



Meeting of the

PENSIONS COMMITTEE

Thursday, 13 June 2013 at 6.30 p.m.

A G E N D A

VENUE

ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, LONDON
E14 2BG

Members:	Deputies (if any):
Chair: Councillor Zenith Rahman Vice – Chair: TBC	
Councillor Judith Gardiner Councillor Ann Jackson Councillor Craig Aston Councillor Shiria Khatun Councillor Oliur Rahman 1 Vacancy	Councillor Marc Francis, (Designated Deputy representing Councillors Zenith Rahman, Judith Gardiner, Ann Jackson and Shiria Khatun) Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston) Councillor David Edgar, (Designated Deputy representing Councillors Zenith Rahman, Judith Gardiner, Ann Jackson and Shiria Khatun) Councillor John Pierce, (Designated Deputy representing Councillors Zenith Rahman, Judith Gardiner, Ann Jackson and Shiria Khatun)
Frank West – Non-voting Member Representing Trade Unions John Gray – Non-voting Member representing Admitted Bodies	

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

Committee Services Contact:

Antonella Burgio, Democratic Services.

Tel: 020 7364 4881 E-mail: antonella.burgio@towerhamlets.gov.uk

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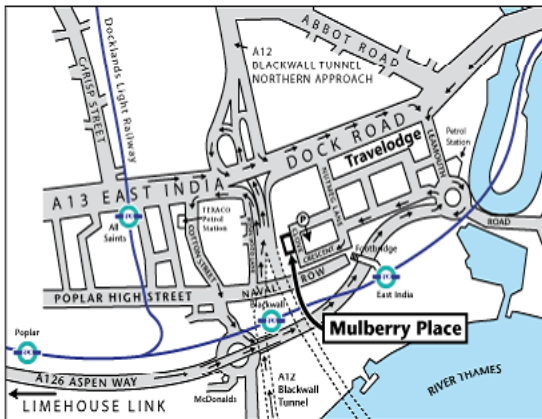
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LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 13 June 2013

6.30 p.m.

1. APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair of the Pensions Committee for the municipal year 2013-14.

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

3. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST (Pages 1 - 4)

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.

4. UNRESTRICTED MINUTES (Pages 5 - 12)

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meetings of the held on 21 February 2013.

5. PETITIONS

To receive any petitions

6. UNRESTRICTED REPORTS FOR CONSIDERATION

6.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings (Pages 13 - 16)

To note the Terms of Reference, Membership, Quorum and meeting dates as set out in the report.

6 .2 Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2013-14 (Pages 17 - 20)

To note the continued appointment of Trade Unions and Admitted Bodies representatives on the Committee

6 .3 Composition of the Pension Fund Investment Panel (Pages 21 - 26)

To establish a Pension Fund Investment Panel for the municipal year 2013-14.

6 .4 Report of Investment Panel for Quarter Ending 31 December 2012. (Pages 27 - 32)

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Agenda Item 3

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:-

Isabella Freeman, Assistant Chief Executive (Legal Services), 020 7364 4801; or
John Williams, Service Head, Democratic Services, 020 7364 4204

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 7.30 P.M. ON THURSDAY, 21 FEBRUARY 2013

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

Members Present:

Councillor Motin Uz-Zaman (Vice-Chair,
in the Chair)

Councillor Abdal Ullah

Councillor Marc Francis

Councillor Peter Golds

(designated deputy for Councillor Craig
Aston)

Admitted Bodies, Non-Voting Members Present:

John Gray – Non-Voting Member (Admitted Body)

Others Present:

Barry McKay (Chair of the Investment Panel)

Officers Present:

Jill Bell – (Head of Legal Services (Environment), Legal
Services, Chief Executive's)

Anant Dodia – (Pensions Manager)

Alan Finch – (Service Head Financial Services, Risk &
Accountability, Resources)

Oladapo Shonola – (Chief Financial Strategy Officer, Resources)

Antonella Burgio – (Democratic Services)

Councillor Motin Uz-Zaman, Vice-Chair in the Chair

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from the Chair, Councillor Zenith Rahman and Councillor Craig Aston. Councillor Peter Golds attended as substitute for Councillor Aston.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Marc Francis declared an interest in that he was a member of the Council's pension scheme.

