarial valuations of pension funds);

(b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board(**a**);

(c) any representations made by the authority in response to the consultation under paragraph (3);

(d) any other evidence that the Secretary of State regards as relevant to whether the authority has been complying with these Regulations or acting in accordance with guidance issued under regulation 7(1).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must comply with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(**a**) The Local Government Pension Scheme Advisory Board is established by regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

(2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) and (4).

(3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(4) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961(**a**) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(i) (pension fund annual report) substitute—

"(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;".

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

"(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

"(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

Revocations and transitional provision

12.—(1) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009(**b**) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013(**c**) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority first publishes its investment strategy statement under regulation 7.

(3) For the period starting on 1st November 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7, or 31st March 2017, regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

(**a**) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).
(**b**) S.I. 2009/3093.
(**c**) S.I. 2013/410.

We consent to the making of these Regulations

David Evennett
Guto Bebb
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Marcus Jones
Parliamentary Under Secretary of State
21st September 2016 Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make provision in relation to the management and investment of pension funds held by administering authorities required to maintain such funds by the Local Government Pension Scheme Regulations 2013.

Regulations 2 and 3 respectively contain definitions and make provision that the restrictions imposed by the regulations bind authorities which have the "power of general competence" in the exercise of that power.

Regulations 4, 5 and 6 respectively set out which payments must be made into and out of the pension fund, restrict powers of borrowing and require fund money to be in a separate account.

Regulations 7 and 8 respectively require authorities to publish an investment strategy in accordance with guidance issued by the Secretary of State and enable the Secretary of State to issue a direction to any authority which fails to comply with its statutory obligations as regards its pension fund or which fails to act in accordance with the guidance.

Regulations 9 and 10 respectively allow for the appointment of investment managers and investment in Treasury approved schemes.

Regulations 11 and 12 respectively make consequential amendments relating to the investment strategy published under regulation 7 and transitional provisions.

No impact assessment has been produced because it has no impact on business, charities or voluntary bodies and minimal impact on the public sector.

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Department for
Communities and
Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment Strategy Statement

September 2016
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

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Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulationsto be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Govenrment Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

a) To require an administering authority to make changes to its investment strategy in a given timescale;
b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the "Guidance on Preparing and Maintaining a Funding Strategy Statement" published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.
The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as "social investments". In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure

and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a "comply or explain" basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

Non-Executive Report of the: **PENSIONS COMMITTEE** **16 March 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Pension Fund Budgetary Estimate & Work Plan for 2017/18	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Reason for Urgency / Lateness

Good practice requires that the Council's Pension Fund considers its budget prior to the start of the financial year; therefore this Committee is requested to consider this report at tonight's meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Summary

This report outlines the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

Recommendations:

Members are asked to:

- Agree the work plan attached as Appendix 1 to this report.
- Agree the revenue account budget estimate for 2017/18 attached as Appendix 2 to this report.

1. REASONS FOR THE DECISIONS

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.

1.2 The proposed work plan for the authority has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

1.3 The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

2. ALTERNATIVE OPTIONS

2.1 The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the Council meets its statutory obligations as administering authority to the Fund. However, the Committee is under no obligation to adopt a work plan in carrying out its duties.

3. DETAILS OF REPORT

3.1 The Council has specific delegated functions that it has to fulfil as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.

3.2 It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.

3.3 The Key Performance Indicators cover the following areas:

- Investment performance
- Funding level
- Death benefit administration
- Retirement administration

- Benefit statements
- New Joiners
- Transfers in and out
- Employer and member satisfaction
- Data quality
- Contributions monitoring
- Overall administration cost
- Audit

3.4 In line with best practice, future Pensions Committee meetings will be provided with a schedule of Pension Fund key performance indicators (KPIs) covering investment and administration practices.

3.5 An annual Work Plan will be presented to Committee for agreement. The Work Plan should be presented to Committee by the last committee meeting of the prior financial year to which the Work Plan applies.

3.6 WORK PLAN

3.6.1 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Plan. The Work Plan has been developed using the below outline action plan.

