TOWER HAMLETS

PENSIONS COMMITTEE

Tuesday, 25 February 2014 at 7.30 p.m.

Committee Room C1, 1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

This meeting is open to the public to attend.

Members:
Chair: Councillor Zenith Rahman
Vice Chair**:** Councillor Ann Jackson

Councillor Judith Gardiner, Councillor Craig Aston, Councillor Oliur Rahman and 2 Vacancies

Frank West - Non-Voting Member (Trade Union) and John Gray - Non-Voting Member (Admitted Body)

Deputies:
Councillor Marc Francis, Councillor David Edgar, Councillor John Pierce, Councillor David Snowdon and Councillor Tim Archer

The quorum for this body is 3 voting Members.

Contact for further enquiries:
Antonella Burgio, Democratic Services.
1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, E14 2BG
E-mail: antonella.burgio@towerhamlets.gov.uk
Tel: 020 7364 4881
Web:http://www.towerhamlets/committee

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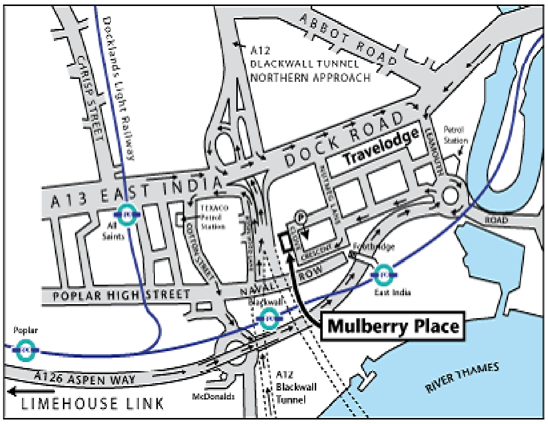

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APOLOGIES FOR ABSENCE

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

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. **1 - 4**

2. MINUTES OF THE PREVIOUS MEETING(S)

To confirm as a correct record the minutes of the meeting of Committee held on 14 November 2013 **5 - 12**

3. REPORTS FOR CONSIDERATION

3 .1 2013 Actuarial Review / Valuation

To approve the finding of the Actuarial review and the arising recommendations from Hymans Robertson

3 .2 Funding Strategy Statement 2013 — 37 - 78

To adopt the Funding Strategy Statement

3 .3 Report of Investment Panel for the Quarters Ending 30 September and 31 December 2013 — 79 - 122

To note the activities of the Investment Panel and the performance of the Fund and its investment managers for the two quarters ending 30th September 2013 and 31st December 2013.

3 .4 Pension Fund Work Plan — 123 - 128

To agree the work plan attached.

4. FORTHCOMING TRAINING EVENTS

To consider the courses notified **129 - 134**

5. 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 Exempt (Section Two) business relating to the appendices of the following report on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972."

EXEMPT 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.

6. INVESTMENT IN LONDON LGPS COMMON INVESTMENT VEHICLE (CIV)

To receive a verbal update on the progress of CIV proposals

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

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:-

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.35 P.M. ON THURSDAY, 14 NOVEMBER 2013

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

Members Present:

Councillor Zenith Rahman (Chair)
Councillor Judith Gardiner
Councillor Ann Jackson (Vice-Chair)

Frank West - Non-Voting Member (Trade Union)	Non-voting Member Representing Trade Unions
John Gray - Non-Voting Member (Admitted Body)	- Non-Voting Member (Admitted Body)

Admitted Bodies, Non-Voting Members Present:

Frank West - Non-Voting Member (Trade Union)	–	Non-voting Member Representing Trade Unions
John Gray - Non-Voting Member (Admitted Body)	–	- Non-Voting Member (Admitted Body)

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Legal Services Chief Executive's)
Anant Dodia	–	(Pensions Manager)
David Galpin	–	(Service Head, Legal Services, Directorate Law Probity and Governance)
Simon Kilbey	–	(Service Head, Human Resources and Workforce Development)
Kevin Miles	–	(Chief Accountant, Resources)
Oladapo Shonola	–	(Chief Financial Strategy Officer, Resources)
Paul Thorogood	–	(Interim Service Head Finance and HR Development, Resources)
Antonella Burgio	–	(Democratic Services)

COUNCILLOR ZENITH RAHMAN IN THE CHAIR

CHAIR'S ANNOUNCEMENT

The Chair advised that Mr Oladapo Shonola, Chief Financial Strategy Officer and Mr Paul Thorogood, Interim Service Head, Finance and HR Development would be leaving the authority in December. She thanked them for their excellent support to the Committee during their tenure and wished them well in their future ventures.

INTRODUCTIONS
The Chair welcomed guests and officers that were newly appointed to support the Committee. She then invited all to introduce themselves.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Oliur Rahman.

The Clerk advised the Chair that Councillor Rahman had also submitted his resignation from the Committee. A Member noted that he had failed to attend all meetings of the Committee in the municipal year and requested that a letter of censure be written by the Chair.

Action by:
Antonella Burgio (Committee Services Officer, Democratic Services)

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The unrestricted minutes of the meeting held on 19 September 2013 were approved as a correct record of proceedings without amendment.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4.1 2012/13 Local Government Pension Fund Annual Report

The Chief Financial Strategy Officer presented the report. He advised that the draft accounts had been presented for noting at the meeting on 19 September 2013. These were later audited and signed without change by the Council's external auditors. The reports were now presented for approval.