3. UNRESTRICTED MINUTES

The minutes of the meeting held on 15th November 2012 were presented for approval. John Gray advised of an error in that his attendance and that of Frank West had not been recorded and asked that the minutes be amended to reflect this. No other factual corrections were requested.

RESOLVED

That, subject to the above amendment, the minutes of the Pensions Committee held on 15 November be approved.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4.1 Report on Fund Liquidity

Alan Finch, Service Head, Financial Service, Risk and Accountability and Interim Section 151 Officer presented to the report which asked Committee to give delegated authority to officers to withdraw cash as required.

Mr Finch advised the Committee that during the forthcoming 12-18 months the balance of the Council's pension fund transactions would move towards collecting less cash and paying out more cash. This was a normal progression as the fund moved toward maturity and Members were advised that the pension fund, presently, was maturing faster than previously anticipated, causing a shift in the fund's cash-flow position.

To meet the anticipated cash short-fall, the Fund, in the short-term, would require access to funds to pay out benefits and, in the long-term, a review of the investment strategy would also be required.

The options available to improve short-term fund liquidity were presented at paragraph 6 of the report. Of these, the option to use income generated from invested assets was preferred as its impact on the fund was least. It was proposed to access cash through two streams of income; by recalling the dividend from GMO mandate and using rental income from Schroders property fund.

These two fund managers had been selected as the pension fund received rental income from Schroders and GMO was not a pooled fund therefore equities could be easily withdrawn and fees avoided.

In considering the proposal, Members noted the following matters:

- the maturity of the fund had been accelerated by a reduction in contributions from its members; this had brought forward the date of movement towards

negative cash flow. In previous years, projected maturity calculations had indicated maturity 3-4 four years hence. In the last year, numbers contributing to the pension scheme had decreased and those drawing pensions had increased accelerating the move towards negative cash-flow. At present it was estimated that this would occur in 12 - 18 months' time.

- the transition from positive cash flow to negative cash flow was a natural part of the life cycle of pension funds. In this case fund maturity was approaching sooner than had been anticipated and therefore the time was appropriate to approach the committee to request authority to release cash.
- the rationale for the choice of fund managers (GMO and Schroder) was not connected with the underperformance of these managers. Mr Finch noted that these managers had been reviewed by the Investment Panel recently and it had been concluded that they were doing what they were supposed to as part of the overall pension fund strategy. These managers had been chosen however, because they provided a ready source of cash and avoided transaction costs that would be incurred if other options of cash release were selected.
- Noting that diverting this income from the fund would affect the balance of the fund, the Committee enquired how equilibrium in the fund strategy would be re-established and was advised that it would be necessary to review the funding strategy in the longer term. However in the shorter term the amount to be drawn down would not affect the fund.
- the Fund was presently liquid; however the report had been brought to Committee for a decision to ensure cover if the Fund should become cash flow negative earlier than expected.
- the measure was intended to be a short-term measure. Mr Finch advised that while the pension fund was young (i.e. in large surplus) monies from investments could be given to managers for re-investment but as the fund matured this fund would be required to pay out benefits. In the past it had not been necessary to request approval for the recall of monies from the fund because the fund was heavily in surplus.

The Committee raised a number of concerns relating to cash flow and received the following advice:

- some reduction in cash flow had resulted from freezing employee salaries in the last three years however the reduction of members contributing to this scheme during that period had had a larger effect on cash-flow.
- Mr McKay advised that a cash flow negative situation did not constitute a crisis as the fund continued to receive income and was able to pay out monthly commitments. He noted also that five years ago later maturity had been expected. However the dynamics had changed nationally because of the financial crisis of recent years. He advised that the authority had anticipated this change.

