

PENSIONS COMMITTEE

Thursday, 28 November 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 Faroque Ahmed, Councillor Kevin Brady and Councillor Peter Golds

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

Contact for further enquiries:

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Tel: 020 7364 4878

Web: <http://www.towerhamlets.gov.uk/committee>

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APOLOGIES FOR ABSENCE

**1. DECLARATIONS OF DISCLOSABLE
PECUNIARY INTEREST** **5 - 8**

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 MEETING HELD ON 24TH
SEPTEMBER, 2019** **9 - 16**

To confirm as a correct record the minutes of the meeting of the Committee held on Minutes of the meeting held on 24th September, 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

5.1 Equity Protection - Presentation and Training

**5.2 Quarterly Voting and Engagement Update for
September 2019**

5.3 Report on Fund Liquidity

**5.4 Pensions Administration Quarterly update- Quarter End September
2019**

5.5 The Investment Consultancy and Fiduciary Management Market Investigation Order 2019

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

Next Meeting of the Committee:

Thursday, 19 March 2020 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	<p>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.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>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—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
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	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(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.</p>

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**LONDON BOROUGH OF TOWER HAMLETS
MINUTES OF THE PENSIONS COMMITTEE
HELD AT 6.30 P.M. ON TUESDAY, 24 SEPTEMBER 2019
COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE**

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Ayas Miah
Councillor Kevin Brady
Councillor Peter Golds

Apologies:

Councillor Mohammed Ahbab Hossain
Councillor Eve McQuillan
Councillor Abdal Ullah
Councillor Andrew Wood

Others Present:

Kehinde Akintunde – (GMB Union Representative)

Officers Present:

Miriam Adams	– Interim Pensions and Investment Manager
Kevin Bartle	– Divisional Director of Finance, Procurement and Audit
Tim Dean	– (Senior Pensions Team Leader)
Barry Dodds	– Actuary
Douglas Green	– Hymans Robertson - Fund Actuary
David.Knight	– Principal Committee Services Officer
Neville Murton	– Corporate Director of Resources
Colin Robertson	– Independent Investment Advisor (Pensions Committee)
Steve Turner	– Mercers - Senior Investment Consultant
Sam Yeandle	– Senior Investment Analyst

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

There were no declarations of disclosable pecuniary interest.

2. MINUTES OF THE PREVIOUS MEETING(S)

2.1 Minutes of the meeting held on Wednesday, 13th March, 2019

The minutes of the meeting held on 13th March, 2019 were agreed as a correct record. Copy to sign.

2.2 Minutes of the meeting held on Thursday 20th June, 2019

The minutes of the meeting held on 20th June, 2019 were agreed as a correct record. Copy to sign.

3. PETITIONS

Noted that there had been a request to present a petition and to address the Committee from Extinction Rebellion regarding the divestment of the Pension Funds equity assets that were directly invested in carbon stocks e.g. energy firms (oil, gas and coal producers and distributors) plus mining companies.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Committee received and noted a report from the Pensions Board Chair John Jones that highlighted the key issues that had been considered by the Board at its meeting on 19th September, 2019:

The Committee noted that the Board:

- Had received two presentations at the meeting as part of the Board's programme of training and development. The first from bfinance on the current market opportunities and challenges in investing in infrastructure, and the second from Quinbrook Partners on their approach to investing in renewable energy;
- Had asked a range of questions to both these presenters and concluded that infrastructure is an asset class that the Pension Fund should be incorporated into its asset allocation and explore the investment opportunities available.
- Considered the latest performance data for the Fund and noted the strong returns from Global equities over the past year and the disappointing returns from Absolute Bonds from inception;
- Had also found the summary document produced by Mercer to be very user friendly and easy to access;
- Had received (i) details on the latest Local Authority Pension Fund Forum (LAPFF) voting and engagement update; (ii) an update on developments with the Local Government Pension Scheme (LGPS) cost cap; (iii) information on the McCloud judgement and the Actuarial Review;
- Had reviewed the latest Risk Register and recommend that the document is improved by introducing a RAG traffic light system to highlight areas of concern; and
- Although pleased to see that a more comprehensive and complete report had been developed on pensions administration performance and the key issues affecting the service. It was important that progress is monitored closely and reported to both the Board and Committee, and that sufficient resources are made available to achieve this.

5. VARIATION TO THE ORDER OF BUSINESS

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

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

Accordingly the Committee Members **RESOLVED** that:

- Item 7.1 The Increased Allocation to Low Carbon Equities should be considered as the first substantive item of business.

6. REPORTS FOR CONSIDERATION

6.1 2019 Actuarial Valuation Assumptions and Draft Funding Strategy Statement

The Committee received a report that provided a summary of progress to date on the 2019 actuarial valuation process. It was noted that 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 main points of the discussion on the report may be summarised as follows:

The Committee noted:

- That employee contributions are set by the Government, which means that employers must pay the balance of any cost in delivering the benefits to members;
- That 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;
- That the draft FSS is circulated to all employers who participate in the Fund in Quarter 4 2019 so as to allow comments to be made prior to its finalisation. Comments received from that consultation will be brought to the attention of this Committee along with the final FSS on 19 March 2020;
- An update on the Actuarial Valuation process from the Fund's actuary, Hymans Robertson, who have been reviewing the data supplied to them by the Council 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;

- That the Hymans will be producing initial results on the overall fund that will be presented to Members in November 2019 when the Committee will be asked to note the new contribution rates for employers that will be effective from 1st April; 2020 for the next three years up to 31st March 2023;
- That the funding strategy essentially is a balancing act with the key decision being to ensure a balance between contributions and investment returns; and
- That the Fund's strategy aims to reflect the different characteristics of different employers in determining their contribution rates. Which requires the Fund to have a clear and transparent strategy to demonstrate how each employer can best meet their own liabilities over future years.