ACTIVITY	PURPOSE
Administration & Governance	
Member training on specific and general issues	To provide training on specific issues based on identified need or emerging/ current issues. To provide ongoing training to members to enable them to challenge the advice received and equip them with the tools to enter into constructive dialogue with advisers.
Pensions Committee to receive key performance indicators report on a quarterly basis.	To ensure scheme is run in accordance with agreed service standards; and compliance with regulations and to deal with and rectify any errors and complaints in a timely way.
Review the current pension administration strategy	To ensure scheme is run in accordance with the rules.
Review and refresh key policy documents; the Investment Strategy Statement, Funding Strategy Statement, Governance & Communications Policy Statement as necessary (i.e. where significant changes are made)	Seek member approval and formally publish any updated documents where this is deemed appropriate.
Set up pensions specific website or microsite	A pension specific website is scheduled to be set up towards the latter half of 2017, which will include details on pension administration, pension investments. And to provide a platform for on-line training facilities.
Discuss / meet with all investment managers and report to Pensions	To ensure that members are kept up to date on key developments with the London Borough of

Committee	Tower Hamlets Pension Fund and to ensure that approval is received on key tasks/issues that affect the effective operation of the Fund.
Each Fund manager will attend at least one meeting during the year 2017/18 and more if deemed necessary	To oversee fund manager activities and monitor performance to ensure that they are achieving performance targets and investing fund assets within the confines of the risk parameters and approach agreed.
To perform statutory projects	For example – to carry out GMP reconciliation.
Ensure high level support is available to monitor and review, monitor and manage the risks taken by the Fund.	High level support is available via the officers and advisers, which oversees the implementation of the Pensions Committee decisions and as well as conceive and discuss new ideas for consideration by the Committee.
Investment & Accounting	
Draft Pension Fund Annual Accounts approved by the Corporate Director of Resources in June 2017.	To ensure that the Council meets the regulatory timetable and fulfils its stewardship role to the Fund.
Audited Pension Fund Annual Report to be published on or before the statutory deadline of 1 December 2017	Ensure that the Council fulfils its statutory obligation and to keep members abreast of the Pension Fund activities in a transparent and accessible way.
Review of the Funds investment strategy	To ensure that the Fund's investment strategy is optimal. There are no current plans for a major investment strategy review over the financial year, although manager underperformance/ market developments may require a review of Strategy.
Review of (Actuarial, Investment Consultant, Independent Adviser and Global Custodian Services)	This may not lead to full re-tendering for these services, but reviews will be commissioned to ensure that the Fund is still receiving good value for its major services. All options will be considered in the review including joining existing framework contracts.
Preparation for 2016, Triennial Valuation of Pension Fund Assets and Liabilities	The Fund is bound by legislation to undertake an actuarial valuation of its assets and liabilities to ensure that appropriate future contribution rates are set and that any Fund deficit is recovered over an appropriate period of time in line with the Fund's Strategy Statement. This report will present to Members the outcome of this exercise.

3.7 PENSION FUND REVENUE ACCOUNT

3.7.1 The budget estimate outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue account in accordance with its requirement to manage resources effectively. The report provides details of the actual figures as at 31st March 2016 and revenue budget estimates for 2017/18 in respect of income and expenditure elements of the Pension Fund.

3.7.2 Members are requested to note the pension fund's Revenue Account position for 2016/17 and approve the proposed budget for 2017/18 as set out in Appendix 2.

3.8 **2016/17 Actual**

3.8.1 The estimates for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets.

3.8.2 Total budgeted expenditure (benefits payable) for 2016/17 is £59.0m. Actual expenditure as at the 31st December 2016 was £51.4m and the forecast for 2016/17 is expected to exceed the budgeted figure due to an increase in pension payments and transfer values out. As a consequence the budget for 2017/18 is proposed at £70.6m.