Matters discussed:
A Member noted that Fund membership was 16,000 whilst there were only 5,000 active members. Actuary Mr McKay advised that this was to be expected since the Fund was maturing and also was a matter that needed to be monitored. However the auto-enrolment retention rate was greater than that which had been expected and this would benefit the Fund's cash flow position.

A Member enquired whether the amount necessary to pay back into the Pension Fund was comparable with other local authorities and was advised that the Tower Hamlets pension-fund was situated in the median-range of local authority pension funds in this regard.

It was noted that the Fund's triennial evaluation would be presented to Committee in February 2014

Concerning ethical investment -

- A Co-opted Member enquired whether the Fund contained any holdings in companies abroad (such as those recently publicised in Bangladesh) which had not endorsed the ethical employment accord. He expressed concern that, as a public sector body, the Council should promote ethical investment. He was advised that although Legal and General had investments in Bangladeshi companies, this was a passive mandate fund and formed a small percentage of the Council's overall pension fund portfolio. The Co-opted Member enquired whether Legal and General could be requested to subscribe to the ethical investment accord.
- The Co-opted Member, noting that the top 100 FT companies had been asked to support the living wage initiative, enquired how the Council was supporting this stance through its investments. He was advised that the Council entrusted investment managers to support the Council's investment principles; where critical votes were taken, these managers were required to explain the votes they had made.
- To better monitor manager voting on shareholder issues, a Member requested that the Council consider using the LAPFF best practice guidelines on shareholder engagement when seeking new managers. The Chief Financial Strategy Officer cautioned that if a highly prescriptive approach were taken, the returns could not properly be benchmarked. Not withstanding he agreed that quarterly a high level summary of critical votes taken by investment managers would be reported to the Investment Panel.
- Members' wishes to ensure that the Pension Fund supported ethical modes of investment were noted and it was agreed that this matter would be raised at a forthcoming Investment Panel

RESOLVED:

1. That the pension fund annual report be approved

2. That the statement of investment principles be approved

3. That the pension-fund statement of accounts be approved

4. That the funding strategy statement be noted

5. That the governance compliance statement be noted

Action by:
Paul Thorogood, (Interim Service Head Finance and HR Development, Resources)
Oladapo Shonola, (Chief Financial Strategy Officer, Resources)
Kevin Miles (Chief Accountant, Resources)

4.2 Update on Government Guarantee of Academies Pension Liabilities

Prior to the discussion of the report circulated at agenda item 4.2, the Committee was provided with the following formation concerning the New Local Government Pension Scheme (LGPS):

- The new LGPS would be implemented in 2013-14
- Tower Hamlets' LGPS incorporated 20 admitted bodies and the new scheme would differentially impact each of the admitted organisations. This gave a measure of protection to the scheme.
- The new scheme would save money on the whole, however it also contained a cost management element to ensure scheme costs were capped.

The report was then presented by the Chief Financial Strategy Officer and Actuary, Mr McKay of Hymans Robertson. The Committee was advised:

- That Department of Education guidance at the inception of school academies recommended that these organisations should be treated equitably when setting pensions rates.
- Academy funding was guaranteed by Government for seven years after which deficit liabilities of any failed academy would fall to the relevant pension fund
- At its meeting on 21 February 2013 (minute 4.5 refers) the Pensions Committee considered this matter and agreed 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 local government pension scheme. This decision did not set a precedent.
- In the absence of a robust guarantee from the Government, application of a 20 year deficit recovery period for academies would adversely affect the pension-fund.
- In July 2013 the Secretary of State for Education issued a statement that there was a guarantee in place to safeguard against bankruptcy. However there were a number of caveats on this guarantee.
- Having considered the guarantee proposed by Government, local authorities were not persuaded that the guarantee was solid.
- Following the statement of July 2013, academies have made additional representations to the Secretary of State and a further Government consultation around proposals for a Government set recovery period is anticipated.

The Committee heard that three TH academies have made representations to Pensions Committee requesting a review of the decision of 21 February 2013. In considering this request the Committee noted the following:

- TH Pension Fund also served a number of other admitted bodies; which do not enjoy the deficit guarantee that the academies are seeking.
- The representations made by the academies were general and did not outline specific benefits that would be achieved.
- Academies were able to choose a number of options, concerning deficit recovery. These were:

    - Pool academies pensions - there are presently only four academies and in the circumstances the pool was not sufficient.
    - Pool with the Council - this presents a possible option. However, its principle contradicts basis on which academies were established (to operate independently of the local authority).
    - Pool contribution rate - and track this later.
    - Administer academies contributions as independent admitted bodies - it was noted that this option provided a shorter deficit recovery period (14 years) and therefore academies would pay less interest and make recovery sooner.
- If academies wished to operate long recovery periods there would be longer risk exposure.
- Government had put in place an upper limit.
- If some academies moved to the Council's contribution rate, they would be required to pay more. It appeared that in requesting a review of the deficit recovery period the schools needed to gain a better understanding of its implications on them individually.
- Risk to the Council would increase as more of academies became established and joined the Pension Fund.
- Most other local authorities had offered a 12 year deficit recovery period therefore TH terms were more favourable.
- The Council did not have a legal obligation to accede to the request to change to the deficit recovery period but had discretion to select a recovery period it felt was appropriate.

The Committee considered the oral and written information and highlighted the following issues:

- Referring to the Parliamentary minute provided at appendix 2, Members were not persuaded that the guarantee was as solid as the Government wished local authorities to believe.
- Already some reports of poor Academy performance were becoming publicised.
- Noting the present economic volatilities, the Committee was not assured that the Treasury would rescue all academies from financial distress should they fail.
- Should an academy become insolvent, all liabilities would fall to all of the admitted bodies within the pension-fund.
- Pooling arrangements were a decision for the academies but these would not affect the recovery period.