As a result of discussions on the report the Committee **RESOLVED** to

1. **Note** the content of this report;
2. **Note** and agree the assumptions and methodology proposed by the Actuary to determine the actuarial funding level and standardised employer contribution rate;
3. **Approve** the Funding Strategy Statement (FSS) 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; and
4. **Note** that a final FSS will be presented to the Committee at the 19 March 2020 meeting.

6.2 Asset Allocation Review and Rebalancing of Portfolio

The Committee received and noted a report that provided details of the investment manager performance.

EXCLUSION OF THE PRESS AND PUBLIC

Following due consideration and receipt of legal advice the decision was taken to exclude the public from the meeting for a short period of time. This was to facilitate the discussion of the information in the report that could prejudice the commercial interests of a third party. Due consideration was given to the impact on the Council should such information be released into the public domain and therefore it was considered that the public interest in knowing the information was outweighed by the public interest in maintaining the exemption.

The Committee agreed 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 part of the Presentation on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

6.3 Increased Allocation to Low Carbon Equities

The Committee received and noted a report on the increased allocation to low carbon equities. The main points of the discussion on the report may be summarised as follows:

The Committee:

- Noted it is important to understand the approach taken to date as well which is a decarbonisation investment strategy in comparison to a divestment strategy;
- Noted that a decarbonisation approach allocates to companies that are lower carbon emitting, whereas divestment is completely excluding certain 'carbon heavy' sectors from the investable universe (**e.g.** energy and mining stocks). The approach of the Legal & General Investment Management (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.
- Was advised that at the November 2018 meeting officers had presented the results of a carbon footprint analysis of the Fund's listed equity assets. The results had highlighted that the Fund's equity assets were in aggregate approximately 38% less carbon intensive than the Fund benchmark. Although a further deduction in the Fund's carbon exposure could be achieved given the interest in reducing the Fund's carbon exposure;
- Was informed that Members had in 2017 decided to make an allocation to passive Global Low Carbon Equity. An initial allocation of 15% of Fund assets was made. Whilst recently, the Committee had decided to increase the Fund's strategic asset allocation to passive Global low Carbon equities further from 15% to 20%. This it has been estimated would reduce the Fund's equity carbon foot print by around 10% relative to the current position;
- Noted that there is increasing pressure being placed on Pension Funds by stakeholders to ensure that Environmental, Social and Corporate Governance (ESG) factors are considered when making investment decisions. This pressure is coming from (i) lobby groups, (ii) other stakeholders, (iii) the Bank of England and (iv) the Pensions Regulator who have 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;
- Note that a number of lobby groups have been pressuring Local Government Pension Scheme (LGPS) funds including Tower Hamlets 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;

- Noted that the 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 such a decarbonisation approach;
- Noted that 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) supporting 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;
- Considered the options (1 and 2) for increasing the allocation to Low Carbon equities as set out in the detailed paper prepared by Mercer the Fund actuary (Appendix A refers);
- Considered the cost and currency hedging implications of switching all existing passive global market-cap equities into Global Low Carbon equities (Option1);

As a result of discussions on the report the Committee **RESOLVED** to

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

7. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of items 7.1 and 7.2 on the agenda the Committee agreed 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.”

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7.1 LCIV and LGPS Updates For September 2019

The Committee received a report that provided an update into the Pooling arrangements and London Collective Investment Vehicle (CIV) Pool. The discussion on the report was considered in closed session.

7.2 Quarterly Voting and Engagement Update for June 2019

The Committee noted that 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. The discussion on the report was considered in closed session.

7.3 Investment and Fund Managers Performance Review for Quarter End June 2019

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

The Committee noted that

- The decade's long fall in bond yields was showing some signs of coming to an end with erratic moves in gilt yields. Central bank actions had driven the fall in yields and also supported equity markets but investors were starting to question the effectiveness of further stimulus. Politics globally had become very important for investors;
- He supported the asset allocation moves set out in the meeting papers, adding that further out consideration should be given to increasing the exposure to liability matching type bonds;
- He had raised the quality of London CIV manager reports with them. He reported that CIV had put convertible and quantitative strategies (CQS) on their "Watch List" which appeared to be generally thought unjustified."

As a result of discussions on the report the Committee **RESOLVED** to note the:

- content of this report;
- detailed fund performance by Mercer (As detailed in Appendix A of the report);
- Independent Adviser quarterly commentary (As detailed in Appendix B of the report); and
- Pensions and Investment Research Consultants (PIRC) Local Authority Universe performance indicators (As detailed in Appendix C of the report).

7.4 Pensions Administration Quarterly update- Quarter End June 2019

The Committee noted a report that provided 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. The main points of the discussion is summarised as follows:

The Committee noted that:

- 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;
- 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;

As a result of discussions on the report the Committee **RESOLVED** to note the:

8. TRAINING EVENTS

It was noted that the Committee will shortly be receiving a list of future training, seminars and conferences. Members were asked to inform Miriam Adams, the Interim Pensions & Investment Manager if they wish to attend any of the training events.

9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items

10. EXEMPT/ CONFIDENTIAL MINUTES

10.1 EXEMPT/ CONFIDENTIAL MINUTES

The confidential minutes of the meeting held on 13th March, 2019 were agreed as a correct record. Copy to sign.

The meeting ended at 9.28 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee