TOWER HAMLETS

PENSIONS COMMITTEE

Tuesday, 24 September 2019 at 6.30 p.m.

Committee Room One - Town Hall Mulberry Place

This meeting is open to the public to attend.

Members:

Chair: Councillor Kyrsten Perry
Vice Chair: Councillor Rachel Blake

Councillor Mohammed Ahbab Hossain, Councillor Eve McQuillan, Councillor Ayas Miah, Councillor Abdal Ullah and Councillor Andrew Wood

Substitutes:

Councillor Kevin Brady, Councillor Faroque Ahmed and Councillor Peter Golds

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

Contact for further enquiries:
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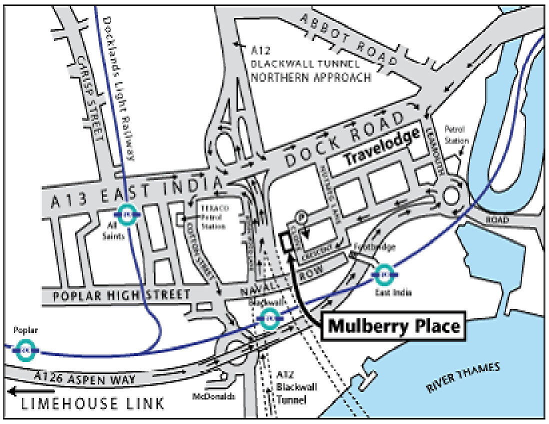

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PAGE NUMBER(S)

APOLOGIES FOR ABSENCE

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

2. MINUTES OF THE PREVIOUS MEETING(S)

To confirm as a correct record the minutes of the meeting held on Wednesday, 13th March, 2019.

To confirm as a correct record the minutes of the meeting of the Committee held on Minutes of the meeting held on Thursday 20th June, 2019

3. PETITIONS

To receive any petitions relating to matters for which the Committee is responsible.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

To be received at the meeting

5. REPORTS FOR CONSIDERATION

6. TRAINING EVENTS

To note details of forthcoming Training Events

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

To consider any other business the Chair considers being of an urgent nature.

8. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

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

EXEMPT/CONFIDENTIAL SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

9. EXEMPT/ CONFIDENTIAL MINUTES **367 - 368**

Next Meeting of the Committee:

Thursday, 28 November 2019 at 6.30 p.m. to be held in the Committee Room One - Town Hall Mulberry Place

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Asmat Hussain, Corporate Director for Governance and Monitoring Officer.
Tel 020 7364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON WEDNESDAY, 13 MARCH 2019

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

Members Present:

Councillor Mufeedah Bustin (Chair)
Councillor Ehtasham Haque (Vice-Chair)
Councillor Sabina Akhtar
Councillor Rachel Blake
Councillor Shad Chowdhury
Councillor Leema Qureshi
Councillor Andrew Wood

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde

Apologies:

Kevin Miles

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Governance)
Tim Dean	–	(Senior Pensions Team Leader)
David Knight	–	(Senior Democratic Services Officer)
Maheen Nusrat	–	Members Support Officer
Neville Murton	–	Corporate Director, Resources)
Colin Robertson	–	Independent Investment Advisor (Pensions Committee)
Bola Tobun	–	(Investments and Treasury Manager, Resources)

Others Present:

Colin Robertson	–	Independent Investment Advisor (Pensions Committee)
Steve Turner	–	(Mercer - Senior Investment Consultant)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Cllr. Mufeedah-ah Bustin informed the Committee that she had a meeting with Adam Schneider from Divest Tower Hamlets during his visit at her surgery in

February and spoke to her about the campaign that Divest Tower Hamlets is currently running for divestment on pension funds.

2. PETITIONS

None received.

3. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 29th November, 2018 were agreed as a correct record with a few amendments outlined below. Chair be authorised to sign them accordingly.

- Cllr Blake raised the issue of a paper that was discussed at the last meeting is not being recorded in the minutes. The information discussed what other LGPS funds had said they were doing in relation to fossil fuel divestment and what was happening in practice. Steve Turner and Cllr. Andrew Woods confirmed that this was discussed at the November meeting.
- Bola Tobun (Investment & Treasury Manager) mentioned that the update on what other LGPS funds are doing is on tonight's Agenda.

Actions:

- Minutes should say that the; Committee were interested in knowing in what other LGPS funds are doing in relation to fossil fuel divesting. (Amend 6.3 in previous minutes).

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Committee received an update from John Jones, Chair of the Local Pensions Board ("the Board") meeting held on the 7th of March 2019.

The Committee noted the circulated report which outlined the following:

1. The Board received a presentation from the Local Authority Pension Fund Forum ("LAPFF") on the latest developments and recent activity. This followed on from a discussion at the previous Board meeting on how LAPFF influence company decision making and measure their effectiveness. During 2018, LAPFF issued 14 voting alerts on a range of issues covering remuneration, climate change and governance. Climate action is a high priority for 2019. LAPFF continue to engage with companies and the benefits of their approach accrue over several years. It was a very helpful presentation and reassured the Board on the work and benefits of the LAPFF;
2. The Board considered and welcomed the approach to Training and Development over the coming year, including holding further joint training sessions for both Board and Committee members. It was noted

that this was a key area of interest for the Pensions Regulator in promoting effective governance and decision making;

3. The Board also agreed its work plan for the year ahead. New changes include considering the risk register every 6 months and a monitoring report annually on investment, custodian and transaction costs. These costs have been the subject of attention nationally in recent years and a new framework for analysis and reporting has now been introduced. It was also agreed that the Board should have a separate budget to cover its annual running costs;
4. A notable amendment was the need to look at the cost of investment managers and custodian transactions. There has been a lot of national publicity on these costs and a framework is being developed for LGPS funds;
5. An update had been received on the performance of the Pensions Administration Team. The Pensions Regulator has identified data quality and record keeping as a key area of performance as it can impact directly on member benefits. The current reporting arrangements covering percentage activity need further development to include data activity, information on backlogs of work and the move to paperless reporting. Data quality is something the Pensions Regulators is very keen on. With these inclusions the report would provide more robust and complete information for the Board and Committee. It is important that the administration function is properly resourced to meet service demands and this should also be reported on a regular basis;
6. Regular reports should also be submitted to the Board on any breaches that may occur in record keeping, calculating benefits, internal controls and investment related activity. Many of these may not be material but do assist in giving a complete picture of the overall management of the Fund; and
7. Finally, 2 items were raised at the meeting to be referred onto the Committee for its attention. (i) Whether there are any implications for the Fund arising from the current review of terms and conditions across service providers for Tower Hamlets Council; and (ii) concern over the potential pension liabilities arising from staff employed at the London CIV being included in the LGPS. The Committee noted that it was being asked to consider the implications of these issues.

RESOLVED

To

1. Note the report.
2. Include looking at investment and custodian transaction costs on the work plan for the Committee to review.
3. Ask that the Board reviews the investment and custodian transaction costs first and thereafter by the Committee.
4. If the London CIV disappears who will be responsible for their pension’s commitments. They have not got LGPS staff and all are coming from corporate and it would be expensive for LBTH to pick up

this additional cost. The London CIV is going through their LGPS pension scheme and is asking Tower Hamlets to give them unlimited guarantee. Given that Tower Hamlets does not do that for any contractors as they are not in control of their staff, giving an unlimited guarantee is not an option.

5. PRESENTATIONS

5.1 Presentation-Baillie Gifford on Performance, ESG and Sustainability by Baillie Gifford-20 Minutes

The Committee noted:

- Tower Hamlets is invested in two Baillie Gifford strategies: Global Alpha and Diversified Growth;
- Global Alpha: aims to outperform by 2-3% p.a;
- Baillie Gifford's investment philosophy focuses on identifying stocks with long-term sustainable earnings growth;
- Diversified Growth has a dual objective: it aims to achieve a return of the UK Base rate+3.5% (p.a.) with volatility of less than 10%;
- There are no investment restrictions; the focus is on long-term capital growth with a low level of volatility;
- In comparing the relative carbon footprint and carbon intensity chart, Baillie Gifford pointed out that Information Technology companies do not typically come listed as high carbon emitters;
- In explaining the top largest percentage contributors to the carbon exposure in the portfolio, CRH-a building material company was highlighted as a company which has now put in place stringent carbon reduction policies;
- It was highlighted that the CEO of CRH is changing the cement industry initiative. Reduction in carbon emissions has been tied to company's KPIs as well as top level senior management's bonuses;
- It was also highlighted that over the past 5 years, the portfolio has consistently outperformed the benchmark on carbon footprint;
- A graph outlining the Diversified Growth performance showed that the fund has returned -4.8% and 4.6% over the 12 month and since inception periods respectively;
- The Global Alpha's performance over the last 12 months was -3.9% whereas since inception, it had returned 15.5% (absolute performance);
- Baillie Gifford are looking at other holdings that are not just only reducing their Carbon Emissions but also working for solutions. The examples provided were: Spotify, TESLA Albemarle, BHP Billiton and Orica;
- Baillie Gifford highlighted that carbon reduction is a visionary part of their investment process and the following actions have been implemented:
  - Internal portfolio carbon footprint analysis capabilities

    - Engagement with Carbon intensive companies and non-disclosing companies.
    - Employee-led Green Group for continual operational improvement
    - Organisational carbon footprint measurement, management and offsetting.
- Baillie Gifford highlighted their actions in response to the Task Force on Climate-Related Financial Disclosures ("TFCD") which the Financial Stability Board had established in 2015. The recommendations cover Governance, Strategy, Risk Management Metrics and Targets;
- Baillie Gifford is currently holding an internal review of the recommendations;
- There is a development of investment climate scenarios analysis currently in progress;
- Baillie Gifford has committed to respond publicly by 2020.
- Some examples of industry collaboration include:
    - Carbon Disclosure Project ("CPD")
    - UN Principles for Responsible Investments ("UNPRI")
    - Institutional Investor Group on Climate Change member.
- Baillie Gifford also emphasised that companies with significant exposure to carbon risk seldom meet their investment criteria;
- Risks include carbon pricing, environmental regulation, consumer sentiment, and disruption;
- As part of their commitment to better sustainability plans, their Governance and Sustainability team has been increased to 15, and further recruitment is still ongoing; and
- The team is diverse in experience and has a good gender balance.

Following concerns were raised by the Committee:

- What are the future climate concerns? E.g. (i) the chemicals in batteries are extremely toxic and batteries undergo a photochemical reaction as they decompose in landfills. This causes emissions of greenhouse gases; and (ii) there is a need to look at supply chains of businesses and how are they are improving efficiency;
- Why has Global Alpha underperformed this year and what is the future strategy?
    - Over a 5-year period, the expectation is to outperform the benchmark as it is a highly active portfolio.
    - There is a sizeable exposure to emerging markets.
    - The market saw an indiscriminate sell off particularly in many of the online platforms which was completely at odds with the underlying fundamental numbers those businesses were returning.
- Does Baillie Gifford meet with the Local Authority Pension Fund Forum?
    - Response: Whilst interactions with the LAPFF are through governance if there are any specific topics, companies or resolutions the LAPFF can apply direct pressure.
- Are there any examples of stocks that Baillie Gifford sold?

    - Grecco: Which was a higher contributor of Carbon Emissions given they were investing in diesel instead of cleaner energy technologies.
- Do you have to put extra governance on Emerging markets?
    - E.g. Alibaba: where Jack Ma stepped down - whether that was deliberate or pushed aside by the State. The manager's spent time within China to determine the reason and discovered that it was a thoughtful action.
    - There are differences in good governance practices between developed and emerging markets
    - Appropriate governance structures differ from company to company.
- The diversity of the Governance and sustainability team does not have any representation from various ethnic/racial and religious groups.
- Baillie Gifford responded that people hired are on the basis of strict meritocracy but they would feedback the diversity concerns to their team.

Finally, it was noted that any other follow-up questions could be sent to the Baillie Gifford team via email.

Presenters Claire Phillips and Kieran Murray were thanked for their presentation.

The Chair requested for the reflections of the independent advisor Colin Robertson, who advised that, the Committee that they should judge Baillie Gifford on their long term performance and continue to monitor their progress. Baillie Gifford it was noted has proven to have a professional and highly competent investment team over the longer-term.

RESOLVED

To note the Presentation.

5.2 Presentation: Insight on Performance & Strategy of BNY Mellon ARB Fund by Andrew Wickham, 15 Minutes

The Committee considered the Insight presentation in detail and noted:

- The market value for the Fund's holding with Insight as at the end of December 2018 was £47 million. The Fund started investing with Insight in 2016. Insight's performance since inception has been disappointing relative to the return target, in particular, due to a challenging 2018. Insight's presenters assured that the investment management team is experienced and understand the performance expectations. They take the performance of the fund seriously.

Insight then responded to questions by the Committee about the underperformance of the fund:

- There were no changes in management or level of risks taken, or in the approach in which assets are managed. 2018 was just a bad year, in particular due to the negative impact of country decision-making. Page 11 of the presentation addresses the areas that suffered the most in 2018.
- Insight was expecting European markets to perform worse than other markets; however what actually happened was that the European markets performed relatively well. Insight had expected European bonds to underperform other markets, so this impacted on a number of their investment decisions. Insight provided a general overview of their investment positioning in 2018 and discussed what themes had worked out well and those that had not.

- In response to assuring the Committee of the potential for performance improvement, Insight highlighted the following:

  - Insight had realised that they need to increase research and expertise into the Chinese market, so they are better able to understand how the activity in that market feeds into the rest of the world. To this end, Insight is hiring an expert specifically on the Chinese market to the broader investment process and to help Insight understand the impact better;
  - Insight takes a balance of long-term versus just short-term views. Insight does not want to cut positions that it firmly believes will make their clients' money in the long run;
  - Insight still believes that the European market does not look like it will perform well;
  - It is looking at opportunities in emerging markets; and
  - Portfolio managers are looking for good ideas for better performance of the fund;
  - Insight is seeking good ideas whilst maintaining positions that are earning money. Portfolio managers are looking to invest in new trades, invest in Canada and buying other UK companies.

- In response to a query about which emerging markets Insight is investing in:

  - Emerging markets do look very attractive right now. Individual stories such as Brazil which is a market friendly market, Columbia and Russia. They are not looking at the Asian markets as they do not appear to be good value for money. Their preference is countries that are stable or improving. Emerging markets are a large portion of the fund.

Action:

Committee to look at Insight's presentation in detail and to consider making a decision on it's the future role in the portfolio.

5.3 Presentation: Goldman Sachs on Performance & Strategy of STAR II BY Iain Lindsay, 15 Minutes

The Committee considered the Goldman Sachs presentation in detail and noted:

- Performance for Q4 2018 was behind by 190 bps.
- Q1 of 2019 is looking promising s 17 bps ahead of objectives of the portfolio.
- Goldman Sachs hopes to see a sustained improvement in performance throughout 2019.
- The changes that have been made to recover from the losses in Q4 2018 which include:

    - Significant strides to improve interest rate management, especially with the promotion of Jonathan Bayliss as Head of Duration Team, which has been a key in improvement.
    - Currency management process has been improved, by tightening risk controls and appointing Arnab Nilim as Head of the Currency Team who joins in May of 2019.
    - The recruitment of Ashish Shah as head of the Sector allocation team.

Goldman Sachs then responded to questions by the Committee about the underperformance of the fund whether the recent performance upturn is sustainable:

- Goldman Sachs assured the Committee that they are confident for the future with new appointments referred to above and greater emphasis on research and risk management controls;
- Goldman Sachs is also involved in proactive risk management especially given the circumstances around Brexit; and
- In response to the role of the Goldman Sachs Special Situation division it was clarified that the team does not sit with Goldman Sachs Asset Management so it does not have an impact on the fund.

RESOLVED

I. To note the presentation ; and
II. For the Committee to review the performance of Goldman Sach's and Insight before making any final decisions, which was decided to be done at the end of the meeting in a closed meeting.

6. REPORTS FOR CONSIDERATION

6.1 Investment and Fund Managers Performance Review for Quarter Ending 31st December 2018

The Committee was presented with the Performance of the Fund Report-Quarter ending December 2018. The following points were highlighted and summarised as listed below:

- The fund went down by £75.9 million in Q4 2018, albeit it is unrealised loss but bounced back in February by £85 million.
- The equity protection strategy is performing as expected and was beneficial to performance given the equity market sell off in Q4. Page 27 highlights Managers Investment Performance Relative to benchmark as at 31st December 2018. Some of the figures outlined in the table are wrong and will be amended for next quarter.
- Page 31 represents Fund value by investment managers as at 31st December 2018 compared to 30th September 2018 and it can be seen that equity portfolios lost money due to market volatility. A request was made to publish the table in a different format using layman terms (as per table 27 and table 29) as well as to keep consistency in naming convention of organisations names.

RESOLVED

To note the report.

6.2 Independent Advisor Report on Market Outlook and Investment Managers Performance for Quarter Ending 31 December 2018

Colin Robertson, Independent Adviser presented the Market Outlook Update in respect of the performance of the markets and the Pension Fund investment managers for the third quarter of 2018/19.

The only update to note was that:

1. Equity markets that fell last quarter have now recovered which has benefitted the Fund. The market is very erratic - this too has had an impact on government yield bonds.

In response to concerns about Baillie Gifford's report, the following points were raised:

- The Diversified Growth Fund (DGF) is a cash plus strategy but invests in equities whilst the Multi-Asset Fund (MAC) fund also underperformed, and the Committee was advised that all 5 funds should be considered together as cash plus funds and one of them also has an equity type exposure;
- The Chair inquired about the two Absolute Return Bonds funds which had lost money and it was pointed out that these could be considered a suitable source of cash to finance a potential

investment in infrastructure due to the lower performance prospects of these funds

RESOLVED

To note the Update Report.

6.3 Update and Implementation Plan for Tower Hamlets Pension Fund Sustainable Investment and ESG Considerations

Bola Tobun, Investment & Treasury Manager presented the report that outlined the Funds current position on responsible investments, and considers the Environmental, Social and Governance (ESG) issues currently dominating Pension Fund investment debate. The report also considered what other LGPS funds are doing and recommends alternative ways in which the London Borough of Tower Hamlets Pension Fund can further promote the integration of ESG issues into its investment decision making and reduce carbon intensity of the fund.

It was noted that the Committee has a fiduciary duty to act in the best long-term interest of the fund members and for the Committee to do it properly, they need to recognise governance issues which the Committee had been doing for the past two years. This will could an impact on the financial performance on the Fund, and the Council are not the only employer in the fund. Therefore, whatever decision the Committee makes, some of the other employers like the academies might consider that their deficit contribution is too high and must this must be taken into consideration when considering the return from investment and is very important on balancing the liabilities, in order for LBTH to have a sustainable fund to pay the pensioners.

The following recommendations were noted:

1. To continue being a member of LAPFF.
2. To look at alternative ways as outlined on page 225 of the report.
3. At the previous meeting, the Committee had discussed about going forward with the LCIV's infrastructure fund. However, it was noted that this a broadly diversified fund, with a minimum target to be 25% invested in Renewable Energy. The Committee noted that it may prefer for a potential allocation to Infrastructure to be fully focused on Renewable Energy

In response to the Committee questions:

- It was noted that it would take 3 to 4 years to build up a target allocation to Infrastructure;
- There is a new guidance on LGPS asset pooling on page 246 of the report. Points to think about being how much choice you would have within the CIV, as this guidance is also statutory;
- In response to understanding the process, and whether the Fund has no choice but to invest within the CIV, the Committee was informed that in order to get the right products from the CIV, the Committee

needs to know its own direction and strategy and if not investing in the CIV, then the Committee is ignoring statutory government guidance. The best way to do this is within the CIV by convincing the CIV to make available funds that suit its long-term strategy.

RESOLVED:

- The Committee needs to properly review and consider its long-term investment strategy, and consider the timings then on when to make the changes. Need to review the Fund's Investment Strategy Statement along with the Actuarial Valuation at the Committee in September; and
- To adopt a move to increase the allocation to low carbon equities (from 15% to 20% of total assets) and give further consideration to the merits of investing in Renewable Energy and how this could be achieved.

6.4 Pension Scheme Administration Update

Tim Dean, Pensions Team Leader presented a report that covered the activities and performance of the Pensions administration team.

The Committee noted that:

- The Local Pensions Board has suggested including future reports to focus on volume of work done.
- It was also suggested that reports include items that are required to be reported to regulator. Complaints and breaches too should be included in the report.

RESOLVED

I. To note the report.

6.5 LGPS (Local Government Pension Scheme) Current Issues and Updates

The Committee received a report that provided an update on general developments in LGPS arena and also the Scheme Advisory Board's Key projects relating to the governance and administration of the LGPS scheme.

The Committee was informed that:

- The draft of the Ministry of Housing, Communities and Local Government's (MHCLG) guidance on LGPS Asset pooling is to be completed by end of March;
- The Investment & Treasury team will email the key elements of the guidance to Committee in due course;
- The Government is not putting any specific targets for infrastructure.

ACTIONS

- A joint response submission for the MHCLG guidance by the Pensions Board and Committee to be submitted at the end of March.
- To think about point 3.1.6 on page 247 when drafting the investment strategy.

RESOLVED

To note the report

6.6 Pensions Committee Work Plan, Pension Fund Business Plan and Budget for 2019/20

The Committee indicated that it was interested in understanding the variance of £300,000 and asked for an update.

Actions:

- The Investment & Treasury Manager to update Committee on the £300,000 variance.
- To have a draft investment strategy statement prepared by June, but to have a version to approve in September after the actuarial report.

6.7 Training & Development Plans For Tower Hamlets Pension Fund Committee and Board Members For 2019/20

The Committee received a report that provided an update on the Training and Development Plan for 2019/20.

RESOLVED

To note the report and that the Committee provide the Investment & Treasury Manager with a list of their training needs.

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil Items

8. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

RESOLVED

That press and public be excluded from the remainder of the meeting in that under the provisions of section 100 of the Local Government (Access to Information) Act 1985 the press and public should be excluded the remainder of the meeting for the consideration of Section Two business on the grounds it contains information defined as exempt in Part One, Paragraph 3, Schedule 12 A to the Local Government Act 1972, which relates to information relating to the financial or business affairs of any particular person including the authority holding the information.

9. INVESTMENT AND FUND MANAGERS PERFORMANCE REVIEW FOR QUARTER ENDING 31ST DEC 2018

The Committee considered the Investment and Fund Managers Performance in closed session**.**

The meeting ended at 8.55 p.m.

Chair, Pensions Committee

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 20 JUNE 2019

C3 , 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Mohammed Ahbab Hossain
Councillor Eve McQuillan
Councillor Abdal Ullah
Councillor Andrew Wood
Kehinde Akintunde – (Union and Admitted Bodies, Non-Voting Member)

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Governance)
Kevin Bartle	–	(Divisional Director of Finance, Procurement and Audit)
Tim Dean	–	(Senior Pensions Team Leader)
Neville Murton	–	Corporate Director, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
David Knight	–	(Senior Democratic Services Officer)
Maheen Nusrat	–	(Members Support Officer)

Others Present:

Steve Turner	–	(Mercer - Senior Investment Consultant)
Colin Robertson	–	(Independent Investment Advisor - Pensions Committee)

1. APPOINTMENT OF VICE-CHAIR

Councillor Perry invited nominations for the position of Vice-Chair of the Pensions Committee for the duration of the Municipal Year. Accordingly, Councillor Rachel Blake was nominated and seconded and it was:

RESOLVED

Councillor Rachel Blake should be appointed Vice-Chair of the Pensions Committee for the duration of the municipal year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Cllr. Abdal Ullah made a point to note that he and other councillors had received emails from the *Friends of Earth* and he has responded to some emails but not all, but wanted to place on record that he had received these emails.

3. VARATION TO THE ORDER OF BUSINESS

The Chair indicated that she thought it appropriate that the Order of Business be varied:

Accordingly the Chair Moved the following motion for the consideration of Committee Members, and it was: -

RESOLVED

1. That the Order of Business be varied to have the presentations from *Friends of the Earth* First;

2. To move item 7.4 ahead of item 3.0 on the agenda; and

3. To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

4. MINUTES OF THE PREVIOUS MEETING

Item deferred

5. PETITIONS

Although there had been no requests received to present petitions it was noted that the *Friends of the Earth* had asked to address the Committee regarding the importance of the Councils Pension Funds. They wished to ensure the LBTH has protected itself from the financial risk of climate change through those remaining investments that it has in fossil fuel companies (See item 8.4 Revised Investment Strategy Statement and Investment).

The Chair asked Mr Turner for an update on how much of the Fund’s equity assets were directly invested in carbon related stocks. In this context, carbon stocks meant all energy firms (oil, gas and coal producers and distributors) plus mining companies. Based on recent analysis, Mr Turner estimated that around 2.4% of the Fund’s total assets (or £37m based on latest market values) was invested in carbon stocks. It was noted that this exposure would have reduced materially since 2017 following a reduction in the Fund’s allocation to equities and decision to invest 30% of the equity assets in a passively managed low carbon global equity strategy. This level of carbon exposure was considered to be relatively low when compared to other LGPS funds and reflected the Committees early consideration of the importance of climate change issues to the Fund’s investment strategy. It was anticipated that this would reduce further in the future as the Committee was giving further consideration to switching additional equity assets into the low carbon global equity strategy. Mr Turner noted that this was a risk reduction strategy given the risks of climate change to companies and that the Fund was also investigating further how to invest in Infrastructure, with an emphasis on Renewable Energy assets, to help boost long-term expected returns."

6. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Report from Pensions Board Chair John Jones was presented by Kevin Bartle and is set out below:

The Committee noted that:

- The Pensions Board meeting was held on Monday 17th June, 2019. All Board Members had been present including Councillor Asma Islam who had recently been nominated to the Board and was attending her first meeting;
- The Board received an informative presentation from Hymans Robertson providing an update on the 2019 Actuarial Valuation process highlighting (i) the importance of understanding risks and having a clear Funding Strategy statement in place; (ii) how the stabilising employer contribution rate assists budgeting and scheme affordability;
- Tower Hamlets response to the Pension Regulators compliance checklist was discussed along with the importance of this from a governance perspective. On the basis of the report presented, the Board noted that the Fund is 75% compliant with the Pension Regulator's assessment criteria although it was noted that there remains a significant number where further action is required to meet the criteria in particular maintaining accurate member data and providing information. The Pensions Regulator is taking an increased interest in the LGPS in promoting effective governance and decision making. It was noted that the Board's view is that an action plan is needed together with allocated responsibilities in order to achieve full compliance with the requirements of the checklist;
- The Board reviewed the Risk Management and Internal Controls Policy and the updated risk register. The Board suggested improvements around linking the register more closely to the high risk areas included in the covering report and clearer allocation of responsibilities between lead officers. The register had identified that there was no formal policy or documented procedure for checks on the accuracy of member data. It was agreed that a new policy would be drafted and introduced to provide a framework in future. Accordingly, the risk register would be reviewed again at the Board's meeting in November;
- Because of the timing of meetings and the availability of papers, it had not been possible to have a full discussion on the Pensions Committee agenda. The Board received an update on the Fund's investment arrangements. It was agreed to have another update in due course;
- Consideration of the performance of the Pensions Administration Team had also deferred to the meeting in September. The Pensions

Regulator it was noted had identified data quality and record keeping as a key area of performance as it impacts directly on member benefits. The Board noted that it had previously recommended that the report should be updated to provide more robust and complete monitoring information for the Board and Committee.

- Finally, the importance of training and development for new members of the Committee and Board was discussed. It was noted that the LGPS and pension fund investment has now become increasingly complex and higher profile. The stability of membership and an understanding of the technical issues have become even more important to the effective management of the LGPS in Tower Hamlets. With this in mind it was noted that the Board has placed on record its view that all new Members should take advantage of the training and development opportunities that are available, and that the case should be made for continuing membership on the Committee going forward.

RESOLVED to note the report.

7. MEMBERS TRAINING ON ROLES AND RESPONSIBILITIES IN LGPS

The Committee received and noted a presentation that provided an outline on the roles and responsibilities within the LGPS. Including the responsibilities of Pension Committee that may be summarised as follows:

1. ensuring that all investment activity complies with the requirements of current regulations and best practise;
2. approving the investment strategy statement, funding strategy statement, communications strategy and governance policy;
3. appointing investment managers, a fund actuary, custodian(s) and professional advisors;
4. reviewing and taking action on actuarial valuations;
5. ensuring the administration of the fund is (i) appropriately resourced; (ii) effective and (iii) meets performance standards;
6. regularly reviewing investment managers' performance and expertise against agreed benchmarks and determining any action required; and
7. ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments.

RESOLVED to note the report.

8. REPORTS FOR CONSIDERATION

8.1 REVIEW OF DRAFT ANNUAL REPORT

A report providing an update on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2018/19 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund was presented.

The Committee was also reminded that it acts as quasi-trustee to the Pension Fund and as such acts in the capacity of the Administering Authority of the

Pension Fund. The Committee's terms of reference requires that the Annual Report and Accounts on the activities of the Fund are presented and approved prior to their publication. The Local Government Pension Scheme Regulations 2013, Regulation 57 require the Pension Fund to publish its report and accounts by 1st December following the financial year end and for the Report to contain a number of standard items. The publication of the Pension Fund Annual Report and Statement of Accounts also helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets.

Due to the tight deadlines relating to the production of the Pension Fund Annual Accounts, the Annual Report was only available to be tabled at the meeting and it was important that the Committee considers and agrees the Annual Report so as to ensure that they are properly audited as part of the Council's annual statement of accounts process. It was therefore not possible to defer this report until the next meeting.

Accordingly, in light of this and the fact that Members clearly need time to consider the draft report fully the Chair indicated that

I. She would like this item to be considered and discussed tonight and for any questions and comments on the annual report should be sent to Kevin Bartle, Interim Divisional Director of Finance Procurement and Audit, prior to the close of business on 27th June, 2019; and
II. The Interim Divisional Director of Finance Procurement be authorised to amend the draft report before submission, after consultation with the Chair of the Pensions Committee following consideration of comments received by the 27th June, 2019.

RESOLVED:

(a) That any questions and comments on the annual report should be sent to Kevin Bartle, Interim Divisional Director of Finance Procurement and Audit, prior to the close of business on 27th June, 2019; and
(b) To authorise the Interim Divisional Director of Finance Procurement to amend the draft report before submission, after consultation with the Chair of the Pensions Committee following consideration of comments received by the 27th June, 2019.

8.2 INVESTMENT AND FUND MANAGERS PERFORMANCE REVIEW FOR QUARTER END MARCH 2019

The Committee received and noted a report that provided details of the performance of the pension fund managers and the overall performance of the Tower Hamlets Pension Fund. Whilst there are no direct financial implications arising from this report, the long term performance of the pension fund will impact upon pension contribution rates as set by the Committee. The main points of the report may be summarised as follows:

i. <u>Investments managed under the London Common Investment Vehicle (LCIV) pooling arrangement</u>

a) **LCIV Global Alpha Equity Fund - Baillie Gifford (BG GA)**

Managed under the LCIV pooling arrangements, the market value of the assets as of 31 March 2019 was £345.890m. The portfolio outperformed the benchmark by delivering a return of 12.39% compared to a benchmark return of 9.64% over the quarter while underperforming against the one-year benchmark return by -1.69%. However, it outperformed the three-year benchmark return by 3.73% per annum and the 5 year benchmark return by 2.41% per annum.

Over the 12-month period to 31 March 2019 the top contributors to performance in the portfolio were Amazon Corporation, Anthem Inc and Advanced Micro Devices. Over the same period the top detractors to performance were Prudential, Ryanair, Zillow and Microsoft.

b) **LCIV Diversified Growth Fund - Baillie Gifford (BG - DGF)**

Market value of assets as at 31 March 2019 was £136.822m. Quarter ending return of this portfolio was 6.14% with relative outperformance of 5.09% above benchmark return of 1.04%. This portfolio underperformed the one-year benchmark by -3.78%, but outperformed the three year benchmark return by 1.15% per annum and by 0.61% per annum over 5 years. The portfolio invests in a range of asset classes.

c) **LCIV Absolute Return Fund – Ruffer Ltd (Ruffer LLP)**

The value of assets under management as of 31 March 2019 was £130.574m. The portfolio outperformed the benchmark by delivering a return of 3.15% compared to benchmark return of 1.04% over the quarter while underperforming against benchmark on the one year by posting a return of -0.55% against a benchmark return of 4.06%. Over 3 years the portfolio outperformed its benchmark by posting a positive return of 3.71% per annum and posting 3.72% per annum, slightly ahead the benchmark by 0.11% per annum for over 5 years period.

d) **LCIV Multi Asset Credit - MAC Fund**

Tower Hamlets Pension Fund transferred £90m on 29 May 2018 to London CIV to invest in LCIV (CQS) MAC which was launched 31 May 2018. The portfolio had a market value of £91.8m at 31 March 2019. This portfolio delivered a positive return of 2.65% over the period and outperformed its benchmark by 1.29%.

ii. **Goldman Sachs Asset Management (GSAM)**

The portfolio had a market value of £52.542m at 31 March 2019. The portfolio outperformed the benchmark in the reporting period by posting returns of 2.66% against a benchmark return of 1.29% and underperformed the benchmark for one year to reporting period considerably by -4.93%.

The largest contributor to performance was the interest rate exposure and cross sector asset allocation exposure to corporate credit.

iii. Insight Investment Management

The portfolio had a market value of £46.901m at 31 March 2019. The portfolio underperformed the benchmark in the reporting period by posting returns of -0.39% against a benchmark return of 1.29%, the portfolio also underperformed its benchmark for one year to reporting period, significantly by -10.54%.

The largest detractor to performance over the period was country allocation. The largest contributor to performance was the long position in investment grade credit, which benefitted from a narrowing of credit spreads. Insight performance has been greatly disappointing and has struggled to meet its benchmark return or target since inception.

iv. **Legal & General Investment Management (LGIM)**

As at 31 March 2019, the Unhedged Passive Global Equity portfolio had a market value of £82.853m; the Low Carbon Passive Global Equity portfolio had a market value of £244.708m and the Hedged Passive Global Equity portfolio had a market value of £22.795m. As expected from an index-tracking manager, all the portfolios matched the benchmark returns. Low carbon equities marginally outperformed normal market cap equities over the quarter.

v. **Schroder's Investment Management Property Investment**

The market value of assets at 31 March 2019 was £161.655m. The fund has performed well over all periods under review. The industrial sector continues to be the strongest positive driver of returns over recent periods.

The manager made no purchases over the quarter and continues to disinvest from weaker performing funds within sectors that are poorly aligned with their house view (the fund sold a further £0.7m from the Standard Life Pooled Pension Property Fund over the period).

vi. **Equity Protection Strategy** – In September 2018, the Fund implemented the equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings of £718m at the time with an option overlay, also establishing long synthetic equity positions of some £142m.
The equity protection strategy is designed, on average, to help protect against losses of some 15% on a portfolio of the Fund global equities, after suffering an initial 5% loss. The Fund would start experiencing losses again after equities have fallen by 20%. The exact levels of protection vary by equity region but the US is the most important one.

The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect help protect strong gains in recent years. The equity protection expires at the end of March 2020, and will need to be review in Q4 2019 to consider if the current strategy simply finishes or is continued in some way.

As at 31 March 2019 the value of the strategy was £717.3m compared to starting position of £718m in September 2018 and the net assets value of the Fund was £233.8m compared to £214.66m.

RESOLVED to note the report.