The Committee then concluded that extending the deficit recovery period would put the Council and other admitted bodies at greater disadvantage. Therefore, based on the matters discussed and the information provided, the Committee came to a view that the deficit recovery period should remain at 14 years.

RESOLVED:

1. That the content of the report be noted
2. That having considered the representations from the admitted academies in the LBTH Pension Fund, the deficit recovery period remain at 14 years
3. That a letter from the Director of Resources be drafted to the academies in LBTH Pension Fund advising them of the Committee's decision and its reasons.

4.3 Workforce Pension Reform: Automatic Enrolment Update

The Pensions Manager and Service Head Human Resources and Workforce Development presented the report. The Committee was advised that:

- Overall LGPS membership had increased since the introduction of auto enrolment.
- The scheme was targeted at paid workers and contributions were based on whole-time pay rate.
- There was scope for improvement, therefore benefits of THLGPS would be further publicised to encourage further uptake.
- An analysis of uptake data revealed -
    - of those opting out, around 1000 were female,
    - most were in the £20,800 - £34,700 wage range and
    - most were in the 25 to 34 year old age range,
- Additional directorate and ethnicity analyses were being undertaken.
- Under regulations there would be re-enrolment every three years.
- Contributions were subject to tax relief.
- Auto enrolment scheme had been successful and employers contributions have risen accordingly.

RESOLVED:

That the report to be noted

4.4 Report of Investment Panel for Quarter Ending 30 June 2013

The Chief Financial Strategy Officer presented the report and advised that a comprehensive discussion of investment performance had been undertaken at the Investment Panel which preceded the Committee's meeting. He advised that:

- There had been good performance in the quarter.
- The fund achieved a return of 0.4% above benchmark.
- Investment managers Ruffer and Baillie Gifford had not achieved benchmark in the quarter.
- Asset allocation as outlined at 30 June 2013 was in line with benchmark and with the structural allocation across the portfolio

RESOLVED:

That the report be noted

5. TRAINING EVENTS

The Clerk informed the Committee of forthcoming training events listed in the report and asked that any members interested in attending these events contact her.

RESOLVED:

1. That the forthcoming training events as listed in the report be noted and
2. That expressions of interest be made through the Clerk.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.46 p.m.

Chair, Councillor Zenith Rahman
Pensions Committee

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<table>
<tr><td>COMMITTEE:

Pensions Committee</td><td>DATE:

25th February 2014</td><td>CLASSIFICATION:

Unrestricted</td><td>AGENDA NO.</td></tr>
<tr><td colspan="2">REPORT OF:

Acting Corporate Director of Resources

ORIGINATING OFFICER(S):
Kevin Miles –
Chief Accountant</td><td colspan="2">TITLE:

Funding Strategy Statement 2013

Ward(s) affected:
N/A</td></tr>
</table>

Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report sets out the Funding Strategy Statement (FSS) which the Council is required to publish under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008, having regard to guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) and to its Statement of Investment Principles.

1.2 The FSS is reviewed in detail every three years in line with the statutory revaluation of the pension fund and sets out the period over which the deficit is to be recovered and the corresponding employer's contributions for each of the bodies participating in the scheme.

1.3 The contents and format of the report have been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the document will be distributed to admitted bodies for consultation.

2. RECOMMENDATIONS

2.1 Members are recommended to adopt the Funding Strategy Statement set out in appendix A of this report.

3. BACKGROUND

3.1 Revised investment Regulations issued by the Government require Councils to publish a revised Funding Strategy Statement (FSS) following a material change in its policy on the matters set out in the statement or a change to its current version of the Statement of Investment Principles.

3.2 The FSS sets out the Council's policies on a number of essentially technical issues relating to the bodies which it admits into the Local Government Pension Scheme it administers.

3.3 The contents and format of the FSS has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.4 The Council is required to consult the admitted bodies on the FSS. The admitted bodies have been invited to comment on the FSS.

4. THE REVALUATION OF THE PENSION FUND

4.1 The Local Government Pension Scheme regulations require Councils to have the pension funds they administer revalued by a qualified actuary every three years.

4.2 The revaluation relates to both the Council as administering body and the organisations the Council has admitted to the LGPS. These organisations are: -

Admitted Bodies

- East End Homes Ltd
- Agilisys Ltd
- Gateway Housing Association
- Capita
- Greenwich Leisure Ltd
- One Housing Group
- Swan Housing Ltd
- Circle Anglia
- Ecovert FM Ltd
- Look Ahead Housing Association
- Vibrance
- Tower Hamlets Community Housing

Scheduled Bodies

- Tower Hamlets Homes Ltd
- Canary Wharf College
- Sir William Burrough School
- Bethnal Green Academy
- St Pauls Way Community School

4.3 The actuary calculates the financial position of each element of the aggregate fund and devises a specific deficit recovery strategy based on an assessment of the organisation itself.

4.4 The actuary when calculating the financial position of the admitted bodies requires the administering authority to specify how it requires a number of essentially technical issues to be applied to the admitted bodies.

4.5 The FSS provides transparency to this process by explicitly stating how these issues are to be treated.

5. MAIN ISSUES

5.1 The main issues relating to the treatment of employers as contained in the FSS may be summarised as follows:-

- Adjustments for individual employers
- Accounting for assets
- Deficit recovery periods
- Phasing of contribution rises and reductions and
- Investment strategy.

