

Supplementary agenda of the

# PENSIONS COMMITTEE

---

Thursday, 14 June 2012 at 7.30 p.m.

---

## A G E N D A

---

**VENUE**  
**COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE**

**Members:**

**Chair: Councillor Zenith Rahman**  
**Vice – Chair:**

**Councillor Craig Aston**  
**Councillor Abdal Ullah**  
**John Gray - Non-Voting Member**  
**(Admitted Body)**  
**Frank West - Non-Voting Member**  
**(Trade Union)**  
**Councillor Oliur Rahman**  
**Councillor Motin Uz-Zaman**  
**Councillor Marc Francis**  
**Councillor Shiria Khatun**

**Deputies (if any):**

Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston)  
Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)  
Councillor Carlo Gibbs, (Designated Deputy representing Councillors Zenith Rahman, Motin Uz-Zaman, Abdal Ullah, Marc Francis and Shiria Khatun)  
Councillor Carli Harper-Penman, (Designated Deputy representing Councillors Zenith Rahman, Motin Uz-Zaman, Abdal Ullah, Marc Francis and Shiria Khatun)  
Councillor Helal Abbas, (Designated Deputy representing Councillors Zenith Rahman, Motin Uz-Zaman, Abdal Ullah, Marc Francis and Shiria Khatun)

**[Note: The quorum for this body is 3 Members].**

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Evelyn Akoto, Democratic Services  
Tel: 020 7364 4881, E:mail: [evelyn.akoto@towerhamlets.gov.uk](mailto:evelyn.akoto@towerhamlets.gov.uk)

**LONDON BOROUGH OF TOWER HAMLETS**

**PENSIONS COMMITTEE**

**Thursday, 14 June 2012**

**7.30 p.m.**

- 6 .3 Report on Rebalancing Policy (Pages 1 - 6)**
- 6 .4 Pensions Committees Terms of Reference (Pages 7 - 12)**
- 6 .5 Composition of the Pension Fund Investment Panel (Pages 13 - 18)**

This page is intentionally left blank

# Agenda Item 6.3

<b>COMMITTEE:</b> Pensions Committee	<b>DATE:</b> 14 June 2012	<b>CLASSIFICATION:</b> Unrestricted	<b>REPORT NO.</b>	<b>AGENDA NO.</b> 6.3
<b>REPORT OF:</b> Corporate Director of Resources <b>ORIGINATING OFFICER(S):</b> Oladapo Shonola – Chief Financial Strategy Officer		<b>TITLE:</b> Report on Rebalancing Policy <b>Ward(s) affected:</b> N/A		

<b>Lead Member</b>	<b>Cllr Anwar Khan, Chair of Pensions Committee</b>
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>One Tower Hamlets</b>

## **Reasons for Urgency**

Due to clerical error this report was not attached. However it is recommended that the committee consider the report as the Investment Panel recommended back in November 2011 that the Pensions Committee should formally adopt an approach for rebalancing Pension Fund asset allocation to ensure that strategic asset allocation is in line with Strategy. This decision should have been ratified at the 16 February Pensions Committee meeting, but this meeting was cancelled. Any further delay in adopting a rebalancing approach could result in a non-optimal asset allocation position that leaves the Fund exposed to possible financial loss.

## **SUMMARY**

- 1.1 The London Borough of Tower Hamlets Pension Fund has multiple managers who have been appointed to bring various styles of management to their mandates as a means of spreading risk and taking advantage of changing market conditions . This means that managers can be expected to perform differently over time and this can create an imbalance between target and actual asset allocation over the economic cycle.
- 1.2 Although each manager has been allocated a proportion of Fund assets based on the strategic allocation that was originally agreed in 2004 and was recently reviewed in January 2011, there is often deviation from these allocations due mainly to the reason outlined in 1.1.
- 1.3 Rebalancing of the Fund is currently done on an periodic basis due to the costs involved and other complications associated with transfer of assets from one manager to another. This report sets out an approach to rebalancing the strategic asset allocation and allocation to fund managers and allows a formal policy to be adopted on rebalancing.

## **2. DECISIONS REQUIRED**

The Pensions Committee is recommended to –

- 2.1 Agree as a formal rebalancing policy that the Council will use Legal & General (L&G) as a 'swing' manager in order to ensure that asset allocation within the portfolio remains consistent with the statement of investment principles and assumptions made in the actuarial valuation.
- 2.2 Note that L&G currently manage two separate mandates for the pension fund (UK equities and index-linked gilts).