8.3 INDEPENDENT ADVISOR REPORT ON MARKET PERFORMANCE AND FUND PERFORMANCE FOR QUARTER ENDING 31 MARCH 2019

Colin Robertson presented his report to the Committee. The main points of the discussion maybe outlined as follows:

- "Financial markets performed strongly in Q1 2019 as central banks adopted a more accommodative monetary policy. Moderate economic growth might be expected but with policy already so simulative, policymakers have few tools at their disposal when something goes awry. Politics could prove problematic for financial markets. Equity market valuations are not unduly demanding but earnings forecasts might well be too optimistic.
- The fund has a very low exposure to bonds which might be considered to match the liabilities to some extent but this would not appear to be the ideal time to increase the fund's exposure as bond yields are extraordinarily low at present. Serious consideration should be given to investment in infrastructure now that the London CIV has a plausible infrastructure product on offer. The desired and achievable level of renewables exposure within the fund's infrastructure investment was discussed. Rebalancing the fund's equity exposure back to benchmark was raised.
- The differing opportunity sets for the various absolute return / DGF funds was noted."

RESOLVED to note the report.

8.4 REVISED INVESTMENT STRATEGY

The Chair informed the Committee that a revised Investment Strategy is fundamental to the work of the Council and that she was grateful for the work already undertaken on this issue by the Committee over recent years. She made it clear that it was important that going forward the current Membership must have a clear understanding of all relevant issues and consider for itself how this should impact the Fund’s investment strategy.

In addition, (i) as the report had not been published within the required 5 clear days of the meeting date and having sought advice from the officers, it was clear that it is not essential that the Strategy is reviewed at the meeting; (ii) the Committee needed to hear for itself the points made by Friends of the Earth regarding the financial risk of climate change and take those points into consideration before approving.

Accordingly, the Chair recommended to the Committee that a decision is deferred on the Investment Strategy until a future meeting and that in the intervening period Members of the Committee will have an adequate opportunity to contribute to the Strategy and to fully understand its implications prior to its approval.

RESOLVED to defer consideration of this report to a future meeting.

8.5 PENSIONS ADMINISTRATION PERFORMANCE TARGETS AND INDICATORS

The Committee received a report that covered the performance during the current and previous financial years. This included the activity levels and the performance levels against agreed service standards. The main points of the report considered may be summarised as follows:

The Committee noted that:

- In the fourth quarter of 2018/19, the Pensions team had completed 88.68% of its workload in line with the services standards measured by the performance indicators;
- There are currently 180 cases classified as ‘Undecided Leavers’ i.e. members that have left employment or opted out of the pension scheme and have yet to be processed as refunds, deferred beneficiaries, pensioners of transfers out;
- Possible incoming transfer currently being processed – 158. In these cases we are either waiting for a response from the transferring scheme, waiting for a response from the member, or waiting for payment of the transfer;
- On 10 April 2019 HM Treasury had launched a consultation until 3rd July 2019 on draft regulations, guidance and Directions to implement the cap on public sector exit payments;
- The impact of the regulations on LGPS members if the cap is exceeded and the exit payment includes a pension strain cost is still unclear, but it is understood that the policy intent is for the member’s pension to be reduced to the extent that the exit payment cap is not breached, with the member having the option of paying extra to ‘buy-out’ some or all of the reduction. Amendments to the LGPS regulations would be required to facilitate this change. Guidance from the Government Actuary on calculating the pension reduction and operating the buy-out process would also be required;

RESOLVED to note the report.

8.6 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

The Committee received a report that provided an update and background information into the Pooling arrangements and also London CIV Pool. The main points of the report considered may be summarised as follows:

The Committee noted that:

- The UK’s 89 Local Government Pension Schemes (LGPS) have finalised their asset-pooling plans by having eight regulated fund management entities to run almost all of the LGPS assets, leaving individual funds to decide asset allocation and focus on other areas of pension scheme management.

- The London CIV of which the Fund is a member sought agreement from shareholders to extend the scope of the Company's business activities, in order to reflect the broader understanding of pooling. It has now proposed to define the purpose of the Company as an FCA company rather than the FCA authorised operator of an ACS. This would mean that the scope of the Company's business would be consistent with the evolving expectations of a LGPS pooling company and allow it to be sufficiently flexible to add value and meet pooling objectives. The change discussed at the LCIV Shareholder Committee in December 2018 prior to approval at the General meeting of Shareholders on 31 January 2019 requires shareholders' approval in writing and the LCIV sent the proposed change letter to all shareholders.

RESOLVED to:

1. Note the contents of the report; and
2. Approve London CIV variation of business activity

8.7 LGPS (LOCAL GOVERNMENT PENSION SCHEME) CURRENT ISSUES AND UPDATES

The Committee received a report that provided an update on general developments in Local Government Pensions Scheme arena and also the Scheme Advisory Board's key projects relating to the governance and administration of the Local Government Pension Scheme; specifically national initiatives that deal with inconsistencies across the Scheme for academies, the risks associated with Third-Tier employers and the conflicting interests at local authority employers who undertake the administering authority function.

The Committee noted the report which covered the following matters:

1) LGPS Employer Cost Cap;
2) New Fair Deal in the LGPS;
3) Separation Project / Good governance in the LGPS;
4) Academies Pension Cost;
5) GMP Equalisation and the LGPS;
6) Employer Exit Credits;
7) Cost Transparency;
8) Exit Payment Caps; and
9) Changes to the Valuation Cycle and Management of Employer Risk.

RESOLVED to note the contents of the report.

9. DATE OF FUTURE TRAINING/SEMINAR/CONFERENCE EVENTS

The Committee that they will shortly be receiving a list of future training; seminar and conferences. Members were asked to inform Miriam Adams, the

Interim Pensions & Investment Manager if they wish to attend any of the training events.

10. DATE OF FUTURE MEETINGS

The Committee noted the dates of future meetings for the current Municipal Year.

1. 24 Sep 2019 6.30 p.m.
2. 28 Nov 2019 6.30 p.m.
3. 19 Mar 2020 6.30 p.m.

In addition, it was noted that more details on the committee (Including the Agenda Management Timetable) was available on the Web Site from this Link

11. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items

The meeting ended at 8.25 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee

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Non-Executive Report of the: **Pensions Committee** 24 September 2019	TOWER HAMLETS
Report of: Neville Murton, Corporate Director of Resources	**Classification:** Unrestricted
31st March 2019 Triennial Training, Valuation Update and Draft Funding Strategy Statement	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

This report provides the Committee with a summary of progress to date on the 2019 actuarial valuation process. The London Borough of Tower Hamlets Pension Fund in accordance with Local Government Pension Scheme (LGPS) regulations undergoes a full actuarial valuation once every three years, the results of which are used to determine contribution rates for each employers within the Fund for the following three years.

The valuation is an assessment of the assets and liabilities of the pension fund, which then determines the funding level. The final valuation will determine the contribution rates payable by all employers participating in the Fund, which includes the Council.

Employee contributions are set by the Government, so employers must pay the balance of any cost in delivering the benefits to members.

The Funding Strategy Statement (FSS) focuses on the pace at which these liabilities are funded, and insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The draft FSS will be circulated to all employers who participate in the Fund in Q4 2019 to allow comments to be made prior to its finalisation.

Comments received from consultation will be brought to the attention of the Committee along with the final FSS on 19 March 2020.

Recommendations:

The Pensions Committee is recommended to:

- Note the content of this report;
- Note and agree the assumptions and methodology proposed by the Actuary to determine the actuarial funding level and standardised employer contribution rate;

- Approve the Funding Strategy Statement principles and delegate to the Corporate Director of Resources the employer consultation and resulting changes to the FSS and other changes from further communication with the actuary;
- Note that a final FSS will be presented to the Committee at the 19 March 2020 meeting.

1. REASONS FOR THE DECISIONS

1.1 The Council is required by law to undertake an actuarial valuation of the Fund's assets and liabilities. The Pensions Committee under delegated authority should agree the underlying assumptions of the valuation with the actuary.

1.2 The understanding of the Pension Fund in terms of its investments, the Fund's liabilities both short and long term and the profile of its members between actuarial valuations determines the financial status of the pension fund, its funding level and the contributions that employers need to make into the Fund for the following three years.

1.3 The level of funding for the Pension Fund and the requirement to fund employee pension benefits, both past and current can directly impact on the level of resources available for other Council services. The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position.

1.4 Following consultation with such persons as it considers appropriate, the administering authority will prepare and publish its funding strategy by having regard to:

a. the guidance issued by CIPFA for this purpose; and

b. the Statement of Investment Principles (SIP) or investment strategy statement (ISS), whichever is appropriate;

1.5 The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or investment strategy statement.

1.6 The revised FSS should be completed and approved by the Pension Committee (or equivalent) prior to the completion of each valuation.

1.7 The Fund actuary must have regard to the FSS as part of the fund valuation process.

2. ALTERNATIVE OPTIONS

2.1 There are no alternatives because the requirements to carry out the triennial revaluation and prepare a Funding Strategy Statement are prescribed in regulations.

3. DETAILS OF REPORT

3.1 Valuation Assumptions
It is good governance to review all actuarial assumptions as part of each triennial valuation to ensure they reflect current expectations of the future.

3.2 Demographic assumptions impact the timing of payments, and financial assumptions impact the amount of payments. The value placed on the liabilities is sensitive to these assumptions so the choice of assumptions has to be reasoned and robust. While any assumption about the future is subjective by nature, there is significant analysis which can be done as a basis to inform the assumptions selected by the Fund

3.3 Demographic assumptions are generally split into two categories – pre retirement and post retirement. Post-retirement is mostly concerned with how long will a pension be paid to members i.e. life expectancy.
Before retirement, the actuary is mainly concerned in the likelihood of events which will influence the timing of when benefits may come into payment and the magnitude of the benefits. The five main events are listed in the table below:

Parameter	National LGPS change from 2016 valuation (default assumption)	Fund Specific assumption (vs default assumption)
Withdrawal from active service	Slight increase from 2016	Apply further increase to default
Pre-retirement mortality	No change from 2016	Apply default
Ill-health retirement	Slight decrease from 2016	Apply default
Promotional salary scale	No change from 2016	Difficult due to data issues and fluctuating pay – stick with default
Cash commutation	Keep at 50% of HMRC limits	Apply default
50:50 take-up	Decrease from 2016	Apply further decrease from default

3.4 Future salary growth assumption is one of the key actuarial assumptions used to estimate the cost of benefit. This assumption comes in two parts;

- Annual 'inflationary' salary awards, historically set in order for employees pay to at least keep up withj the cost of living and;
- Promotional salary awards or those awarded as part of a defined salary scale.

The long term actuarial assumptions were RPI less 1% thereafter, short term assumption of 4% and 2.5% in subsequent years. A blended equivalent rate of RPI less 0.80% was then factored in the actuarial calculations.
Salary growth assumption is also an important factor in estimating the size of future payroll and contributions.

3.5 The discount rate assumption is how the actuary allows for future investment returns on the Fund's assets. This is a key element and risk in funding. In setting the discount rate, the actuary also considers the impact of altering the discount rate.

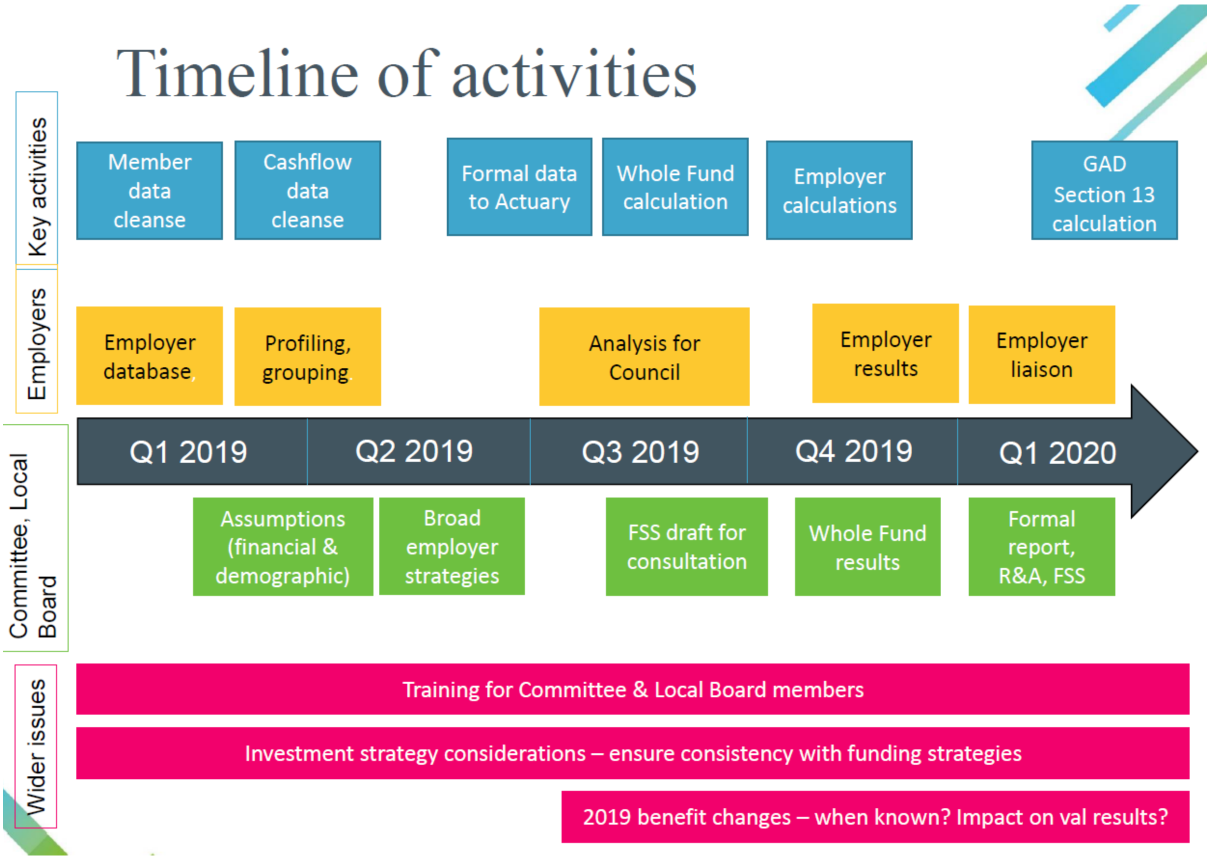
Investment strategy	Likelihood of achieving this margin above risk-free rate from year 20		
	1.8% pa	2.0% pa	2.2% pa
Current Strategy	68%	65%	62%
10% Lower Growth	64%	60%	56%
20% Lower Growth	55%	50%	46%

3.6 Actuarial Valuation process Update

The Fund's actuary, Hymans Robertson, has been reviewing the data supplied to them by the Administering Authority, Tower Hamlets, over the summer and is in the process of assessing the current funding position and contributions payable by both the Council and other employers in the Fund.

3.7 The actuary will produce an initial overall fund results which will be presented in November 2019.

3.8 Timeline of activities



4. FUNDING STRATEGY STATEMENT (FSS)

4.1 The FSS sets out the funding targets and assumptions, time horizons and differentiation between employers. Its main purpose is to state how contributions are set for different types of employers and how contributions may vary in different circumstances.

4.2 The draft FSS set out in Appendix 2 has been drawn up by the Fund's actuary, Hymans Robertson, this will be reviewed in conjunction with Officers of the Council.

4.3 As set out in the FSS the objectives of the statement are to:

a) ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

b) ensure that employer contribution rates are reasonably stable where appropriate;

c) minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB., this will also minimise the costs to be borne by Council Tax payers);

d) reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

e) use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

4.4 In addition to the objectives set out above, the FSS also sets out the different treatments for different types of employers ranging from tax raising bodies such as the Council and other scheduled bodies such as Academies, Community and Transferee Admission Bodies.

4.5 Proposed Changes to the Funding Strategy Statement include:

- LGPS (Amendment) Regulations 2018 – “exit credits”
- McCloud ruling/impending LGPS benefit improvements
- Academies transferring to/from Multi-Academy Trust (MATs)
- Policies on bulk transfers to/from the Fund

5. Next Steps

5.1 The subsequent steps in the valuation process are summarised below.
November 2019:-

- Present whole Fund results;
- Present draft individual employer estimated funding level and contribution rates;
- Carry out any additional contribution rate modelling; and,
- Finalise Funding Strategy Statement (“FSS”).

March 2020

- Present final Actuarial report including Rates and Adjustment certificate
- Present final FSS to the Pensions Committee.

6. CONCLUSION

6.1 At the November 2019 Committee meeting, the Committee will be asked to note the new contribution rates for employers to be effective from 1st April 2020 for the next three years up to 31st March 2023.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

7.1 The comments of the Corporate Director of Resources have been incorporated as required, throughout this report.

8. LEGAL COMMENTS

8.1 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund as at 31st March 2019, and as at 31st March every third year thereafter.

8.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement.

8.3 When reviewing the funding strategy statement, the Council is required to have regards to:

a) the CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement; and

b) the Council's statement of investment principles/Investment Strategy Statement.

The review of the funding strategy statement has been undertaken by the Fund Actuary and Fund officers with reference to a and b above as required.

8.4 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).

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 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.

10. BEST VALUE (BV) IMPLICATIONS

10.1 The level of funding for the Pension Fund and the requirement to fund employee pension benefits, both past and current can directly impact on the level of resources available for other Council services. The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position.

10.2 The understanding of the Pension Fund in terms of its investments, the Fund's liabilities both short and long term and the profile of its members between actuarial valuations determines the financial status of the pension fund, its funding level and the contributions that employers need to make into the Fund for the following three years.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

12. RISK MANAGEMENT IMPLICATIONS

12.1 The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position. Therefore a prudent approach is crucial in minimising the key risks involved in managing the Pension Fund.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

13.1 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 – 2019 Valuation – Assumptions and Funding Strategy Statement

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

- As shown in appendices above.

Officer contact details for documents:
Miriam Adams, Pensions & Investments Manager x4248

2019 Valuation – Assumptions and Funding Strategy Statement

London Borough of Tower Hamlets Pension Fund

- Douglas Green FFA
- Barry Dodds FFA

- 24 September 2019

HYMANS ROBERTSON

Agenda

- Valuation timetable
- Valuation assumptions
- Updates to the Funding Strategy Statement

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Timeline of activities

Key activities

- Member data cleanse
- Cashflow data cleanse
- Formal data to Actuary
- Whole Fund calculation
- Employer calculations
- GAD Section 13 calculation

Employers

- Employer database,
- Profiling, grouping.
- Analysis for Council
- Employer results
- Employer liaison

Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020

Committee, Local Board

- Assumptions (financial & demographic)
- Broad employer strategies
- FSS draft for consultation
- Whole Fund results
- Formal report, R&A, FSS

Wider issues

- Training for Committee & Local Board members
- Investment strategy considerations – ensure consistency with funding strategies
- 2019 benefit changes – when known? Impact on val results?

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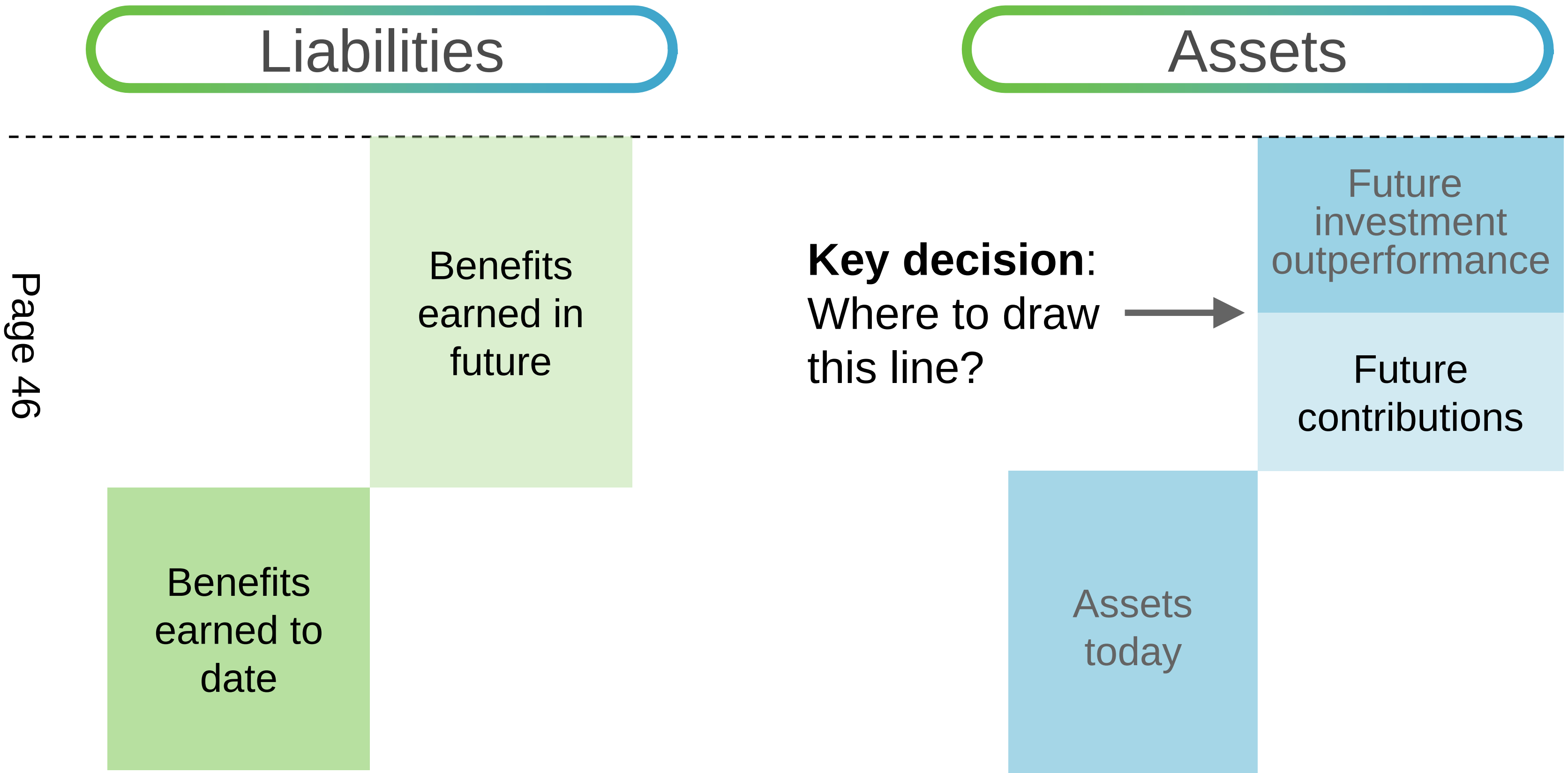
Approach to setting contributions



Choice of assumptions is an important part of the decision

Prudence in assumed investment return,
other assumptions should be 'best estimate'

Valuation assumptions

Amounts paid and probability/timing of payment

Financial assumptions:

- **Investment return**
  - Inflation
  - Pay increases
- **Pension increases**

Consider:
Economic outlook
Actual scheme assets
Historical pay growth

Demographic assumptions:

- **Life expectancy**
- Retirement age/cause
- Withdrawals
- Marriage statistics

Consider:
Population trends
Members' social status
Past scheme experience

Assumed investment return ("discount rate")

- Test margin above risk-free (gilt) yields
- This assumption applies from year 20 onwards, so consider how investment strategy might look then

Investment strategy	Likelihood of achieving this margin above risk-free rate from year 20		
	1.8% pa	2.0% pa	2.2% pa
Current Strategy	68%	65%	62%
10% Lower Growth	64%	60%	56%
20% Lower Growth	55%	50%	46%

March 2019: Officers agreed margin assumption of 2.0% p.a.

Actuary's decision: maintain margin assumption of 2.0% p.a, but any de-risking of investment strategy would need early actuarial input

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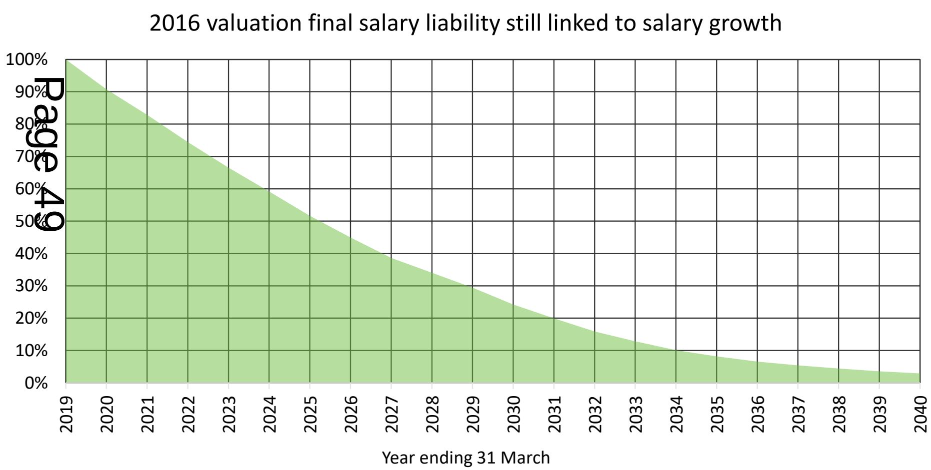
Salary growth assumption

Allow for

- Final salary liabilities running-off – salary growth less important
- Short and long term pay expectations – different?



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Short term: 4% / 2.5% / 2.5%
Longer term: RPI less 1% thereafter,
Blended equivalent rate: RPI less 0.8%

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Demographic assumptions

Parameter	National LGPS change from 2016 valuation (default assumption)	Fund Specific assumption (vs default assumption)
Withdrawal from active service	Slight increase from 2016	Apply further increase to default
Pre-retirement mortality	No change from 2016	Apply default
Ill-health retirement	Slight decrease from 2016	Apply default
Promotional salary scale	No change from 2016	Difficult due to data issues and fluctuating pay – stick with default
Cash commutation	Keep at 50% of HMRC limits	Apply default
50:50 take-up	Decrease from 2016	Apply further decrease from default

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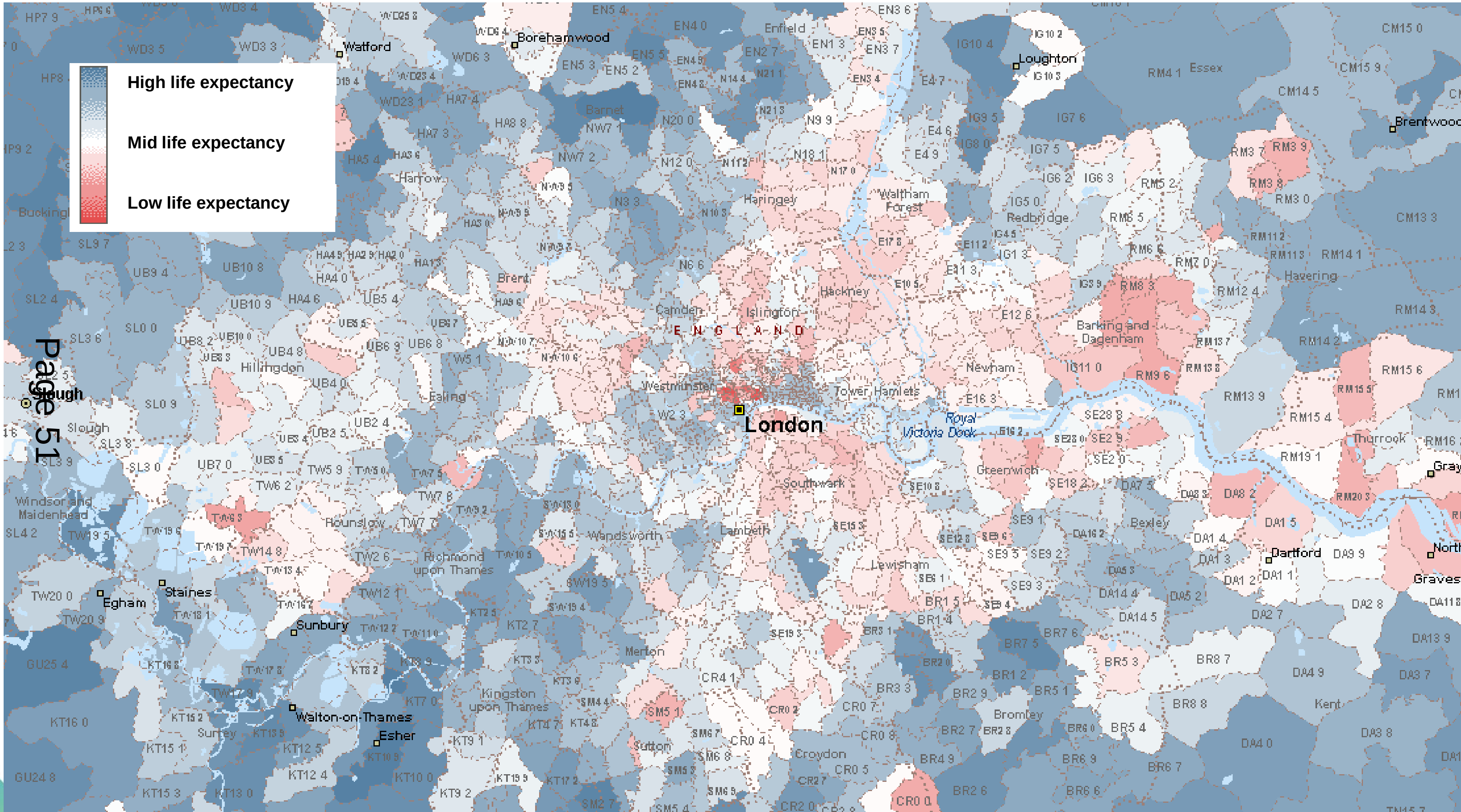
Actuary’s proposal: adopt the demographic assumptions outlined above

Life expectancy in retirement



Actuary’s proposal: continue to use Club Vita database

Each employer tends to its own patch

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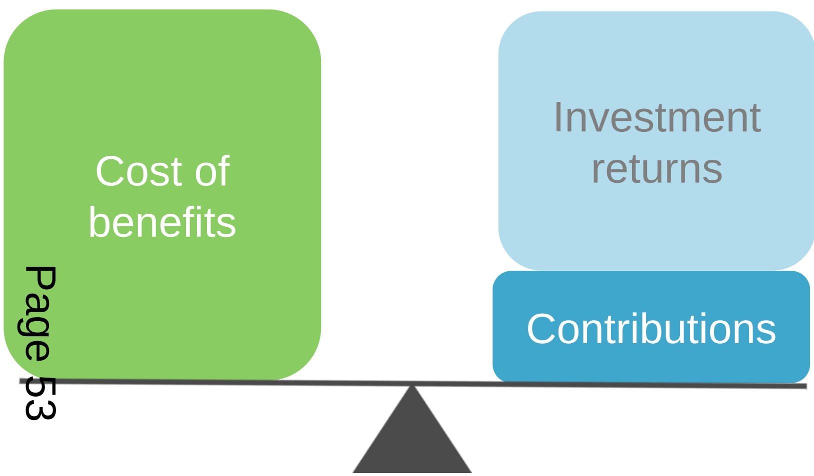
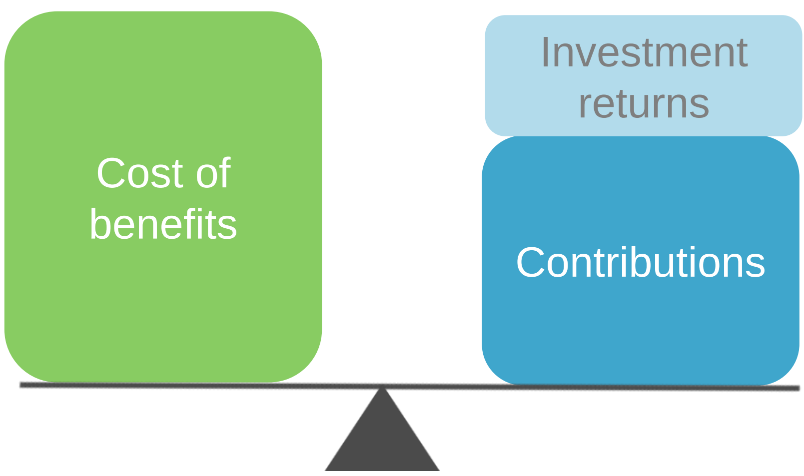
The funding strategy is a balancing act

High risk funding strategy



Low risk funding strategy



The cost of the benefits must be met somehow

The key decision is the balance between contributions and investment returns

How do we set contributions with an appropriate level of risk?

Funding strategy – 3 step approach

What is the funding target?

How long do we want to give the employer to get to the target?

How sure do we want to be that the employer hits the target?

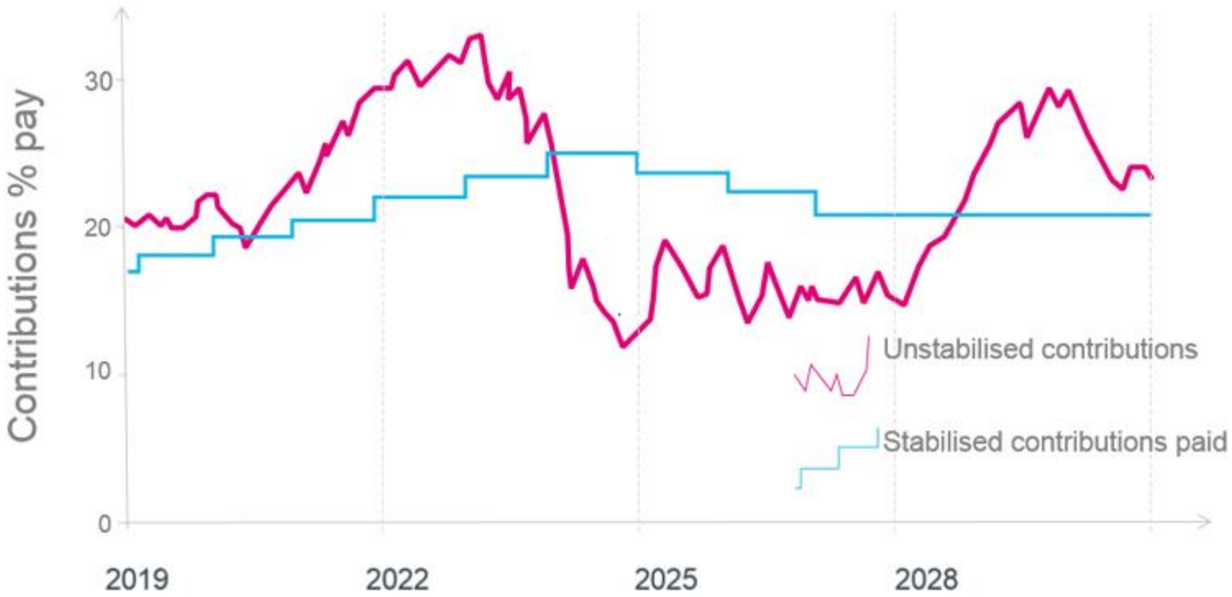
All brought together in the Funding Strategy Statement (FSS)

- Purpose
  - clear & transparent fund-specific strategy,
  - how contributions are set for different types of employer,
  - how contributions vary in different circumstances.
- Outline the 3 steps
  - Funding target / assumptions
  - Time horizons
  - Differentiation between employers
- Principles agreed by Committee
- Details agreed between Officers & Actuary

Proposed Changes to the FSS

- LGPS (Amendment) Regulations 2018 – “exit credits”
  - Allowance for new regulations
    Note that exit credit/surplus payments may be made
  - Risk sharing
    If contractor bears no debt, then doesn’t get exit credit either
  - Assumptions for cessation calculations
    In particular, no benefit to contractors trying to cease early
- McCloud ruling / impending LGPS benefit improvements
  Identify how to allow for this until details known
- Academies transferring to / from MATs
  Must take all deferreds and pensioners with them
- Policies on bulk transfers to/from the Fund
  Generally try to use government actuary basis unless other side disagrees

Council Contribution Modelling



- Stabilisation limits any contribution rate increases and decreases to a maximum amount each year
- This avoids significant or sudden contribution rate changes.
- Stabilisation will aid budgeting, avoid surprises and help keep contribution rates affordable during periods of short term market volatility.
- Currently in place (modelling conducted at 2016), proposed again for 2019

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Road ahead

- November Committee meeting (we'll be back)
  - Whole Fund results
  - Employer results
- Funding Strategy Statement
  - Consult with employers
  - Finalise early 2020
- March 2020 Committee meeting
  - Final valuation report
  - Rates and adjustments certificate

General risk warning

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The London Borough of Tower Hamlets Pension Fund

Appendix 3

Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Tower Hamlets Pension Fund ("the Fund"), which is administered by London Borough of Tower Hamlets Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from [DATE POST CONSULTATION].