5.2 Adjustments for Individual Employers

5.2.1 The actuary calculates one rate of contribution for all bodies participating in the pension fund. This common contribution rate is then adjusted for factors, which are specific to each body.

5.2.2 The FSS sets out the factors, which will determine the individual adjustments. These are as set out in Appendix D -The calculation of Employer contributions.

5.3 Accounting for Assets

5.3.1 This necessitates the actuary using sophisticated statistical techniques to apportion the assets to the respective bodies.

5.4 Deficit Recovery Periods.

5.4.1 The Council can apply different recovery periods for each type of employer. The periods basically correspond to the financial surety of the relevant body.

5.4.2 The Council to minimise the risk associated with the funding of deficits by external bodies has specified the maximum periods allowable.

5.4.3 The relevant periods are as set out in section 3.3 of the FSS

5.5 Phasing in of Contribution Increases and Reductions

5.5.1 Bodies which have a stabilisation mechanism in place are not subject to the phasing in of contribution increases. This currently applies to the London Borough of Tower Hamlets Council.

5.5.2 The stabilisation mechanism allows the employer contribution rate to be kept within a pre-determined range.

5.5.3 Other bodies may opt to phase in contribution increases subject to the maximum period specified by the Council.

5.5.4 The Council to maximise the overall level of assets within the fund has specified the maximum periods allowable.

5.5.5 These are as set out in section 3.3 of the FSS.

5.6 Investment Strategy

5.6.1 The Council does not apply different investment strategies to the investments attributable to the admitted bodies. This is on the basis that it has not opted to account for the assets relating to the employer separately.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

7. LEGAL COMMENTS

7.1 The report sets out the Councils Funding Strategy document which is required under regulation 35 of the the Local Government Pension Scheme (Administration) Regulations 2008. Regulation 35(2) requires the administering authority to:

(a) keep the statement under review;

(b) make such revisions as are appropriate following a material change-

(i) in its policy on the matters set out in the statement, or

(ii) to the current version of its statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles); and

(c) if revisions are made, publish the statement as revised.

In accordance with Regulation 35(3), in reviewing and making revisions to the statement, the authority must-

(a) have regard to the guidance set out in the document published in March 2004 by CIPFA and called "CIPFA Pensions Panel Guidance on Preparing and Managing a Funding Strategy Statement (Guidance note issue No.6)"; and

(b) consult such persons as it considers appropriate.

7.2 The Council is required to consult the admitted bodies on the FSS which will be used by the actuary when undertaking statutory revaluations of the pension fund.

7.3 Appendix 1 has been prepared in accordance with the above statutory requirements.

8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The Fund must ensure it has sufficient assets to meet its pension liabilities and the funding strategy is critical to achieving this.

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

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

10.1 The principle risk associated with the admission of organisations into the LGPS is that they become insolvent and are unable to fund the pension liabilities of their employees. In these circumstances the deficit becomes a liability of the Council as administering authority.

10.2 The Council has adopted policies within the FSS which minimise the risk associated with this situation. The Council has adopted the maximum period to recover deficits.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

12. EFFICIENCY STATEMENT

12.1 The FSS seeks to ensure efficient operation of the Fund by setting out a strategy for making sure the Fund has sufficient assets to meet it pension liabilities when they fall due.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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 Robertson Report	Kevin Miles Ext. 6791 Mulberry Place, 3rd Floor.

Appendix A

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London Borough of Tower Hamlets Pension Fund

DRAFT Funding Strategy Statement

January 2014

HYMANS ROBERTSON

Contents

DRAFT Funding Strategy Statement PAGE

Appendices

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

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

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

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

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

- the LGPS Regulations;

- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions and cessations;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

If you have any other queries please contact Anant Dodia in the first instance at e-mail address anant.dodia@towerhamlets.gov.uk or on telephone number 020 7364 4248.

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

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

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

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

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report which will be issued by 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

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

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

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities**	**Police, Fire, Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No employers of this type	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	NA	14 years	20 years	Future working lifetime of remaining active members	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	NA	% of payroll	% of payroll	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	NA	Spread over recovery period	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority
Phasing of contribution changes	Covered by stabilisation arrangement	NA	Maximum of 3 years	3 years - Note (e)	3 years - Note (e)	Maximum of 3 years
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies to the London Borough of Tower Hamlets Council.

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Employer	London Borough of Tower Hamlets
Max contribution increase	+£2m
Max contribution decrease	-£2m

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same approach to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate because of a small or decreasing payroll; or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy employers)

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

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

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

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

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

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

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

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

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

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

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

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

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

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

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

3.8 Ill health insurance

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

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

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

3.9 Employers with no remaining active members

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

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

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

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

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

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on an ad-hoc basis.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

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

b) Comments were requested within [30] days; and

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

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [CLIENT URL];
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A summary issued to all Fund members;
- A full copy [included in/linked from] the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures such as deficit spreading and phasing are also in place to limit sudden increases in contributions,
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

Risk	Summary of Control Mechanisms
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections through employers paying monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.

Risk	Summary of Control Mechanisms
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

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

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

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

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

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

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

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

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this a change from the 2010 valuation where 1.4% was used). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around 0.5 years of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**25 February2014**	**Unrestricted**	.
REPORT OF: **Interim Corporate Director of Resources** ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant		TITLE: **Report of Investment Panel for Quarters Ending 30September and 31 December 2013** Ward(s) affected: N/A	

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 two quarters ending 31st December 2013. Full details are contained in Hymans Robertson's quarterly reports for the two quarters are the appendices to this report.