### **3. REASONS FOR DECISIONS**

- 3.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulation 2009 requires an administering authority to invest fund money that is not needed immediately to make payments from the Pension Fund.
- 3.2 The Pension Committee is charged with meeting the duties of the Council in respect of investing pension fund assets having taken professional advice. Therefore it is appropriate that the Committee formally adopts a policy on rebalancing to ensure that the actual allocation of assets within the Fund reflects the target strategic allocation of assets.

### **4. ALTERNATIVE OPTIONS**

- 4.1 The Council may choose not to adopt a policy on rebalancing, and instead continue to undertake ad-hoc review of asset allocation.

### **5. BACKGROUND**

- 5.1 The current strategic allocation of assets was reviewed and a new set of benchmark was agreed and adopted in January 2011. Although, a review of target allocation is undertaken periodically, a formal process for rebalancing the portfolio in between reviews has not been agreed by the Committee.
- 5.2 The portfolio of assets held by the London Borough of Tower Hamlets Pension Fund is well diversified in terms of asset class and fund managers. It can be expected with such a portfolio that there will be a drift away from benchmark targets for each asset class due to deviations in performance between managers and also between particular markets (equities, bonds, properties, etc).
- 5.3 Rebalancing is considered a good discipline and has been shown to add value over time by taking profit from markets that have recently gone up and buying assets that have recently gone down. Value can also be added in that the strategic allocations to growth assets such as equities and property relative to low risk assets such as bonds is maintained in a way that allows returns to be in line with actuarial assumptions.

### **6 REBALANCING APPROACH**

- 6.1 There are some issues with rebalancing allocations within a multiple manager Fund like London Borough of Tower Hamlets. These issues include:
  - Complication around instructing multiple managers to transition assets to each other;
  - Delay between the date at which the allocation is measured and assets being rebalanced; and

- Cost of buying and selling assets to rebalance to the benchmark.
- 6.2 A review of options has identified three approaches that could facilitate implementation of a rebalancing strategy with the Fund. They are as follows:
- 1 Regularly review allocations and instruct overweight managers to transition assets to underweight managers;
  - 2 Direct new cash flow to underweight managers to increase their allocation; and
  - 3 Utilise the L&G swing manager service.
- 6.3 **Option 1** – Although instructing overweight managers to transfer assets to underweight managers is the most effective way of managing allocation to asset class and managers, it has significant drawbacks, including: the delay between getting up to date manager valuations and implementation; governance intensive in terms of monitoring of the allocation and instructing and coordinating manager trades; and transaction costs of transitioning assets between managers.
- 6.4 **Option 2** – Directing new cash flows to new managers although cheaper (as no requirement to realise assets before transfer can be facilitated and also in terms of governance and instruction), the net cash flow is only £500k per month. This equates to approximately 0.1% of assets, and this is insufficient to manage the necessary rebalancing through cash flow alone.
- 6.5 **Option 3** –L&G manage two separate mandates for the Fund, UK equities and index-linked gilts. If instructed, they could implement broad rebalancing of the allocation by monitoring the overall allocation of the managers and adjusting their allocation to either the UK equity or index-linked gilt fund to compensate for all managers who are above or below their strategic allocations – so it will be a net rebalancing for the whole Fund. Managing the rebalancing through a single manager is quicker and more efficient than other options and is not reliant upon cash flows and is therefore the preferred option.
- 6.6 As swing manager for the Fund, L&G will have a mandate to monitor other manager allocations and automatically implement transitions within their own funds if ranges are breached.
- 6.7 The following practical issues should be noted as part of this arrangement being agreed:
- A swing mandate arrangement is only designed to quickly correct high level deviations in asset allocation between equities and bonds;
  - Asset allocation to index linked gilts would likely need to be increased by up to 2% to give more flexibility to the manager. Current allocation is 3%, but actual is closer to 5.8%;
  - A tolerance of +/-5% deviation from benchmark is reached before rebalancing is required and to rebalance to within +/-2%; and
  - L&G will charge a fee of £7,500 per annum for this service.

## **7. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 7.1. The comments of the Corporate Director Resources have been incorporated into the report.