- Mr Shonola advised that two years ago the fund had received £42 million and paid out £32 million leaving a surplus of £10 million. However last year due to staff reductions income had reduced to £3.7 million.
- the Committee was asked to approve that the income from these investments be retained as a short-term measure as this was the best of the options available.
- the sums that might be needed were not known at present; however managers would only be instructed to recall funds required to meet identified liabilities.

Members were concerned that the decision might be used as an unlimited agreement and therefore subject to abuse. They were advised that the request had been made to provide a short-term only solution to fund liquidity; the whole of the funding strategy would be reviewed following the scheduled triennial actuarial valuation. At this time a full report would be brought to Committee. Additionally a quarterly report would be brought to Committee.

At the Vice-Chair's request, it was agreed that written response would be given detailing how the expected negative cash flow had evolved.

RESOLVED

That the recall of dividend and rental income from fund managers GMO and Schroder into the LBTH pension fund bank account to help meet the cost of in-year liabilities be approved

4.2 Review of Internal Control Reports in 2012/13

The Chief Financial Strategy Officer presented the report which summarised the findings of a review of the adequacy of internal control measures put in place by Fund Managers which hold the Council pension fund's assets in management.

Members noted the review undertaken which was highlighted at a paragraph 6 of the report. The Chief Financial Strategy Officer reported that exceptions which had been revealed in the review had been investigated with the relevant Fund Managers. Officers were satisfied that these had not revealed any significant change in risk to the pension fund.

RESOLVED

That the report noted.

4.3 Report of Investment Panel for Quarter Ending 30 September 2012.

The Chief Financial Strategy Officer noted that figures reported were for the quarter ending 30th September 2012 and advised that the latest position would be reported verbally. He and Mr Woodman spoke to the report.

Members were advised that:

- overall, the fund was outperforming by one base point.
- six of the eight managers had outperformed. The two underperforming managers had previously been reported to the Committee and reasons for the underperformance reviewed.
- part of the fund management strategy was to diversify the fund therefore some underperformance was anticipated.
- Fund performance in the quarter was solid and targets had stayed in line with what was expected in the strategy.
- the Fund value was £854 million.
- only Schroeder had not outperformed benchmark during the quarter.

RESOLVED

That the report noted.

4.4 Report on Pension Fund Work Plan

The Chief Financial Strategy Officer presented the report which gave Members forward notice of reports to be presented to Committee and the decisions required. Paragraph 6 of the report outlined the action plan.

Co-opted Member, John Gray noted that Lord Hutton's Report arising from the work of the Independent Public Service Pension Commission was presently being read by the House of Lords. He advised that subject to its outcome, this might generate training requirements for the Pensions Committee. The Vice-Chair noted this matter and asked that a review report be brought to each future meeting to advise Members of any changes arising from the Lord Hutton's Report.

RESOLVED

1. That the report to be noted

4.5 Recovery of Pension Fund Deficit Contribution - Academy Conversion

Jill Bell, Head of Legal Services - Environment presented the report advising the Committee that two maintained community schools which have received an Academy order have applied to join the Council's Local Government Pension Scheme (LGPS). Members were advised that, because academies

were scheduled bodies, admission to the pension scheme for non-teaching staff was mandatory; however the Council could exercise discretion on the length of recovery deficit to period it wished to set and whether to allow pooled arrangements.

It was noted that the Old Ford and Culloden Primary schools would convert from maintained community schools to a Multi-Academy Trust. Members were asked to note the actuarial assessment and actuary's recommendations contained in the appendices to the report and were advised that a representation had been submitted by each of the schools; these were circulated as a supplementary agenda.

Mr Barry McKay, actuary on behalf of Hymans Robertson addressed the Committee. He spoke on issues discussed in the appendices to the report and responded to the issues raised in the schools' representations.

He advised the Committee that in November 2011, two other schools had converted to academies at which time the Committee had agreed a 14 year deficit recovery period. This period was chosen as a compromise between the 20 year deficit recovery period normally applied to councils and the seven-year Government backing given for school academies.