1.2 In the quarter to the end of September 2013the Fund achieved a return gross of fees of 3.0% which is 0.5% above the benchmark of 2.5%. In the quarter to December there was a return of 4.1% compared to a benchmark of 3.7%.The twelve month Fund return of 15.5% exceeds the benchmark by 1.9% at 13.6%. Over the longer term, performance is ahead of the benchmark with three year returns of 8.1% being 0.2% above the benchmark and five year returns of 8.1%,0.1% under the benchmark of 8.2%.

1.3 The latest performance figures show that performance is heading in the right direction and the Fund matches or is ahead of benchmark over all reported time periods except for the five year time span. This is as a result of a combination of market recovery, especially equities, and strategic decisions made by the Investment Panel on new allocations and investment manager appointments.

1.4 Six out of eight managers matched or achieved returns above the benchmark in the December quarter, this is up from five in the previous quarter. It was a relatively good half year for global equity with both GMO and Baillie Gifford returning relative outperformance over benchmark. Of the absolute return managers, Baillie Gifford Diversified Growth outperformed the benchmark in both quarters. Ruffer outperformed in the December quarter but was behind the benchmark in the September quarter. Schroder's, the property mandate holder and Investec, the bond fund manager underperformed the benchmark in both quarters.

1.5 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 half year ending31 December 2013.

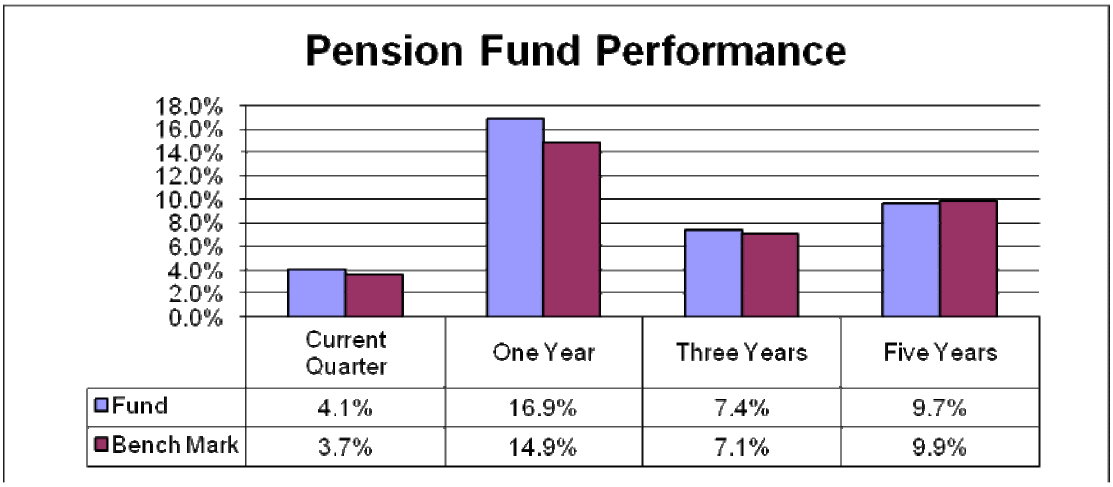
6INVESTMENT PERFORMANCE

6.1 In the September quarter, the Fund achieved a return of 3.0% (gross of fees)which is0.5%above the benchmark of+2.5%.Net of fees, the performance was +2.9%, 0.4% above the benchmark.

6.2 In the December quarter, the Fund achieved a return of 4.1% (gross of fees) which is 0.4% above the benchmark of +3.7%. Net of fees, the performance was +4.0%, 0.4% above the benchmark.

6.3 The performance of the fund over the longer term is as set out in table 1.

Table 1 – Pension Fund Performance



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 pension 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, mandateand funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value Dec 2013 £M	Target % of Fund	Actual % of Fund	Difference %	Value Sept 2013 £M	Date Appointed
GMO	Global Equity	**255.4**	25.0%	25.6%	0.6%	242.0	29 Apr 2005
Baillie Gifford	Global Equity	**179.4**	16.0%	18.0%	2.0%	170.6	5 Jul 2007
L & G UK Equity	UK Equity	**213.4**	20.0%	21.4%	1.4%	202.3	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**46.5**	5.0%	4.7%	-0.3%	45.5	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**45.4**	5.0%	4.5%	-0.5%	44.9	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**47.5**	3.0%	4.8%	1.8%	47.9	2 Aug 2010
Investec Bonds	Bonds	**97.4**	14.0%	9.7%	-4.3%	96.9	26 Apr 2010
Schroder	Property	**102.3**	12.0%	10.2%	-1.8%	98.7	30 Sep 2004
Cash	Currency	**11.7**	0.0%	1.1%	1.1%	8.2	
Total		**998.9**	**100.0%**	**100.0%**	**0.0%**	**957.0**	

7.2 The fund value of £957 million as at 30 September 2013, which includes cash held, has increased by over 7%in the last six months.

7.3 The performance, gross of fees of the individual managers relative to the appropriate benchmarksover the past five years is as set out in table 3.