3.9 2017/18 Proposed Budget

3.9.1 The budget for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets. The following paragraphs set out some of the assumptions behind the proposed 2017/18 budget estimates:

3.10 Notes to Appendix 2

a) *Contribution Receivable*

The budget figure is based on 2016/17 activity levels using the contribution rate as stipulated by the actuary. Plus a 2.5% to reflect the pay award for 2017/18.

b) *Transfer Values In*

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

c) *Benefits Payable*

The budget figure is based on 2016/17 activity levels plus a 2.5% increase to reflect the 2017/18 pay award.

d) *Payments to and on account of leavers*

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

e) *Administrative and other expenses borne by the scheme*

These costs are estimated on the basis of planned workloads with a 3.5% allowance for inflation. Costs include officers' time, the cost of provision of accommodation and IT facilities, bank charges, global custodian fees, training requirements for pensions committee and pension's board, special project such as GMP reconciliation, audit fees and professional advisers' fees.

f) *Actuarial Fees*

The formal triennial valuation was carried out during the financial year 2016/17, and £30k was budgeted for this task taking the total budget for this expense to £65k. For 2017/18, the expense has been reduced to £40k for business as usual works.

g) *Investment Income*

Investment Income is assumed at 4% on assets of £1.181 billion and over 2/3rd is subsequently re-invested by the Fund Managers.

h) *Change in Market Value of Investments*

An investment of £1.181m is assumed to increase by 2.75%. The combined return of investment income and capital growth on 17/18 investments is based on assumed 6.75% per annum.

i) *Fund Managers Fees*

Fund managers' fees are calculated at an average rate of 0.25% on assets of £1.181 billion.

j) *Investment Consultant Fees*

As we would be having investment strategy review of the Fund, this expenditure could be up to £30k. For 2017/18, total expense is £80k.

k) *Global Custodian Fees*

The fee is set at £90,000 as per fees schedule.

l) *Tax on Dividends*

Net tax on dividends is based on 8% of budgeted investment Income.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 Details on the budget and forecast actual spend for 2016/17 and proposed budget for 2017/18 is provided in section 3.8, 3.9 and Appendix 1. The cost of delivering the work plan detailed in section 3.6 above is expected to be met through the budget envelope for 2017/18.

4.2 LGPS regulations specify that any net sums not immediately required should be invested in accordance with regulations. The investment of Pension Fund cash has been kept separate from Tower Hamlets Council's investments but invested in accordance with the Council's Treasury Management Strategy.

5. LEGAL COMMENTS

5.1 Administering authorities are now bound by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which have replaced the 2009 Regulations. These regulations set out an administering authority's statutory duties in ensuring the proper administration and management of its pension fund.

The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

5.2 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

5.3 Members of the Pensions Committee are required by the Council's Constitution to consider pension matters and meet the various statutory obligations and the duties of the Council. This Work Plan provides for certain statutory requirements to be met and for members to be well trained and kept up to date and thus fit for purpose.

5.4 When making decisions regarding investment of pension funds, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

6.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

7. BEST VALUE (BV) IMPLICATIONS

7.1 A work plan and budget should result in a more efficient process of managing the Pension Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Tower Hamlets Pension Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no any crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Work Plan for 2017/18
- Appendix 2 – Pension Fund Budget Estimates for 2017/18

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

Appendix 1

PENSIONS COMMITTEE

Work Plan

2017/18

Date of Meeting	Items	Title of Report / Presentation	Contact Officer
July 2017	1	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Investment & Treasury Manager
	2	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	3	Annual Review of Investment Strategy Statement and Funding Strategy Statement	Investment & Treasury Manager
	4	Review of Compliance Checklist for the Pensions Regulator Code of Practice	Investment & Treasury Manager/Pensions Manager
	5	Production of Risk Management Policy and Risk Register	Investment & Treasury Manager
	6	Review of Reporting Breaches Policy and Conflicts of Interest Policy	Investment & Treasury Manager
	7	Review of Governance Compliance Statement	Investment & Treasury Manager
	8	Review of Pensions Administration Policy	Pensions Manager
Separate Evening	9	Member Training - Presentation	Various
September 2017	1	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Investment & Treasury Manager
	2	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	3	Review of actuarial, investment advice and custodial services	Investment & Treasury Manager
	4	Presentation on Annual Fund Performance	Investment & Treasury Manager/WM Company
	5	Review of Communications Policy Statement	Pensions Manager