1.2 What is the London Borough of Tower Hamlets Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Tower Hamlets Pension Fund, in effect the LGPS for the London Borough of Tower Hamlets area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are determined in accordance with the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and with no certainty. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- Long term solvency of the Fund,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- all Fund's policies (including admissions, cessations and bulk transfers); which can be found on the Fund's website https://www.towerhamlets.gov.uk/lgnl/jobs_and_careers/Pension_fund/Pension_fund.aspx
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Pensions & Investments Manager email: pensionsLBTH@towerhamlets.gov.uk or call telephone number 020 7364 4248.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a large part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The likelihood of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund will seek to moderate short term increases in contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the

Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to allow for the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the required likelihood of reaching the funding target.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future market movements. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the deficit. Thus, deferring a certain amount of contribution is likely to lead to higher contributions in the long-term; and
- it is likely to take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Council**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to "gilts basis" - see Note (a)		Ongoing participation basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	70%	70%	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. -Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields. by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to London Borough of Tower Hamlets Council as a tax raising body:

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), total contributions have been set to ensure that stabilised employers have at least a 70% chance of being fully funded in 20 years under the 2019 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum *likelihood* . A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (iv) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, agreed in conjunction with the Administering Authority, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;;

- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

The Fund's standard approach is for the TAB to be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any cessation deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement.

Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

OR

[IF FUND WANTS TO MANDATE PASS THROUGH OR SAY IT IS THE PREFERRED APPROACH]
The Administering Authority's preferred approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority's primary rate on the contract start date. Upon cessation the contractor's assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

[IF PASS THROUGH ISN'T TO BE SET OUT IN THE ADMISSION AGREEMENT]
In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any letting employer and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then the letting employer and the contractor will need to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of the risk sharing arrangement in place.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and

- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee. The approach to calculating the cessation payment will be as per the Admission Body's Admission Agreement.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

The Administering Authority therefore has considered an approach to help manage ill health early retirement costs. This approach was put in place on [DATE], has been reviewed on [DATE] and will next be due for review on [DATE].

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers [DATE] for comment;

b) Comments were requested within [XX] days;

c) Following the end of the consultation period the FSS was updated where required and then published, on [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [DATE];
- A copy sent by /e-mail to each participating employer in the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.towerhamletspensionfund.org.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Ministry of Housing Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Effect of possible asset underperformance as a result of climate change	[ANYTHING EXPLICIT IN THE INVESTMENT STRATEGY? RISK REGISTER]
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

Risk	Summary of Control Mechanisms
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission.

Risk	**Summary of Control Mechanisms**
	Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?
The Secondary rate is calculated as the balance over and above the Primary rate, such that the contribution rate is projected to:

1 meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2 at the end of the determined time horizon (see 3.3 Note (c) for further details)
3 with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required likelihood.

The Administering Authority, after taking advice from the Fund's actuary, may choose to calculate Primary and Secondary contribution rates differently if particular circumstances apply to an employer.

D4 What affects a given employer's valuation results?
The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;

6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March [2016] the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?
These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, likelihoods of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

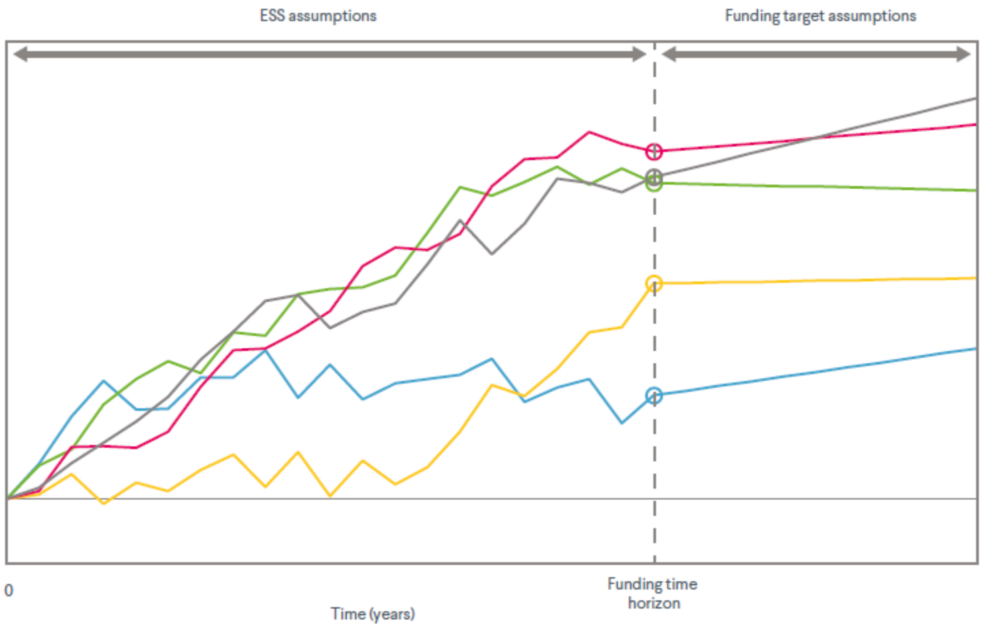
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	**Ongoing participation basis**	**Contractor exit basis**	**Low risk exit basis**
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.0% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

- 4%, 2.5%, 2.5% each year until 31 March 2022, followed by
- 1% below the retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.2%. This is a change from the previous valuation, which assumed a blended assumption of CPI less 0.1% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding Basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local

	authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too.

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Non-Executive Report of the: **PENSIONS COMMITTEE** **24 September 2019**	TOWER HAMLETS
Report of: Neville Murton - Corporate Director of Resources	**Classification:** Restricted
Increased Allocation to Low Carbon Equities	

Originating Officer(s)	Miriam Adams, Pensions and Investments Manager
Wards affected	All

Summary

It is important for the Committee to understand the approach taken to date as well as what is a decarbonisation investment strategy in comparison to a disinvestment strategy.

A decarbonisation approach allocates to companies that are lower carbon emitting, whereas disinvestment is completely excluding certain ‘carbon heavy’ sectors from the investable universe (e.g. energy and mining stocks). The approach of the LGIM Global Low Carbon Equity fund is a decarbonisation strategy; it does not seek to fully divest from fossil fuel companies. The decarbonisation approach is more effective at reducing exposure to carbon intensity as it covers the full range of stocks and sectors. Divesting from fossil fuels does nothing to address this.

At the November 2018 meeting of the Pensions Committee, officers presented the results of a carbon footprint analysis of the Fund’s listed equity assets.
The results highlighted that the Fund’s equity assets were in aggregate approximately 38% less carbon intensive than the Fund benchmark.
A further deduction in the Fund’s carbon exposure could be achieved given the Committee’s interest in reducing the Fund’s carbon exposure.

Recommendations:

The Pensions Committee is recommended to:

i) Consider the options (1and 2) for increasing the allocation to Low Carbon equities set out in the detailed paper prepared by Mercer the Fund actuary (Appendix A);

ii) Consider the cost and currency hedging implications of switching all existing passive global market-cap equities into Global Low Carbon equities (option1);

iii) Agree option 1 - the switching of all existing passive global market-cap equities into Global Low Carbon equities.

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 £1.6billion 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, its members but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's statutory pension obligations.

1.2 The costs involved with the implementation of option 1 is estimated as follows

- Estimated direct transition costs £185k
- Estimated increase in passive investment management fees £60k p.a. from current estimates of £310k p.a. depending on asset market values.

1.3 A low carbon investment approach will help to mitigate the risks of climate change that could potentially negatively impact the share prices and generation of dividends from companies that have a high carbon footprint.

2. ALTERNATIVE OPTIONS

2.1 Not to change strategy.

3. DETAILS OF REPORT

3.1 The Committee decided in 2017 to make an allocation to passive Global Low Carbon Equity. An initial allocation of 15% of Fund assets was made. More recently, the Committee has decided to increase the Fund's strategic asset allocation to passive Global low Carbon equities further from 15% to 20%. It is estimated that this would reduce the Fund's equity carbon foot print by around 10% relative to the current position.

3.2 There is increasing pressure being placed on Pension Funds by stakeholders to ensure that ESG factors are considered when making investment decisions. This pressure is coming from lobby groups, other stakeholders, the Bank of England and even the Pensions Regulator has warned that savers face long term financial risks because trustees are failing to take climate change, responsible business practices and corporate governance into account when making investments.

Decarbonisation and disinvestment (fossil fuel free) investing

3.12 A number of lobby groups have been pressuring LGPS funds including LBTHPF to divest or have a plan to divest from fossil fuels on the basis that coal, oil and gas consumption are contributing heavily to climate change and global warming to which some scientists have attributed responsibility for the increase in the incidence of natural disasters such as storms, floods heatwaves in recent times.

3.13 LGPS funds have continued to come under criticism for investing in controversial stocks such as oil, tobacco, alcohol producers, gambling firms, and payday lenders. Some local authorities, including Tower Hamlets Pension Fund, the London Boroughs of Islington, Haringey, Southwark and the Environment Agency, have committed to reducing their exposure to carbon and some have gone on to state when they expect to be fully divested.

3.14 **Tower Hamlets Decarbonisation Approach versus Fossil Fuel Issues**
Tower Hamlets approach is to reduce the carbon intensity of the Fund over time as an exclusionary approach removes the potential to positively influence companies and the Fund Investment consultant prefers a decarbonisation approach.

3.31 The benefits of the decarbonisation approach include:

a) The portfolio will be less susceptible to increasing carbon pricing, stranded assets and/or related regulation.
b) It supports the flow of capital to a resilient low-carbon economy and may help to address the market mispricing of carbon.
c) Produces a market signal that incentivises companies to develop and invest in low carbon and clean technologies, influences policymakers and also helps to catalyse a new standard for other institutional investors.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The performance of the Fund affects the level of contribution to the Fund required for the employer's contribution (i.e. the Council's contribution towards employees' pensions).

4.2 The returns achieved by the Fund for the three years beginning 1 April 2019 will impact on the next valuation as at 31 March 2022. It is important to ensure that further investments in the low carbon investment strategy do not have a financial impact on the Fund.

5. LEGAL COMMENTS

5.1 The Committee has legal responsibilities for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions.

5.2 The Administering Authority through its Investment Strategy Statement must provide details of its policy on how social environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

5.3 When carrying out its functions, 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 The move towards further low carbon strategies is a step towards further reduction in carbon emissions.

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 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: Mercer Report on Increased Asset Allocation to Low Carbon Equities (restricted)

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:

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Agenda Item 5.4

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Non-Executive Report of the: **PENSIONS COMMITTEE** **24 September 2019**	TOWER HAMLETS
Report of: Neville Murton, Corporate Director, Resources	**Classification:**
Quarterly Voting and Engagement Update for June 2019	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All

Introduction

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and the Committee and Board has previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations. This report provides an update on voting activities cast by its investment managers as well as LAPFF recommendations.

Recommendations:

Members of the Pensions Committee are asked to note the contents of this report.

1. REASONS FOR THE DECISIONS

1.1 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

2. ALTERNATIVE OPTIONS

2.1 The Fund would remain a member of LAPFF but to ensure the Fund's Responsible Investment (RI) approach is enhanced the engagement approach can be improved by procuring an overlay service rather than relying on delegation to fund managers.

3. DETAILS OF REPORT

3.1 The Fund currently delegates the exercise of its voting rights to its external equity managers, who are asked to comply as far as possible with the Fund's voting policies. The move to a pooled structure continues to impact this arrangement as voting rights are exercised at pool level rather than fund level. The Fund works with other London funds as well as the pool itself to ensure that in the future it is able to effectively express its views through the exercise of voting rights through the LCIV.

3.2 The Fund also delegates broader engagement with investee companies around ESG issues to its external managers. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 86 local authority pension funds including the Environment Agency Pension Fund. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

3.3 London CIV - Voting activity and company engagement for Baillie Gifford Diversified Growth Fund over the quarter.

Voting activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	49	Companies	18	Companies	6
Resolutions	511	Resolutions	36	Resolutions	12

Baillie Gifford engaged with BBGI Sicav S.A. and Foresight Solar Fund Limited on corporate governance issues and engaged with Fondul Proprietatea SA and Greencoat UK Wind PLC on AGM or EGM proposals. Overall although the investment manager has seen a heartening increase in ESG related reporting, the quality and coverage of data was much less encouraging with the use of estimated companies by companies still common practice.

3.4 London CIV – Voting activity and engagement for Ruffer Absolute Return for the quarter ending June (Appendix 3).

Voting activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	44	Companies	13	Companies	12
Resolutions	610	Resolutions	53	Resolutions	21

3.5 Stewardship activities for Goldman Sachs Absolute Return Fixed Income fund for the period ending 30 June 2019 involved 6 companies. Unlike equity managers where voting and direct company engagement takes place, ESG tends to be integrated in process especially in credit allocation.

Company	Issue
Activision Blizzard	Governance – board structure and independence, succession planning
Arecelormittal SA	Environmental, governance – climate change, lobbying disclosure
ExxonMobil Corporation	Environmental, governance – climate change
General Motors Company	Environmental, governance – fuel economy and emissions standards, board structure, succession planning and lobbying disclosure.

Sophos Group	Governance issue - remuneration

3.6 Voting and engagement activities for Legal and General. During the quarter ending March 2019, Legal and General participated in voting and engagement activities in 111 companies. Appendix 2

3.7 There were 13 voting alerts during the quarter ending June 2019. The table below shows voting information where common stocks exist with LAPFF voting recommendations.

Company	Proposal Description	LAPFF Recommendation	Vote For / Oppose		AGM Vote outcome
				LCIV RUFFER	
Alphabet INC	11. Nomination of an employee representative director 16. Report on content governance	For For		n/a	
TELSA INC	2. Approve the Telsa Inc. 2019 Incentive Plan 7. Shareholder Resolution: Public Policy Committee	Oppose For		n/a	oppose the 2019 Incentive Plan and to vote in favour of the shareholder resolution requesting a public policy committee
General Motors Company	4. Require Independent Board Chairman 5. Report on Lobbying Communications and Activities	n/a For		Oppose For	Improved lobbying disclosures
Facebook, INC.	9. A content governance report	For		n/a	resolution asking the company produce a report on content governance
Exxon Mobil	1a. Election of Director: Susan K. Avery 1b. Election of Director: Angela F. Braly 1c. Election of Director: Ursula M. Burns 1d. Election of Director: Kenneth C. Frazier 1e. Election of Director: Steven A. Kandarian 1f. Election of Director: Douglas R. Oberhelman 1g. Election of Director: Samuel J. Palmisano 1h. Election of Director: Steven S Reinemund 1i. Election of Director: William C. Weldon	Oppose Oppose Oppose Oppose Oppose Oppose Oppose Oppose		Oppose Oppose Oppose Oppose Oppose Oppose Oppose Oppose	Resolutions asking for an independent chair, a report on the risks Risks of Gulf Coast Petrochemical Investments and for a report on lobbying. As well as oppose the election of the entire Board based

	1j. Election of Director: Darren W. Woods 4. Independent Chair 8. Report on Risks of Gulf Coast Petrochemical Investments 10. Report on Lobbying	Oppose Oppose For For For		Oppose Oppose For For For	on the company's inadequate approach to climate change.

*Where N/A means information not available at the time of writing or the Fund Manager has not invested in the company.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 This is a noting report and there are no direct financial implications as a result of the contents of this report.

4.2 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

4.3 Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.

5. LEGAL COMMENTS

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of:

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

5.2 In addition, Government guidance on the preparation and maintenance of the Investment Strategy Statement states that Administering Authorities should explain their policy on stewardship with reference to the Stewardship Code, the seven principles of which apply on a 'comply or explain' basis.

5.3 When carrying out its functions, 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 employer's contribution is a significant element of the Council's budget and consequently any improvement in investment management and performance will reduce the contribution and increase the funds available for other corporate priorities.

6.2 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 The effective and efficient management of Fund assets are key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.

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

9. RISK MANAGEMENT IMPLICATIONS

9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

9.2 Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

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 – Quarterly LAPFF Voting and Engagement Update March 2019
- Appendix 2 – LGIM Voting and Engagement report June 2019
- Appendix 3 – LCIV voting and engagement - RUFFER June 2019
- Appendix 4 – Voting & engagement Schroders Real Estate

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

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https://www.paimages.co.uk/image-details/240966766

Quarterly Engagement report

April-June 2019

Tailings dams, Persimmon, Centrica, BP, ArcelorMittal, Imperial Brands

Local Authority Pension Fund Forum

TAILINGS DAMS

Investors call for action after Brazilian mining disaster

LAPFF uses community engagement to link stakeholder input to investor value

Objective: Improve responsibility and accountability within the mining sector

Achieved: Formation of a database to promote oversight and accountability of tailings dams.

In progress: Sector-wide collection of tailings dam data

The Investor Mining & Tailings Safety Initiative was created following the failure of a tailings dam at the Córrego do Feijão mining facility in Brumadinho, Brazil. The collapse occurred on January 25 and led to the loss of around 300 lives. The initiative, led by a group of investors with combined assets under management of around $12.5 trillion, is governed through a steering committee chaired by the **Church of England Pensions Board** and the **Swedish Council of Ethics** of the AP Funds. LAPFF has played a significant role in supporting and liaising with the affected communities through this initiative, ensuring that the community voice forms part of ongoing narrative.

LAPFF was also a signatory to a letter that went to 683 companies requesting data on tailings storage facilities for which they are responsible. There is currently not a consolidated global register making assessing the risks associated with tailings storage facilities difficult. However, responses to this disclosure request are now coming in, with 197 companies submitting data so far and 114 companies stating that they do not have tailings dams.

As a result of the disclosure request a number of companies have now posted their tailings dam data. These companies include **Anglo American**, **Glencore** and **Rio Tinto**. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which is being led by UNEP, PRI and ICMM. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L'Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative on 10 June.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and as affected stakeholder liaison. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too.

"Not only is the human impact of these dam collapses devastating, but we are starting to understand the extent to which failure to ensure dam safety has created risks for our investment portfolios. LAPFF is pleased to be part of the Investor Initiative on Mining and Tailings Safety, both to support safer dams and communities and to help build stronger companies that create better shareholder value for our beneficiaries."

Councillor Doug McMurdo, LAPFF Chair

"I've been to most of these investor meetings now. Seeing and hearing from community members about the horrific impacts of these dam collapses has been eye-opening and alarming. These disasters are good examples of how community interests, environmental interests and investor interests align in a need for better ESG practices by companies."

Councillor Rob Chapman, LAPFF Vice-Chair

TAILINGS DAMS

▲ The owner of British Columbia's Mount Polley mine confirms it has been served with search warrants as an investigation continues into the failure of a dam and possible Fisheries Act breaches. The dam's collapse in the early hours of Aug. 4 last year sent 24 million cubic metres of wastewater gushing into nearby lakes and streams. Contents from a tailings pond is pictured going down the Hazeltine Creek into Quesnel Lake near the town of Likely, B.C. on August, 5, 2014.

▲ Disruption of Samarco dams in Mariana, Minas Gerais, southeastern Brazil, on November 9, 2015. On the fourth day, after breaking two tailings dam, Long Bar is still taken by the mud. The dams are between the municipalities of Mariana and Ouro Preto, about 60 kilometers from Long Bar.

COMPANY ENGAGEMENT

Cllr Chapman with CA100 representation at ArcelorMittal AGM

THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

ArcelorMittal commits to being carbon neutral in Europe by 2050

LAPFF's engagement with the largest global steel company, ArcelorMittal, continued with attendance at the AGM in Luxembourg. Addressing the company chair, Mr Mittal, Cllr Rob Chapman welcomed progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement. This has included exploring industrial-scale use of hydrogen at their Hamburg plant and testing circular and low carbon technologies across a number of sites. Cllr Chapman asked the company that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario and that Mr Mittal consider personally joining the Chairs of Rio Tinto and Royal Dutch Shell in the Energy Transitions Commission (ETC) which focusses on decarbonising hard-to-abate sectors. Mr Mittal responded that the company now plans to join the ETC and that they are looking at scenarios including the 1.5 degree scenario. Meeting with Mr Mittal immediately after the AGM, LAPFF, with fellow Climate Action 100+ investors followed up on asking for a review of the companies lobbying and membership of trade associations, and about the adoption of science-based targets. Mr Mittal's clear message on the required transition was the need for a level playing field globally, and for the EU to implement a green border tax adjustment to address climate change whilst securing the competitiveness of European steel mills.

Since the AGM, ArcelorMittal has brought out its Climate Action Report which sets out the company's ambition to significantly reduce CO2 emissions globally and be carbon neutral in Europe by 2050.

Attendance at ArcelorMittal's SRI Roadshow provided useful context to their recently issued Climate Action report. Discussions covered developments in their hydrogen technology, partnerships with car companies, liaising with customers on the Steligence' concept for high-performance buildings and construction techniques and the challenges of different regional policy dimensions and how to report on these.

CONTEXT
After chemicals, steel production is the second largest energy consumer among industrial sectors and the most carbon-intensive sector. Having had a couple of meetings last year and earlier this year with ArcelorMittal representatives, the company had showed some progress, including starting an industrial scale trial of using hydrogen in Hamburg in the electric arc process, initially using 'grey' hydrogen produced from natural gas, but with the potential to use hydrogen generated from renewable sources.

GOVERNANCE RISK

Persimmon headline

In his last engagement as LAPFF chair, Cllr Paul Doughty attended the Persimmon AGM. The company chair, Roger Devlin, apologised for the previous chief executive's pay award. Presentations from the chief executive and chair focused on how the company was seeking to change, including committing to paying the Living Wage and undertaking a review of customer care. Cllr Doughty asked, given the reputational damage the company had suffered and to safeguard against similar problems in the future, whether the board would consider appointing an employee to the board. This had been raised previously in engagement with the company. In response, Mr Devlin stated that he first wanted to see and understand how employee representatives would work in practice and that the company were keeping it under review.

Imperial Brands

Cllr Glyn Caron met with Imperial Brands to discuss the company's 'Next Generation Products' such as vaping. The meeting focused on how the company was diversifying its products away from traditional tobacco products and seeking to reduce harm. The discussion covered issues around the safety of new products, targets for shifting to less harmful products and marketing to children. Cllr Caron also asked about the company's approach to the emerging legal cannabis market.

COMPANY ENGAGEMENT

VOTING ALERTS

LAPFF issued voting alerts ahead of the **Facebook, Twitter** and **Alphabet** general meetings. The alerts recommended that members support shareholder proposals that the companies produce reports into the governance and management of inappropriate and illegal user-generated content. The Forum also supported a resolution for the appointment of an employee director at Alphabet (the parent company of Google) following several workforce-related problems.

LAPFF also issued voting alerts ahead of the **General Motors** and **Ford** meetings regarding their lobbying activities on climate change and whether they were aligned with the Paris Agreement. The shareholder proposals received the backing of a large number of shareholders (29% and 16% respectively). These alerts followed collaborative engagements with the companies on climate change and federal reforms which are set to result in lower and more fragmented emissions standards in the US. There appeared to be progress on this front as the carmakers themselves have recently written to both President Trump and the Governor of California calling on them to resurrect discussions about a unified standard. At this point the White House has rejected the call by the sector. Nevertheless, with the encouragement of investors there remains an opportunity to find separate agreements between the car manufacturers and individual states to lower emissions.

Other climate-related voting alerts were issued in relation to the **BP, Rio Tinto, Andarko, Chevron** and **ExxonMobil** Annual General Meetings. Engagement with BP has been long-term, with ten LAPFF members co-filing the resolution to the company that requested it report on its strategy consistent with the Paris Agreement. Disclosure requested included how the Company evaluates the consistency of each new capex investment in exploration, acquisition or development of oil and gas resources and reserves. The resolution was the outcome of engagement co-ordinated by the Climate Action 100+ (CA100) investor group. It outlined investor expectations relating to the consequences of the Company's strategy for its future business model and, after garnering support from the BP Board, it passed with 99% shareholder support. LAPFF is also a member of the CA100+ Exxon investor group. The two lead investors, the **New York State Common Retirement Fund** and the **Church Commissioners for England**, together with at least one LAPFF member fund, co-filed a shareholder proposal asking ExxonMobil to disclose short, medium and long-term targets for GHG emissions. In response, Exxon sought and obtained no action relief from SEC staff, and subsequently declined to include the proposal in its proxy materials for the 2019 annual general meeting. Consequently LAPFF recommended that member funds vote against the entire Board based on the company's inadequate approach to climate change. Previous engagement with Exxon concerning carbon emissions has failed to result in an adequate response by the company. This is in contrast to many of its industry peers who have taken active and transparent steps in an attempt to manage the energy transition and in doing so are better placed to protect and preserve value.

COMPANY ENGAGEMENT

Daejan Holdings

A meeting with the chair of Daejan Holdings and other investor representatives of the 30% Club Investor Group explored the approach to gender diversity across the company, including gender pay differentials and the approach to recruitment. Daejan Holdings is the only FTSE 350 company that has never had a woman on the board. Three directors were appointed to the board in 2017, all male. The chair consider that the board appoints on merit and no commitment was made to appointing a female director.

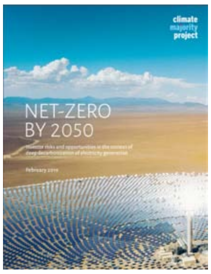
Climate Action 100+

LAPFF participated in a Climate Action 100+ investor meeting with the new chair of Centrica plc, Charles Berry. Taking on the role in February, his background indicates he is likely to take a pro-active stance in ensuring the strategic resilience of the company. His experience includes stints at SSE, Drax and Scottish Power, the latter company announcing late last year that it is set to switch to completely clean energy, replacing coal and gas with wind. He spoke about his focus on strategy, capital allocation and business decisions. The investor ask was articulated as a need for ambition by **Centrica** to show its long-term vision for decarbonisation, particularly of heat, and that it is committed to net-zero. It was considered Centrica could articulate its policy stance more strongly and draw in the concept of the 'Just Transition' in its relationship with employees and when any changes are made to the investment portfolio. These were noted by the chair.

Climate Majority Project

In the first quarter of 2019, as part of its involvement in the Climate Majority Project, LAPFF joined US investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050. Responses have come in from a number of companies including **Entergy Corporation, NextEra, NRG Energy, WEC Energy Group** and **Xcel Energy. Entergy's** most recent climate report and two-degree scenario analysis includes the latest carbon emissions reduction goal of

"Decarbonization can also create significant new opportunities for the electric power sector, as electrification of the economy can drive substantial demand growth just as the costs of renewable energy generation and battery storage are plummeting. Investors therefore have both a fiduciary interest and obligation to ensure that the electric utility industry is on track to achieve netzero carbon emissions by 2050 at the latest"



50 percent reduction in the emission rate by 20130 from a 2000 base. NextEra is the world's largest producer of energy from wind and solar, and set out its target to reduce its own emissions by 65% by 2021, from a 2001 starting point. A response from NRG Energy reiterated the science-based targets set in 2014 for absolute operational emission reductions of 50% by 2030 and 90% by 2050. Customer emission reduction goals were provided in absolute amounts rather than a percentage figure, so it was more difficult to discern how stringent these are in reality. WEC Energy Group reports it will achieve a near term goal of emission reductions of 40% below 2005 levels well ahead of the 2030 target, and its 2050 goal is to reduce emissions by 80%. In 2018, Xcel achieved 38% reductions in carbon emissions associated with electricity provided to customers from a 2005 base, and announced a two-part carbon goal for its electricity business, namely 80% emission reduction by 2030 and carbon-free electricity by 2050.

After a meeting in March, follow-up correspondence to the **Southern Company** asked the company to commit to net-zero emissions by 2050 and to communicate this intention by September 2019 with corresponding details to be disclosed on board oversight responsibilities, the associated transition plan, executive compensation mechanisms and the alignment of policy spending, trade association and lobbying activities.

Cllr Rob Chapman joined a collaborative call organised by the Climate Majority Project (formerly the 50/50 Climate Project) with US utility company **Dominion Energy**. The meeting focused on setting a net zero emissions target by 2050 and moves by the company to low and no carbon energy production. The discussion also covered board oversight of climate change, aligning executive compensation with a net zero target and alignment of political spending and membership of trade associations with meeting its stated objectives on emissions reduction.

General Motors and Ford

LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies continue to work with California to find solutions to reducing greenhouse gases. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. A bipartisan group of lawmakers has also urged the **US Department of Transportation**, the **US Environmental Protection Agency**, and the **California Air Resources Board** to return to good faith negotiating to work toward one national programme on fuel economy.

Chipotle

In January, LAPFF co-signed a letter directed to six of the largest global fast food companies. As part of a collaborative engagement facilitated by Ceres and FAIRR, LAPFF was lead investor in a collaborative meeting with American fast food giant Chipotle Mexican Grill. In a discussion with the company's Chief Corporate Responsibility Officer, Director of Sustainability and Director of Procure-

COMPANY ENGAGEMENT

ment, LAPFF quizzed Chipotle on its approach to managing water risk, board oversight and supply chain management. LAPFF also set out its expectations as an investor, challenging the company's practices in areas in which it was deemed to lag behind industry peers.

SOCIAL RISK

Tailings Dam Initiative

The investor tailings dam initiative which has developed out of the collapse of the Vale tailings dam in Brumadinho, Brazil, in late January is moving quickly. The disclosure request on tailings dams has gone to 680 mining companies, and a number of companies have now posted their tailings dam data on their website. These companies include Anglo American, Glencore and Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and liaising with representatives from the affected communities. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which has had its first meeting. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L'Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative in early June.

Engagement related to the war in Yemen

The Forum has written to nine defence contracting companies identified as having significant weapons sales to Saudi Arabia. These companies are: Boeing, General Dynamics, Raytheon, BAE, Lockheed Martin, Textron, Thales, Airbus and General Electric. LAPFF has asked the companies if they have undertaken human rights impact assessments in respect of their contracts with Saudi Arabia given the country's role in the war in Yemen. An additional request for information went to Boeing in relation to the crashes of the company's 737 MAX aircraft in Indonesia and Ethiopia.

EVENTS

In June, LAPFF attended the first annual Workforce Disclosure Initiative (WDI) conference in London. This included a panel on how better workforce disclosure can benefit companies, investors and the workforce. There were also breakout sessions on board-level gender equality and living wages in low-income countries, both specific areas of interest for the WDI. Overall, delegates seemed engaged and positive about the initiative.

"We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting"

Senator Gerry Horkan

RELIABLE ACCOUNTS

Irish Parliament

In 2012 LAPFF produced 'UK and Irish Banks Capital Losses - Post Mortem' setting out how the accounting framework for listed companies in the UK and Ireland, both under the Financial Reporting Council (FRC) had allowed major banks to keep substantial losses out of their reported net income and mask insolvency. The banking crisis in Ireland led to the country seeking assistance from the International Monetary Fund and liquidity support from the European Central Bank. Cormac Butler, an IFRS expert from Ireland, presented on this topic at the 2012 LAPFF annual conference. He has remained a vocal commentator on reporting standards in Ireland. He and

COMPANY ENGAGEMENT

Tim Bush of PIRC, were asked to appear before a joint committee of the lower and upper houses of the Irish Parliament on 28 May 2019.

John McGuinness TD, chairman of the joint committee, said the Irish public had picked up the €30bn tab for the banking system bailout that they should never have entered into, due to a potentially flawed and illegal accounting model. “We are paying back a debt that we should not be paying back” he said and “we are imposing austerity on people in the pursuit of repayment of that debt that we should not do”.

Senator Gerry Horkan, who is a Chartered Accountant said, “We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting that one learns on one’s first day. They should have taken the hit when it was realised. If they had, we would not have had all these issues with promissory notes and so on.”

Senator Rose Conway-Walsh referred to the impact that the collapse of Carillion in the UK had had on the SME sector in Ireland.

The Committee also asked Tim Bush for views on reform of the accounting profession and competition issues given the recent flurry of enquiries in the UK. Tim Bush suggested that the committee made contact with the BEIS Select Committee in the UK, which the Committee agreed to. The Committee also indicated that it would wish to see Cormac Butler and Tim Bush again.

Local Authority Pension Performance Analytics

At the Local Authority Pension Funds All Party Parliamentary Group meeting in April, Neil Sellstrom of PIRC’s Local Authority Pension Performance Analytics (LAPPA) service provided a presentation on LGPS investment performance and varying trends among 63 local authority funds. Cllr Paul Doughty then provided an overview of the new statutory guidance on LGPS asset pooling followed by discussion. The presentation and meeting minutes are available at the APPG website.

FRC

In May, LAPFF submitted a response to the independent review of the FRC. The purpose of the consultation was to gather views on the recommendations made by the review to create a new regulator responsible for audit, corporate reporting and corporate governance. LAPFF made clear that an effective regulator needs an effective purpose and, as the Brydon Review aims to ‘reset’ the delivery of audits, LAPFF believes this is only achieved by reconnecting with the law. This principle should also drive the model for the setting up and development of the Audit, Reporting and Governance Authority (ARGA).

Media coverage: Audit market reform

LAPFF blames ‘defective’ accounting rules for 2008 Irish banking crisis – IPE, 7 June 2019

Local authority pension funds back UK audit market reform proposals – IPE, 24 April 2019.

PAPERS AND REPORTS

LAPFF published the first of its kind report into employees on company boards. The new Corporate Governance Code includes a section on board level employee representation, with instructions to have an employee on the board, have a designated non-executive director or a workforce panel. To understand how companies were approaching this element of the new code LAPFF undertook a survey of the FTSE.

The Forum had a great response rate with over 20% of FTSE 100 completing the survey as well as companies across the FTSE all share. The results in the report highlight that the majority of companies were planning to comply wioth the requirement (rather than explaining why not) and no respondent viewed the inclusion of board level employee representation in code as a negative step. The vast majority of those who were going to comply were seeking to do so by appointing a designated NED to the board and very few were intending to have a worker director. In this sense the results suggests there was a missed opportunity but from engagements we know the issue remains under review at many companies.

Media coverage: Workers on boards

Should more companies give employees a seat on their boards? – Telegraph, 29 May 2019

Businesses are resisting worker representation on boards – Personnel Today, 3 May 2019

With rich investment managers in charge, shareholder vetos on exec pay are meaningless – Left Foot Forward, 16 May 2019

Corporate Britain drops the ball on worker directors in favour of government cop outs – Independent, 1 May 2019.