Table 3: Manager Investment Performance relative to benchmark

Manager	Current Quarter	Previous Quarter	One Year	Three Years	Five Years
GMO	1.20%	1.30%	2.20%	0.20%	-0.60%
Baillie Gifford	0.20%	1.70%	5.50%	2.60%	4.10%
L & G UK Equity	0.00%	0.00%	0.20%	0.10%	0.20%
Baillie Gifford Diversified Growth	1.50%	0.10%	1.90%	1.80%	N/A
Ruffer Total Return Fund	0.40%	-0.80%	6.70%	1.50%	N/A
L & G Index Linked-Gilts	0.00%	0.10%	0.10%	0.10%	0.00%
Investec Bonds	-0.10%	-0.90%	-1.90%	-2.60%	-3.10%
Schroder	-0.60%	-0.30%	-1.00%	-0.90%	-2.10%
Total Variance (Relative)	**+0.40%**	**+0.50%**	**+1.80%**	**+0.30%**	**-0.20%**

7.4 **GMO**made absolute return of5.5% in the quarter, outperforming the benchmark of 4.3%.by1.2% (Sept. - 4.1% v 2.6% benchmark). Although the last three quarter's results has been above benchmark and help to mitigate recent underperformance in 2012, long term performance still lags slightly benchmark/target. The portfolio benefited from Europe and US stock selection in the last quarter. Though high quality US shares underperformed, GMO believe that these represent good value compared to other stocks.

7.5 In the quarter to December, GMO have announced that they are changing their investment strategy – this will mean that they will not be looking for returns from "momentum stocks" and instead will focus on return from value stocks. Officers had a meeting with GMO in December to discuss this change in investment strategy. GMO are convinced that this change to their investment strategy will be beneficial to the pension scheme.

7.6 **Baillie Gifford** returned 5.2% in the quarter against a benchmark of 5.0%resulting in relative outperformance of 0.2% (Sept – 2.9% v 1.7% benchmark). Over 12 months, a return of 27.8% is 5.5% above the benchmark. Over 3 years relative return exceededbenchmark by 2.6%, which is in line with their target. Two notable contributors to outperformance over the last quarter were Amazon and Prudential. Baillie Gifford believes emerging markets remain a good long term investment.

7.7 **L & G (UK Equity)** performance has been in line with the index benchmark (FTSE-All Share) since inception, as expected.

7.8 **L & G Index Linked Gilts**performance has been generally in line with the index benchmark (FTSE-A Index-Linked Over 15 Years Gilts) since inception.

7.9 **Investec (Bonds)** – The fund return was behind the benchmark of 0.6% by 0.1% this quarter (Sept 0.6%v 0.9%benchmark).Though corporate bond investment performed will in the quarter, exposure to emerging and US dollar currencies has been the main reason for underperformance this half year. The portfolio has been behind the benchmark since inception.

7.10 **Schroder (Property)**marginally underperformed benchmark by 0.6% in the quarter and by 0.3% in the previous quarter. The third quarter underperformance was due to investment in Continental Europe, though UK investments outperformed. In the longer term, performance lags benchmark/target. The manager is relocating its property management business so it is based entirelyin

London. There have been recent senior management changes in Schroders with the Head of Property stepping down.

7.11 **Baillie Gifford Diversified Growth Fundoutperformed the** benchmark of 1.0% by 1.4%(Sept 1.1% v 1.0% benchmark). Performance in the last 12 months was 1.4% above benchmark. Listed equity performance has been the biggest contributor to this above benchmark return. High yield debt also contributed to returns, however emerging market and gold investments held back performance. Return in the longer term is ahead of benchmark and portfolio volatility is also within target.

7.12 **Ruffer Total Return Fund (Absolute Return)**outperformed by 0.4% in the quarter, though underperformed by 0.8% in the previous quarter.Performance was helped from investments in Volkswagen, BP, Lockheed Martin and Microsoft.The fund still has a high exposure to Japanese equities. Over the last year, the fund has been 6.7% above the benchmark, so has performed relatively well.

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 thisit 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 fund position at the 31 December 2013are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark 31Dec 2013	Fund Position	Variance as at 31Dec 2013	Variance as at 30 Sept 2013
UK Equities	24.0%	25.5%	1.5%	1.0%
Global Equities	37.0%	38.7%	1.7%	1.6%
Total Equities	**61.0%**	**64.2%**	**3.2%**	**2.6%**
Property	12.0%	10.2%	-1.8%	-1.8%
Bonds	14.0%	9.7%	-4.3%	-3.9%
UK Index Linked	3.0%	4.8%	1.8%	2.0%
Alternatives	10.0%	9.2%	-0.8%	-0.6%
Cash	0.0%	2.0%	2.0%	1.6%
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. The overweight position in equities has helped the fund's performance in recent months.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

10. LEGAL COMMENTS

10.1 Regulation 11(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund. Regulation 11(1) requires the Council to have a policy in relation to its investments. The investment policy must be formulated with a view –

(a) to the advisability of investing money in a wide variety of investments; and

(b) to the suitability of particular investments and types of investments. The Council is also required to have a Statement of Investment Principles in accordance with regulation 12 (1) which cover the following matters:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

In accordance with Regulation 11(5), The Council is required to take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

10.2 Under regulation 8(1), 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. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

10.4 There are no immediate legal consequences arising from this report.

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	

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HYMANS ROBERTSON
The Spirit of Independence

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2013

Prepared By:

Matt Woodman - Senior Investment Consultant
David Millar - Senior Investment Analyst