## **8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 8.1 The Council is required, as the administering authority for the local government pension scheme (LGPS) in Tower Hamlets, to invest any fund money that is not needed immediately to make payments from the fund. The Council must formulate a policy for the investment of its fund money, having regard to the advisability of investing fund money in a wide variety of investments and the suitability of particular investments and types of investments. When investing fund money, the Council must comply with its investment policy. These obligations arise under regulation 11 of the LGPS (Management and Investment of Funds) Regulations 2009 (“the Investment Regulations”).
- 8.2 In addition to an investment policy, the Council is also required by regulation 12 of the Investment Regulations to have a statement of investment principles governing its decisions about the investment of fund money. The statement must include the Council’s policy on the types of investment to be held and the balance between different types of investments. The Council is required to consult prior to adoption of the statement of investment principles and must keep the statement under review. The proposed rebalancing policy is intended to permit the Council to remain on target, having regard to its policy on the balance between investments. Consideration should be given to amending the statement of investment principles to reflect the proposed use of a swing manager.
- 8.3 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 preservation of Fund assets.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

- 9.1 Any losses arising from an imbalanced Fund relative to strategic asset allocation could impact on the Council through an increase in contributions in order to make good the Pension Fund’s commitment to honour benefits that have been accrued by members of the Fund. The delivery of the Council’s One Tower Hamlets objectives, expressed in the Community Plan and the Strategic Plan, is in this way dependent upon maximising investment return for the pension fund and minimising the Council’s contributions.
- 9.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## **10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

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

## **11. RISK MANAGEMENT IMPLICATIONS**

- 11.1 The use of any form of investment inevitably involves a degree of risk - Although rebalancing will minimise the risk of significant deviation from the Fund’s strategic asset allocation which is the basis of actuarial valuation.

## **12. CRIME AND DISORDER REDUCTION IMPLICATIONS**



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

**13. EFFICIENCY STATEMENT**

13.1 Rebalancing has been shown to add value over time, so should be considered a positive addition to that will help maximise returns.

---

**LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**

**LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

***Brief description of "background papers"***

***Name and telephone number of holder  
And address where open to inspection***

*Hymans report to Investment Panel on  
Portfolio Rebalancing*

*Oladapo Shonola,x4733, 4<sup>th</sup> Floor Mulberry  
Place*

This page is intentionally left blank

# Agenda Item 6.4

<b>Committee</b> Pensions Committee	<b>Date</b> 14 <sup>th</sup> June 2012	<b>Classification</b> Unrestricted	<b>Report No.</b> PC/001/ 113	<b>Agenda Item No.</b> 6.4
<b>Report of:</b> Service Head, Democratic Services		<b>Title :</b> Pensions Committee Terms of Reference, Membership and Quorum		
<b>Originating Officer(s) :</b> Evelyn Akoto		<b>Ward(s) affected: N/A</b>		

## **Reasons for Urgency**

Due to clerical error this report was not attached. However it is recommended that the committee consider the report as it sets out the committee's terms of reference for the municipal year. This needs to be noted at the first meeting of the municipal year.

## **1. SUMMARY**

- 1.1 This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2012/13 for Members' information.

## **2. RECOMMENDATIONS**

- 2.1 That the Pensions Committee note its Terms of Reference, Membership and Quorum as set out in Appendix A to this report.

## **3. BACKGROUND**

- 3.1. At the Annual Council Meeting on 16<sup>th</sup> May 2012, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution.
- 3.2 The terms of reference for the Pensions Committee together with the appointed Membership and Quorum thereof are set out in Appendix A.

## **4. BODY OF REPORT**

- 4.1 Council on 16<sup>th</sup> May 2012 agreed that the Membership of the Committee be set at 7 Members in line with the recommendations of the Constitutional Working Party adopted by Council in April 2010 to ensure the proportionality arrangements are upheld.

- 4.2 Council also agreed that one Admitted Body and one Trade Union representative be invited to join the Committee on a non voting basis in line with the recommendations of the Constitutional Working Party . Officers will verbally update Members on the process for appointing to these positions at the meeting.

## **5. PROGRAMME OF MEETINGS**

- 5.1 The Council has agreed a programme of meetings for the municipal year. Further meetings of the Pensions Committee are scheduled as follows (start time 7.30 p.m.):

- Thursday 20 September 2012
- Thursday 15<sup>th</sup> November 2012;
- Thursday 21<sup>st</sup> February 2013

## **6. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 6.1 There are no specific comments arising from the recommendations in the report.