Noting the projected future working lifetime of these new organisations he advised that it was appropriate to look at the age profile of academy non-teaching staff noting that, by design, academies will have more independence from the local authority and are therefore deemed more risky. In view of these factors it would be more prudent to recoup the debt more quickly. Mr Finch, (Interim S151 Officer and Service Head Financial Services, Risk and Accountability) also noted that Government guidance on this matter, whilst suggesting support, did not guarantee liabilities. Since, academies were independent schools, the local authority would no longer be in a position to guarantee liabilities. The normal twenty-year recovery period enjoyed by the authority was a concession by the actuary based on the authority's tax raising powers.

In regard to risk. Cllr Golds argued that having created academy schools the Government would inevitably ensure that they were guaranteed. Ms Bell advised that, as trustee, the Pension Committee was charged to consider the interests of the pension fund members noting that admission of this new body would have an impact on the pension fund. She advised that academies could furthermore stipulate their own pay policies which would bring risk to the fund should an academy become insolvent. Additionally the Secretary of State had had opportunity to give a guarantee but had not done so. Mr McKay advised that non-teaching staff were exposed other risks noting that if an academy should become insolvent these staff would not automatically be employed by a successor body and so exposure to risk was greater. Cllr Golds maintained that the Government would inevitably guarantee education and, since academies are also funded by the Government, the collapse of academies would also render state schools open to collapse. Cllr Francis argued that it was necessary to guard against pressures on the pension fund as, while he did not anticipate academies to become bankrupt, it could occur

that pensions commitments in succeeding independent schools regimes would not be honoured.

Mr McKay advised that the Committee could opt to set a different recovery period which could be reviewed every three years. He noted that the Council's deficit was spread over 20 years to make the contribution rates affordable and recommended the Committee did not start with the worst-case scenario but that the deficit recovery period be reviewed subsequently.

In response to Members' questions, the Committee was advised that:

- the deficit recovery had no bearing on employee contributions
- the two schools which had previously converted to academies had not questioned the arrangement or challenged the period. However one academy had raised the matter of the rates set with the Secretary of State
- free schools were not scheduled bodies and therefore the local authority could operate closed arrangements for their admission into its pension scheme. Free schools would be able to apply to be admitted into the fund if they wished but would not be obliged to so. However, since academies were scheduled bodies, they were entitled to be admitted into the pension fund
- the application related to non-teaching staff only
- it was noted that if the calculation were to have been made in January 2013 the rates would be higher than those were the result of the calculation made two years ago
- the calculation comprised two elements; the first was a standard rate of 20% and the remainder (which in this case comprised 12% of the final value) was dependent on the recovery period set. Hence, even if a longer deficit recovery period had been set, it could not have been expected that the contribution rate derived would be significantly lower

After these discussions, Members considered the proposal that the recovery period be set at 14 years and agreed that this period was appropriate.

RESOLVED

1. That a deficit recovery period of 14 years for the amount of deficit attributable to active transferring members and that attributable to deferred pensioner members of the LBTH Local Government Pension Scheme for Old Ford primary school and Culloden primary school on the creation of the Multi-Academy Trust be approved

5. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

5.1 Training Dates

The Chief Financial Strategy Officer highlighted forthcoming training opportunities circulated at agenda item 5.1 that were available to Members of the Pensions Committee.

RESOLVED

1. That the training opportunities be noted
2. That this item be included as a standard item in all future agendas

The meeting ended at 8.35 p.m.

Vice-Chair in the Chair, Councillor Motin Uz-Zaman
Pensions Committee

Agenda Item 6.1

Committee	Date	Classification	Report No.
Pensions Committee	13 June 2013	Unrestricted	
Report of: Service Head, Democratic Services		Title : Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings	
Originating Officer(s) : Antonella Burgio		Ward(s) affected: N/A	

1. Summary

- 1.1 This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2013/14 for Members' information.

2. Recommendation

- 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 22nd May 2013, 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. Membership

- 4.1 Council on 22nd May 2013 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 13th June 2013
- Thursday 19th September 2013;
- Thursday 14th November 2013
- Tuesday 25th February 2014

4. Comments of the Chief Financial Officer

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

5. Concurrent report of the Assistant Chief Executive (Legal)

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

6. Equal Opportunities Implications

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

7. Anti Poverty Implications

There are no specific anti poverty implications arising from the recommendations in the report.