Worker directors increasingly prominent in debates on corporate governance reform - Involvement & Participation Association, N/D

Capita appoints two employees to its board – ShareCast, 13 June

Capita set to join club of companies with worker directors on the board – The Times, 6 May

Media coverage: Voting

LAPFF supports majority of Amazon shareholder resolutions – Professional Pensions, 20 May 2019

COMPANY PROGRESS REPORT

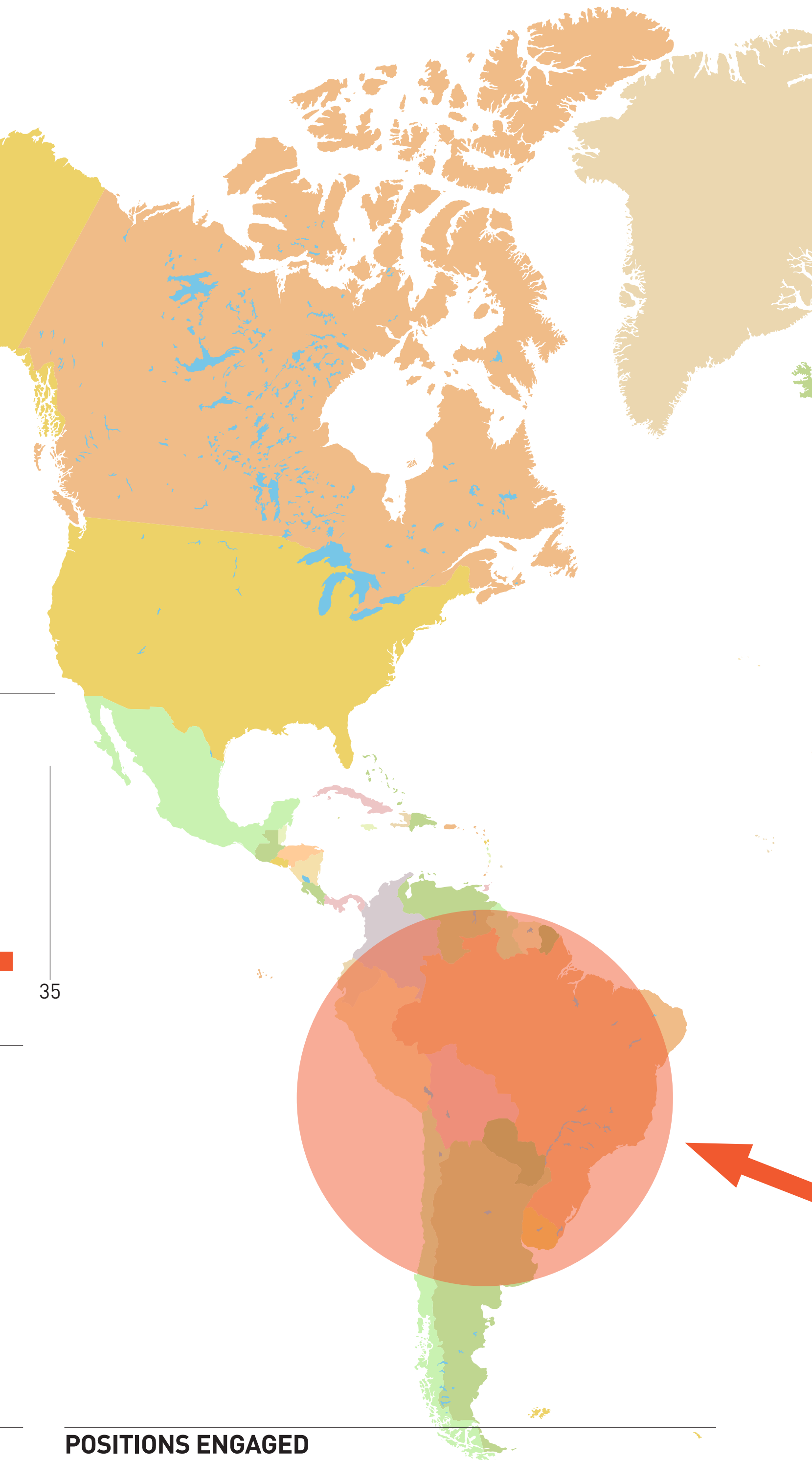
62 Company engagements over the quarter

Company/Index	Activity	Topic	Outcome
AMAZON.COM INC. (2)	Alert Issued	Audit Practices	No Improvement
ANADARKO PETROLEUM CORPORATION (2)	Alert Issued/ Sent Letter	Climate Change	No Improvement
ANGLO AMERICAN PLC	Meeting	Governance (General)	Change in Process
ARCELORMITTAL SA (3)	Meeting/AGM	Climate Change	Substantial Improvement
AVEVA GROUP PLC	Sent Letter	Board Composition	Awaiting Response
BHP GROUP PLC (GBR)	Meeting	Human Rights	Small Improvement
BP PLC	Alert Issued	Climate Change	Substantial Improvement
CENTRICA PLC	Meeting	Climate Change	Small Improvement
CHEVRON CORPORATION	Alert Issued	Governance (General)	No Improvement
CHIPOTLE MEXICAN GRILL INC	Meeting	Climate Change	Moderate Improvement
DAEJAN HOLDINGS PLC (2)	Meeting	Board Composition	No Improvement
DOMINION ENERGY INC	Meeting	Climate Change	Change in Process
ENTERGY CORPORATION	Received Letter	Climate Change	Moderate Improvement
EXXON MOBIL CORPORATION	Alert Issued	Climate Change	No Improvement
FDM GROUP (HOLDINGS) PLC	Sent Letter	Board Composition	Awaiting Response
GENERAL MOTORS COMPANY (3)	Received Letter/ Alert Issued	Climate Change	Small Improvement
HSBC HOLDINGS PLC	AGM	Climate Change	No Improvement
IMPERIAL BRANDS PLC	Meeting	Governance (General)	Moderate Improvement
JD WETHERSPOON PLC	Meeting	Board Composition	No Improvement
MICRO FOCUS INTERNATIONAL PLC	Sent Letter	Board Composition	Awaiting Response
NEXTERA ENERGY INC	Received Letter	Climate Change	Small Improvement
NRG ENERGY INC	Received Letter	Climate Change	Moderate Improvement
PERSIMMON PLC	AGM	Board Composition	No Improvement
PLAYTECH PLC	Sent Letter	Board Composition	Awaiting Response
RIO TINTO GROUP (AUS) (3)	Meeting/Alert Issued	Climate Change/Human Rights	Small Improvement
ROYAL DUTCH SHELL PLC (2)	Meeting	Remuneration	Small Improvement
SIME DARBY PLANTATION	Meeting	Environmental Risk	Small Improvement
SOUTHERN COMPANY	Sent Letter	Climate Change	Substantial Improvement
TESCO PLC	Sent Letter	Climate Change	Awaiting Response
THE SAGE GROUP PLC	Sent Letter	Board Composition	Awaiting Response
WEC ENERGY GROUP	Received Letter	Climate Change	Moderate Improvement
XCEL ENERGY INC.	Received Letter	Climate Change	Substantial Improvement

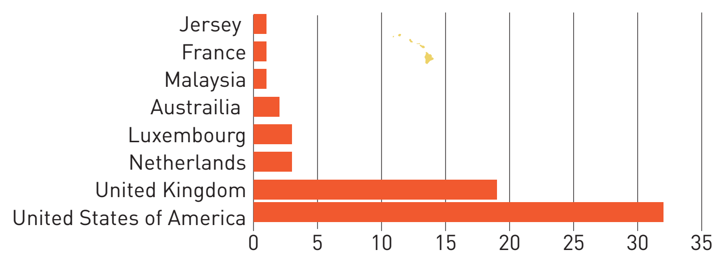
ENGAGEMENT DATA

During the quarter LAPFF has also opened or continued dialogue with the following companies:

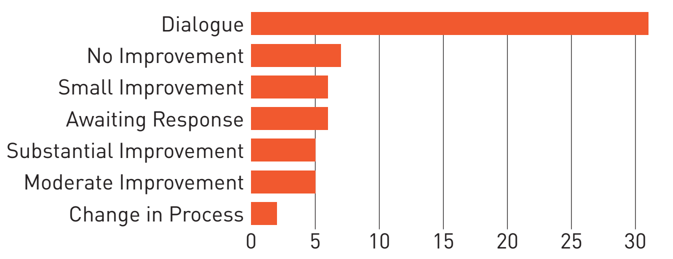
Airbus se, Alphabet inc, Bae Systems plc, Caterpillar inc., Facebook inc, Ford Motor Company, General Dynamics Corporation, General Electric Company, Glencore plc, Motorola Solutions inc., Raytheon Company, SSE plc, Tesla inc, Textron inc, Thales, The Boeing Company, Twitter inc.



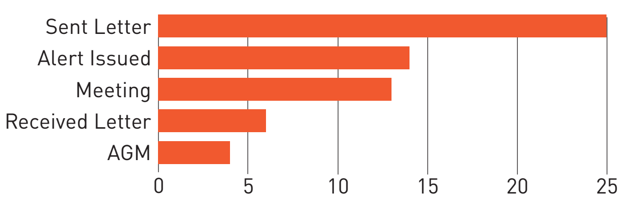
COMPANY DOMICILES



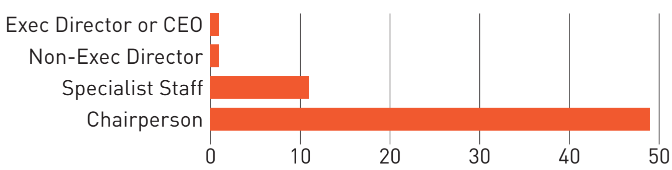
MEETING ENGAGEMENT OUTCOMES



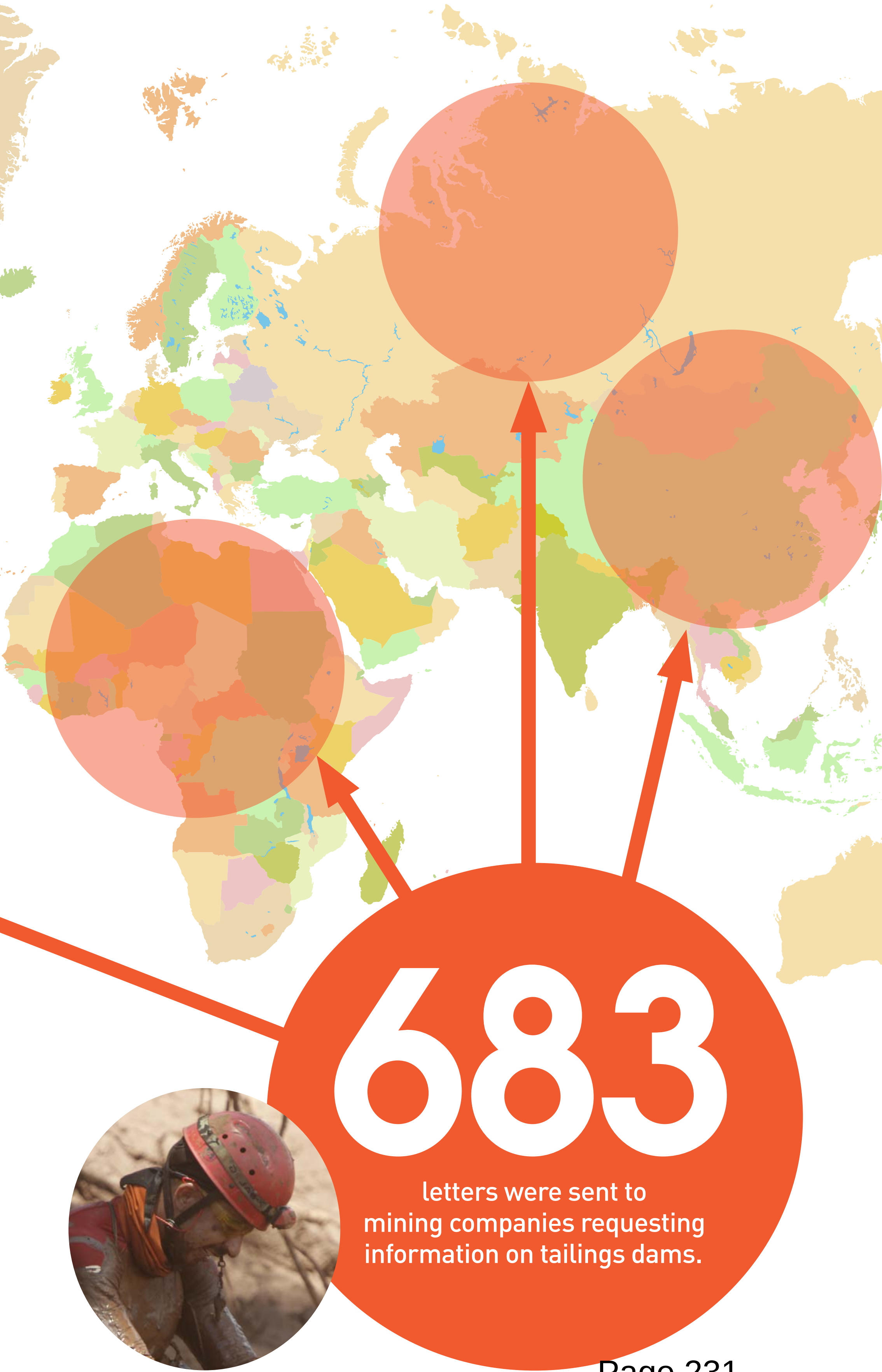
COMPANY ENGAGEMENT ACTIVITIES



POSITIONS ENGAGED



ENGAGEMENT DATA



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Border to Coast Pensions Partnership
Brunel Pensions Partnership
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Islington Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
LGPS Central
Lincolnshire Pension Fund
London CIV
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northern LGPS
Northamptonshire Pension Fund
Northumberland Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Wales Pension Partnership
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

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Schroders

For professional investors only

The London Borough of Tower Hamlets Superannuation Fund

Q2 2019

Investment Report
Schroder Real Estate Capital Partners

Q2/2019

Schroders

The London Borough of Tower Hamlets Superannuation Fund

In this report

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Overview

Portfolio Objective

To achieve a return of 0.75% pa net of fees over rolling three year periods above the MSCI/AREF UK Quarterly Property Funds Indices - All Balanced Funds Weighted Average (benchmark).

Portfolio Valuation

Value at 31 Mar 2019	GBP	164,223,063
Net cash flow	GBP	-
Value at 30 Jun 2019	GBP	164,709,944

Performance

Periods to 30 Jun 2019

Total returns GBP	3 months %	12 months %	3 years % pa	5 years % pa	10 years % pa
Portfolio (gross)	0.3	3.4	6.6	8.4	8.0
Portfolio (net)	**0.2**	**3.2**	**6.3**	**8.1**	**7.8**
MSCI/AREF UK Quarterly Property Fund Index All Balanced Funds Weighted Average	0.6	3.4	6.3	8.3	8.7
Difference	**-0.3**	**-0.1**	**0.0**	**-0.1**	**-0.9**

Breakdown of performance					
UK Investments (Gross)	0.4	3.8	7.0	8.8	9.3
European Investments (Gross)	-19.7	-37.4	8.4	11.7	2.1

Source: Schroders & MSCI/AREF UK Quarterly Property Fund Index, 30 June 2019.
The portfolio's returns are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price.
Figures may be subject to rounding.

Summary

There was one transaction during the reporting period as we continue to disinvest from weaker performing balanced funds. We fully disinvested the remaining holding in Standard Life Pooled Pension Property Fund (circa £5.8 million).

Performance is below benchmark over three months (-0.3%). Returns are marginally below benchmark over one year (-0.1%), in-line with benchmark over three years and marginally below over five years (-0.1% per annum). Returns are below benchmark over ten years (-0.9% per annum). UK performance continues to exceed benchmark over one year, three year, five years and ten years.

Portfolio strategy

Occupational markets remain very polarised between sectors, with the retail sector suffering from structural changes, whilst tenant demand remains reasonably robust for regional offices and industrials. We expect alternative sectors, typically driven by demographic influences, to perform well during a period of economic weakness - this includes market segments such as care homes, student accommodation, retirement living and certain forms of residential, including repositioning residential land and social supported housing.

Portfolio sector structure is well aligned to our House View, being underweight relative to benchmark in retail and London offices and overweight to regional offices, industrials and alternatives.

At quarter end there was circa £9.8 million of cash on account, representing circa 6.0% of portfolio value. There is a new undrawn commitment to UK Retirement Living Fund of £6.5 million (3.9% of portfolio value). Post quarter end we made a £2.5 million (1.5% of portfolio value) commitment to Social Supported Housing Fund. There is circa £2.0 million of uncommitted cash on account, representing circa 1.2% of portfolio value.

UK Property Market Summary

The UK economy is currently mired in Brexit related uncertainty. While employers have continued to recruit and real wages are increasing, exports were flat in the first quarter of 2019 and business investment was weak. This suggests that many new jobs are low skilled. Our central forecast still assumes Parliament approves a version of the EU withdrawal bill later this year with a transition period until the end of 2020. In this scenario, Schroders expects that the UK economy will grow by 1.5% p.a. through 2019-2020, inflation will run around 2% and the Bank of England will raise the base rate to 1.5% by the end of next year. However, neither candidate for the leadership of the Conservative party is willing to rule out a no-deal Brexit. In this scenario weaker sterling would squeeze real wages and disrupt trade and investment. Were this to occur the next move in base rate would probably be down, not up.

While Brexit has caused some hesitancy among occupiers, its impact on office and industrial demand has, so far, been limited. Although investment banks have been relatively quiet this year, tech and media companies have continued to take office space in both London (e.g. Facebook, Sony Music) and in regional cities (e.g. Amazon in Edinburgh, Moneysupermarket in Manchester). Professional services firms and government agencies have also remained active and the serviced office sector continues to grow, particularly in central London where it accounted for 20% of take up in the first half of 2019. In the industrial sector Amazon has committed to a further 1.5 million square feet of space this year as it expands its range into fashion, food and homewares. Amazon and the third party sellers using its platform now account for 5% of total UK retail sales, against 2% in 2013 (source: Global Data).

Niche sectors are also benefiting from structural changes that are independent of the economy. We estimate potential demand for around 150,000 units in private retirement communities in the UK, three times the existing stock. This reflects an ageing population, the high net wealth of many over-65s and the need to reduce loneliness among older people. We also favour specialist parts of the residential care market and expect demand for social supported housing (SSH) to grow as the government enables more people with learning disabilities and autism to live in the community. Adults who move into SSH generally enjoy a better quality of life and it is more cost effective for the government than support in either a registered care home or long stay hospital.

Demand for retail space remains weak in town centres and out-of-town. For example, almost half of BHS stores remain empty three years after the retailer failed and 14% of shopping centre units are vacant, up from 12% in 2017. However, vacancy only tells part of the story. Another less visible sign of weakness is the growing number of retailers who have secured rent cuts, either at lease renewal, or as part of an administration process called a company voluntary arrangement (CVA). Whilst some CVAs have involved rent cuts of 50% this may not be enough to restore the profitability of certain retailers, given that rents usually only account for 15% of their costs. CVAs may therefore only provide a short reprieve. We think the most defensive types will be those which are relatively internet immune, such as convenience stores and retail warehouses with affordable rents.

The investment market has lost momentum this year as investors hesitated ahead of Brexit and as structural headwinds facing the retail sector intensified. Furthermore, banks are reluctant to lend against retail real estate and serviced offices, restricting the ability of debt-backed investors to make purchases. The total value of transactions in the first half of 2019 was approximately one-third lower than in the first half of last year. Consequently, yields in the retail sector rose by 0.2% in the first five months of 2019 and yields on secondary assets in more favoured sectors such as industrial and regional offices have also edged up.

We forecast negative all property total returns in 2019 but the average will mask a huge variation across different types of real estate. For example, secondary shopping centre values could fall by 20% or more this year, whereas industrial and regional office capital values should remain relatively stable, assuming the economy avoids a recession. Our main focus for diversified portfolios is on industrial / logistics serving large population centres and offices in winning cities such as Bristol, Leeds and Manchester. We are also investing in certain niche types (e.g. retirement villages, social supported housing) and real estate debt that should offer more attractive and less correlated returns.

Continental European Property Market Summary

Schroders forecasts that the Eurozone economy will grow by 1.25-1.5% p.a. through 2019-2020. Spain is likely to be the fastest growing major economy, reflecting the boost to its competitiveness from supply-side reforms and a recovery in the housing market. Germany will probably lag, due to its relatively high dependence on exports as world trade slows and the structural challenges facing the car industry over emission standards (diesel) and from electric vehicles. The uncertainty over trade and lack of domestic inflationary pressures means that the new head of the ECB is unlikely to raise interest rates immediately on taking office in October. We expect the ECB to increase the main refinancing rate from zero at the end of this year to 0.5% at end-2020. The main downside risks are a disruptive Brexit, the USA deciding to impose tariffs on EU car exports and increasing geopolitical concerns.

The last three years have seen a widespread increase in European office rents. Prime rents have risen on average by 5% p.a. since 2015; in Berlin and Stockholm rental growth has exceeded 10% p.a. While office rental growth is likely to slow through 2019-2020 in line with the economy, we expect it to remain positive for two reasons. First, office rents in most cities are still affordable. In real terms rents are 15-20% below the record levels reached in 2000-2001 and the gap widens to 25-30% once the long-term decline in space per employee is taken into account. Second, and more importantly, vacancy rates in Amsterdam, Brussels, the major German cities, Paris and Stockholm are low and new building is being held back to some extent by banks' reluctance to lend on speculative schemes and strong increases in construction costs that eat into developers profits. As a result, there is little risk of over-supply.

While take-up of industrial and logistics space in continental Europe varies from year to year, the underlying trend growth in demand is around 5% p.a. The main driver is the increase in online retail, but third party logistics operators (3PLs) are also gaining from outsourcing by retailers and manufacturers. In general, rental growth has been less uniform than in the office sector and largely confined to major cities (e.g. Berlin, Hamburg, Madrid, Munich and Paris). In part this reflects the faster economic growth of big cities and in part to a tighter supply of both staff and land for new building compared with other distribution locations. The growing shortage of warehouse staff in northern Europe is encouraging logistics operators to increase training, add amenities (e.g. canteens) and invest more in automation.

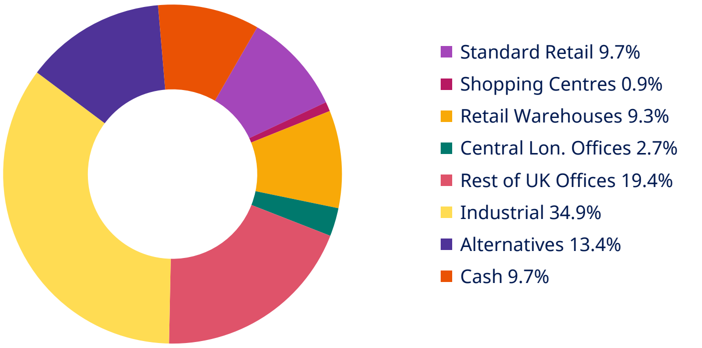
By contrast, continental European retail markets are suffering from a structural oversupply of space caused by high levels of development in the run up to the GFC and by the growth in online retail. Although there are pockets of growth (e.g. discounters, organic food stores) and some vacant department stores have been converted into hotels and offices, they are outweighed by the closure of electrical stores, mid-market fashion chains and by the downsizing of hypermarkets. The vacancy rate in French and German shopping centres has risen to 7-9%, from 3-4% five years ago (source: PMA) and even large, dominant schemes are having to invest heavily in refurbishment in order to maintain occupancy. We expect average grade shopping centre rents to fall in most cities over the next three years. The most defensive retail types are likely to be shops in tourist destinations, convenience stores and out-of-town grocery-anchored retail warehouses or warehouses selling bulky goods.

Although the total value of transactions in continental Europe has fallen by 5-10% from its peak in 2017 (source: RCA), most of the decline has been due to a lack of stock and a reduction in retail transactions. Investors are holding real estate longer, limiting trading. The demand for real estate remains strong, with many investors underweight relative to target benchmarks. In general, the office and industrial sectors have remained liquid and the last three years have seen an increase in sales of other types, including apartments and full service hotels. We expect that office and industrial yields will be stable over the next 18 months, before rising by 0.25-0.40% through 2021-22, as the ECB gradually tightens policy. Conversely, shopping centre yields will probably increase by 0.5-1.0% over the next 18 months, as investors price in lower rents.

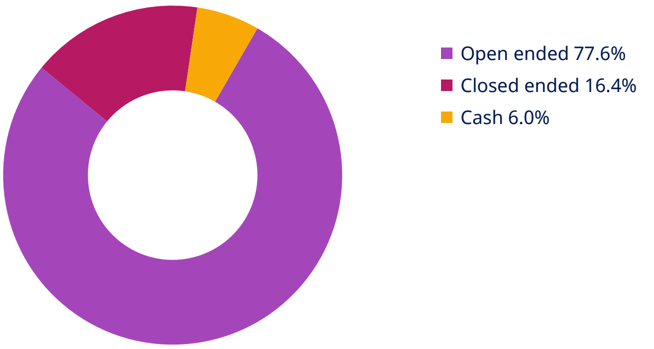
In the office market we currently see most value in either redevelopment projects in central business districts, or in stabilised assets in adjacent areas where yields are still higher. In the industrial market we favour multi-let estates and smaller distribution warehouses where it is still possible to buy good assets on yields of 5%, or higher. We also see value in hotels with management agreements. We are cautious about most retail assets, because we do not believe that current yields reflect the risks of higher vacancy and falling rents.

Portfolio Analysis

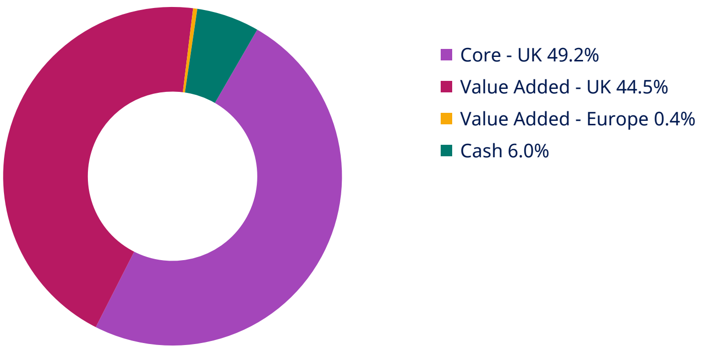
UK Portfolio sector exposure (including cash held by underlying property funds)



Open/closed-ended exposure



Fund style exposure



Source: Schroders & MSCI/AREF UK Quarterly Property Fund Index, 30 Jun 2019. Totals subject to rounding. Cash includes look through cash in underlying holdings in the top chart.

Largest Stock Positions at 30 Jun 2019

Largest Positions	Style	% of NAV
SCHRODER UK REAL ESTATE FUND	Core	11.9
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	11.1
SCHRODER REAL ESTATE REAL INCOME FUND	Value-added	10.6
INDUSTRIAL PROPERTY INVESTMENT FUND	Value-added	10.5
METRO PROPERTY UNIT TRUST	Core	10.4
HERMES PROPERTY UNIT TRUST	Core	8.1
BLACKROCK UK PROPERTY FUND	Core	7.7
MULTI-LET INDUSTRIAL PROPERTY UNIT TRUST	Value-added	7.6
REGIONAL OFFICE PROPERTY UNIT TRUST	Value-added	7.4
GBP CASH	Currency	6.0

Full details of holdings can be found in the Appendix.

Performance Review

Performance is below benchmark over three months (-0.3%). Returns are marginally below benchmark over one year (-0.1%), in-line with benchmark over three years and marginally below over five years (-0.1% per annum). Returns are below benchmark over ten years (-0.9% per annum). UK performance continues to exceed benchmark over one year, three year, five years and ten years.

Industrial Property Investment Fund (IPIF) and Regional Office Property Unit Trust (ROPUT) were the strongest contributors to performance over the quarter. Hercules Unit Trust (Hercules) was the weakest contributor as retail valuations were aggressively marked down. Standard Life Pooled Pension Property Fund (Standard Life) and UK Retail Warehouse Fund (UKRWF) also diminished returns.

Performance was below benchmark (-0.1%) over one year. Value add funds (+0.3%) contributed positively to relative returns as did core funds (+0.1%) albeit to a lesser degree. Continental Europe (-0.3%) and cash (-0.1%) detracted from relative returns.

IPIF and Multi-Let Industrial Property Unit Trust (Multi-Let) were the strongest contributors to relative performance over one year. UKRWF was the weakest contributor over one year, followed by Hercules and Standard Life.

Performance was in-line with benchmark over three years. Value add (+0.6%) made a positive contribution to relative performance. Core funds made a neutral contribution to relative returns whilst cash (-0.2% per annum) and continental Europe both (-0.2% per annum) detracted from relative returns.

IPIF and Multi-Let were again the strongest performing holdings over three years. Hercules was the weakest contributing fund in the period, followed by West End of London Property Unit Trust (fully disinvested).

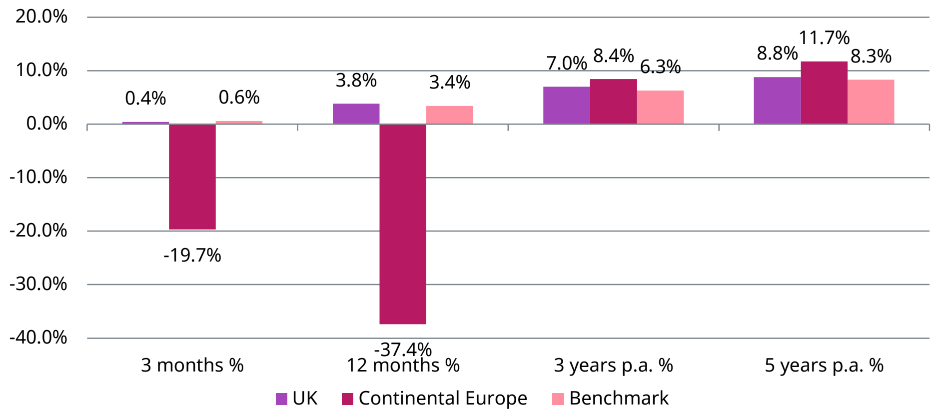
Portfolio performance was marginally below the benchmark over five years (-0.1% per annum). Cash (-0.3% per annum) and continental Europe (-0.1% per annum) have both negatively impacted performance. Value add funds (+0.4% per annum) have made a positive contribution to relative returns as have core funds (+0.1% per annum).

IPIF and Hermes were the strongest drivers of performance over a five year period. Hercules has had the most negative impact on performance, followed by Standard Life and UKRWF. These contributions illustrate the strength of the industrial sector over the medium term and the weakness of the retail sector.

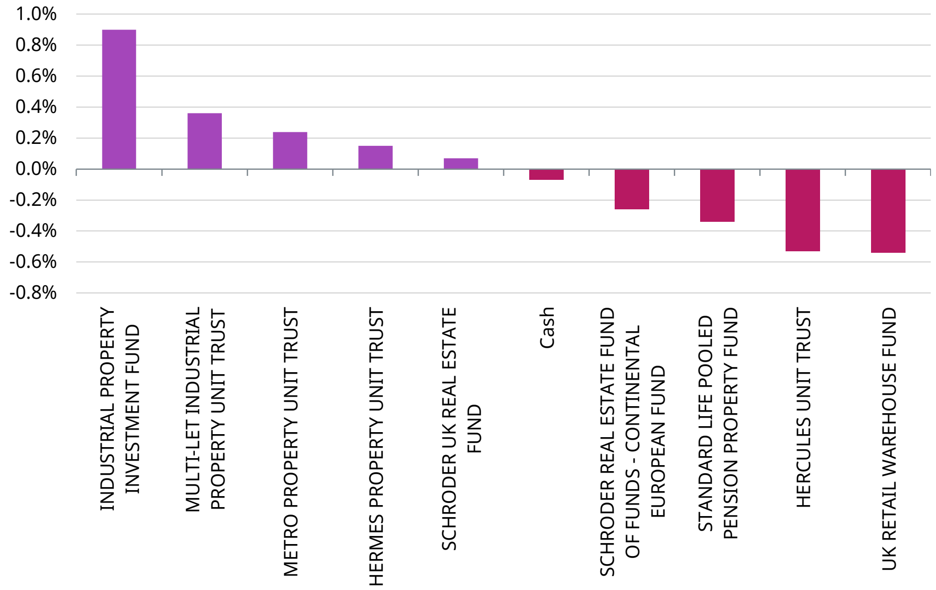
Ten year performance is -0.9% per annum below benchmark. Value add funds (+0.4% per annum) have contributed positively over ten years. Core style funds have broadly tracked the benchmark. Continental Europe (-0.7% per annum), cash (-0.3% per annum) and opportunity funds (-0.1% per annum) have all impaired returns.

UK returns are above benchmark over one, three, five and ten years.

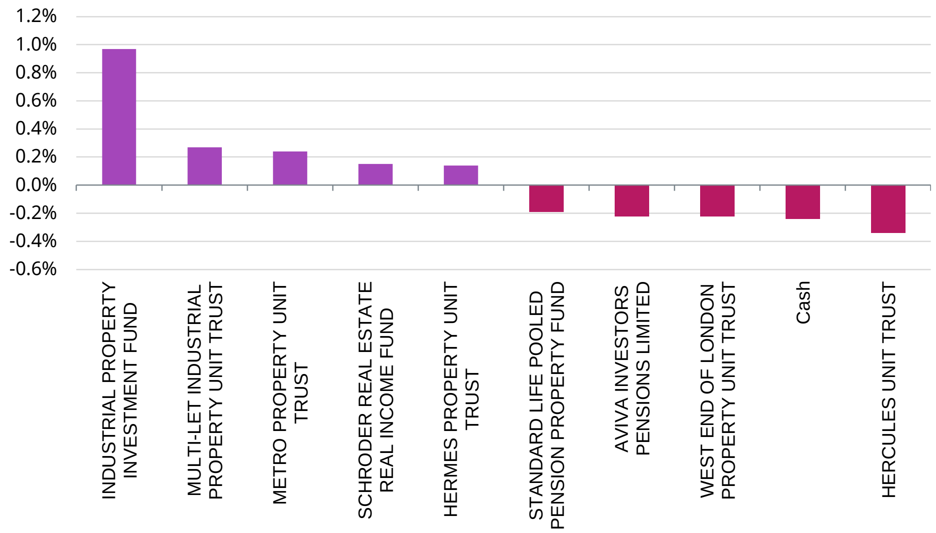
Total return by region
Periods to end 30 Jun 2019



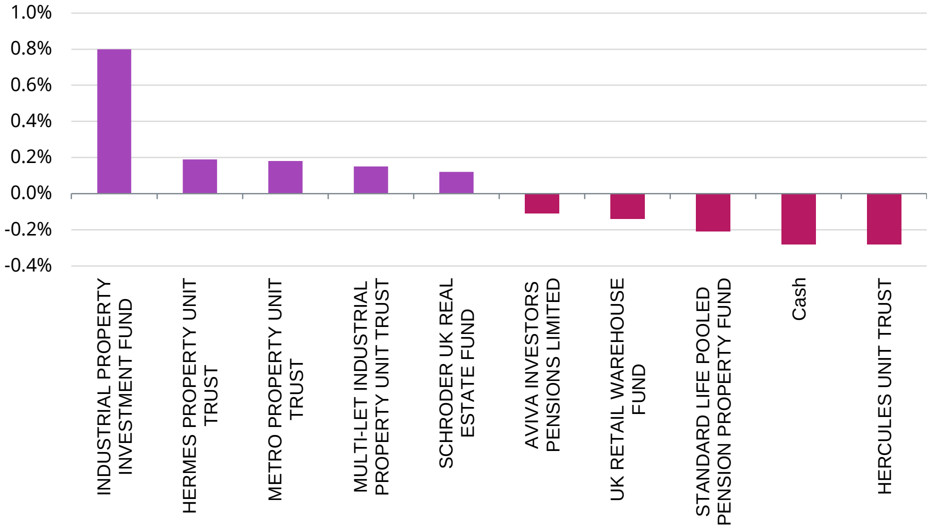
Total return attribution relative to benchmark top & bottom five contributors
12 months to 30 Jun 2019



Total return attribution relative to benchmark top & bottom five contributors
3 years to 30 Jun 2019



Total return attribution relative to benchmark top & bottom five contributors 5 years to 30 Jun 2019



Benchmark is MSCI/AREF UK Quarterly Property Fund Index All Balanced Funds Weighted Average.
Source: Schroders & MSCI/AREF UK Quarterly Property Index.
Note: Stock and fund style attribution is presented gross of fees. Periods over 12 months are annualised. Totals may be subject to compounding.