## **7. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 7.1 The Committee is recommended to note the terms of reference for the current municipal year.

## **8. ONE TOWER HAMLETS CONSIDERATIONS**

- 8.1 There are no specific equalities considerations arising from the recommendation in the report.

## **9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 9.1 There are no Sustainable Action for A Greener Environment implications.

## **10. RISK MANAGEMENT IMPLICATIONS**

- 10.1 There are no specific risk management implications arising from the recommendations in the report

## **11. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 11.1 There are no crime and disorder implications.

## **12. EFFICIENCY STATEMENT**

- 12.1 There are no efficiency implications.

---

---

**LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED)  
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS  
REPORT**

Brief description of "background paper" If not supplied  
Name and telephone

**13. Appendix 1 - Pensions Committee Membership**

---

This page is intentionally left blank

## Appendix A

### PENSIONS COMMITTEE TERMS OF REFERENCE

Terms of Reference:

- To consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.

Membership:

<b>Members</b>	<b>Substitutes</b>
7 Members of the Council	<b>Up to three substitutes maybe appointed for each Member</b>
Plus one representative of the Admitted Bodies and one Trade Union representative. The Admitted Body and Trade Union representatives will be non-voting members of the Committee.	

At the Annual General Meeting of the Council held on 16<sup>th</sup> May 2012 the following appointments were made to the Pensions Committee.

<b>Members</b>	<b>Substitutes</b>
Cllr Zenith Rahman (Chair) Cllr Motin Uz-Zaman Cllr Abdal Ullah Cllr Marc Francis Cllr Shiria Khatun	(Deputies:- Cllrs Carli Harper-Penman, Carlo Gibbs, Halal Abbas,
Cllr Craig Aston  Cllr Oliur Rahman	(Deputies:- Cllr Tim Archer Cllr David Snowdon)
Non Voting Members: - <ul style="list-style-type: none"><li>Trade Union Representative</li><li>Admitted Body</li></ul>	

**The quorum of the Pensions Committee is three Members.**

This page is intentionally left blank



# Agenda Item 6.5

COMMITTEE: Pensions committee	DATE: 14 June 2012	CLASSIFICATION: Unrestricted	REPORT NO	AGENDA NO. 6.5
REPORT OF: <b>Corporate Director of Resources</b> ORIGINATING OFFICER(S): Alan Finch, Service Head, Financial Services Olapado Shonola, Chief Financial Strategy Officer,		TITLE: Composition of the Pension Fund Investment Panel  Ward(s) affected: N/A		

## **Reasons for Urgency**

Due to clerical error this report was not attached. However it is recommended that the committee consider the report as the Investment panel will not be able to convene without being authorised by the Pensions committee. This needs to be done on the first meeting of the municipal year.

## **1. SUMMARY**

- 1.1. This report informs Members of the current arrangements for the provision of Investment advice to this Committee and recommends that these arrangements continue.

## **2. RECOMMENDATIONS**

- 2.1 Members are recommended to :

- 2.1.1 Establish an Investment Panel.

- 2.1.2 Agree that membership of the Investment Panel comprise:-

- § All Members of the Pensions and Accounts Committee or their designated deputies.
    - § A Investment Professional as Chair
    - § An Independent Financial Advisor
    - § The Corporate Director of Resources or his designated deputy.

- 2.1.3 Provide that up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers.

- 2.1.4 To establish terms of reference for the Investment Panel as set out in Appendix 1.

### **3. BACKGROUND**

- 3.1 The Pension Fund Regulations require the Council to establish arrangements for monitoring the investment activities of the professional fund managers and ensuring that proper advice is available on investment issues.
- 3.2 Much of this work is currently undertaken by the Investment Panel the composition and terms of reference of which were established by this Committee on the 28<sup>th</sup> July 2004. The Investment Panel reports to the Pensions Committee.
- 3.3 The terms of reference satisfy the Regulations, which require a formal statement of the responsibilities of the different parties involved in the investment process.