8. Risk Management Implications

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

9 Sustainable Action for a Greener Environment

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

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

None

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:

Members	Substitutes
7 Members of the Council	Up to three substitutes maybe appointed for each Member
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 22nd May 2013 the following appointments were made to the Pensions Committee.

Members	Substitutes
Cllr Zenith Rahman (Chair) Cllr Judith Gardiner Cllr Ann Jackson Cllr Shiria Khatun	(Deputies:- Cllrs David Edgar, Mark Francis, John Pierce
Cllr Craig Aston	(Deputies:- Cllr Tim Archer Cllr David Snowdon)
Cllr Oliur Rahman	
1 Vacancy	
2 Non Voting Co-opted Members: - <ul style="list-style-type: none">• Trade Union Representative Mr Frank West• Admitted Body Mr John Gray	

The quorum of the Pensions Committee is three Members.

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Agenda Item 6.2

COMMITTEE: Pensions Committee	DATE: 13 June 2013	CLASSIFICATION: Unrestricted	REPORT NO.
REPORT OF: Service Head, Democratic Services ORIGINATING OFFICER(S): Antonella Burgio Democratic Services Officer	TITLE: Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2013-14 Ward(s) affected: N/A		

1. **SUMMARY**

- 1.1 The purpose of this report is note the continued appointment of 2 non-voting co-optees to the Pensions Committee for the duration of the municipal year.

2. **DECISIONS REQUIRED**

- 2.1 Members are recommended to note the continued nomination of John Gray (Admitted Bodies Representative) and Frank West (Union Representative) as non-voting co-optees of the Pensions Committee for the municipal year 2013-14 and their reappointment at Annual Council on 22 May 2013.

3. **REASONS FOR DECISIONS**

- 3.1 Under Article 8 (Para. 8.01) and Part 3 Section 3.3.10 of the Constitution, the Council has delegated to the Pensions Committee, responsibility to consider pension matters and meet its obligations and duties under the Superannuation Act 1972 and the various statutory requirements in respect of investment matters.
- 3.2 Part 3 Section 3.3.10 of the Constitution also provides that membership of the Pensions Committee comprise Elected Members, and include 1 Representative of the Admitted Bodies and 1 Trade Union Representative.

4. **ALTERNATIVE OPTIONS**

- 4.1 The Constitution does not provide any alternative arrangements for the appointment of co-optees to this Member Level Body.

5. **BACKGROUND**

- 5.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulation. The Regulation also

empowers the Fund to admit employees of other 'defined' (e.g. other public bodies, housing corporations) bodies into the Fund.

- 5.2 The Pensions Committee has specific delegated function that it has to fulfil in representing the Council as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.
- 5.3 Part 3 Section 3.3.10 of the Constitution provides that membership of the Pensions Committee comprise Elected Members, and also include 1 Representative of the Admitted Bodies to the Pension Fund and 1 Trade Union Representative.
- 5.4 The Committee's Terms of Reference does not presently stipulate a term of office for these roles. In the absence of a specified term, it is appropriate that the appointment of the co-optees should be periodically reaffirmed to ensure that the persons appointed continue to serve with the endorsement of the external bodies and organisations that (contribute to the Fund and that) have nominated them.

6. APPOINTMENT OF CO-OPTees

- 6.1 The external organisations and bodies represented by Mr Frank West and Mr John Gray have confirmed that they wish them to continue as representatives of Trade Unions and Admitted Bodies respectively for the municipal year 2013-14.
- 6.2 This matter is therefore brought before the Pensions Committee to note the continued endorsement of Mr West and Mr Gray as co-optes of the Committee and also to note their respective reappointment at Annual Council 2013.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1. These will be given verbally at the meeting.