	6	Review Fund Managers performance and costs	Investment & Treasury Manager
	7	Review of Funding Strategy Statement	Investment & Treasury Manager
	8	Review of AVC Provision	Investment & Treasury Manager
	9	Member Training - Statement of Accounts training	Investment & Treasury Manager
November 2017	1	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Investment & Treasury Manager
	2	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	3	Review/Approval of Annual Report	Investment & Treasury Manager
	4	Review of Fund Managers' internal control (SAS70)	Investment & Treasury Manager
	5	Review of actuarial, investment advice and custodial services	Investment & Treasury Manager
	6	Triennial Valuation of the Fund as at March 2016	Hymans - Actuary
	7	Review of Statement of Investment Principles	Investment & Treasury Manager
	8	Review of TPR Compliance Checklist	Investment & Treasury Manager/Pensions Manager
March 2017	1	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Investment & Treasury Manager
	2	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	3	Presentation from Fund Manager	
	4	Consideration of Governance Compliance Statement (if necessary)	Investment & Treasury Manager

	5	Review of Communications Policy Statement	Pensions Manager
	6	Review of Pensions Administration Policy	Pensions Manager
	7	Pension Fund Work Plan and Budget 2017/18	Investment & Treasury Manager
	8	Review of AVC Provision	Investment & Treasury Manager

Appendix 2

Pension Fund Budget 2017/18

	Account as at 31st Mar 2016 £,000	Original Budget 20016/17 £,000	2016/17 Forecast for 31st Dec 2016 £,000	2016/17 Actual as at 31st Dec 2016 £,000	2016/17 Variance as at 31st Dec 2016 £,000	**Budget For 2017/18 £,000**
Contributions Receivable						
- from Employer	49,009	**50,479**	37,859	37,397	*462*	**51,360**
- from Employees	10,951	**11,279**	8,460	8,351	*109*	**11,470**
Transfer Values In	2,166	**2,231**	1,673		*1,673*	**2,500**
Other Income						
Sub - Total Income	62,126	**63,989**	47,992	45,748	*2,244*	**65,330**
Benefits Payable						
- Pensions	39,103	**40,276**	30,207	36,783	*(6,576)*	**50,515**
- Purchase of Pensions						
- Lump Sums: Retirement Allowances & Death Grants	13,158	**13,553**	10,165	10,872	*(707)*	**14,935**
Payments to and on account of leavers						
- Refunds of Contributions	169			244	*(244)*	
- Transfer Values Out	4,092	**4,215**	3,161	2,898	*263*	**3,980**
- Other payments	196					
Administrative and other expenses borne by the scheme						
- Administration and processing	717	**739**	554	644	*(90)*	**885**
- Actuarial fees	41	**65**	49		*49*	**40**
- Audit fees	21	**21**	16		*16*	**21**
- Legal and other professional fees	211	**175**	131		*131*	**213**
Sub - Total Expenses	**57,708**	**59,043**	**44,282**	**51,441**	***(7,159)***	**70,590**
Total Net Additions (Withdrawals) from Dealings with Members	*4,418*	*4,946*	3,710	*(5,693)*	*9,403*	***(5,260)***
RETURNS ON INVESTMENTS						
Investment Income	13,940	**15,334**	11,501	10,762	*739*	**17,500**
Change in Market Value of Investments	(27,288)	**56,300**	42,225	106,225	*(64,000)*	**11,650**
Investment management Expenses						
-Fund Managers Fees	(3,076)	**(3,097)**	(2,323)	(706)	*(1,617)*	**(3,190)**
-Performance Measurement Fees	(17)	**(20)**	(15)		*(15)*	**(20)**
-Investment Consultancy Fees	(48)	**(45)**	(34)		*(34)*	**(80)**
Total Return On Investments	**(16,489)**	**68,538**	**51,355**	**116,281**	***(64,926)***	**25,960**
NET INCREASE (DECREASE) IN THE FUND DURING THE YEAR	**(12,071)**	**73,484 0**	**55,064**	**186,440**	***(55,524)***	**20,702**
OPENING NET ASSETS OF THE SCHEME	**1,138,199**	**1,126,128**	**1,126,128**	**1,126,128**		**1,312,568**
CLOSING NET ASSETS OF THE SCHEME	**1,126,128**	**1,199,611 0**	**1,181,192**	**1,312,568**	***(131,376)***	**1,333,270**