Portfolio Activity

There was one transaction during the reporting period as we continue to disinvest from weaker performing balanced funds. We fully disinvested the remaining holding in Standard Life Pooled Pension Property Fund (circa £5.8 million).

Purchases

Fund	Investment GBP	No. of units	Entry cost/(discount) (%)
None			

Sales

Fund	Disinvestment GBP	No. of units	Realised loss/gain GBP
STANDARD LIFE POOLED PENSION PROPERTY FUND	5,826,858	-74,661.35	2,318,720

Stock Activity
3 months to 30 Jun 19

Purchases
None

Sales	
Standard Life Pooled Pension Property Fund	Units were redeemed in this underperforming holding with a high exposure to retail and central London office sectors.

Return of Capital
None

Drawdowns
None

Redemptions Outstanding

Fund	Curr	Est. proceeds	No. of units	Date proceeds expected	Notice date
None					

Portfolio Commitments

Fund	Curr	Total commitment	Drawn	Balance	Latest possible drawdown
UK RETIREMENT LIVING UNIT FUND	GBP	6,500,000	0	6,500,000	Q2 2021

Strategy

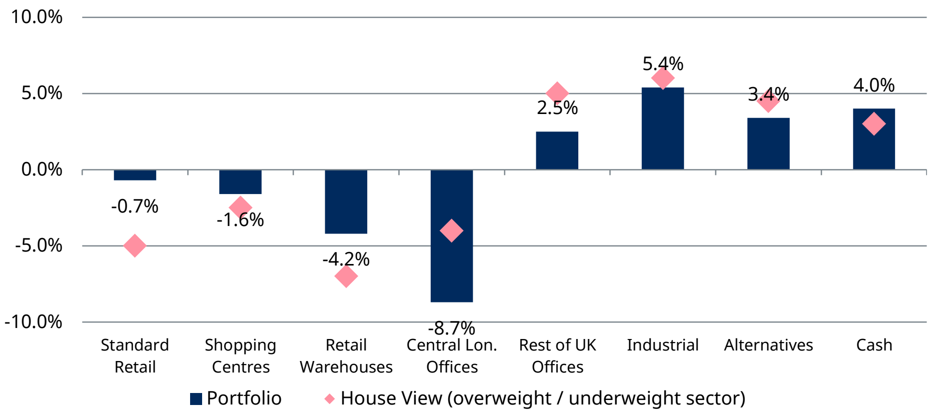
Occupational markets remain very polarised between sectors, with the retail sector suffering from structural changes, whilst tenant demand remains reasonably robust for regional offices and industrials. We expect alternative sectors, typically driven by demographic influences, to perform well during a period of economic weakness - this includes market segments such as care homes, student accommodation, retirement living and certain forms of residential, including repositioning residential land and social supported housing.

We expect returns to be subdued in the second half of 2019 due to the continued distress in the retail sector and with significant business decisions in the industrial and office sectors being postponed due to the uncertain political situation.

Portfolio sector structure is well aligned to our House View, being underweight relative to benchmark in retail and London offices and overweight to regional offices, industrials and alternatives.

At quarter end there was circa £9.8 million of cash on account, representing circa 6.0% of portfolio value. There is a new undrawn commitment to UK Retirement Living Fund of £6.5 million (4.0% of portfolio value). Post quarter end we made a £2.5 million (1.6% of portfolio value) commitment to Social Supported Housing Fund. There is circa £2.0 million of uncommitted cash on account, representing circa 1.3% of portfolio value.

UK portfolio sector weightings relative to benchmark



Source: Schroders & MSCI/AREF UK Quarterly Property Fund Index, 30 Jun 2019.

Governance

Investment Resolution	Date	Voting Recommendation
None		

Sustainability

This time last year we sent all the Managers on our UK Investment Platform our newly created SRECaP bi-annual Sustainability Survey. Our analysis of the results placed each fund into one of the following Groups:

- **Group 1**: The fund has a comprehensive real estate policy that is made publically available, has resources dedicated to Environmental, Social and Governance (ESG) practices and a sustainability process that covers all aspects of investment management (i.e. buy, asset management, sell). Internal committee sign off is required on ESG issues with involvement from senior management.
- **Group 2**: The fund has no specific ESG policy although checks are in place as part of acquisition due diligence. The fund lacks a dedicated ESG resource.
- **Group 3**: No response.

The majority of our Partnership strategies fall into category 2. This quarter, we met with the advisers across our Partnership funds to discuss how we can improve their ESG practices and align them more closely with our Schroder Real Estate Sustainability approach with the aim that they achieve Group 1 status in our next survey.
We set several reporting objectives across the funds which we aim to achieve in three stages over the next twelve months. These are outlined in the table below:

Partnership Fund Reporting Objectives		
Stage 1	**Exploration**	**3-6 months**

- All funds to have a written sustainability policy setting out landlord's responsibilities
- All new transactions to have comprehensive due diligence reporting
- EPC's to be updated periodically
- All future transaction to include the completion of the Schroder Real Estate Asset Impact and Sustainability Plan

Stage 2	**Implementation**	**3-9 months**

- Data collection of energy, water consumption, waste and introduction of key performance indicators
- Identify asset management opportunities where ESG improvements can be made

Stage 3	**Disclosure & Transparency**	**9-12 months**

- Add sustainability requirements to lease clauses
- All assets to have sustainability objectives within their business plans
- Completion of SRECaP bi-annual sustainability survey
- Progress from ESG reporting to include positive impact reporting

New Funds

Over the last two months we have launched two new Partnership strategies, Retirement Living Fund (ReLF) and Social Supported Housing Fund (SSHF). Both funds are focused on areas of the residential sector where we can actively deliver positive and measureable social outcomes alongside an investment performance that we forecast will outperform the wider commercial market. The first investments in these funds are due to take place in Q3 2019.

Appendix

Investment Restrictions

Parameters	Restriction	Current status
Max. exposure to any common investment fund (CIS)	30%	11.9%
Max. in Schroder in-house funds (Manager & Adviser)	60%	19.6%
Min. exposure to open-ended funds	45%	83.6%
Max. exposure to opportunity funds	20%	0.0%
Max. exposure to property index certificates	20%	0.0%
Max. exposure to listed property securities	10%	0.0%
Max. exposure to Continental Europe	20%	0.4%

Source: Schroders, to 30 June 2019.

Notes:

Valuation data represents value calculated as at the final business day of the quarter to which this Investment Report relates. Pricing occurs 10 days following quarter end. Accordingly, the above noted column entitled "current status" refers to the quarter end valuation data.

The Investment Management Agreement (as amended from time to time) constitutes the final record of applicable investment restrictions incumbent on Schroder Real Estate Investment Management Limited. In the event of any inconsistency between the Investment Restrictions appearing in this Investment Report and the Investment Management Agreement, the Investment Management Agreement shall prevail.

Appendix

Portfolio Valuation
MID and NAV values

Fund	Description	Value at 31 Mar 2019 GBP	Value at 30 Jun 2019 GBP	Portfolio Value %
BLACKROCK UK PROPERTY FUND	Core	12,806,337	12,747,019	7.7
HERMES PROPERTY UNIT TRUST	Core	13,400,247	13,390,626	8.1
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	18,283,916	18,208,192	11.1
METRO PROPERTY UNIT TRUST	Core	17,200,491	17,174,639	10.4
SCHRODER UK REAL ESTATE FUND	Core	19,542,056	19,529,903	11.9
STANDARD LIFE POOLED PENSION PROPERTY FUND	Core	6,046,486	0	-
Sub total Core		**87,279,533**	**81,050,378**	**49.2**
HERCULES UNIT TRUST	Value Add	4,010,633	3,655,956	2.2
INDUSTRIAL PROPERTY INVESTMENT FUND	Value Add	17,187,130	17,361,400	10.5
LOCAL RETAIL FUND	Value Add	4,596,833	4,585,474	2.8
MULTI-LET INDUSTRIAL PROPERTY UNIT TRUST	Value Add	12,503,379	12,582,978	7.6
REGIONAL OFFICE PROPERTY UNIT TRUST	Value Add	12,108,443	12,140,853	7.4
SCHRODER REAL ESTATE REAL INCOME	Value Add	17,513,564	17,456,590	10.6
UK RETAIL WAREHOUSE FUND	Value Add	3,603,101	3,328,795	2.0
UNITE UK STUDENT ACCOMMODATION FUND	Value Add	2,073,889	2,105,517	1.3
Sub total Value Add		**73,596,972**	**73,217,563**	**44.5**
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND	Europe	789,354	633,730	0.4
Sub total Europe		**789,354**	**633,730**	**0.4**
EUR CASH	Cash	33	34	0.0
GBP CASH	Cash	2,557,172	9,808,239	6.0
Sub total Cash		**2,557,205**	**9,808,273**	**6.0**
Total		**164,223,063**	**164,709,944**	**100.0**

Totals may be subject to rounding.

Portfolio valuations are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price.

Source: Schroders, periods to 30 June 2019.

The exchange rate as at 30 June 2019 was £1 to €1.11758.

Appendix

Retail Occupier Update

In recent reports we have referenced high profile CVAs and administrations within the UK retail sector. Over the quarter there have been further failures that we have sought to quantify.

Having spoken with the managers of your underlying holdings, we have determined that portfolio income has been impacted by rent reductions for the following retailers:

- Arcadia
- Bathstore
- Debenhams
- Links of London
- LK Bennett
- Monsoon / Accessorize
- Paperchase
- Select

We estimate that the combined total rental loss is 0.22% of portfolio income, equivalent to approximately £18,000 per annum.

Appendix

Partnership Fund Transactions

Fund	Mayfair Capital Property Unit Trust
Transaction Type	Disposal
Sector	Rest of UK Offices
Address	140 Cambridge Science Park, Cambridge
Price	£13,000,000 (5.6% Net Initial Yield)
Principal Tenant(s)	DisplayLink UK Ltd

Fund	Metro Property Unit Trust
Transaction Type	Acquisition
Sector	Alternatives
Address	The Village School, Belsize Park, London NW3
Price	£6,500,000 (4.3% Net Initial Yield)
Principal Tenant(s)	Chatsworth School SPV

Notes

Responsible Investment: Schroders Socially Responsible Investment and Corporate Governance policies can be found on our website http://www.schroders.com/global/about-schroders/corporate-responsibility/responsible-investment/. We also publish regular articles on Socially Responsible Investing, which can be found on Schroders Talking Point www.schroders.com/talkingpoint.

Important Information

For professional investors and advisors only. This document is not suitable for retail clients.

Participation in the Schroder Real Estate Capital Partners service may involve investment in various asset classes including property equity and collective investment schemes "the Funds" within the meaning of Section 235 of the Financial Services and Markets Act 2000 ("FSMA"). Most of these Funds are not authorised unit trust schemes, OEICs or recognised schemes within the meaning of the FSMA and therefore constitute unregulated collective investment schemes.

Investors and potential investors should be aware that past performance is not a guide to future performance. The value of units and other investments and the income from them may fluctuate upwards or downwards and cannot be guaranteed. Property-based pooled vehicles such as property unit trusts, invest in real property, the value of which is generally a matter of a valuer's opinion. It may be difficult to deal in the units or to sell them at a reasonable price, thus creating a liquidity risk. There is no recognised market for units in the Funds and, as a result, reliable information about the value of units in the Funds or the extent of the risks to which they are exposed may not be readily available. A potential conflict with the Manager's duty to the client may arise where the Manager invests in units in a Fund(s) managed by itself or an Associate. However the Manager will ensure that such transactions are effected on terms which are not materially less favourable than if the potential conflict had not existed.

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Non-Executive Report of the: **Pensions Committee** 24th September 2019	TOWER HAMLETS
Report of: Neville Murton, Corporate Director, Resources	**Classification:** Unrestricted
Investment and Fund Managers Performance Review for Quarter End June 2019	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

This report informs members of the performance of the Pension Fund investments and its investment managers for the quarter ending June 2019. Details of manager and whole Fund performance is included in the performance report from Mercer attached (Appendix A). This appendix is not for publication as it contains exempt information relating to the financial or business affairs of a particular person as defined in and paragraph 3 of schedule 12A of the Local Government Act 1972.

Recommendations

The Pensions Committee is recommended to:

- Note the content of this report;
- Note the detailed fund performance by Mercer (Appendix A);
- Note the Independent Adviser quarterly commentary (Appendix B); and
- Note the PIRC Local Authority Universe performance indicators (Appendix C)

1. REASONS FOR THE DECISION

1.1 The report informs the Pensions Committee of the performance of Pension Fund managers and overall performance of the Tower Hamlets Pension Fund.

2. ALTERNATIVE OPTION

2.1 The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the pension Fund so there is no alternative but to report the performance to those charged with governance of the Fund on a regular basis.

3. DETAILS OF REPORT

3.1 The Pension Fund Regulations require that the Council as administering authority establishes arrangements for monitoring the investments of the Fund.

3.2 It considers the activities of the investment managers including the CIV and ensures that proper advice is obtained on investment issues.

The Fund's investment adviser prepares quarterly detailed investment performance reports on the Fund's investment and manager performance. This report attached as Appendix informs the Committee of the performance of the Fund and its investment managers for the quarter end 30 June 2019.

3.3 SUMMARY OF THE PENSIONS FUND INVESTMENTS

3.3.1 Over the quarter to 30 June 2019, the Fund generated a return of 2.9% and underperformed its benchmark by 0.4%.

3.3.2 The Fund's global equity investments produced strong returns over the quarter and twelve month period to 30 June 2019.

3.3.3 The Baillie Gifford Global Alpha fund outperformed its benchmark by 1.6% over the quarter. However performance of the Absolute Return Fixed Income managers continues to disappoint, in particular Insight.

3.3.4 The Baillie Gifford Diversified Growth Fund has been put on watch. Details of the Mercer manager monitoring system is include in page 30 of Appendix A.

3.3.5 As at 30 June 2019, the Fund was 5.6% overweight in equities and 3.1% underweight in Diversified Growth Fund.

3.3.6 There was no change in asset allocation during the quarter.

3.3.7 The returns from the PIRC Local Authority universe which comprises of 64 funds with a value of £193bn showed a strong equity market performance during the quarter driving the positive result of 3.8% for the average Local Authority fund.

4. INTERNAL CASH MANAGEMENT

4.1 Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines. Cash is also held internally by LBTH to meet the Fund's working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

4.2 The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2018, which is delegated to the Corporate Director, Resources to manage on a day to day basis within the agreed parameters.

4.3 The cash balance as at 30 June 2019, constituted £4.9m working capital cash of the Fund.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

5.1 The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that arrangements for financial management are properly scrutinised.

5.2 This is a noting report which fulfils the requirement to report quarterly performance of the Pension Fund investments portfolio to those charged with governance. There are no direct financial implications arising from this report, however the long term performance of the Pension Fund will impact employer pension contribution rates set by the Committee.

6. LEGAL COMMENTS

6.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine 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.

6.2 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.

6.3 The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

6.4 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 asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

6.5 When reviewing the Pension Fund Investment Performance, 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). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 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.

8. BEST VALUE (BV) IMPLICATIONS

8.1 This report helps in addressing value for money through benchmarking the Council's performance PIRC Universe of Funds.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There is no Sustainable Action for a Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 Any form of investment inevitably involves a degree of risk.

10.2 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix A – LBTH Investment Performance Quarterly Report (not for publication)
- Appendix B – Independent Adviser's Quarterly Report
- Appendix C – PIRC Q2 2019 Indicators

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

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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UPDATE FROM INDEPENDENT ADVISER – Colin Robertson
Quarter to 30 June 2019

Market performance
The relentless fall in government bond yields globally continued in Q2 2019 and yields have fallen significantly further after the end of the quarter. Since 30 September 2018, UK 10 year gilt yields have collapsed from 1.5% to 0.5% at the time of writing. This remarkable development has been driven most recently by slowing economic growth, still subdued inflation and, most importantly, by central banks' reaction to the economic statistics. This led to the Federal Reserve Board in the US cutting interest rates at the end of July and the European Central Bank emphasising how monetary policy could be loosened even more.

Following a very strong first quarter of the year, equity markets generally rose again over the 3 months to 30 June 2019, be it at a considerably lower rate. For investors, the US-China trade war and other undesirable political news flow, together with the poor economic backdrop, were outweighed by the anticipated market friendly actions of central banks. However, more recently equity markets have fallen back and appear rather shaky as the political scene has not improved and investors contemplate the limited tools which policymakers have at their disposal to boost economies.

Brexit has not had a big impact on UK financial markets with the exception of sterling. Companies quoted on the UK stockmarket are very global in nature and UK gilts have been affected more by the powerful downward trend in bond yields elsewhere. In contrast, sterling has now fallen by almost 5% against the euro and over 6% against the US dollar since 31 March this year.

Economics and markets
I commented last quarter that "Few of the problems which investors faced at the turn of the year have gone away. In particular, the political situation globally has worsened". This remains the case. For example, UK politics is a shambles, damaging growth, and in Argentina the Kirshner dynasty seems set to return to power which caused the stockmarket to fall in US dollar terms by 50% in a week. Perhaps most worryingly, President Trump has now taken to attacking Jerome Powell, the chairman of the US Federal Reserve Board and his own appointee, putting at stake the cherished independence of this august institution. Given the enormous importance markets currently attach to central banks, this matters.

For the time being, economic growth is modest to moderate and inflation is rather low but not dangerously so. The issue is what happens when the economy tips over and policymakers are forced to adopt quite extreme measures with unknown consequences as most of the normal measures having already been utilised.

Equity market valuations are close to those of 3 months ago, which is not that surprising when bond yields which form part of the basis for valuing equities are lower, offsetting the poor newsflow. Forecasts for the aggregate profits of quoted companies are little changed for the most part but these forecasts are vulnerable as profit margins remain at very high levels historically. This has been true for some time and unusually companies have not competed away their 'excess' profitability. Nevertheless, the impact of higher tariffs on the global supply chain, along with slower economic growth, will contribute to greater pressure on margins. On the positive side, the dividend yield on equities compares very favourably with the yields on other asset classes.

German 10 year bonds now yield negative 0.7% so investors are guaranteed to lose this amount every year for 10 years. Very roughly, 30% of global bonds offer investors a guaranteed loss, even before allowing for inflation. The rationale appears to be that the conditions which have driven yields down to (and prices up to) current levels are unlikely to change in the foreseeable future in a way which would raise yields. To me, this smacks of the greater fool theory (make sure you sell to someone else before prices fall) or a period of depression and / or deflation is implicitly on the cards.

Asset allocation

The fund has about 6% more invested in equities than indicated by the strategic benchmark. Given my comments above on equity markets, this appears inadvisable and it would be appropriate to reduce the equity exposure down towards the benchmark. The equity protection strategy assumes that the fund's equity exposure is in line with the benchmark and so should not be thought of as protecting against the current overweight position.

Although the fund's allocation to liability matching bonds is similar to that of many other LGPS funds, at only 5% of the fund it provides little protection against movements in the value of the liabilities. Nevertheless buying these bonds at the current yield levels described above is highly unattractive.

As suggested before, investment in infrastructure would provide some protection against movements in the value of the liabilities and, managed correctly, should be an attractive investment more generally.

While the cash raised from equity sales could be reinvested in infrastructure, in reality it takes years after the commitment is made for investment in infrastructure to be completed. For the time being, funds with a "cash plus" return target such as Diversified Growth Funds should provide a suitable home for the sale proceeds.

Investment Managers Performance Review

Active Equity Fund

The LCIV Baillie Gifford Global Equity fund outperformed its benchmark by 1.4% over the quarter. This follows relative outperformance of 2.2% in Q1 but the fund still lags its benchmark over the last 12 months as it struggles to make up for poor performance in the second half of 2018. The long term performance of the fund remains exceptionally good.

A concern is that the fund performs well in rising equity markets and poorly in falling equity markets. As equity markets rose in Q2, outperformance might have been expected on these grounds but I am unable to analyse the situation properly due to the limited information provided by LCIV who are responsible for Tower Hamlets' relationship with Baillie Gifford. I am meeting with LCIV on 10 September and will raise this issue with them then. The fund did benefit from its overweight position in growth stocks. The significant exposure of the fund to Chinese stocks was a concern of LCIV last quarter and I will take this up with LCIV as they have not commented on this in their latest report.

Diversified Growth Funds
The Ruffer fund has a relatively high exposure to equity market movements compared to other Diversified Growth Funds while the Baillie Gifford fund has significant exposure to both equities and Emerging Market bonds. Consequently, these funds perform relatively well in times of rising markets which led to decent performance in the 3 months to 31 March and good performance over the first half of the year. However the Ruffer fund is still down over the last 12 months.

Both managers reduced the economic risks by switching into less cyclical stocks during the quarter and have various strategies in place to (partially) protect their funds against falling equity markets. However Baillie Gifford appear to have increased the property and commodity weightings by 4.5% and 2% respectively over the quarter although there is no explanation of this from LCIV. The effectiveness of the protection measures are likely to be a key to performance over the remainder of this year.

Absolute Return Bond Funds

The recovery in GSAM's performance continued in Q2 with a return of +1.3% and year to date the return is +4%, beating the target return over this period. There were widespread sources of outperformance with no significant area of underperformance.

In contrast, Insight produced a 0% return for both the quarter and the half year. For once their long US Treasuries / short German bunds position came right. However the benefit was wiped out by taking the wrong stance on US inflation and a mistaken view on Italian bonds.

Multi Asset Credit Fund
The LCIV CQS Multi Asset Credit Fund had strong returns of +1.7% and +3.9% over Q2 and the last year respectively. Encouragingly, the sources of outperformance over the quarter were spread over 3 sub asset classes.

LCIV have put CQS on their "watch list" because of senior staff changes, increasing leverage and an absence of investment grade bonds in the portfolio. Mercer disagree with LCIV's concerns. I find it disturbing that this has happened relatively soon after the launch of the fund (31 May 2018) and LCIV's assessment of CQS at that time.

Property Fund
The Schroder Real Estate Capital Partners fund underperformed its benchmark by 0.3% this quarter, bringing down the 1, 3 and 5 year relative performance figures in broad terms from being slightly ahead of the benchmark to being marginally behind. The manager's views and positioning of overweighting the industrial sector, regional offices and niche areas while underweighting the retail sector and central London offices remains unaltered.

Passive Funds

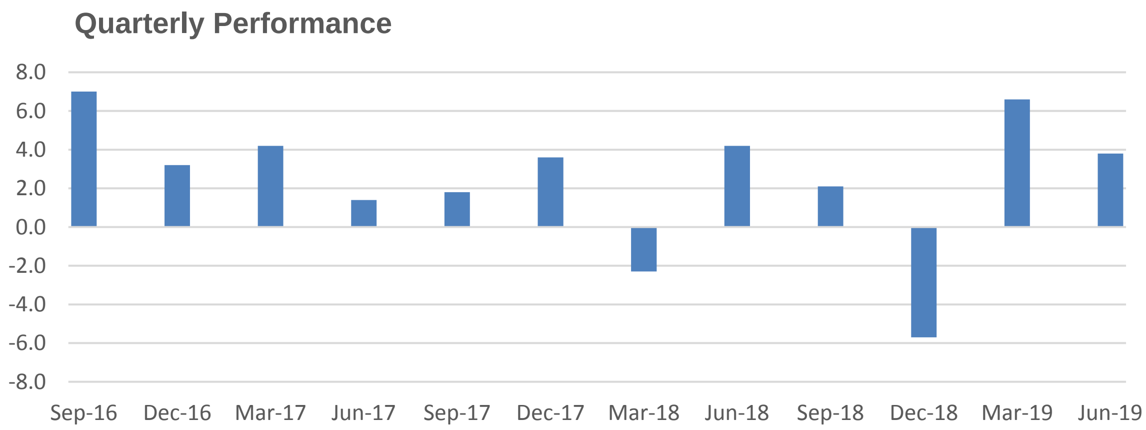
The LGIM All World Equity Index passive funds performed in line with their benchmarks as one would expect. The LGIM MCSI World Low Carbon fund outperformed its benchmark slightly over the quarter but by 0.5% over the last year which is curious for a passive fund.

The performances of the “standard” and low carbon indices were very similar over the quarter and identical over the year.

Local Authority Pension Performance Initial Indicators to June 2019

Latest Quarter

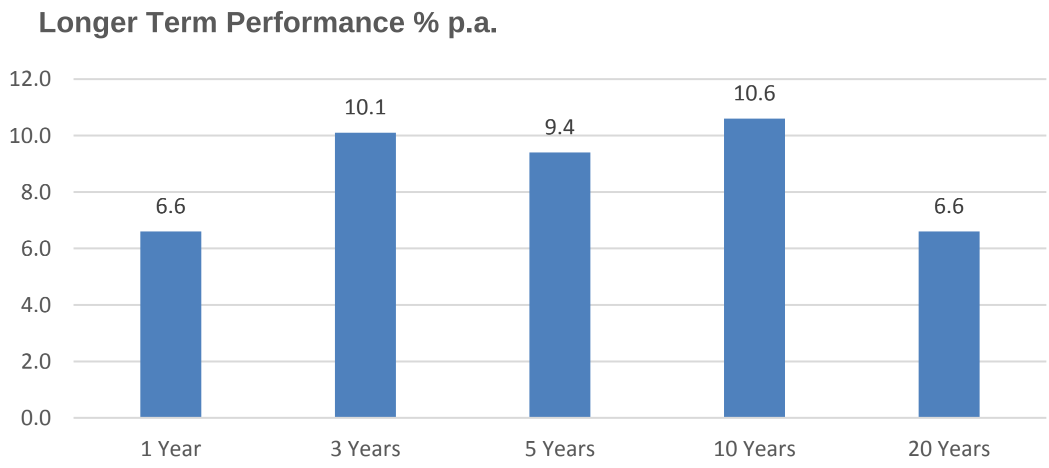
Continued strong equity market performance drove the positive result of 3.8% for the average Local Authority fund in the quarter to June. After a small fall in May, equity markets continued their upward trend with the US market (the major component of most funds' equity allocation) reaching record highs.



Longer Term

The one year average is now 6.6% while the three year result remains just ahead of 10% p.a.

Over this period funds that held a relatively high level of equities will have delivered returns towards the top of the range whilst those with a more defensive asset allocation will have performed less well.



The returns for the latest period are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

The PIRC Local Authority Universe is currently comprised of 64 funds with a value of £193bn.

For further details or for information about subscribing to this service please contact:

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LCIV Quarterly Investment Report

London Borough of Tower Hamlets Pension Fund

30 June 2019

Introduction

We are pleased to present the LCIV Quarterly Investment Report for the London Borough of Tower Hamlets Pension Fund for the quarter to 30 June 2019. The Report provides an Investment Summary with valuation and performance data of your Pension Fund's holdings. It inlcudes an update on activities at LCIV, a market update and Fund commentary from the LCIV Investment Team as well as key portfolio data and a summary of ESG activity during the quarter. We hope you find this report informative. Should you require any further information regarding any aspect of your investment, or about our service, please contact our Client Service Team via e-mail (clientservice@londonciv.org.uk).

TOWER HAMLETS

Contents

Investment Summary

The table below shows the funds held by the London Borough of Tower Hamlets Pension Fund by asset class as at 30 June 2019 and how these have changed during the quarter.

	31 March 2019	Net Subscriptions / (Redemptions) /	Cash Distributions Paid	Net Market Move	30 June 2019
Active Investments	£	£	£	£	£
Global Equity					
LCIV Global Alpha Growth Fund	345,890,378	-	-	26,624,225	372,514,603
Multi Asset					
LCIV Diversified Growth Fund	136,822,493	-	-	1,421,532	138,244,025
LCIV Absolute Return Fund	130,574,092	-	-	2,082,326	132,656,418
Fixed Income					
LCIV MAC Fund	91,800,000	-	-	1,620,000	93,420,000
Total	**705,086,963**	**-**	**-**	**31,748,083**	**736,835,046**

The table below outlines the valuation of investments held per passive manager at the beginning and end of the quarter. A listing of the individual funds held can be found at the end of the Funds section of this report.

	31 March 2019	30 June 2019
Passive Investments †	£	£
LGIM	351,360,286	365,903,634

† Passive investments are managed in investment funds for which LCIV has no management or advisory responsibility and are shown for information purposes only.

Investment Summary

Please see below the performance for funds in which you are invested. Performance since inception is annualised where period since inception is over 12 months.

	Current Quarter (%)			1 Year (%)			Since Inception p.a. (%)		
Net Performance	**Fund Net**	**Benchmark***	**Relative**	**Fund Net**	**Benchmark***	**Relative**	**Fund Net**	**Benchmark***	**Relative**
LCIV Global Alpha Growth Fund	7.66	6.24	1.42	9.18	10.50	(1.32)	18.87	15.40	3.47
LCIV Diversified Growth Fund	0.97	n/a	0.97	2.37	n/a	2.37	4.25	n/a	4.25
LCIV Absolute Return Fund	1.62	n/a	1.62	(1.21)	n/a	(1.21)	2.36	n/a	2.36
LCIV MAC Fund	1.74	n/a	1.74	3.93	n/a	3.93	3.46	n/a	3.46

*For details of which benchmark is used for each fund please see the LCIV funds page towards the end of the report.

LCIV Update

As the second quarter drew to a close, the value of assets invested directly through LCIV sub-funds had reached £8.8 billion. We saw the bulk of new investments during Q2 spread across our fixed income offerings. The value of the London's assets invested in the passive funds of LGIM and Blackrock were valued at a total of £10.3 billion at the end of June.

Two important milestones were reached around the launches of the LCIV Global Equity Core Fund and the LCIV Private Debt Fund. Submissions to the FCA, for the approval to launch both funds, were made in late June and we hope to have the Funds up and available for investment soon. The Private Debt Fund is targeting a first close of 30th September. Following the announcement in April that the investment team for the sub-advisor (Janus Henderson) of the LCIV Emerging Markets Fund was leaving the firm we have been working on, in consultation with the invested Boroughs, appointing a replacement emerging markets manager. We have also made good progress in addressing the complexities around the structuring our Infrastructure offering and we hope to be able to file our submission with the FCA in early August. The LCIV Infrastructure Fund will be targeting a 25% allocation to renewables.

The LCIV Q2 Investment Forum was held on 6th June with presentations from PIMCO, our Global Bond manager, Ruffer and Ares who covered liquid loans. Our Q3 Investment Forum is scheduled to take place on 19th September and details will be made available shortly. We are also working on hosting an ESG focused event on 16th October.

Michael Pratten joined LCIV in April to take on the role of Interim Chief Investment Officer (CIO). We were also able to announce the appointment of Mark Thompson as our permanent CIO. Mark will join us in September from HSBC Pension Scheme where he was CIO for over seven years. Michael will work with Mark when he joins to ensure a smooth handover of responsibilities.

Please contact us through clientservice@londonciv.org.uk

Market Update

While headlines were concerned with Conservative party leadership contests, US-China Trade wars and Facebook unveiling their digital currency, the Libra, the majority of markets were broadly unaffected and continued to rise higher.

The move higher was not without volatility, however. The escalation of the US-China trade war seemed to cause ripples around both safe-haven and risk assets, with both equities and bonds suffering a pull-back in May as news of the breakdown in talks broke. The Fed once again stepped in to ease market fears as market participants took Jerome Powell's June speech to signal a potential easing in rates ahead, due to softening of the broader economic data. Markets rose on the back of this news.

US Investment Grade Bonds were among the best performers during Q2, returning 5.4% in dollar terms due to the more dovish comments from the Fed. The Bloomberg Barclays Global Aggregate Bond Index more broadly also performed well, providing investors with a return of 3.3% over the Quarter.

In equities, all major indices were positive, as the S&P produced 4.3% returns and MSCI World Index 4.2%, both in USD terms. The majority of this performance was again in "Growth" stocks, which outperformed their "Value" counterparts by 2.9% over the Quarter, bringing YTD outperformance to nearly 8%.

Elsewhere, the oil price reversed some of the gains from Q1, falling 2.8% in Q2. Gold, on the other hand, was one of the best performing areas, returning over 10% during the second quarter.

The fact that all of the major indices were up over the quarter will inevitably mean that derivative hedging positions will have been costly for funds across the marketplace. Ruffer and Majedie, in particular, would have benefited from their positions in gold, but this was more than offset by the value bias within their portfolios. However, the fact that there were increasing numbers of missed earnings reports does introduce more stock-specific risk into markets, as these stocks were generally punished by investors. While active managers generally have a greater chance of avoiding these stocks, over such a short time period it is often nothing more than educated guesswork to ascertain which stocks are going to hit or miss numbers over a quarter.

LCIV Global Alpha Growth Fund

Quarterly Summary as at 30 June 2019

Total Fund Value:

£2,689.4m

Inception date:	11/04/2016
Capacity*:	See note below
Price:	174.70p
Distribution frequency:	Quarterly
Next XD date:	01/07/2019
Pay date:	26/09/2019
Estimated ppu:	0.5581

Investment Objective

The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross fee basis over rolling five year periods.

Tower Hamlets Valuation:

£372.5m

Tower Hamlets investment date: 18/04/2016

This is equivalent to 13.85% of the Fund

Distribution option: Reinvest

Est. distribution to be reinvested: £1,190,042

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	7.66	9.18	19.78
Benchmark**	6.24	10.50	16.16
Relative to Benchmark	1.42	(1.32)	3.62

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	7.66	9.18	18.87
Benchmark**	6.24	10.50	15.40
Relative to Benchmark	1.42	(1.32)	3.47

**Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.*

***Benchmark Name: MSCI All Country World Gross Index*

LCIV Global Alpha Growth Fund

Quarterly Commentary

The LCIV Global Alpha Growth fund returned 7.66% in Q2 2019, outperforming the MSCI All Country index by 1.42% in the period. The since inception figure yields an outperformance of 3.62% p.a. However, the previous 12-months reveals an underperformance of 1.32% - largely reflected by the correction that occurred in Q4 2018.

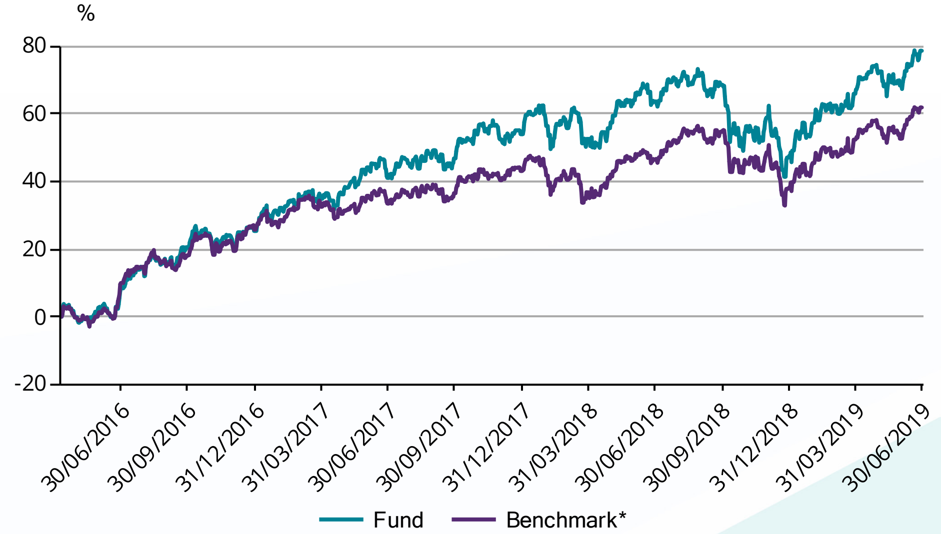
The second quarter of 2019 saw strong performance from US and Continental European markets, as potential for reduced interest rates in the US and the ECB mooting another round of QE allowed the growth-orientated IT and financial names in the regions to rally. As a result, the highest contributions to return for the portfolio have come from these regions and sectors, particularly as the fund has the largest allocation to US and Financials. When looking at the index, virtually all sectors produced positive returns apart from energy which was negatively impacted by the oil price volatility.