### **4. THE REGULATIONS**

- 4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require Councils to invest pension fund cash, which is not immediately required to pay pensions.
- 4.2 The Regulations require that Councils when undertaking such investment take proper advice at reasonable intervals and consider the need for diversification of investments.
- 4.3 The Regulations enable Councils to appoint one or more investment managers but in these circumstances are required: -
  - § To take proper advice
  - § To consider at least every three months the investments undertaken by the manager.
  - § To periodically review the managers appointment
- 4.4 To satisfy the requirement to obtain proper advice the Council has engaged an investment professional to act as chair of the investment panel and a firm of investment consultants to advise on the technical issues.
- 4.5 In addition the Council employs an independent performance measurement service to provide an analysis of individual manager's performance on a quarterly basis.
- 4.6 The Regulations have been supplemented by guidance on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to the Myners report, an independent review of pension investment, which reported in 2001.
- 4.7 The CIPFA best practice guidance sets out the responsibilities of the different parties involved in the investment process and requires that a periodic review be made of these arrangements and of the performance of the individual parties.

## **5. CURRENT ARRANGEMENTS**

5.1 Currently the Council is advised on investment issues by a Investment Panel which holds morning meetings on a quarterly basis and comprises the following members :-

- § An independent Chair (Raymond Haines)
- § All Members of the Pensions and Accounts Committee or their designated deputies.
- § An independent advisor (Hymans Robertson & Co.)
- § The Corporate Director of Resources or his designated deputy.
- § Two observers from the Trade Unions.

5.2 The terms of reference of the Investment panel were established by this Committee on the 28<sup>th</sup> July 2004 and satisfy the requirements of the Regulations.

5.3 It should be noted that the Investment Panel is purely advisory and has no executive powers. It advises this Committee on investment issues and this Committee decides on the basis of this advice what action is appropriate.

5.4 The terms of reference of the Investment Panel are as set out in Appendix 1.

## **6. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

6.1. The comments of the Corporate Director of Resources have been incorporated into the report.

## **7. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

7.1 The legal considerations are set out in Sections 3 and 4 of the report.

## **8. ONE TOWER HAMLETS CONSIDERATIONS**

8.1 There are no equality implications.

## **9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

9.1 There are no Sustainable Action for A Greener Environment implications.

## **10. RISK MANAGEMENT IMPLICATIONS**

7.1 There is inevitably a relatively high degree of risk associated with investment in financial markets.

7.2 The Regulations attempt to mitigate this risk by ensuring that arrangements are in place to monitor the activities of investment managers and proper advice is taken.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no crime and disorder implications.

**11. EFFICIENCY STATEMENT**

11.1 There are no efficiency implications.

---

---

**LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED)  
LIST OF BACKGROUND PAPERS USED IN THE PREPARATION OF THIS  
REPORT**

Brief description of "background papers"	Brief description of "background papers"	Brief description of "background papers"
None	description of "background papers"	

**12. APPENDICES**

Appendix 1 – Investment Panel Terms Of Reference

---

## **APPENDIX 1: INVESTMENT PANEL TERMS OF REFERENCE**

The Investment Panel is responsible for monitoring all aspects relating to the investment of the assets of the Scheme. Its specific responsibilities are as follows: -

- The Investment Panel will formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee.
- The Investment Panel will consider and monitor the Quarterly Reports produced by their Investment Managers and independently produced performance measurement reports. The contents and formats of the reports will be specified by the Investment Panel.
- The Investment Panel will formally review annually each manager's mandate, and its adherence to its expected investment process and style. The Investment Panel will ensure that the explicit written mandate of each of the investment managers is consistent with the Scheme's overall objectives and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Investment Panel will consider the need for any changes to the Scheme's investment manager arrangements (e.g. replacement, addition, termination) at least annually and make recommendations to the Pension and Accounts Committee if necessary.
- In the event of a proposed change of managers, the Investment Panel will evaluate the credentials of potential managers and make recommendations to the Pensions Committee
- The Investment Panel will consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.
- The Investment Panel will review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.
- The Investment Panel will assess the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Investment Panel will consider and conclude the negotiation of formal agreements with managers, custodians and other investment service providers on behalf of the Pensions Committee.
- The Investment Panel is able to take such professional advice, as it considers necessary in order to fulfil its responsibilities.
- The Investment Panel will keep Minutes and other appropriate records of its proceedings, and circulate these minutes to the Pensions Committee.
- The Investment Panel may also carry out any additional tasks delegated to it by the Pensions Committee.

This page is intentionally left blank