For and on behalf of Hymans Robertson LLP
October 2013

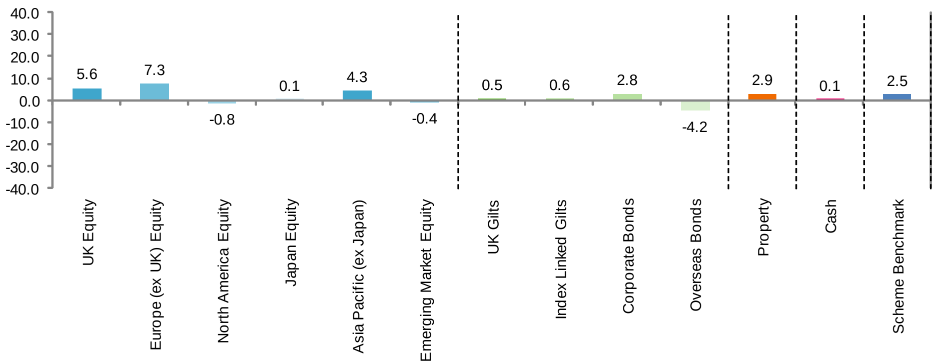
Real people. Real skills. Real results.

Contents

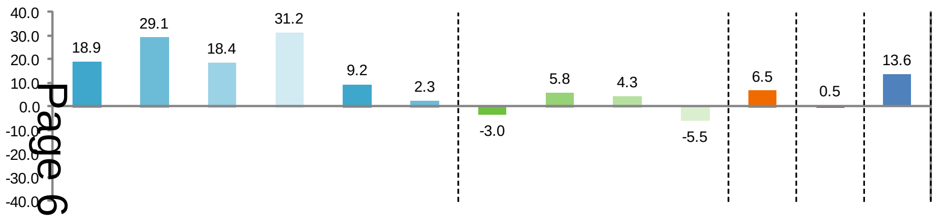
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Historic Returns for World Markets to 30/09/2013

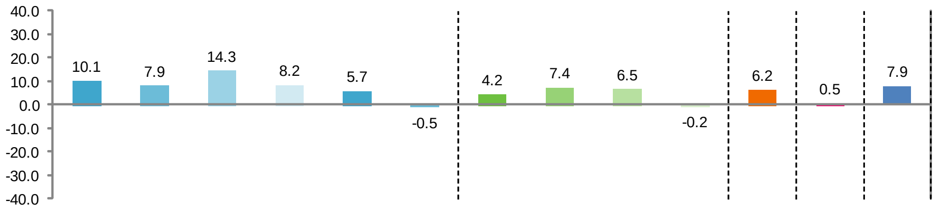
3 Months (%)



12 Months (%)



3 Years (% p.a.)



[1] Overseas equity returns shown in Sterling

Source: [i] DataStream, Hymans Robertson, Investment Property Databank Limited

Market Comment

The quarter to end September 2013 contained a mix of positive economic news and more nuanced financial events. The Eurozone emerged from recession, although there remains a wide divergence in the performance of individual members. In the UK, data published in July indicated strong economic growth, prompting the Chancellor of the Exchequer to comment that the economy is 'turning a corner' and to cite 'signs of a balanced, broad based and sustainable recovery'. Positive economic developments were also evident in the US and, to a lesser extent, in Japan.

Notwithstanding positive economic data, action by central banks tended to reflect a more cautious attitude. Short-term interest rates in the UK, Eurozone and US were held at record lows. In the US, the Federal Reserve indicated there would be no immediate unwinding of monetary support (currently $85bn a month), a step back in tone from the preceding quarter. In addition, both the UK and European central banks provided forward guidance on monetary policy for the first time. The underlying message from the major central banks was, and remains, that economic conditions, whilst improving, still need very careful management.

Global ten year bond yields rose (prices fell) but then stabilised. At the end of the quarter, investors were unsettled by concerns that the US may not renew its debt ceiling by the mid October deadline.

Key events during the quarter were:

Global Economy

· Forecasts for UK economic growth were revised upwards by the Bank of England and IMF;
· Global economic growth forecasts were revised down by the IMF;
· China announced a series of measures to boost economic growth;
· Short-term interest rates were unchanged in UK, US and Eurozone;
· The Eurozone economy recovered from recession, after four consecutive quarters of economic contraction.

Equities

· The best performing sectors relative to the 'All World' Index were Basic Materials (+3.9%) and Industrials (+2.8%); the worst were Utilities (-3.6%) and Consumer Goods (-2.2%);
· Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements;
· Vodafone sold its 45% stake in Verizon for $130m (one of the largest deals in corporate history).

Bonds and Currencies

· UK government bonds (All Stocks) returned +0.5%;
· Corporate issues outperformed government counterparts by a comfortable margin;
· Sterling strengthened against all major currencies.

Portfolio Summary

Valuation Summary [1]

Asset Class	Values (£m) Q2 2013	Q3 2013	Actual Proportion %	Target Proportion %	Difference %
Global Equity	583.9	609.3	63.7	61.0	2.7
Bonds	144.8	144.8	15.1	17.0	-1.9
Property	94.3	97.7	10.2	12.0	-1.8
Alternatives	90.0	90.4	9.4	10.0	-0.6
Cash	8.7	6.5	0.7	0.0	0.7
Trustee Bank Account	9.4	8.2	0.9	0.0	0.9
Total inc. Trustee Bank Account	**931.0**	**957.0**	**100.0**	**100.0**	