Within financials, Banco Bradesco brought in 70bps of performance to the portfolio in Q2 2019. Using the strong performance, the manager had taken the profits from the company in Q1 2019 but maintains their conviction in the stock. The bank has been investing heavily in the digital platform which currently has a circa 1 billion users.

The Indian bank, ICICI, was also a strong performer, returning 60bps to the portfolio in the quarter. The bank has shifted its retail loan book to account for 60% of the total book which has materially improved the quality. The manager decided to take profits from the price appreciation down to an “average size position” representing 1% in the portfolio.

On the negative side, Apache was a major detractor for performance detracting -90bps from performance. The US oil and gas company had its share price impacted by the increased volatility in the oil price due to the oil tanker attack in the Gulf of Oman. The manager is content to be patient with this stock as the discovery of Alpine High could double the market cap.

Performance since LCIV inception



Source: Fund prices calculated based on published prices. Benchmarks obtained from Bloomberg. All performance reported net of fees and charges with distributions reinvested.

**MSCI All Country World Gross Index*

Transactions

Microsoft was a new addition to the portfolio in the quarter. It appears that timing into the stock was not much of a factor for the manager as the company’s pivot into the cloud industry away from windows-based PC made it an attractive buy. It is hard to see where more price appreciation can stem from as the cloud industry is no longer in infant stage as many would believe. The investment team will monitor this investment decision by the manager to see if this is to become a theme in the portfolio, or whether it is a case of regret-aversion. Team update

LCIV Global Alpha Growth Fund

Chris Davies, who was a senior analyst at the team and presented at a number of LCIV events, is moving on from the Global Alpha Growth team. He will be moving into the European Equity team to take on a decision-making role, however he will remain in the scout system so the Global Alpha Growth team can call on his expertise.

LCIV Thoughts

The manager is making good recovery since Q4 2018 where the underperformance had contracted by 12.46%. The growth rally which was paused in H2 2018 has continued in 2019, allowing for the fund to be one of the top performers in the LCIV platform. The market continues to discuss the late cycle environment and how a recession is soon to come, albeit the trigger and shape of the recession is uncertain. In the meantime, the market continues to favour growth stocks, which has undoubtedly benefited the fund over the past few years. The manager maintains its agnostic view on this topic, which is perhaps to be expected, given that their investment universe is relatively singular. Nevertheless, the investment team have scheduled a deep dive investment due diligence with the manager to analyse how the portfolio has changed over the past few years and how the team dynamics have changed with Chris' departure.

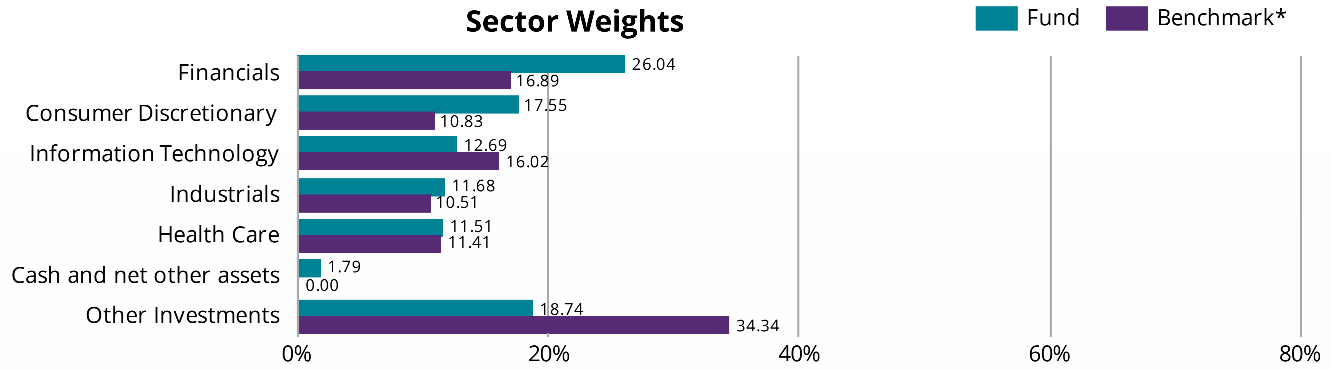
LCIV Global Alpha Growth Fund: Portfolio Characteristics

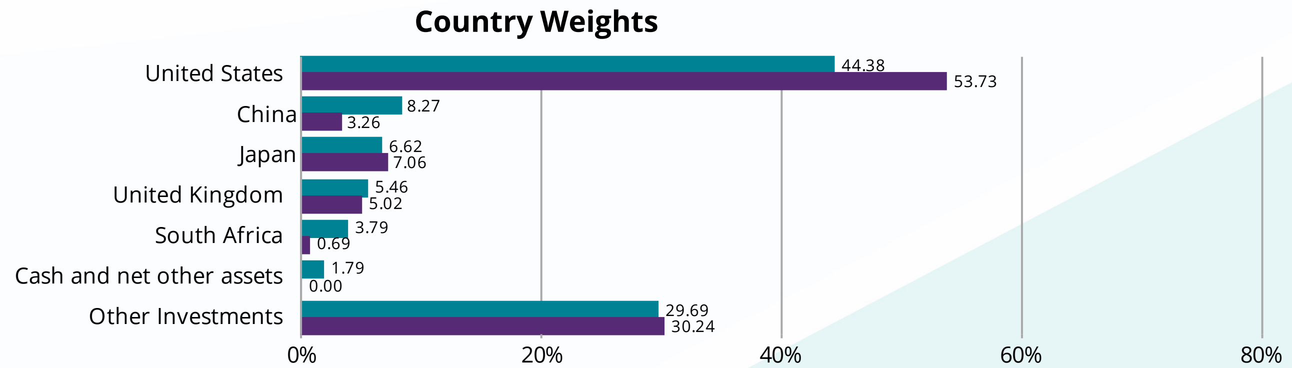
Key Statistics	
Number of Holdings	106
Number of Countries	23
Number of Sectors	10
Number of Industries	35

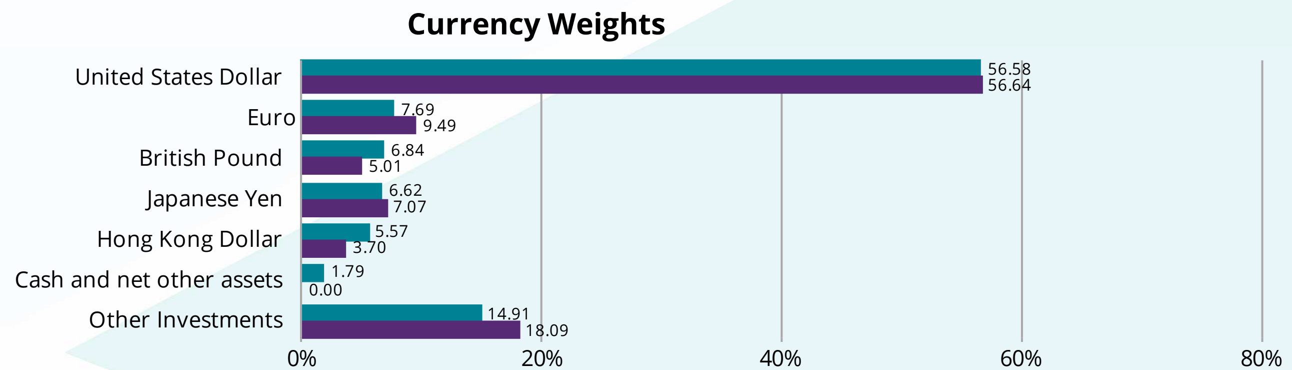
Source: London CIV

Risk Statistics	
Tracking Error (%)	4.14
Fund Risk (Volatility) (%)	14.03
Beta to Equity Index	1.14

Source: Bloomberg PORT June 2019







Source: London CIV and Bloomberg PORT June 2019

**MSCI All Country World Gross Index*

LCIV Global Alpha Growth Fund: Portfolio Characteristics

Top Ten Equity Holdings

Security Name	% of NAV
Naspers	3.79
Prudential	3.58
Amazon.com	3.42
Alibaba Group Holding	2.82
Anthem Com	2.51
AIA Group	2.46
Mastercard Inc	2.35
Moody's	2.34
VISA 'A'	2.11
SAP SE	1.97

Top Ten Contributors

Security Name	% Contribution
SAP SE	+0.39
Prudential	+0.39
Shopify	+0.34
Mastercard Inc	+0.34
Marketaxess Holdings	+0.33
Amazon.com	+0.30
Naspers	+0.29
AIA Group	+0.28
VISA 'A'	+0.28
Zillow Group C	+0.25

Top Ten Detractors

Security Name	% Detraction
Baidu	(0.24)
Apache	(0.23)
Alibaba Group Holding	(0.17)
Waters	(0.16)
Tesla Inc	(0.14)
Autohome	(0.13)
Alphabet	(0.12)
Alnylam Pharmaceuticals	(0.11)
Ctrip.com International	(0.11)
Ryanair Holdings	(0.10)

New Positions During Quarter

Security Name
Illumina
Axon Ent.
Broadridge Finl. Sols.
Abiomed
Sysmexsynopsys
Trade Desk
Brilliance China Automotive Hldgs.
Adevinta
Adevinta Ser.b

Completed Sales During Quarter

Security Name
Verisk Analytics
First Republic Bank/Ca
Baidu
Fiat Chrysler Automobiles
Multichoice Group

Source: London CIV and Bloomberg PORT June 2019

LCIV Global Alpha Growth Fund: ESG Summary

Environmental | **Social** | **Governance**

Summary of ESG Policy

In addition to face to face meetings with management, the Underlying Manager will consider factors such as management turnover, capital allocation, remuneration policies and social and environmental factors. The Underlying Manager also has a specialised independent Governance & Sustainability team which, working alongside their investment teams, monitors the companies in which they invest and engages with companies where appropriate. Their full ESG policy can be provided by LCIV upon request.

The UK Stewardship Code rating of the Underlying Manager is tier 1.

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Summary of ESG Activity for the Quarter

Examples of engagements of the Underlying Manager during Q2 2019 include:
Corporate Governance: Amazon, Just Eat, Netflix, Orica, Pernod Ricard, Service Corp International, Tesla
Environmental/Social: Ryanair, Sysmex
AGM or EGM Proposals: Just Eat, MarketAxess, Martin Marietta, Persol, SMC, Sysmex
Executive Remuneration: BHP Group, CRH, Kirby, Stericycle

Link to Underlying Manager's Voting Report for the Quarter

https://secure.londonciv.org.uk/funds/global-alpha-growth/#reports

Relevant Holdings

Sector		% of NAV
Aerospace & Defense		**0.50**
Axon Ent.		
Brewers		**0.32**
Tsingtao Brewery		
Casinos & Gaming		**0.39**
Sands China		
Distillers & Vintners		**1.66**
Pernod Ricard		
Oil & Gas		**3.16**
Apache	Reliance Industries	
EOG Resources		
Total		**6.03**

Source: London CIV

LCIV Diversified Growth Fund

Quarterly Summary as at 30 June 2019

Total Fund Value:

£672.5m

Inception date:	15/02/2016
Capacity*:	See note below
Price:	116.70p
Distribution frequency:	Semi-Annually
Next XD date:	01/07/2019
Pay date:	27/09/2019
Estimated ppu:	2.2437

Investment Objective

The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

Tower Hamlets Valuation:

£138.2m

Tower Hamlets investment date: 15/02/2016

This is equivalent to 20.56% of the Fund

Distribution option: Reinvest

Est. distribution to be reinvested: £2,657,910

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	0.97	2.37	5.99

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	0.97	2.37	4.25

**Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.*

LCIV Diversified Growth Fund

Quarterly Commentary

The LCIV Diversified Growth Fund returned 0.97% over the quarter, continuing its recovery into the second quarter, following a disappointing 2018.

Against the previous quarter (6.2%), the returns are weaker, but it is understandable as the fund's exposure to economically sensitive asset classes was reduced. These defensive alterations were a timely change that helped absorb the shocks in May, albeit at the cost of missing out on rising returns in June, following the Fed U-turn.

The pessimism in markets surrounding growth and inflation is overcooked, in the manager's view. While remaining cautiously optimistic, the fund is positioned to gain from positive (but controlled) change in growth and inflation in the medium to long term. However, the manager has put protections in place to defend against volatility in the interim. This pro-growth view on the economy has so far had a positive effect on returns so far this year. This has been slightly fortunate, however, as the positive impact was driven mainly by central banks' dovish tones, rather than any uptick in underlying growth or inflation.

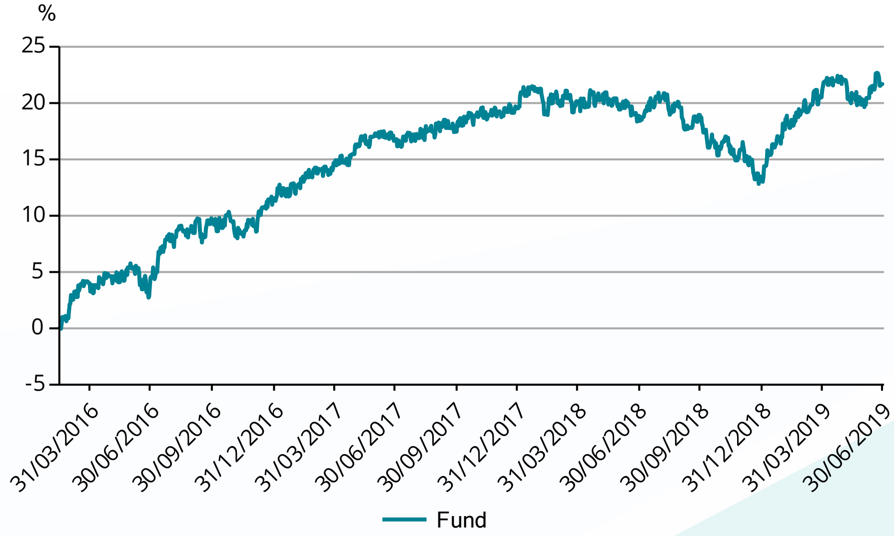
The fund's equity allocation is higher than the historical average, but this increase has been accompanied by a higher defensive overlay, through short Futures on S&P 500, Euro Stoxx 50 and long VIX Futures (which tend to do well as equity markets sell off). The funds position in Emerging Market (EM) bonds has continued to perform well. Given the benign outlook for US Dollar, preference to local currency issues seems sensible. Not only is it the purer play on the markets, but it also should lead to higher returns in the long term. However, this does not come without risk, as EM currencies can be highly volatile. Both equities and EM bonds were reduced slightly to take profits on the back of this strong performance.

In fixed income, the fund has added to the US and Japanese breakeven inflation exposure and has initiated a new position in European Inflation exposure (primarily through Germany and France). The inflation curve is muted in Europe, even as the ECB continues to inject liquidity into the market. Inflation outcomes are therefore seen as being more skewed to the upside than what the market is discounting. UK REITs were one of the largest detractors and the manager saw that as an opportunity to add to the position.

The portfolio is positioned to profit from a positive change in market sentiment on the overall economic outlook. Although, if recent central bank efforts fail to boost the economy then the portfolio will not be immune to the potential subsequent market falls.

From a personnel perspective, Patrick Edwardson, Head of Multi Asset, will be retiring in April 2020. James Squires and David McIntyre will take over as Lead PMs from that time. The fund has not faced any outflows following Patrick's retirement announcement. While there are no immediate concerns, LCIV will monitor the situation closely.

Performance since LCIV inception



Source: Fund prices calculated based on published prices. All performance reported Net of fees and charges with distributions reinvested.

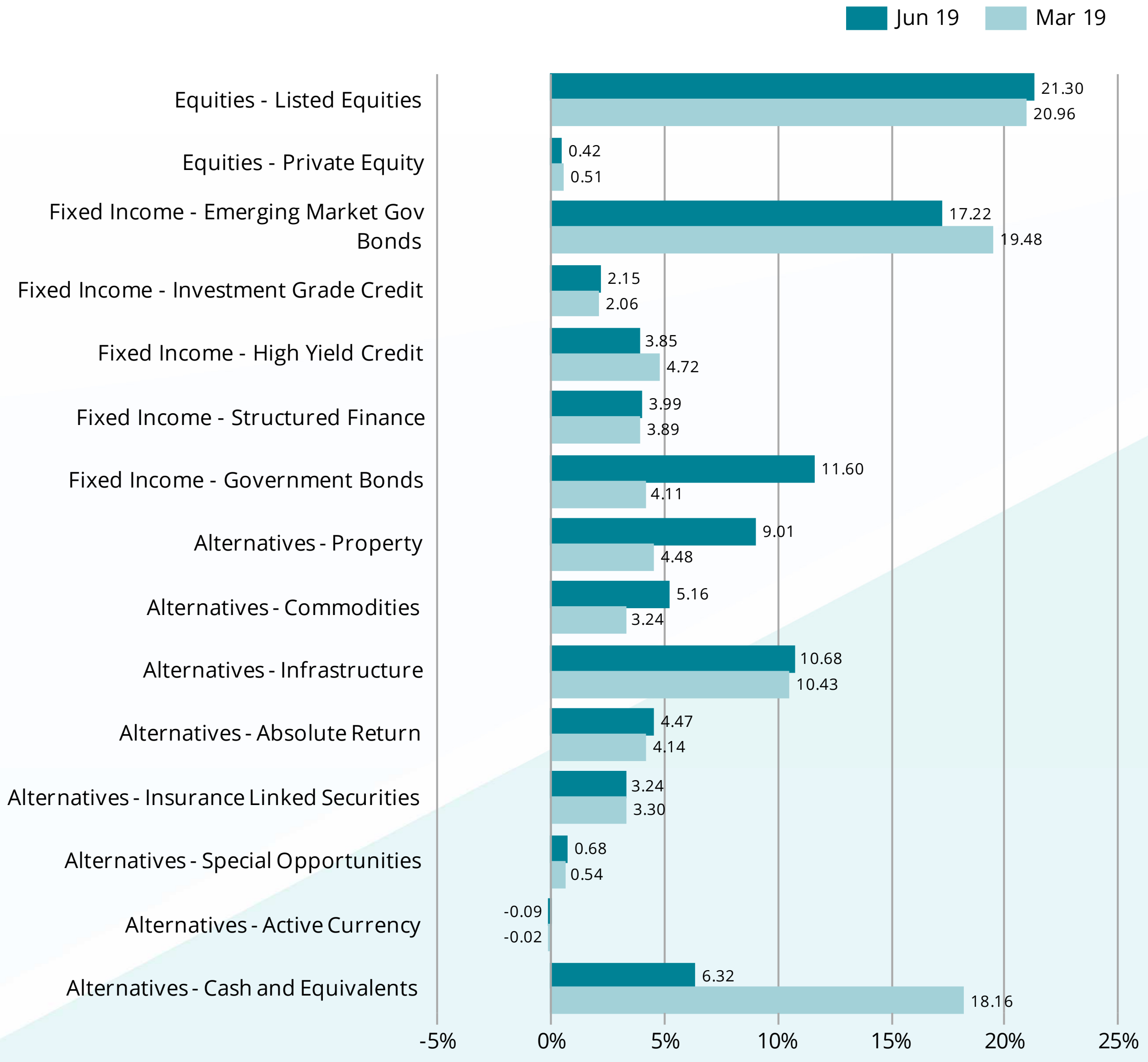
LCIV Diversified Growth Fund

The fund has been taking risk off the table since the middle of 2018, although is still one of the more growth-oriented in the multi-asset stable. The performance in 2019 so far has been solid, returning c. 7.3%. The announcement of Patrick's departure did come as a surprise for the investment team, as he is relatively young for retirement. The Investment team have met with the remainder of the DGF team at Baillie Gifford and, while Patrick is the most senior, there is clearly talent across the fund. Nevertheless, the situation will be monitored in the coming months and a deep dive has been arranged.

LCIV Diversified Growth Fund: Portfolio Characteristics

Key Statistics		
	31 March 2019	**30 June 2019**
Beta	0.21	0.21
Duration	1.18	1.23

Portfolio Exposures		
	31 March 2019	**30 June 2019**
Equities	**21.47**	**21.72**
Listed Equities	20.96	21.30
Private Equity	0.51	0.42
Fixed Income	**34.26**	**38.81**
Emerging Market Gov Bonds	19.48	17.22
Investment Grade Credit	2.06	2.15
High Yield Credit	4.72	3.85
Structured Finance	3.89	3.99
Government Bonds	4.11	11.60
Alternatives	**44.27**	**39.47**
Property	4.48	9.01
Commodities	3.24	5.16
Infrastructure	10.43	10.68
Absolute Return	4.14	4.47
Insurance Linked Securities	3.30	3.24
Special Opportunities	0.54	0.68
Active Currency	(0.02)	(0.09)
Cash and Equivalents	18.16	6.32
Total	**100.00**	**100.00**



Source: Baillie Gifford & Co

LCIV Diversified Growth Fund: ESG Summary

Environmental | **Social** | **Governance**

Summary of ESG Policy

The Underlying Manager's Investment Team is responsible for engagement with the boards and management of companies and funds held directly within the Diversified Growth portfolio. A representative from their Governance & Sustainability Team provides a direct link with the investors, with regular meetings to oversee voting, support engagement and drive ESG analysis activities relevant to these investments. Their ESG Policy can be provided by LCIV upon request.

The UK Stewardship Code rating of the Underlying Manager is tier 1.

Summary of ESG Activity for the Quarter

Engagement of the underlying manager in Q2 2019:

Votes Cast in Favour: Companies 49/Resolutions 511

Votes Cast Against: Companies 18/ Resolutions 35

Votes Abstained/Withheld: Companies 6/Resolutions 12

Company Engagement

AGM or EGM Proposals-Fondul Proprietatea SA, Greencoat UK, Wind PLC

Corporate Governance-BBGI Sicav S.A, Foresight Solar Fund Limited

Link to Underlying Manager's Voting Report for the Quarter

https://secure.londonciv.org.uk/funds/diversified-growth/#reports

Relevant Holdings

Sector		% of NAV
Aerospace & Defense		**0.01**
Bharat Electronics		
Alcohol		**0.24**
Pernod Ricard SA	Ambev SA	
Brown-Forman 2.6% 2028	Tsingtao Brewery 'H'	
Gambling		**0.06**
International Game Technology 3.5% 2026	Sands China	
Oil & Gas		**1.44**
Petroleos Mexicanos 6.5% 13/03/2027	Tenaga Nasional	
Korea Electric Power	Apache Corp	
Reliance Inds. Spons GDR	Total	
Inpex	Mitsui	
BHP Billiton	Mitsubishi Corp.	
Toyota Tsusho Corp	CNOOC Ltd	
EDF 6% 2026 Perp	EOG Resources	
Scottish & Southern Energy	Jardine Matheson	
Jefferies Financial Group Inc	Equinor 5.1% 2040	
Alfa 5.25% 2024 (144A)	Enquest 7% 2022 PIK (USD) (144A)	
Matador Resources 5.875% 2026	Range Resources 5.75% 2021	
Vermilion Energy 5.625% 2025 (144A)	Antero Resources 5.125% 2022	
Freeport McMoran 3.55% 2022	Teck Resources 8.5% 2024 (144A)	
Enquest 7% 2022 PIK (GBP)	Freeport McMoran 4.55% 2024	

LCIV Diversified Growth Fund: ESG Summary

Environmental	Social	Governance

Relevant Holdings		
Sector		**% of NAV**
Tobacco		**0.07**
British American Tobacco	British American Tobacco - ADR	
Total		**1.82**

Source: Baillie Gifford & Co

LCIV Absolute Return Fund

Quarterly Summary as at 30 June 2019

Total Fund Value:

£869.0m

Inception date:	21/06/2016
Capacity*:	£1,500m
Price:	108.30p
Distribution frequency:	Semi-Annually
Next XD date:	01/07/2019
Pay date:	27/09/2019
Estimated ppu:	0.6918

Investment Objective

The Sub-fund's objective is to achieve low volatility and positive returns in all market conditions. Capital invested in the Sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods.

Tower Hamlets Valuation:

£132.7m

Tower Hamlets investment date: 21/06/2016

This is equivalent to 15.27% of the Fund

Distribution option: Reinvest

Est. distribution to be reinvested: £847,384

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	1.62	(1.21)	3.63

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	1.62	(1.21)	2.36

**Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.*

LCIV Absolute Return Fund

Quarterly Commentary

LCIV Absolute Return Fund returned 1.62% in the second quarter. However, even with two consecutive positive quarters, 1-year performance is still negative at -1.21%.

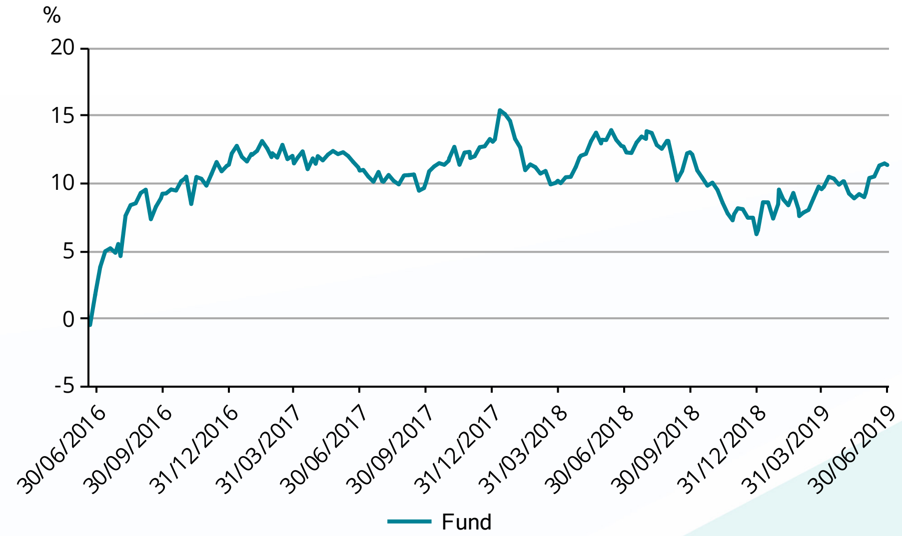
The structural bets are around fiscal easing as the manager believes that Central Banks' policies will remain facilitative unless inflation comes through. In the manager's view, the potential for markets is still on the upside, however, positioning and recent tilts tell a different story. The strategy appears to be more prepared for a downturn with relatively low equity beta in the portfolio (0.4) and a higher duration (6.3 years).

Over the first quarter of 2019, the fund added European cyclicals to the portfolio as these were considered as the area of most value. These performed well and were sold in the last quarter to reduce cyclicality and lock-in profits on most of those positions. The overall aim for the second quarter has been to reduce cyclicality in the portfolio. Risk of longer yields going up has reduced significantly so financials were reduced, and less economic sensitive investments were added to the portfolio. New US healthcare positions were added based on valuation and to benefit from all but a "Medicare for all" scenario.

In fixed income, given manager's concerns around China risk, the strategy is positioned to benefit from liquidity stress. Overall duration is slightly lower than previous quarters as manager has added new positions in short dated US nominal bonds and has reduced exposure to inflation-linked bonds. US short-dated bonds are seen as cash alternatives that will aid in a liquidity crunch.

The protections in the portfolio have not changed much in weight but are now achieved through CDS and Japanese equities and are less dependent on S&P 500 puts. Protection costs have improved but the effectiveness of this pocket of the portfolio is yet to be tested. Previously, the defensive positions failed to cover in the third quarter of 2018 and have been the subject of increasing scrutiny by the Investment team. While the manager appears to have learnt from their mistakes, the construction of this sleeve be increasingly important in future as the balance between cost and protection must be negotiated.

Performance since LCIV inception



Source: Fund prices calculated based on published prices. All performance reported Net of fees and charges with distributions reinvested.

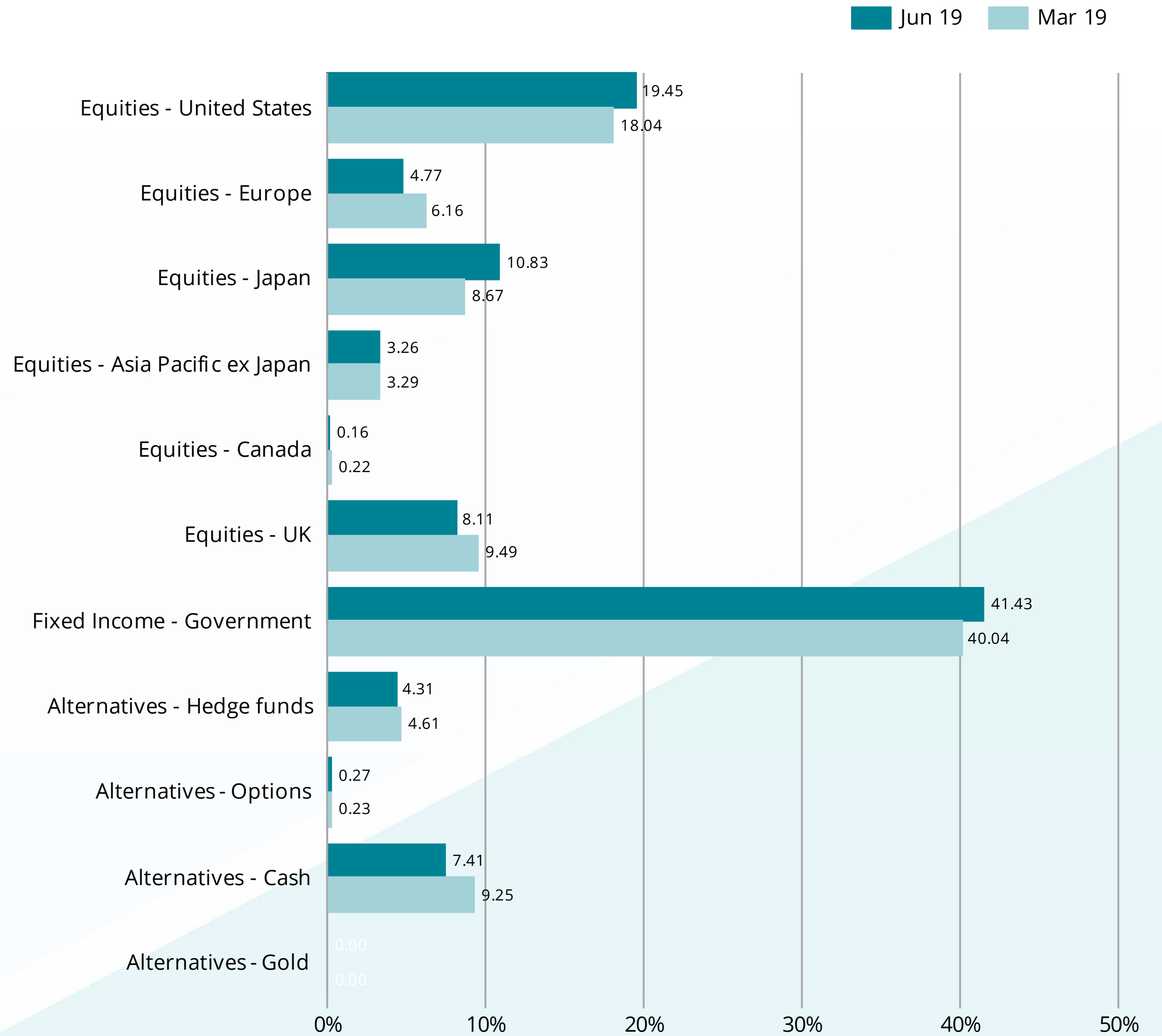
The perfect scenario for the strategy will be if inflation picks up higher than expected in the US, leading the relatively high weighting in Inflation-linked bonds to outperform. Contrarily, if the growth markets continue to outperform their value colleagues and inflation stays in a low bound, the fund is likely to underperform peers.

After a difficult year in 2018, the fund has been broadly keeping pace with the rest of the multi-asset market, generating small but positive returns. The fund is positioned for higher volatility, especially in inflation and value markets. The protection has been struck closer to the money than it was last year, which will come at a greater cost, but should reduce the probability of another quarter such as the one experienced in Q3 2018.

LCIV Absolute Return Fund: Portfolio Characteristics

Key Statistics		
	31 March 2019	**30 June 2019**
Beta	0.39	0.40
Duration	6.34	6.27

Portfolio Exposures		
	31 March 2019	**30 June 2019**
Equities	**45.87**	**46.58**
United States	18.04	19.45
Europe	6.16	4.77
Japan	8.67	10.83
Asia Pacific ex Japan	3.29	3.26
Canada	0.22	0.16
UK	9.49	8.11
Fixed Income	**40.04**	**41.43**
Government	40.04	41.43
Alternatives	**14.09**	**11.99**
Hedge funds	4.61	4.31
Options	0.23	0.27
Cash	9.25	7.41
Gold	0.00	0.00
Total	**100.00**	**100.00**



Source: Ruffer LLP

LCIV Absolute Return Fund: ESG Summary

Environmental | **Social** | **Governance**

Summary of ESG Policy

ESG issues are integrated into the Underlying Manager's investment process from idea generation stage through to research review, front office review and conviction review. When ESG risks are identified they will endeavour to draft an active stewardship plan. Their ESG policy can be provided by LCIV upon request.

The UK Stewardship Code rating of the Underlying Manager is tier 1.

Summary of ESG Activity for the Quarter

Activision Blizzard - Conference call with Justin Brown, Vice President - Compensation, and Katy Murray, Vice President - Securities and Corporate Governance

Issues: Governance - climate change, lobbying and disclosure

ArcelorMittal SA - Attended AGM and had group meeting with Lakshmi Mittal, Chair and CEO, Brian Aranha, Executive Vice President, and other senior employees

Issues: Environmental, governance - climate change, lobbying and disclosure

ExxonMobil Corporation- Letter to Neil Hansen, Company Secretary, explaining our voting decisions at 2019 AGM

Issues: Environmental, governance - climate change

General Motors Company - Conference call with Stephanie Mould, Investor Relations - Senior Manager, Sharon Basel, Sustainability - Senior Manager, and Scott Cross, Corporate Governance - Manager

Issues: Environmental, governance - fuel economy and emissions standards, board structure, succession planning and lobbying and disclosure

Sophos Group- Conference call with Paul Walker, Chair of Remuneration Committee

Issues: Governance - remuneration

Link to Underlying Manager's Voting Report for the Quarter

https://secure.londonciv.org.uk/funds/absolute-return/#reports

Relevant Holdings

Sector		% of NAV
Chemicals		**1.28**
DuPont	Yara	
Oil & Gas		**1.97**
Exxon	BP	
Total		**3.25**

Source: Ruffer LLP

LCIV MAC Fund

Quarterly Summary as at 30 June 2019

Total Fund Value:

£841.7m

Inception date:	31/05/2018
Capacity*:	Unlimited
Price:	103.80p
Distribution frequency:	Semi-Annually
Next XD date:	01/07/2019
Pay date:	27/09/2019

Investment Objective

The Sub-fund's objective is to seek to achieve a return of LIBOR+4-5%, with a net asset value volatility of 4-6%, on an annualised basis over a rolling 4 year period, net of fees.