Worl	JDE	Fund Account as at 31 March 2016	Note	2015/2016 £000	2014/2015 £000
		Dealings with Members, Employers and Others Directly Involved in the Scheme			
		Contributions Receivable			
	ER	From Employers:			
		Normal	3	26,811.79	26,855.00
		Augmentation	3	1,097.00	780.00
		Deficit Funding	3	20,500.00	18,500.00
	EE	From Employees or Members			
		Normal	3	10,950.83	11,031.00
TI	TVI	Transfer In (Individual)		2,166.00	1,719.00
		Benefits Payable:			
	PP	Pensions	4	-39,103.00	-37,265.00
	LS	Lump Sum Payments/Grants/Death Benefits	4	-13,158.00	-8,055.00
		Payments to and on Account of Leavers:			
RC	RC	Refunds of Contributions		-169.00	-125.00
TO	TVO	Transfers Out (Individual)		-4,092.00	-7,263.00
AE	ADMIN	Administration	14	-1,038.00	-803.00
EP	CEP	Contributions Equivalent Premium		-196.00	-132.00
		Net Additions/(Withdrawals) from Dealings with Members		4,369.61	5,242.00
		Return on Investments			
	II	Investment Income	11	14,349.00	16,581.00
		Taxes on Income		-409.00	-329.00
RZP	PR	Change in Market Value of Investments: Realised		1,321.00	23,292.00
URP	UP	Change in Market Value of Investments: Un-realis	10	-28,625.00	82,933.00
MEX	MEX	Investment Management Expenses	17	-3,076.00	-2,450.00
		Net Return on Investment		-16,440.00	120,027.00
		Net Increase/(Decrease) in the Fund During the Year		-12,070.39	125,269.00
		Opening Net Assets of The Scheme		1,138,199.00	1,012,930.00
		Closing Net Assets of The Scheme		1,126,128.61	1,138,199.00

		Net Asset Statement as at 31 March 2016		2015/2016 £000	2014/2015 £000
		Investment Assets			
		Fixed Interest Securities			
FIP		Public Sector	10	0.00	0.00
FIV		Other	10	0.00	0.00
EQS		Equities	10	214,616.89	244,334.85
		Index Linked Securities			
IDL		Public Sector	10	0.00	0.00
		Pooled Investment Vehicles			
OINS		Unit Trusts	10	572,276.00	628,744.00
MFP		Property	10	129,933.00	116,945.00
OTHR		Other	10	54,607.00	101,303.00
		Derivative Contracts			
		Forward Foreign Exchange Contracts	10	0.00	0.00
RI					
				971,432.89	1,091,326.85
CASH		Cash Deposits	6	5,646.67	5,414.00
Debt		Other Investment Balances	5	1,973.00	978.00
		Investment Liabilities			
		Derivative Contracts			

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FX	Forward Foreign Exchange Contracts	10	0.00	0.00
Cred	Other Investment Balances	5	-35.00	-223.00
	Current Assets	5	149,053.00	42,154.00
	Current Liabilities	5	-1,942.00	-1,451.00
			1,126,128.56	1,138,198.85

nd Income
31st December 2016

ome	2016/2017 £000	2015/2016 £000
es Normal Contributions	7,451	9,673
Employees Normal Contributions	123	184
s Employees Normal Contributions	777	1,094
butions	£8,351	£10,951
Employer's Contributions	17,185	22,356
Normal Employer's Contribution	653	1,015
s Normal Employer's Contribution	2,504	3,484
	20,342	26,855
mployer's Contribution	555	780
	16,500	20,500
er's Contributions	£37,397	£48,135

me
31st December 2016

	2016/2017 £000	2015/2016 £000
roperties	3,889	5,234
ed interest securites	0	0
ex linked securities	0	
JK equities	0	0
overseas equities	6,648	10,617
	194	231
deposits	-9	170
sts, class action, etc.	0	0
	£10,722	£16,252

on Fund Expenditure
016 to 31st January 2017

	2016/2017 £000	2015/2016 £000
yable		
	36783	39103
Payments/Grants/Death Benefits	10872	13158
o and on Account of Leavers:		
Contributions	244	169
ut (Individual)	2898	4092
tion	644	1038
ns Equivalent Premium	29	196
Management Expenses	706	3076
	52176	60832

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