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

- 8.1 The functions of the Pensions Committee under the Council's Constitution are: "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". This would include ensuring the Council meets its various obligations under the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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*

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Agenda Item 6.3

COMMITTEE: Pensions Committee	DATE: 13 June 2013	CLASSIFICATION: Unrestricted	REPORT NO
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Investment Panel		TITLE: Composition of the Pension Fund Investment Panel Ward(s) affected: <p style="text-align: right;">N/A</p>	

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 To establish an Investment Panel.
- 2.1.2 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.

**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" of "background papers"

None

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 This role is currently undertaken by the Investment Panel the composition and terms of reference of which were established by this Committee on the 28th July 2004.
- 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 1998 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 28th 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. 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.

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

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

9. ANTI-POVERTY IMPLICATIONS

- 9.1 There is no specific anti poverty implications.

10. EQUAL OPPORTUNITIES IMPLICATIONS

- 10.1 There are no equality implications.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

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 and cost of that 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.

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Agenda Item 6.4

COMMITTEE: Pensions Committee	DATE: 13 June 2013	CLASSIFICATION: Unrestricted	REPORT NO.
REPORT OF: Interim Corporate Director of Resources		TITLE: Report of Investment Panel for Quarter Ending 31 December 2012.	
ORIGINATING OFFICER(S): Paul Thorogood –Interim Service Head, Finance and HR Development Oladapo Shonola – Chief Financial Strategy Officer		Ward(s) affected: N/A	

Lead Member	Cllr Alibor Choudhury - Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report informs Members of the activities of the Investment Panel and the performance of the Fund and its investment managers for the period ending 31 December 2012.
- 1.2 In the quarter to the end of December 2012 the Fund achieved a return of 2.8% which is 0.5% above the benchmark 2.3%. The twelve month Fund return of 7.7% exceeds the benchmark by 0.1% at 7.6%. Over the longer term, performance is in line with benchmark.
- 1.3 Although, the level of returns achieved varies between the managers, seven out of eight managers matched or achieved returns above the benchmark. The variability of returns does however partially reflect the management structure of the fund where complementary investment styles reduce the volatility of overall portfolio returns. For example, in contrast to poor quarter returns for Baillie Gifford, GMO, the Fund's other global equity manager lags benchmark. It should also be noted that GMO have achieved returns of 8% in the past 12 months.
- 1.4 The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with benchmark.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the contents of this report.

3. REASONS FOR DECISIONS

- 3.1 There are no decisions to be made as a result of this report. The report is written to inform committee members of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

4. ALTERNATIVE OPTIONS

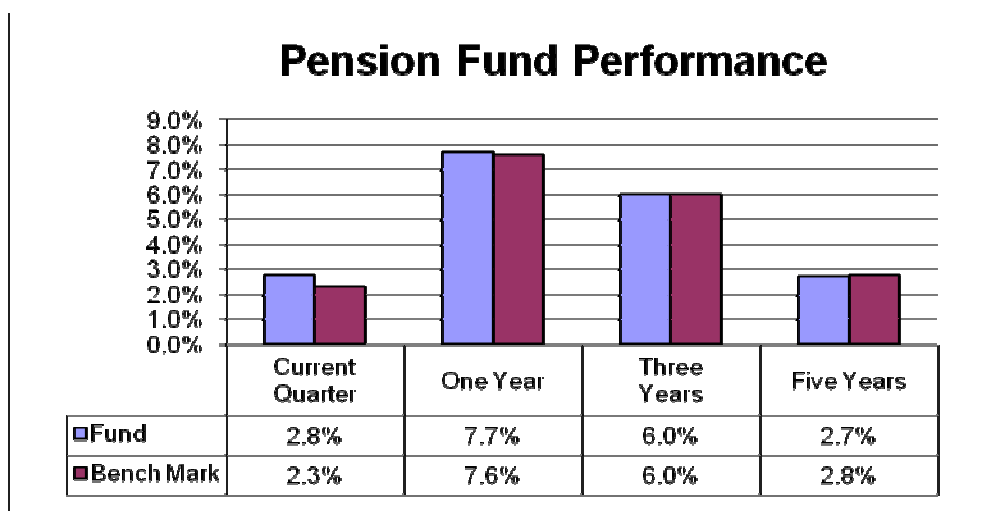
- 4.1 The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund.