Tower Hamlets Valuation:

£93.4m

Tower Hamlets investment date: 31/05/2018

This is equivalent to 11.10% of the Fund

Distribution option: Reinvest

Est. distribution to be reinvested: £111,960

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	1.74	3.93	3.46

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	1.74	3.93	3.46

**Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.*

LCIV MAC Fund

Quarterly Commentary

The LCIV MAC Fund returned 1.74% in Q22019, for 1-year return of 3.93% trailing the investment target.

CQS maintained over 50% in Loans over the quarter finishing the quarter with 52% of the portfolio in the strategy. The book added around 0.7% to performance over the quarter. CQS holds this as they view this as a safe and stable source of income. The contribution to return has been highest as a result of this high allocation, as was mainly driven by carry rather than alpha capital gain.

Allocations between US and European Loans were broadly even. It was noted that US loans defaults have been increasing and CQS discussed their focus on senior secured loans (albeit at an average market rating equivalent of B rated). Despite this, holdings in US Loans for Anchor Glass, Mysis and FHC Health Systems dominated the key contributors to the sector.

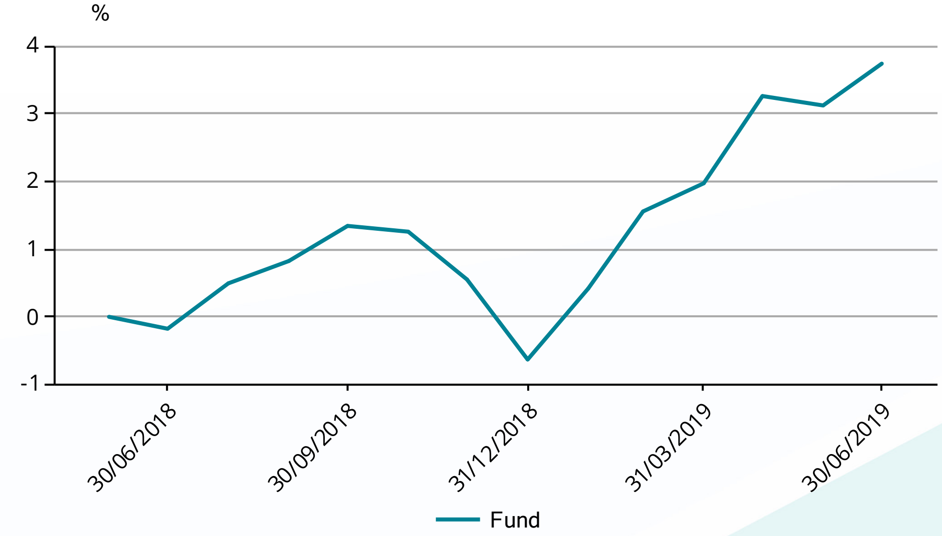
It was discussed that duration limit of 2 years was becoming increasingly challenging to maintain with the combination of the increased allocation to High Yield and the LIBOR floors in the European Loan portfolio (which in itself has a duration of 2.15 years).

It was noted that US mining holding Blackhawk which represents 36bps of fund was now in default. The subordinated debt will be equitized and the CQS debt might also get equitized over the next 18 months.

CQS discussed they are beginning to reduce the US loans book whilst increasing EU Loans slightly. This orderly rotation will also see 9-10% from US Loans to fixed rate securities.

Over the quarter CQS has increased High Yield holdings from 13% to 18%. Despite allocations being less than half of that to loans, the contribution to return from the book has added almost 0.5% to performance. There was a slight tilt in this book to favour US High Yield over Europe. CQS believes there are strong opportunities in US onshore energy (where they have added 3%) and secondary bond purchases. Onshore energy purchases include NGPL (the natural gas pipeline between New York and Chicago), where there is a long-term

Performance since LCIV inception



Source: Fund prices calculated based on published prices. All performance reported Net of fees and charges with distributions reinvested.

demand in liquid natural gas which they feel adds to margins. CQS has been seeking more high yield beta-like trades like this, such as Staples, which is undergoing IPO and Sprint, and which they believe will benefit from a merger with Deutsche Telekom. For the quarter Staples is the 2nd largest underperformer but CQS believe there is upside in the holding. A further underperformer has been Southwestern Energy which has been cleaning up lakes polluted from fracking wastewater. These lakes that were previously unsafe to swim in are now safe (from regulatory changes requiring these actions from energy companies) and these actions had yet to be reflected into bond pricing.

They have reflected that debt service coverage standards have been falling but they believe that their deep fundamental analysis leads them to purchase corporates with strong cash flow characteristics. CQS outlined that BB bonds

LCIV MAC Fund

have outperformed B in a flight to safety event from the market. They noted that in some instances the BB bonds have traded tighter than BBB creating some good opportunities.

CQS' allocation to ABS was marginally under 22% by the end of Q2 contributing almost 0.5% to quarterly performance. The portfolio has been rotated out of non-agency US mortgage-backed securities and into CLOs. CQS believe strongly there is a lot of spread compression in CLOs to come in the next quarter or so. Sentiment is currently negative given increasing defaults and structures, but they believe this is unfounded and there will be a price correction.

The convertible allocation has remained around 1.5% over the quarter with the book adding only a marginal amount to performance. CQS indicated that they were looking for opportunities to add to the book. CQS increased allocations to convertibles marginally at back end of May and June as they are confident that there will be a trade deal done with China; this comes on the back of dovish comments made by central banks. They believe there will be a pop in convertible markets when this plays out.

Financials allocation was just under 3% of the portfolio, and 100% in Europe. Contribution to return over the quarter was just over 0.1%. Concentration focused on holdings in Danske Bank and Banco De Saba.

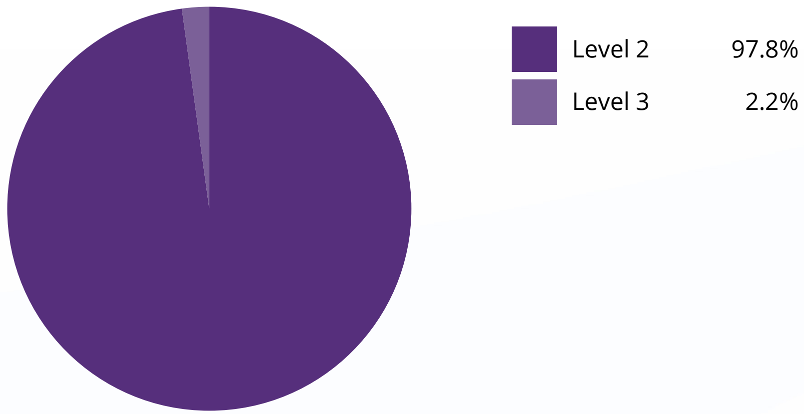
It was noted that CQS currently have no holdings in this Investment Grade book. It was highlighted to CQS that compared with Investment Grade Index returns, which have an average rating of A-, compared to CQS' of single B (three notches down the credit rating spectrum), Investment Grade Credit had outperformed CQS this year to date by more than double. The follow-on discussions from positioning bought several questions to CQS about their intended versus actual strategy.

LLAs will now be aware that these strategy concerns combined with high staff turnover and other more minor issues have now led to CQS being put "on watch" by LCIV. This CQS note was circulated to LLAs on 26th July an outlines the concerns and next steps around this process.

LCIV MAC Fund: Portfolio Characteristics

Risk Highlights	
Weighted Average Rating	B+
% Long Bond Equivalent Exposure with Public Rating	85.65%
% of Investment with Public Rating	84.41%
Yield to Expected Maturity GBP	5.51%
Spread Duration	4.17
Interest Rate Duration	1.74

Liquidity Management



Stress Test

Asset Class	Equities -10%	Equities +10%	Credit -25%	Credit +25%	IR -100bps	ABS -10%	ABS +10%
ABS						(2.21)%	2.21%
Convertibles	(0.17)%	0.20%	0.03%	(0.03)%	0.10%		
Loans			0.88%	(0.97)%	0.61%		
High Yield	(0.00)%	0.00%	3.05%	(3.05)%	0.69%		
Financials (IG)			0.15%	(0.16)%	0.10%		
Investment Grade							
Uncommitted Capital							

Source: CQS

LCIV MAC Fund: Portfolio Characteristics

Asset Classification

Classification	Nominal Exposure (%)	Contribution to Return (%)	Risk Weighted Exposure (%)
Loans	50.70	0.71	600.00
ABS	22.05	0.48	0.04
HY Corporate Bonds	17.44	0.44	0.04
Convertibles	4.97	0.09	0.03
Financial Bonds	2.67	0.14	0.01
FX/Fees & Expenses	2.17	(0.13)	0.00

Top Contributors to Performance

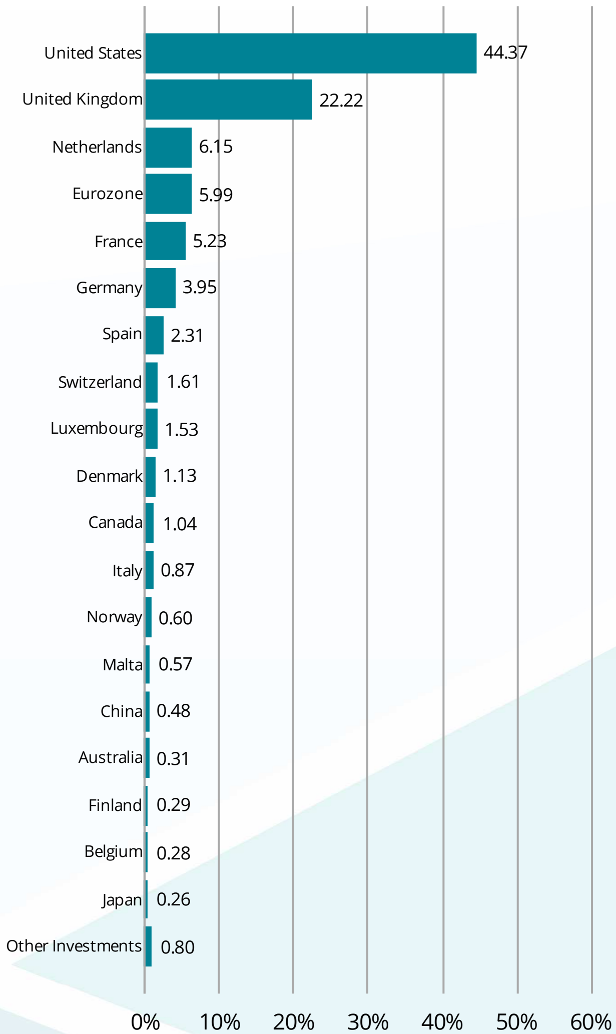
Security Name	Nominal Exposure (%)	Contribution to Return (%)
ABS	22.10	0.47
Media	5.60	0.16
Materials	4.10	0.17
Health Care Equipment & Supplies	1.30	0.13

Bottom Contributors to Performance

Security Name	Nominal Exposure (%)	Contribution to Return (%)
Consumer Durables & Apparel	0.89	0.01
Food & Staples Retailing	2.20	0.00
Technology Hardware & Equipment	4.02	(0.01)
Commercial & Professional Services	4.50	0.01

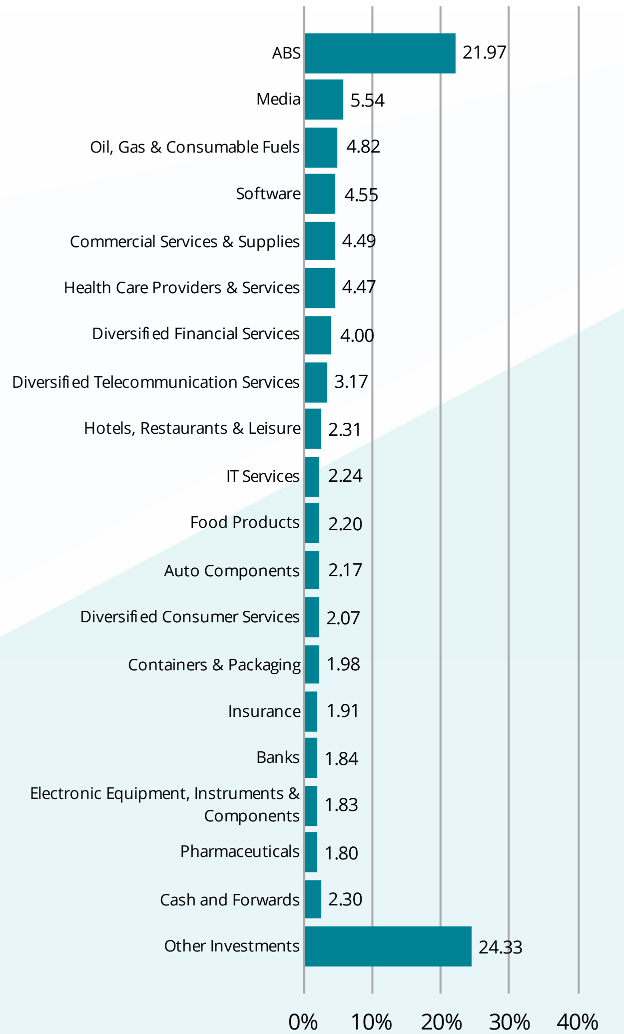
Country Weights

NAV (%)



Sector Weights

NAV (%)



Source: CQS

LCIV MAC Fund: ESG Summary

Environmental

Social

Governance

Summary of ESG Policy

LCIV reviews the ESG policies of all holdings within the LCIV MAC Fund.
The Underlying Manager believes that ESG factors can influence the performance of companies and the value of their securities. While the these factors are typically skewed toward impacting equity security valuation more than the value of an issuer's debt, it is possible for these factors to affect an issuer's ability to meet its financial obligations as and when they fall due, potentially materially so.
The Underlying Manager assesses each of these factors as part of the fundamental research process that supports the investment process. Their research process considers both bottom-up and macro ESG factors in assessing investments. Where they perceive there may be material risk or opportunity resulting from company exposure to these matters, this is considered in constructing strategies.

Relevant Holdings

Sector	% of NAV
Aerospace & Defense	0.82
Casinos & Gaming	1.34
Distillers & Vintners	0.10
Fertilizers & Agricultural Chemicals	0.38
Oil & Gas	5.13
Total	**7.77**

Source: CQS

Passive Investment Summary

The table below outlines the valuation of investments held per passive manager at the beginning and end of the quarter. For details on the performance of these funds please contact the passive managers directly.

	31 March 2019	30 June 2019
LGIM	**£**	**£**
MSCI World Low Carbon Target Index GBP Currency Hedged	244,707,675	253,313,609
All World Equity Index	83,853,263	89,057,072
All World Equity Index Currency Hedged	22,795,098	23,528,561
Transition CSUF STBP	4,250	4,392
Total	**351,360,286**	**365,903,634**

Source: Passive Investment Manager LGIM

LCIV Global Alpha Growth Fund: LGPS Transparency Code Data

POOLED FUND COST COLLECTION TEMPLATE

Fund Manager	Fund name	Share class name	Currency of report
Baillie Gifford & Co	LCIV Global Alpha Growth Fund	A Inc	GBP

Investment return (% pa)	1 Year	3 Year	5 Year	10 Year	Since formation
Net return	9.2%				19.8%

Investment activity (GBP unless specified)	Total	Bonds	Derivatives	Equity	Foreign exchange	Property
Opening assets	2,470,329,880			2,423,339,555		
Closing assets	2,689,396,476			2,641,147,488		
Purchases	132,667,738			132,667,738		
Sales	95,571,948			95,571,948		
Turnover (% pa)	3.7%			3.8%		

Management fees	Total (GBP)
Invoiced Fees (less any rebates)	2,034,443
VAT (if applicable)	n/a
Total	**2,034,443**

Client-specific data	Client (GBP)
Average value of client holding	357,581,848

Ongoing charges	Client (GBP)	Total
Manager's Fees		0.32%
Other Fees		0.05%
Indirect Fees		
Total ongoing charges	**330,624**	**0.37%**

Performance fees	Client (GBP)	Total
Performance fees	n/a	

Transaction costs	Client (GBP)	Total	Bonds	Derivatives	Equity	Foreign exchange	Other	Pooled funds	Property
Transaction Taxes		0.003%			0.003%				
Broker Commission		0.004%			0.004%				
Implicit Costs		0.006%			0.006%				
Entry/exit charges									
Indirect transaction costs									
Other transaction costs									
Total transaction costs	**49,614**	**0.014%**			**0.014%**				

Stock lending (if applicable)	Total
Value of stock on loan	n/a
Gross income	n/a

LCIV Diversified Growth Fund: LGPS Transparency Code Data

POOLED FUND COST COLLECTION TEMPLATE

Fund Manager	Fund name	Share class name	Currency of report
Baillie Gifford & Co	LCIV Diversified Growth Fund	A Inc	GBP

Investment return (% pa)	1 Year	3 Year	5 Year	10 Year	Since formation
Net return	2.4%				6.0%

Investment activity (GBP unless specified)	Total	Bonds	Derivatives	Equity	Foreign exchange	Property
Opening assets	665,470,115					
Closing assets	672,471,868					
Sales	700,000					
Turnover (% pa)						

Management fees	Total (GBP)
Invoiced Fees (less any rebates)	689,910
VAT (if applicable)	n/a
Total	**689,910**

Client-specific data	Client (GBP)
Average value of client holding	137,730,427

Ongoing charges	Client (GBP)	Total
Manager's Fees		0.40%
Other Fees		0.04%
Indirect Fees		0.13%
Total ongoing charges	**196,758**	**0.57%**

Performance fees	Client (GBP)	Total
Performance fees	n/a	

Transaction costs	Client (GBP)	Total	Bonds	Derivatives	Equity	Foreign exchange	Other	Pooled funds	Property
Transaction Taxes									
Broker Commission									
Implicit Costs									
Entry/exit charges									
Indirect transaction costs		0.120%					0.120%		
Other transaction costs									
Total transaction costs	**165,277**	**0.120%**					**0.120%**		

Stock lending (if applicable)	Total
Value of stock on loan	n/a
Gross income	n/a

LCIV Absolute Return Fund: LGPS Transparency Code Data

POOLED FUND COST COLLECTION TEMPLATE

Fund Manager	Fund name	Share class name	Currency of report
Ruffer LLP	LCIV Absolute Return Fund	A Inc	GBP

Investment return (% pa)	1 Year	3 Year	5 Year	10 Year	Since formation
Net return	(1.2)%				3.6%

Investment activity (GBP unless specified)	Total	Bonds	Derivatives	Equity	Foreign exchange	Property
Opening assets	889,346,178					
Closing assets	869,002,774					
Purchases	4,000,000					
Sales	38,164,257					
Turnover (% pa)	0.5%					

Management fees	Total (GBP)
Invoiced Fees (less any rebates)	n/a
VAT (if applicable)	n/a
Total	**n/a**

Client-specific data	Client (GBP)
Average value of client holding	131,039,538

Ongoing charges	Client (GBP)	Total
Manager's Fees		0.75%
Other Fees		0.04%
Indirect Fees		0.02%
Total ongoing charges	**264,595**	**0.81%**

Performance fees	Client (GBP)	Total
Performance fees	n/a	

Transaction costs	Client (GBP)	Total	Bonds	Derivatives	Equity	Foreign exchange	Other	Pooled funds	Property
Transaction Taxes									
Broker Commission									
Implicit Costs									
Entry/exit charges									
Indirect transaction costs		0.104%	0.022%	0.057%	0.021%	0.004%			
Other transaction costs									
Total transaction costs	**136,086**	**0.104%**	**0.022%**	**0.057%**	**0.021%**	**0.004%**			

Stock lending (if applicable)	Total
Value of stock on loan	n/a
Gross income	n/a

LCIV MAC Fund: LGPS Transparency Code Data

POOLED FUND COST COLLECTION TEMPLATE

Fund Manager	Fund name	Share class name	Currency of report
CQS	LCIV MAC Fund	A Inc	GBP

Investment return (% pa)	1 Year	3 Year	5 Year	10 Year	Since formation
Net return	3.9%				3.5%

Investment activity (GBP unless specified)	Total	Derivatives	Equity	Fixed Income	FX
Opening assets	700,346,393				
Closing assets	841,674,640				
Turnover (% pa)					

Management fees	Total (GBP)
Invoiced Fees (less any rebates)	n/a
VAT (if applicable)	n/a
Total	**n/a**

Client-specific data	Client (GBP)
Average value of client holding	92,583,783

Ongoing charges	Client (GBP)	Total
Manager's Fees		0.40%
Other Fees		0.03%
Indirect Fees		0.10%
Total ongoing charges	**121,599**	**0.53%**

Performance fees	Client (GBP)	Total
Performance fees	n/a	

Transaction costs	Client (GBP)	Total	Derivatives	Equity	Fixed Income	FX	Other
Transaction Taxes							
Broker Commission							
Implicit Costs							
Entry/exit charges							
Indirect transaction costs		0.542%	0.000%		0.350%	0.086%	0.106%
Other transaction costs							
Total transaction costs	**501,692**	**0.542%**	**0.000%**		**0.350%**	**0.086%**	**0.106%**

Stock lending (if applicable)	Total
Value of stock on loan	n/a
Gross income	n/a

LCIV Fund Range

Please see below a summary of the LCIV funds, including both those in which you are invested, and those you are not. All performance is reported Net of fees and charges with distributions reinvested. For performance periods of more than a year performance is annualised.

	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
UK Equity							
LCIV UK Equity Fund	**£417m**	**£1,000m**	**0.44**	**(6.47)**	**(0.37)**	**18/05/2017**	**2**
Benchmark: FTSE All Share Index			*3.26*	*0.57*	*3.81*		
Performance Against Benchmark			**(2.82)**	**(7.04)**	**(4.18)**		
Global Equity							
LCIV Global Equity Alpha Fund	**£128m**	**Unlimited**	**8.03**	**12.16**	**16.18**	**02/12/2015**	**1**
Benchmark: MSCI World Index Total Return (Net) in GBP			*6.48*	*10.30*	*14.43*		
Performance Against Benchmark			**1.55**	**1.86**	**1.75**		
LCIV Global Alpha Growth Fund	**£2,689m**	**See note below**	**7.66**	**9.18**	**19.78**	**11/04/2016**	**13**
Benchmark: MSCI All Country World Gross Index			*6.24*	*10.50*	*16.16*		
Performance Against Benchmark			**1.42**	**(1.32)**	**3.62**		
LCIV Global Equity Fund	**£639m**	**Unlimited**	**6.37**	**12.10**	**10.08**	**22/05/2017**	**3**
Benchmark: MSCI All Country World Index Total Return (Gross)			*6.28*	*10.30*	*9.96*		
Performance Against Benchmark			**0.09**	**1.80**	**0.12**		
LCIV Global Equity Focus Fund	**£809m**	**£1,500m**	**4.17**	**11.69**	**10.19**	**17/07/2017**	**5**
Benchmark: MSCI World Index Total Return (Net) in GBP			*6.48*	*10.30*	*9.44*		
Performance Against Benchmark			**(2.31)**	**1.39**	**0.75**		
LCIV Equity Income Fund	**£250m**	**£750m**	**3.94**	**10.85**	**4.78**	**08/11/2017**	**2**
Benchmark: MSCI World Index Total Return (Net) in GBP			*6.48*	*10.30*	*7.75*		
Performance Against Benchmark			**(2.54)**	**0.55**	**(2.97)**		
LCIV Emerging Market Equity Fund	**£402m**	**£1,000m**	**5.60**	**4.58**	**(2.36)**	**11/01/2018**	**6**
Benchmark: MSCI Emerging Market Index (TR) Net			*3.01*	*4.99*	*(1.91)*		
Performance Against Benchmark			**2.59**	**(0.41)**	**(0.45)**		
LCIV Sustainable Equity Fund	**£303m**	**£1,000m**	**7.37**	**12.77**	**17.27**	**18/04/2018**	**2**
Benchmark: MSCI World Index Total Return (Net) in GBP			*6.48*	*10.30*	*14.49*		
Performance Against Benchmark			**0.89**	**2.47**	**2.78**		

LCIV Fund Range (continued)

	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
Multi Asset							
LCIV Global Total Return Fund	£320m	Unlimited	1.09	2.50	3.62	17/06/2016	5
LCIV Diversified Growth Fund	£672m	See note below	0.97	2.37	5.99	15/02/2016	8
LCIV Absolute Return Fund	£869m	£1,500m	1.62	(1.21)	3.63	21/06/2016	10
LCIV Real Return Fund	£184m	Unlimited	4.28	9.18	5.01	16/12/2016	2
Fixed Income							
LCIV MAC Fund	£842m	Unlimited	1.74	3.93	3.46	31/05/2018	12
LCIV Global Bond Fund	£269m	Unlimited	3.78	n/a	9.13	30/11/2018	3
Benchmark: Barclays Aggregate – Credit Index Hedged (GBP) Index			*3.23*	*n/a*	*8.29*		
Performance Against Benchmark			0.55	n/a	0.84		
Total LCIV Assets Under Management	£8,793m						

*Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.

Glossary of Terms

- **Reporting Date** All data and content within this report is as per the date noted on the front cover, unless otherwise noted. Where the reporting end date falls on a weekend or Bank holiday, data from the previous business day will be used.
- **Set up of the Sub–Funds** The London LGPS CIV Ltd ("London CIV" or "LCIV") is the Alternative Investment Fund Manager for the London LGPS CIV Authorised Contractual Scheme and manages the sub-funds on either a delegated or pooled basis.

  - Delegated: the sub-fund is structured as a delegated mandate with an appointed manager selecting individual securities overseen by the London CIV. The sub-funds directly own the assets which are held by the custodian. This is the case for the active global equity, UK equity sub-funds and Global Bond fund.
  - Pooled: The sub-fund holds units in collective investment schemes managed by other investment managers rather than directly holding the individual securities. This is the case for the multi-asset sub-funds.
- **Net Market Move** Change in valuation of the holding due to movement in the market rather than cash flows into or out of the portfolio.
- **Performance Calculation Basis** Fund performance is calculated net of all fees and expenses. Where a fund has been open for less than a year the performance will show as n/a. Performance is calculated in one of two ways depending which option is taken for reinvestment. Where distributions are reinvested fund performance is shown including the impact of this reinvestment. Where the cash option is taken distributions are included however no growth in distributions is included. Additional external flows such as subscriptions or redemptions are factored in on a Modified Dietz basis. This may mean that the performance for an LLA is different to the performance of the fund in total.
- **Since Inception Performance** For fund / LLAs that have been live for a period exceeding 12 months, figures are annualised taking into account the period the fund has been open.
- **Capacity** Total capacity of the fund. Further details can be found within the prospectus, funds may be limited by subscriptions into the fund or by the total fund valuation size. For queries on remaining capacity as at a relevant date, please contact the Client Service Team at clientservice@londonciv.org.uk.
- **XD Date** The date on which the distribution amount will be determined. Units purchased in the fund on its ex-dividend date or after, will not receive the next payment. Any units held in the fund before the ex-dividend date, receive the distribution.
- **Pay Date** The date on which the distribution amount will be paid in cash. If a reinvestment option is taken this will be reinvested on pay date –2 BD.
- **Estimated PPU** The estimated distribution pence per unit payment that will be made to unitholders at the next pay date.
- **Sectors and Industry Characteristics** The number of holdings in different sectors and industries is counted based on the classification to GICS categories of all individual portfolio holdings within the northern trust fund accounting system. Note the percentage of the portfolio calculations excludes the impact of any cash held within the fund.
- **Country Characteristics** The number of holdings in different countries is counted based on the classification to countries of risk of all individual portfolio holdings within the northern trust fund accounting system. Note the percentage of the portfolio calculations excludes the impact of any cash held within the fund. For the Equity Funds holdings incorporated in

Glossary of Terms

tax havens have been reflected as the country in which that company is headquartered.

- **Tracking error** A measure of the risk in an investment portfolio that is due to active management decisions made by the portfolio manager; it indicates how closely a portfolio follows the benchmark. This is shown in percentage terms.
- **Volatility Risk** A measure of the total risk in an investment portfolio. This is shown in percentage terms.
- **Beta** The beta is the sensitivity of the portfolio to the stated benchmark.
- **Top Ten Holdings** Largest ten holdings within the investment portfolio as at the reporting date. Note this excludes the impact of any cash held within the fund.
- **Performance Attribution** For delegated portfolios the top ten contributors and detractors to performance are shown. This is to show how the structure of the portfolio contributed to the total performance.
- **New Positions** For delegated portfolios any new holdings entered into during the quarter that were not held at the last quarter end have been reflected as new positions. If there are more than ten it is limited to the largest ten as at the end of the quarter. This is not necessarily the same as the largest ten purchases for the quarter if pre-existing holdings have been topped up. Note if a position was bought and has since been sold this will not appear.
- **Completed Sales** For delegated portfolios any holdings held at the last quarter end which have been sold out of and are no longer held as at the reporting date shown as completed sales. If there are more than ten it is limited to the largest ten as at the end of last quarter. This is not necessarily the largest ten sales for the quarter. Note if a position was bought and sold within the quarter this will not appear.
- **ESG** This stands for Environmental, social and governance and refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business.
- **UK Stewardship Code** A code which aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. Asset managers who sign up are given a tier rating of one or two. Details of all signatories, with links to the statements on their websites are available on the FRC website https://www.frc.org.uk/investors/uk-stewardship-code
- **Relevant Holdings** This table highlights holdings within the investment portfolio in GIC sub-industries which may be considered relevant for ESG considerations. Specifically this calls upon sub-industries:
  - ✓ Aerospace & defence
  - ✓ Brewers
  - ✓ Casinos & Gaming
  - ✓ Distillers & Vintners
  - ✓ Fertilizers & Agricultural Chemicals
  - ✓ Integrated Oil & Gas
  - ✓ Oil & Gas Drilling
  - ✓ Oil & Gas Exploration & Production
  - ✓ Oil & Gas Refining & Marketing
  - ✓ Tobacco
- List of **Underlying Manager** per Delegated Fund :
  - ✓ Allianz Global Investors for LCIV Global Equity Alpha Fund
  - ✓ Baillie Gifford & Co for LCIV Global Alpha Growth Fund and LCIV Diversified Growth Fund
  - ✓ Epoch Investment Partners for LCIV Equity Income Fund
  - ✓ Henderson Global Investors for LCIV Emerging Market Equity Fund

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- ✓ Longview Partners for LCIV Global Equity Focus Fund
- ✓ Majedie Asset Management for LCIV UK Equity Fund
- ✓ PIMCO for LCIV Global Bond Fund
- ✓ RBC Global Asset Management (UK) Limited for LCIV Sustainable Equity Fund
- ✓ Newton Investment Management for LCIV Global Equity Fund

- List of Pooled Funds **current Underlying Manager** :
  - ✓ Baillie Gifford & Co for LCIV Diversified Growth Fund
  - ✓ Newton Investment Management for LCIV Real Return Fund
  - ✓ Pyrford International for LCIV Global Total Return Fund
  - ✓ Ruffer LLP for LCIV Absolute Return Fund
  - ✓ CQS for LCIV MAC Fund

- **Weighted Average Rating** This is the weighted average credit rating of all the bonds in the fund which gives an idea of the credit quality and riskiness of the portfolio.
- **% Long Bond Equivalent Exposure with Public Rating** This represents the percentage market value of all debt instruments that the fund has bought and have a rating issued by a credit agency.
- **% of Investment with Public Rating** This represents the percentage market value of all debt instruments that the fund is long or short and have a rating issued by a credit agency.
- **Yield to Expected Maturity** It is the total return expected on the bond if it is held until it matures.
- **Spread Duration** This represents the price sensitivity of the portfolio to changes in spreads between different credit quality bonds.
- **Interest Rate Duration** It is the price sensitivity of the portfolio to changes in interest rates.
- **Duration** A portfolio's price sensitivity to changes in interest rates. An accurate predictor of price changes only for small, parallel shifts of the yield curve. For every 1 basis point fall (rise) in interest rates, a portfolio with duration of 1 year will rise (fall) in price by 1 bp.
- **Bull Duration** A portfolio's effective duration after a 50 bp decline in rates. The extent to which a portfolio's duration exceeds its bull market duration is a gauge of contraction risk.
- **Bear Duration** A portfolio's effective duration after a 50 bp rise in rates. The extent to which a Portfolio's bear market duration exceeds its duration is a gauge of extension risk.
- **Spread Duration** Spread duration represents a portfolio's sensitivity to changes in option-adjusted spread (OAS), which affects the value of bonds that trade at a yield spread to Treasuries. Corporate, Mortgage, and Emerging Markets spread duration represents the contribution of each sector to the overall portfolio spread duration. For every 1 year of spread duration, portfolio value should rise (fall) by 1 basis point with every 1 basis point of OAS tightening (widening). Negative spread duration indicates the portfolio will benefit from widening spreads relative to Treasuries.
- **Yield to Maturity** The rate of annual income return on an investment expressed as a percentage. Current yield is obtained by dividing the coupon rate of interest by the market price. Estimated yield to maturity is obtained by applying discounts and premiums from par to the income return. Bond yields move inversely to market prices. As market prices rise, yields on existing securities fall, and vice versa.
- **LGPS Transparency Code Template** All of the London CIV offerings are through the pooled ACS structure as such the pooled cost collection template has been provided. Where the fund invests via an underlying pooled structure the investment activity section has not been provided on

Glossary of Terms

a look through basis. The Management fee reflected is that of the underlying manager named on the template. This is the total amount paid by the fund as per the template requirements. The template also shows a section for performance fees however, except for LCIV Global Equity Alpha Fund and LCIV Global Equity Fund, our funds do not operate a performance fee as such this section will not reflect any amounts. The London CIV fee is included within the other fees in the client specific ongoing charges section. Transaction costs have been estimated assuming the same cost base and spread of the most recent audited financial statements. Where the fund invests via a pooled structure the most recent template received from the underlying manager has been used to estimate the fee rates.

Disclaimer

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Registered office: 70 Great Bridgewater Street, Manchester M1 5ES.

Non-Executive Report of the: **Pensions Committee** 24 September 2019	
Report of: Neville Murton - Corporate Director of Resources	**Classification:** Open (Unrestricted)
Pensions Administration Quarterly update- Quarter End June 2019	

Originating Officer(s)	Miriam Adams, Pensions and Investments Manager
Wards affected	All Wards

Executive Summary

To provide Members with information relating to the administration of the Fund over the last quarter as well as performance and updates on key issues and initiatives which impact the Pensions administration team.

Recommendations:

The Pensions Committee is recommended to:

- Note the report contents; and
- Note the update on potential new employers

1. REASONS FOR THE DECISIONS

1.1 The report asks the Committee to note the content of this report which covers the activities relating to Pensions administration over the last quarter.

2. ALTERNATIVE OPTIONS

2.1 There are no alternative options to this report

3. ADMINISTRATION

3.1 Scheme Membership at 30 June 2019

3.1.1 A core part of the role of running the pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated in addition to dealing with new members joining and members leaving the scheme. This activity is carried out in-house. The team also deals with employer related issues, including new employers and cessation.

Membership Numbers	Active	Deferred	Undecided	Pensioner	Frozen	Total
LGPS	7,106	7,811	156	6,545	1,510	23,128
% of Membership	30.7%	33.8%	0.7%	28.3%	6.5%	100.0%
Change from last quarter	301	-15	76	140	28	530

Membership Category	At 31/3/19	+/- Change (%)	At 30/6/19
Active	6,805	4.4	7,106
Deferred	7,826	-0.2	7,811
Pensioner (incl spouse & dependant members)	6,405	2.2	6,545
Undecided	80	95	156
Frozen	1,482	1.9	1,510
Total	22,598	2.3	23,128

3.2 Employers with active members at 30 June 2019

Scheduled Bodies	Admitted Bodies
London Borough of Tower Hamlets	Attwood Academy (Ian Mikardo School)
Agilisys Limited	Canary Wharf College
Compass Contract Services Limited	City Gateway
East End Homes	East London Arts & Music
Energy Kidz Limited	London Enterprise Academy
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)	Letta Trust (Stebon and Bygrove Schools)
Greenwich Leisure Limited	Mulberry Academy
One Housing Group (formerly Island Homes)	Paradigm Trust (Culloden, Old Ford and Solebay Primary Schools)
Swan Housing Association	Sir William Burrough
Tower Hamlets Community Housing Limited	St. Pauls Way Community School
Vibrance (formerly Redbridge Community Housing Limited)	Tower Hamlets Homes Limited
Wettons Cleaning Limited	Tower Trust (Clara Grant and Stepney Green Schools)
	Wapping High School

3.3 Tasks completed between 1 April to 30 June 2019

Task type	Tasks outstanding at start of quarter	New Tasks	Tasks Closed	Tasks outstanding at End of Quarter
Transfer in quotes	13	26	26	13
Transfer Out quotes	14	31	30	15
Employee estimates	20	139	129	30
Retirement quotes	7	73	75	5
Preserved benefits	28	73	67	34
Opt out	17	122	119	20
Refund Calculations	5	109	98	16
Refund Payments	12	70	79	3
Death in payment or in service	14	85	80	19
Actual transfers in	21	34	32	23
Actual transfers out	6	27	24	9
Starters	3	266	198	71
Leavers	40	223	210	53
Others	28	241	218	51
Total Case	**228**	**1,519**	**1,385**	**362**

Alongside the above cases, the team also handles phone calls and emails from members received via the Pensions Inbox.

3.4 Administration System
The contract for the existing administration software was renewed in June 2019 with a new contract end date of 31 October 2024. An online training tool TEC for pension administration staff was also procured.

3.5 CIPFA
Published in November 2018, the administration in the LGPS guide for pensions authorities produced by CIPFA and Aon aims to raise the profile and awareness of the pensions administration function within Pension Funds. (Appendix A)
Over the next few months officers will produce monitoring statistics based on the suggested format and types in the guide.

4. ADMISSIONS, TERMINATIONS AND OTHER EMPLOYER CHANGES

4.1 There are a growing number of employers participating within the Scheme mainly due to schools moving to academy status. In addition, the outsourcing of council or school activity that involves the transfer of staff will normally result in a new employer joining the Fund.

4.1.1 Academies are identified as scheduled bodies and must participate within the Pension Fund as the terms of their participation are determined by regulations.
Bodies who are admitted to the scheme because they are employers of staff that have transferred to them with the relevant service or activity (under legislation known as TUPE) are referred to as admitted bodies and must sign

the Council's admission agreement that set out the terms under which they will participate. Although new admitted bodies are brought to the attention of the pensions Committee for approval to participate, the Committee is not able to refuse providing the employer signs the admission agreement, pays contributions on time, provides satisfactory bond or guarantor and abides by the other scheme policies.

4.1.2 During the quarter ending June 2019 there were no finalised admissions or terminations to the Fund, however there are a number of admissions being processed.

4.2 Academy Conversions

Ian Mikado High School (Academy) a school under the Attwood Academy Trust is due to move to a new academy trust t4Trust. The staffs to move across to the newly formed t4Trust are currently scheme members.

4.3 Admitted Bodies

St Pauls Way Trust School (Academy) a school under the umbrella of the University School Trust informed the Fund of its intention to outsource its cleaning services to Purgo Limited. Discussions to finalise the commercial arrangement continue between Purgo Limited and t4Trust.

4.4 Employers Changing payroll providers

Letta Trust informed the Fund of its intention to change its payroll provider service. Both schools (Stebon primary and Bygrove primary) under the management of the trust will be affected by the change.

5. SPECIAL PROJECTS

5.1 Annual benefit statements (ABS)

5.1.1 The ABS process is carried out annually and its purpose is to actively manage and monitor all employers associated with the Fund. The employers are required to submit their end of year pay information by the set deadline. This requirement to submit end of year pay information is not required for employers who submit payroll data via i-Connect. The ABS statement to all active and deferred members is required be produced by the regulatory deadline of August 31.
Improvements have been made to ABS project planning, preparation and production this year

5.1.2 Officers are pleased to report that annual benefits statements for deferred members were despatched on 12 August and active members despatched by post on 19 August 2019. However, there remains a number of deferred members and active members with incomplete data and records which have not received statements. This is due to a number of reasons including but not limited to those who joined the scheme after 31 March 2019, where employers have not submitted information for 2018/19 or previous years or outstanding queries, where the team is in the process of joining together two or more of a members pension records or there is an additional pension contract or pension sharing order in place.

5.2 i-Connect Update

5.2.1 Although the Council is the pre-eminent employer within the Scheme, there are 31 employers in the scheme. The Fund commenced the use of i-Connect in April 2017. Since then, data is now received in respect of 19 of 31 employers with active membership as at 22 August 2019. I-Connect is a data exchange system that enables the uploading of bulk payroll data to Altair.

5.2.2 The benefits of i-Connect include:

- Pension records are maintained in ‘real-time’ time
- One Member Self Service is implemented, scheme members are presented with the most up to date and accurate information Member Self Service in future
- Pension administration data matches employer payroll data
- Discrepancies are dealt with as they arise each month
- Employers are not required to complete year end returns
- Manual completion of forms and input data onto systems is eradicated removing the risk of human error
- Contribution received in pension fund bank account is verified without manual intervention thereby speeding up reconciliations.

5.2.3 The implementation of i-Connect remains on going. The scheme employers already submitting their scheme data on a monthly basis are listed below

Employers on i-Connect	**Date**	**Employers not on i-Connect**
London Borough of Tower Hamlets		Tower Hamlet Community Housing limited
Agilisys	Aug 18	Swan Housing Association
East End Homes	Jan 19	Gateway housing Association
Greenwich Leisure Limited	Jan 19	One Housing Group
Vibrance (formerly Redbridge Community Housing Limited)	Apr 19	Canary Wharf College
City Gateway	Jun 18	London Enterprise Academy
Letta Trust	Apr 18	Compass Contract Services Limited
Mulberry Academy	Jan 19	Attwood Academy (Ian Mikardo School)
Paradigm trust	Apr 19	East London Arts & Music
Sir William Burrough Academy	Jan 19	Energy Kidz Limited
St Pauls Way Community School	Jan 19	Wettons Cleaning Limited
Tower Hamlets Homes Limited	Jan 19	
Tower Trust	Apr 18	
Wapping High School	Apr 18	

5.2.4 Plans are being drawn up by officers to fully train, support and guide scheme employers through the on-boarding process to be concluded by January 2020. This will facilitate the implementation of the 2019/20 online annual benefit statements. As at 16 August 2019, the following employers in the table above have not signed up to the use of i-Connect.

5.3 Data Quality Exercise and Improvement

5.3.1 The Pensions Regulator (TPR) previously issued guidance on the approach they consider to be good practice for measuring the presence of member data.
The Regulator expects all UK pension schemes to measure the presence and accuracy of the data they hold, and put plans in place to resolve issues where they find them.

5.3.2 The scheme has commissioned Heywood, supplier of the Pension Fund's Altair pension administration software, to run a data health check report, the results are expected at the end of September. Following receipt of the results a plan of action will be put in place to tackle short falls. Some of this will be utilising the LGPS National Insurance data base which the Fund recently signed up to, procuring a one off deferred member address search service and in-house training of staff.

5.4 Tackling deferred member addresses

The Fund has over 700 members without current address details. Although members are required to inform the Fund of any changes in address details this is not usually the case.

5.5 LGPS Administration Benchmarking & Resources

CIPFA recently issued A Guide to Administration in the LGPS which has been designed to provide an insight into the administration function for Pension Committee Members, Local Pension Board Members and those new to the LGPS. As well as ensure that the Fund is meeting both legal deadlines and internal target time scales.
Over the next few months these KPI's would be incorporated in the administration report.

5.6 Member Self Service (MSS)

Currently information flowing to and from scheme members is via traditional communications channels (letter, emails and telephones) and each enquiry requires the involvement of the Pensions team. We have been discussing with Aquila Heywood, the acquisition of Altair's Member Self-Service (MSS).
MSS is an online portal which gives members secure access to their LGPS records. The facility provides members with the opportunity to view and update their individual pension account, download forms and documents all in one place. Although cost savings are difficult to quantify in monetary terms, other benefits include:

- View and update personal details and changes of address
- Calculate the amount of additional lump sum they can take on retirement
- View service history, including any service which has been transferred
- View nominated beneficiaries
- View Annual Benefit Statements
- View pension payslips and P60s
- Change UK bank details

5.7 Guaranteed Minimum Pensions (GMP) Reconciliation

5.7.1 With the removal of the contracted-out nature of public service pension schemes the Pension Fund entered into a period of reconciliation against DWP records to ensure that the correct Guaranteed Minimum Pension (GMP) values are held by the Fund for pensioner and dependant scheme members.
The reconciliation also ensures that scheme records agree with those of the National Insurance Contribution Office (NICO, part of HMRC) thereby allowing the scheme to comply with the regulator's data quality checking requirements as well as ensuring that members' benefits are accurate

5.7.2 The GMP is the minimum pension that a United Kingdom occupational pension scheme must provide those public sector employees who are contracted out of the State Earnings Related Pension Scheme (SERPS), between April 6, 1978 and April 5, 1997. GMP paid was broadly equivalent to the amount an employee would have received if they had not been contracted out of the state pension scheme. Starting April 6, 1997, a reference scheme test replaced the guaranteed minimum pension system. The test evaluated the overall benefits provided by the scheme as opposed to an individual guarantee for each participant. If the scheme passed the test, it retained its ability to be contracted out.

5.7.3 There were two main components to the UK's old pension system: a basic state pension and the State Earnings Related Pension Scheme, also known as the Additional State Pension. Employees who paid National Insurance Contributions at the full rate built up a basic state pension. However, not all employees built up a SERPS. Many were contracted out of the state pension, either voluntarily or because their pension plan did so on their behalf.
HMRC provides two separate reconciliation support services. Shared Workspace is a web-based service for schemes that have surrendered their contracting-out certificate. Schemes that have not yet surrendered their contracting-out certificate can use HMRC's Scheme Reconciliation Service (SRS). Both are designed to help administrators reconcile the membership and GMP data held on scheme records with that on HMRC records.

5.7.4 The Fund is currently in the process of procuring external support to deal with the GMP reconciliation. Working with HMRC the contracted firm will provide an agreed position on membership and GMP amounts and undertake the final analysis of HMRC and Scheme data. This will allow the final position from a membership and GMP value perspective. This is expected to commence at the end of November. Decisions will then be needed on the treatment of any over/underpayments and will allow a rectification and communications plan to be written.

5.7.5 The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., Rectification will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will

also involve a significant member communication exercise to explain the changes taking place.
Officers are unable to quantify the under/overpayment liability values as at 31/03/2019 until the completion of this exercise.

5.8 Internal Disputes Resolution Procedures

5.8.1 Scheme members and relatives who are unhappy with decisions made in respect of the Scheme, normally in connection with the awarding of benefits, have the right to ask for the decision to be reviewed under the Scheme's formal complaints procedure, referred to as Internal Disputes Resolution Procedure (IDPR).
The IDPR has two stages, with each stage the decision being reviewed by someone who was not involved in the original decision. If the compliant is not happy with the first stage decision they can request a second review.

5.8.2 It is intended that in future a summary of current complaints received and the outcomes will be reported to both the Pensions Committee and the Pensions Board. Details of cases will be minimised to maintain scheme member confidentiality.

5.9 Project Plan

The table below outlines the immediate projects for the team over the next 12 months. The Committee and Board will be provided with a quarterly update on progress.

	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20
Tackle manual ABS statements (2018/19)	x	x	x	x						
Incorporate CIPFA suggested KPI's in new admin report format		x	x	x	X	x				
Employer database		x	x	x	X	x	x	x	x	x
Data quality review	x	x	x	x	X					x
i-Connect		x	x	x	X	x	x	x	x	x
Annual Allowance (AA)and Life Time Allowance (LTA) Statements including workshop		x	x	x					x	x
GMP reconciliation			x	x	X	x	x			
Tackling of deferred member addresses		x	x	x	X	x	x	x		
2019/20 ABS							x	x	x	x
Employers Forum					X	x				
Outstanding HMRC returns							x	x	x	x
Internal Disputes Resolution Procedures (IDRP)reporting			x	x	x					

6. <u>EQUALITIES IMPLICATIONS</u>

6.1 There are no specific equalities implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

7.1 There are no direct financial implications arising from the contents of this report.

8. COMMENTS OF LEGAL SERVICES

8.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration functions of the pension fund.

8.2 When carrying out its functions as the administering authority of its 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).

Linked Reports, Appendices and Background Documents

Linked Report
- NONE

Appendices
- Appendix 1 – Administration in the LGPS – A CIPFA guide for pensions authorities

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
- NONE

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CIPFA The Chartered Institute of Public Finance & Accountancy

administration in the LGPS

A guide for pensions authorities

Aon Empower Results®

INSIGHTS
for public financial management

About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

About Aon

Aon plc is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Its 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aon's public sector retirement team specialise in providing advice in relation to the Local Government Pension Scheme (LGPS), police and fire schemes and the public services schemes of offshore Governments. They also advise employers in relation to public service pension schemes including the Police and Fire schemes, LGPS, the NHS Pension Scheme, the Teachers' Pension Scheme and the Principal Civil Service Pension Scheme (PCSPS).

\ foreword

For many years the Local Government Pension Scheme (LGPS) was relatively simple with benefits based on a final salary and the number of years an individual was a member. Changes in accrual rates, changes in taxation and the move to a scheme based on career average earnings have led to a significant increase in the complexity of the scheme. Recruiting experienced pension people has proved an added difficulty resulting in our pension administrators being placed under increasing pressure. While the management of pension fund assets and the introduction of investment pools are critically important, it often means that pensions administration does not get the attention or resources it deserves. However the LGPS only exists to administer and pay benefits to its scheme members. The member experience is paramount. The purpose of this insight is to raise the profile and awareness of the pensions administration function.

Within the public sector environment there is also continuous pressure to drive down costs and the administering authorities of local government pension funds have not been able to avoid this pressure. While there is much good practice within the LGPS, the CIPFA Pension Panel has become increasingly concerned that in some instances the pensions administration function may not be operating as effectively as it should be. The guide is timely given the increasing focus by the Pensions Regulator on the need to deliver effective and efficient administration.

This insight has been written to assist senior officers, committee and board members to better understand how they can oversee the delivery and quality of administration and communications within their administering authorities, with a view to identifying where improvements may be needed.

I welcome this insight as a key piece of the LGPS jigsaw. It has been developed by Aon and supported by Neil Sellstrom (CIPFA Pensions Technical Manager) on behalf of the CIPFA Pensions Panel.

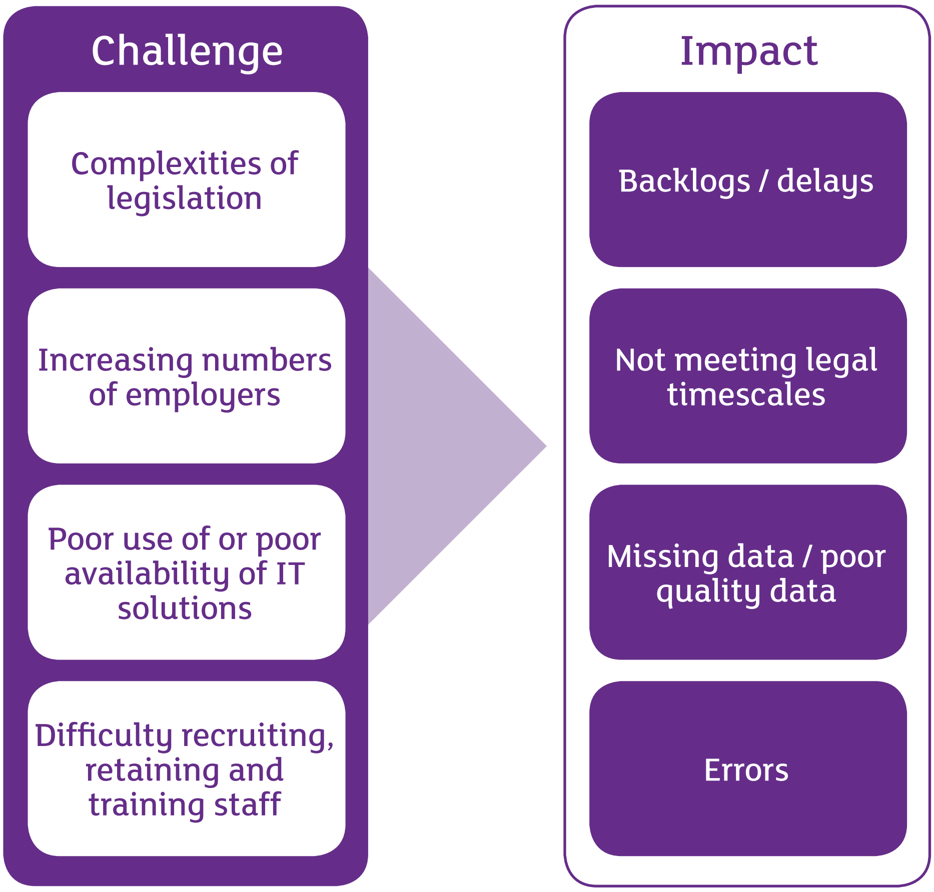
The Panel would like to thank Karen McWilliam, Catherine Pearce, Craig Payne and other colleagues at Aon for their contributions to the guidance.

Mike Ellsmore
Chair, CIPFA Pensions Panel

what are the challenges?

What are the administration and communication challenges?

Administration teams have been faced with some major challenges in recent years. We have seen evidence from some LGPS administering authorities that the amount of 'tasks' having to be dealt with has doubled in the last two or three years. Given these challenges, it should not be a surprise that most administering authorities are experiencing some of the areas of impact highlighted below (and this is by no means an exhaustive list).



Source: Aon

What is your role?

Each administering authority has a legal responsibility to maintain and manage their LGPS fund. This role is referred to as the scheme manager in the Public Service Pensions Act 2013. Although these legal responsibilities lie with the organisation as a whole, they are usually delegated to committees, sub-committees and/or senior officers. The local pension board has a legal responsibility to "assist the scheme manager" in securing compliance with its obligations and so is expected to work closely with those who are managing the LGPS fund ensuring that those responsibilities are met. A key part of this role is also ensuring that the Pension Regulator's requirements are met, many of which are focused on efficient and effective administration.

Consequently, senior officers and committee and board members have a collective responsibility for the proper governance of the fund, including administration and communications matters. Key steps in dealing with these administration challenges should include:

- ensuring you have a**dministration and communications strategies** in place and that they are regularly reviewed, providing clarity on the fund's aims and objectives including how these will be monitored
- **engaging** with your administration team. Encourage **transparency** and be supportive
- **identifying the current challenges** your administration teams are faced with – for example backlogs, data gaps, poor satisfaction scores or lack of time/resources to develop efficiencies and improvements
- **developing a plan** with clear actions and timescales to overcome the current challenges. This should be part of the fund's business plan and is likely to involve some or all of the following: reviewing priorities, increasing resource, implementing new systems or procedures and outsourcing some or all of the rectification
- getting regular updates showing **progress against the action plan** to ensure your remedial work is delivering as expected
- ensuring you are provided with information on a regular basis, and you are **monitoring** against your fund's aims and objectives as well as the legal requirements. This will mean you can more quickly identify issues as they arise, as well as seeing where performance is strong. Suggestions of what you should monitor are included in this document.

You should accept that there is no silver bullet. Existing backlogs and data problems could take many months or even years to resolve, particularly where recruitment and training are required.

But it is critical that a clear plan of action is in place with targets, timescales and resources clearly identified.

foundations and monitoring

Strong foundations – strategies and business planning

The fund's administration and communication strategies are critical to setting the aims and objectives that the administration teams need to focus on. The administration strategy should clarify how administration will be delivered as well as confirming the responsibilities of the various stakeholders, and particularly the employers of the fund. The communications strategy should confirm how you will communicate with the key stakeholders, as well as clarifying how much focus will be put on areas such as electronic communications. The strategies should explain how the aims and objectives will be measured on an ongoing basis. You should ensure both strategies are regularly reviewed and that achievement of the aims and objectives are regularly monitored.

The next part of the jigsaw is the fund's business plan. This should be agreed at least annually and it will set out the key steps to delivering the administration and communications strategies (as well as the other strategies of the fund) together with the associated budget. This should confirm the key projects and tasks for the administration teams in the forthcoming year or longer, including any system or process changes that may be required to meet the fund's strategies and any changes or projects required as a result of national initiatives or regulatory changes. The business plan provides direction for the administration team, so they know the areas of focus for the forthcoming period.

Regular monitoring – what should you be looking for?

The world of administration is complicated and therefore you should be receiving regular monitoring updates to help you identify if things aren't going as planned. Here are some key areas we recommend that you ensure you receive as a minimum. The level of detail provided might vary depending on whether the information is being considered by a pension committee, a local pension board or senior officers. For example, the pension committee may wish to receive something with less detail, albeit they should still be made aware of areas of concern.

1. Are legal deadlines being met?

There are many legal timescales that the administration team should be meeting. There is no flexibility in these timescales and the administering authority should be doing everything it can to meet them. It may be impractical to expect reporting against all the legal timescales, but some of the key ones are illustrated below with sample data which shows the specific process, the legal timescale and the performance in the month. The data should be supplied with some context eg reasons why the legal timescale has not been met and what is being done to improve the position. This information may highlight breach situations (see 4.).

Process	Legal requirement	Total number completed	% achieved in legal deadline
		April 2018	
Send a notification of joining the LGPS to a scheme member.	Two months from date of joining the scheme), or if earlier within one month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled.	256	99%
Inform a member who left the scheme of their leaver rights and options.	As soon as practicable and no more than two months from date of initial notification (from employer or from scheme member).	49	99%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	Two months from the date of request.	18	95%
Provide details of transfer value for transfer out, on request.	Three months from date of request (CETV estimate).	25	100%
Notify the amount of retirement benefits.	One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age.	40	97%
Provide a retirement quotation on request.	As soon as is practicable, but no more than two months from date of request unless there has already been a request in the last 12 months.	33	97%
Calculate and notify dependant(s) of amount. of death benefits	As soon as possible but in any event no more than two months from date of becoming aware of death, or from date of request by a third party (eg personal representative).	9	100%
Provide all active and deferred members with an Annual Benefit Statement	By 31 August each year.	12358	96%

2. Is the administration team meeting the fund's agreed internal target timescales?

The majority of existing timescale monitoring that we see falls within this category. This relates to the internal timescales for work carried out by the administration team, usually focusing on the period from when all data is received (for example, from the employer or scheme member) to when the administration team complete that task. It is good practice to have specific timescales and targets for specific processes carried out by the administration team.

A range of target timescales should be determined by each administering authority and it is good practice for them to be included, or at least referred to, in a fund administration strategy. The following data illustrates some key processes, sample fund targets and performance within a month. Again, the data should be accompanied by some explanation where targets are not met.

Process	Administration team target	Target %	Total number completed	% achieved in admin team deadline
			April 2018	
Send a notification of joining the LGPS to a scheme member.	15 working days from receipt of all information	90%	256	97%
Inform a member who left the scheme of their calculated benefits (refund or deferred).	15 working days from receipt of all information	90%	49	99%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	20 working days from receipt of all information	90%	18	92%
Provide details of transfer value for transfer out, on request.	20 working days from receipt of all information	90%	25	100%
Notify a member of final amount of retirement benefits (post commutation).	Five working days from receipt of all information	95%	40	95%
Providing a retirement quotation on request.	10 working days from receipt of all information	90%	33	96%
Calculate and notify dependant(s) of amount of death benefits.	Five working days from receipt of all information	95%	9	98%

3. Are total turnaround times being met?

Looking at the data in 1 and 2 above alone does not necessarily provide you with a true indication of what your scheme members' experiences are. For example, how long are scheme members waiting to receive the calculation of their deferred benefits if they resign? Even where the legal timescales cover the member experience, you may wish to set shorter timescales or other targets for specific processes carried out for your fund. Again, these should be included or referred to within the fund's Administration Strategy. The following data illustrates some key processes, sample fund targets and performance within a month:

Process	Overall process target	Target %	Total number completed	% achieved in overall process target
			April 2018	
Send a notification of joining the LGPS to a scheme member.	30 working days from date of joining	90%	256	96%
Inform a member who left the scheme of their calculated benefits (refund or deferred).	40 working days from date of leaving	90%	49	97%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	40 working days from date of member's initial request	90%	18	94%
Provide details of transfer value for transfer out, on request.	40 working days from date of request	90%	25	100%
Notify a member of final amount of retirement benefits	20 working days from date of retirement	95%	40	91%
Providing a retirement quotation on request.	15 working days from date of request	90%	33	93%
Calculate and notify dependant(s) of amount of death benefits.	20 working days from date of death	95%	9	96%

4. Breaches and errors

Whenever an administering authority fails to do something it is required to do by law, it is good practice that it should be included in the fund's 'breaches of the law' register, regardless of whether the breach should be reported to the Pensions Regulator. This register should include the more commonly recorded breaches such as employers failing to pay contributions to the fund (either on time or incorrect amounts) and not issuing all annual benefit statements.

It should also include cases where a legal timescale is not met (some of which will be included in 1. above, but others could apply including HMRC deadlines such as pension savings statements) and other situations such as a result of incorrect benefit calculations. It is worth extending the reporting to include other errors and omissions, for example as identified through internal dispute resolution procedures (IDRPs), as these can highlight quality issues or a specific area of concern that needs to be resolved.

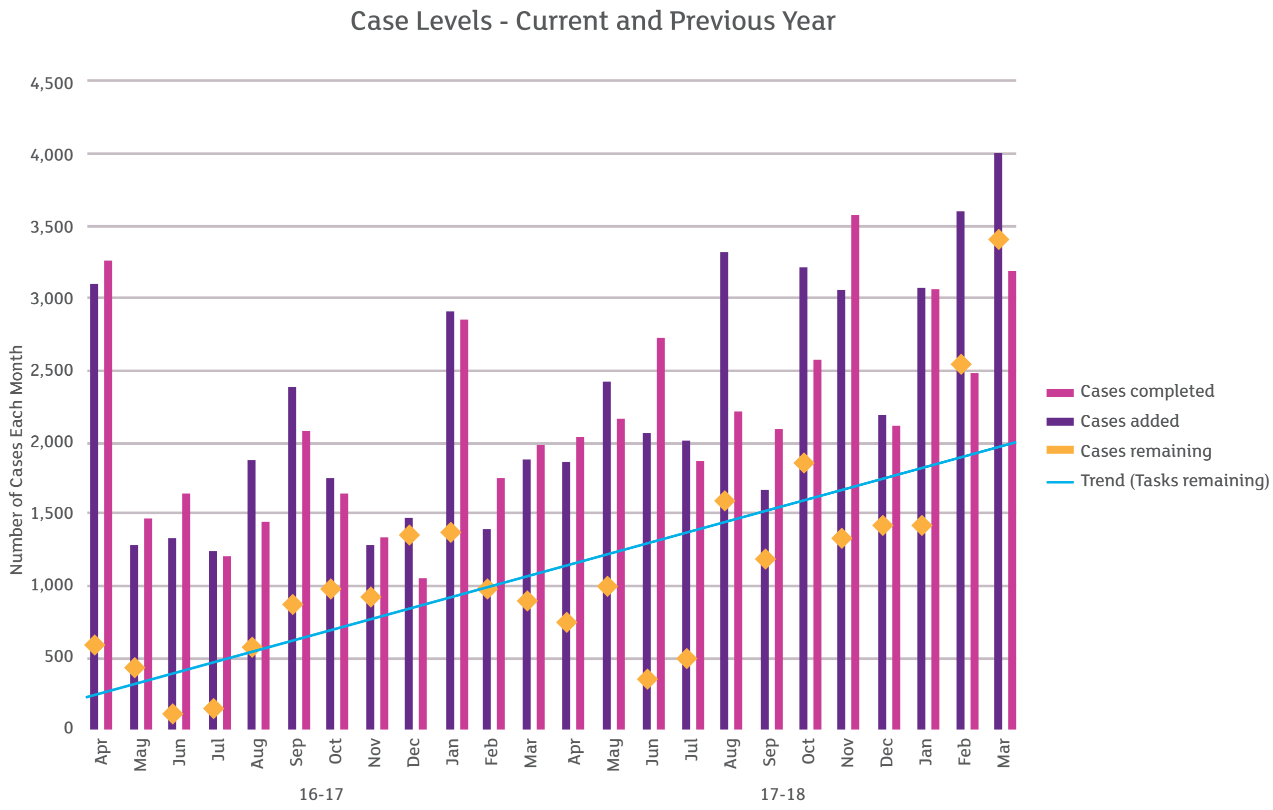
The Pension Regulator's requirements in relation to breaches of the law

The Pension Regulator's Code of Practice 14 relating to the governance and administration of public service pension schemes places a lot of focus on the requirements to manage breaches of the law. In this regard a breach of the law relates to a legal duty relevant to the administration of the scheme under the Pensions Act 2004 which is not being complied with. This Regulator's Code of Practice reminds us that we should:

- have appropriate processes in place to consider whether a breach of the law is materially significant to the Pensions Regulator and therefore should be reported to it (which is a statutory requirement)
- have a system to record breaches even if they are not reported to the Pension Regulator.

5. What new tasks are coming in, how many are being completed and how many are outstanding?

The information you will receive in relation to measures 1. 2. and 3. above focus on the tasks and processes the administration team are completing. What they don't show are the cases that are still waiting to be processed; nor do they highlight the amount of work being received by the team. It is therefore important to monitor these two further areas by comparing them with the number of cases being completed each month. It is particularly important to understand any trends over time and whether there are any explanations so you can assess the likelihood of the situation continuing. One example of how this information can be reported is shown below.



Source: Aon

6. What do scheme members and employers think?

Most administering authorities will have administration and communications strategies with specific objectives that can best be measured by customer feedback – relating to both scheme members and employers. It is important for administering authorities to gather and consider feedback on a regular basis (at least annually, if not ongoing).

One sample of scheme member feedback against fund objectives is shown below. In this example, the fund has an objective of 80% of responses being 'agree' or 'strongly agree'.

Scheme member survey		Strongly disagree	Disagree	Agree	Strongly agree	>Agree
Admin	...offers documentation, guidance and information in a professional manner?	8.7%	4.3%	52.2%	34.8%	87.0%
	...is proactive in their approach to provide a service to members?	8.7%	8.7%	52.2%	30.4%	82.6%
	...gives an appropriately timed service with regular updates?	13.0%	8.7%	60.9%	17.4%	78.3%
	...is customer focused and meets the needs of its members	8.7%	4.3%	60.9%	26.1%	87.0%
	...has provided a high quality service throughout your membership?	8.7%	8.7%	43.5%	39.1%	82.6%
Comms	...promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about your benefits?	15.4%	7.7%	46.2%	30.8%	76.9%
	...communicate in a clear and concise manner?	15.4%	7.7%	46.2%	30.8%	76.9%
	...use the most appropriate means of communication?	7.7%	15.4%	38.5%	38.5%	76.9%
954 surveys issues / 132 returned (13.8%)						

Source: Aon

7. What other data issues are there?

The Pensions Regulator is putting a lot of focus on data issues in 2018 and expects all public service pension scheme administrators to have improvement plans in place including facilities to measure common data and scheme specific data.

The Scheme Advisory Board will be developing a template for LGPS scheme specific data that all administering authorities will be expected to report on from 2019, in addition to common data. In the interim, all administering authorities should have developed their own approach to scoring of the quality of their scheme specific data. Senior officers, committee and board members should ensure they regularly see the fund's data improvement plan which should highlight all data issues and the plan of action to rectify them where appropriate, together with progress against that plan.

8. What other objectives and aims are in your strategies? Are you receiving reporting to identify if they are being achieved?

All administering authorities must, by law, have a communications policy in place and it is also best practice to have an administration strategy in place. Within both of these, you should have a number of aims and objectives. It is important that any aims or objectives you have are being appropriately measured and monitored. You should review those aims and objectives against the monitoring information that you receive from the administration team to ensure that is the case, and ensure that a plan is put in place where objectives are not being met.

9. Are employers meeting their requirements?

Many of the requirements imposed on administering authorities are only achievable if the scheme employers do their part of the process correctly and on time. Administering authorities should set out to their employers what they are required to do and when, and this is commonly included in the administration strategy. The strategy will usually also set out the fund's policy on recharging costs to those employers who cause additional work for the administering authority by sending incorrect or late data.

It is therefore important to monitor the performance of employers against the requirements set out in the strategy and you should ensure that you receive information about this monitoring and include in your action plan where an employer is not meeting requirements. This can be presented in various ways and some of it may be implicit in the reporting elements outlined previously.

10. Is the administration team delivering on the priorities on the business plan?

Finally, every year the pension committee should be asked to approve a business plan outlining the key priorities for the forthcoming period – best practice would be a rolling plan covering at least three years, updated on an annual basis. This should include administration and communications elements, such as:

- review of processes due to changes in legislation
- implementing new systems
- procurement of suppliers
- any other known projects (a recent example is GMP reconciliation)
- any projects to clear backlogs or other issues identified.

As a matter of course, you should receive regular information showing whether these priorities are being delivered to the planned timetable and to budget.

What if administration is outsourced or delivered through a shared-service arrangement?

Whether your administration service is delivered internally (within the administering authority), outsourced to a private sector contractor or provided through a shared-service arrangement, the responsibility for the proper governance of the fund, including administration and communications matters, still lies with the administering authority. Accordingly, you would expect all of the points highlighted above to equally be included in reporting from any external provider or shared service partner of your administration services. A close working relationship is fundamental to ensuring that your administration provider is able to continually meet legal and other requirements, particularly given you will have no or little direct control over the resources available to deliver your administration services.

It will be extremely important to ensure that the information to be included in reporting, and the level of detail expected, is clearly set out when carrying out any tender or appointment process. This should ensure full details of all fund specific service standards or other targets (albeit noting that these may move during the period of the contract). This should also set out expectations in relation to rectification where an administration provider is failing to meet requirements.

\ conclusion

Administering authorities should ensure they understand the administration challenges they face and meet their fiduciary responsibilities to their scheme members, as well as working with their employers to ensure they also understand and meet their responsibilities. The level of scrutiny on LGPS funds has never been higher, both from internal sources such as local pension boards but particularly from external sources such as the Pensions Regulator, the Pensions Ombudsman and the national press.

It is therefore essential that administering authorities and their fund employers have the necessary capacity to meet these challenges, otherwise there is a significant risk of censure and the subsequent reputational damage at local and national level and, more concerning, of scheme members not receiving accurate benefits paid on time. The period of time required to recruit and train staff should not be underestimated. It is hoped that this guidance informs authorities with a view to ensuring robust governance arrangements are in place in relation to administration and communications on an ongoing basis.

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11/2018

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

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