5. **BACKGROUND**

- 5.1 The Pension Fund Regulations require that the Council establish arrangements for monitoring the investments of the Fund and the activities of the investment managers and ensure that proper advice is obtained on investment issues.
- 5.2 This Committee has established the Investment Panel, which meets quarterly for this purpose. The Panel's membership comprises all Members of the Pensions Committee, an Investment Professional as Chair, an Independent Investment Adviser, and the Corporate Director of Resources represented by the Service Head Financial Services, Risk and Accountability, one trade union representatives and one representative of the admitted bodies. The Investment Panel is an advisory body which makes recommendations to the Pensions Committee which is the decision making body.
- 5.3. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and may recommend that investment managers are invited to explain further to the Investment Panel.
- 5.4 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the period ending 31 December 2012.

6 **INVESTMENT PERFORMANCE**

- 6.1 The Fund achieved a return of 2.8% in the quarter which is 0.5% above the benchmark of 2.3%.
- 6.2 The performance of the fund over the longer term is as set out in table 1.



- 6.3 The chart demonstrates the volatility and cyclical nature of financial markets, but the outcomes are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pensions liabilities are up to sixty years in the future. Consequently it can effectively ride out short term volatility in markets.

7. MANAGERS

- 7.1 The Fund currently employs eight specialist managers with mandates corresponding to the principal asset classes. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value £M	Target % of Fund	Actual % of Fund	Difference %	Date Appointed
GMO	Global Equity	204.2	25.0%	23.9%	-1.1%	29 Apr 2005
Baillie Gifford	Global Equity	140.8	16.0%	16.5%	0.5%	5 Jul 2007
L & G UK Equity	UK Equity	176.3	20.0%	20.6%	0.6%	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	44.1	5.0%	5.2%	0.2%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	41.3	5.0%	4.8%	-0.2%	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	47.2	3.0%	5.5%	2.5%	2 Aug 2010
Investec Bonds	Bonds	96.9	14.0%	11.3%	-2.7%	26 Apr 2010
Schroder	Property	94.7	12.0%	11.1%	-0.9%	30 Sep 2004
Cash	Currency	9.0	0.0%	1.1%	1.1%	
Total		854.5	100.0%	100.0%	0.0%	

- 7.2 The fund value of £854.5 million as at 31 December 2012, which includes cash held, has increased by £24.3million (2.92%) over the quarter.
- 7.3 The performance of the individual managers relative to the appropriate benchmarks over the past five years is as set out in table 3.

Table 3: Manager Investment Performance relative to benchmark

Manager	Current Quarter	One Year	Three Years	Five Years
GMO	-0.70%	-3.90%	-0.40%	-0.10%
Baillie Gifford	0.70%	1.70%	2.30%	2.10%
L & G UK Equity	0.00%	0.10%	0.20%	N/A
Baillie Gifford Diversified Growth	2.90%	11.00%	5.40%	N/A
Ruffer Total Return Fund	2.70%	2.00%	0.90%	N/A
L & G Index Linked-Gilts	0.00%	0.10%	0.00%	N/A
Investec Bonds	0.80%	3.30%	-1.30%	N/A
Schroder	0.50%	-0.60%	-1.60%	-0.90%
Total Variance (Relative)	0.10%	0.00%	-0.30%	-0.40%

- 7.4 **GMO** underperformed benchmark this quarter, delivering returns of 3.4% which was 0.7% below its benchmark of 4.1%. The portfolio has two main strategies - Momentum and Value. Momentum strategy looks to take advantage of current trends in the market (i.e. buy rising stocks and sell falling stocks) whereas value strategy invests for the long term and seeks to invest in stocks that are trading at lower values than what indicators such as dividend yield, earnings, etc. suggest they should be trading at. For this quarter, the negative returns from the momentum strategy were such that they could not be fully recovered from positive returns from the value strategy, hence the underperformance. The momentum

strategy has performed well in the past whilst also providing some portfolio diversification, but recent successes meant that the portfolio was overweight momentum when value stocks started to increase in value due to renewed optimism about the economy.

- 7.5 **Baillie Gifford Global Alpha Fund** delivered returns of 3.0% outperforming its benchmark by 0.7% in this quarter. Baillie Gifford are confident about the fund's portfolio and their ability to continue to pick growth stocks. The portfolio benefited from not holding any Apple stocks this quarter as the company shares fell significantly over the quarter.
- 7.6 **L & G (UK Equity)** performance has been in line with the index benchmark (FTSE-All Share) since inception, as expected.
- 7.7 **L & G Index Linked Gilts** performance has been in line with the index benchmark (FTSE-A Index-Linked Over 15 Years Gilts) since inception.
- 7.8 **Investec (Bonds)** – The portfolio delivered strong returns this quarter with return of 1.0% against benchmark by 0.9%. The main contributor to out-performance was exposure to emerging markets debts, in particular South African bonds performed well this quarter as prices recovered from falls earlier in the year caused by labour disputes and sovereign credit downgrade.
- 7.9 **Schroder (Property)** achieved returns of 0.1% against benchmark of -0.4%, therefore, outperforming its benchmark by 0.5%. Most of the out-performance over this quarter and the past 12 months have come from UK property holdings even as European property continue to be a drag on the portfolio.
- 7.10 **Baillie Gifford Diversified Growth Fund (Absolute Return)** fund delivered a return of 2.9% this quarter against a benchmark of 0.1%, which equates to a relative out-performance of 2.8%. This was another strong quarter for Baillie Gifford absolute return mandate as it continues to post strong returns for the Fund. Local currency emerging markets contributed significantly to this quarter's out-performance as the portfolio has a significant allocation to these markets. Although, the strongest contributor to this quarter's performance was from the basket of private equity funds in the portfolio.
- 7.11 **Ruffer Total Return Fund (Absolute Return)** the fund posted strong figures for Q4 delivering returns of 2.8% against a benchmark of 0.1%, which equates to a relative out-performance of 2.7%. The fund benefited from the Japanese equities rebound following the re-election of Shinzo Abe as the Prime Minister.

8 ASSET ALLOCATION

- 8.1 The original allocation of investments between the different asset classes was determined in conjunction with the Council's professional advisors in 2004 and is subject to periodic review by the Investment Panel – the latest review was carried out in January 2011. Asset allocation is determined by a number of factors including:-

- 8.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.
- 8.1.2 The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.
- 8.1.3 The deficit recovery term. All Council funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.
- 8.2 The benchmark asset distribution and the position at the 31 December 2012 are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark 31 Dec 2012	Fund Position	Variance as at 31 Dec 2012	Variance as at 31 Mar 2012
UK Equities	20.0%	20.6%	0.6%	0.0%
Global Equities	41.0%	40.4%	-0.6%	-0.4%
Total Equities	61.0%	61.0%	0.0%	-0.4%
Property	12.0%	11.1%	-0.9%	-0.5%
Bonds	14.0%	11.3%	-2.7%	-2.5%
UK Index Linked	3.0%	5.5%	2.5%	2.5%
Alternatives	10.0%	10.0%	0.0%	0.0%
Cash	0.0%	1.1%	1.1%	0.9%
Currency	0.0%	0.0%	0.0%	0.0%
Total Equities	100.0%	100.0%		

- 8.3 Allocations are therefore considered to be broadly in line with the benchmark. Individual managers have discretion within defined limits to vary the asset distribution.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

10. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 10.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund.

The Council is required to have a policy in relation to its investments and a Statement of Investment Principles. The Council is required to take advice about its investments.

- 10.2 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.
- 10.3 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 performance of appointed investment managers.

11. ONE TOWER HAMLETS CONSIDERATIONS

- 11.1 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.
- 11.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

13. RISK MANAGEMENT IMPLICATIONS

- 13.1 Any form of investment inevitably involves a degree of risk.
- 13.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

15. EFFICIENCY STATEMENT

- 15.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

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*

None