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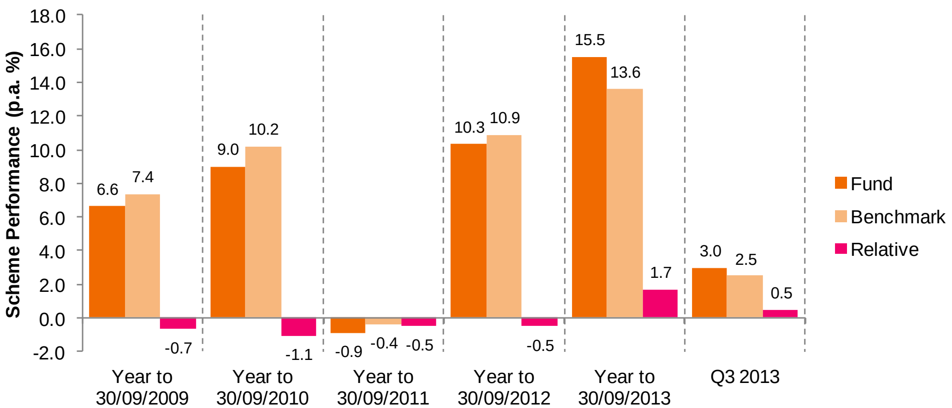
Comments

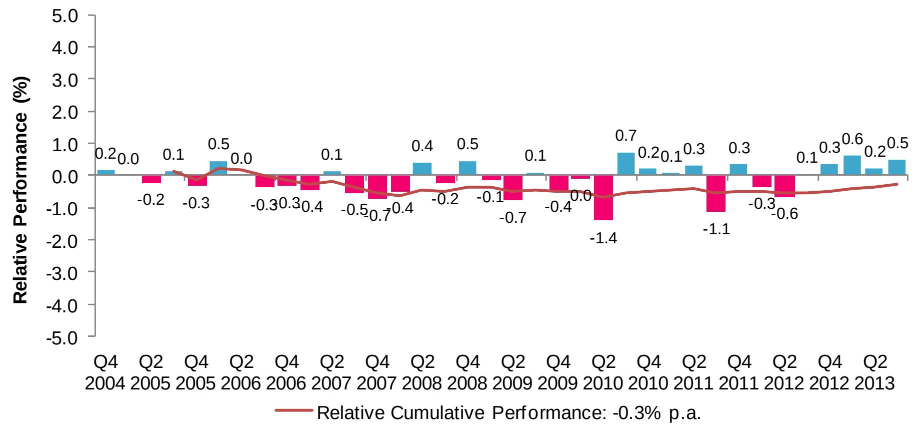
Performance was ahead of the benchmark over the quarter with the strongest relative returns from the Fund's active equity managers (Baillie Gifford and GMO). The equity managers also produced the strongest absolute returns with the Total Fund returning 3%. We have restated the Absolute Return Managers' benchmarks to include their performance target. This also feeds into the Total Fund benchmark. For Baillie Gifford DGF and Ruffer, we have shown the same benchmarks (Baillie Gifford's to aid comparison of these two managers (UK Base Rate +3.5%). Investec (absolute return bonds) benchmark is Cash +2%p.a.

The managers' allocations remain broadly similar to last quarter and the Fund remains close to its strategic asset allocation (within the +/-5% tolerance ranges around the 83% "growth and equity like", 17% Bonds target). There were no manager or benchmark changes over the quarter or since the addition of the absolute return managers in quarter 1 of 2011.

Performance Summary [2] [i]



Relative Quarterly and Relative Cumulative Performance [3] [ii]



[1] Cash is that cash held within Schroders Property and Baillie Gifford & GMO Global Equity Mandates, [2] Gross of fees, [3] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

Manager Summary

Manager Valuations

Manager	Value (£m) Q2 2013	Q3 2013	Actual Proportion %	Target Proportion %	Difference %
Baillie Gifford Global Equity	165.9	170.6	17.8	16.0	1.8
GMO Global Equity	232.6	242.0	25.3	25.0	0.3
Legal & General UK Equity	191.5	202.3	21.1	20.0	1.1
Baillie Gifford Diversified Growth Fund	45.0	45.5	4.7	5.0	-0.3
Ruffer Total Return Fund	45.0	44.9	4.7	5.0	-0.3
Investec Bonds	97.2	96.9	10.1	14.0	-3.9
Legal & General Index-Linked Gilts	47.6	47.9	5.0	3.0	2.0
Schroder Property	96.8	98.7	10.3	12.0	-1.7
Trustee Bank Account	9.4	8.2	0.9	0.0	0.9
Total	**931.0**	**957.0**	**100.0**	**100.0**	0.0

Manager Summary [1]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
Baillie Gifford Global Equity	Active	05 Jul 2007	MSCI AC World Index	+2% to 3% p.a. (Gross) over rolling 3-5 year periods	
GMO Global Equity	Quantitative	29 Apr 2005	Bespoke	1.5% (net)	
Legal & General UK Equity	Passive	02 Aug 2010	FTSE All Share Index	Track Benchmark	
Baillie Gifford Diversified Growth Fund	Diversified Growth	22 Feb 2011	UK Base Rate	Outperform by 3.5%p.a. (net) over rolling 5 years with annual volatility of less than 10%	
Ruffer Total Return Fund	Absolute Return	28 Feb 2011	Cash	Preserve capital and deliver consistent, positive returns over longer term	
Investec Bonds	Target Return	26 Apr 2010	3 Month LIBOR	Outperform by 2%p.a.	
Legal & General Index-Linked Gilts	Passive	02 Aug 2010	FTSE Index-Linked Over 5 Years	Track Benchmark	
Schroder Property	Fund of Funds	30 Sep 2004	IPD All Balanced Funds Weighted Average	+0.75% (Net)	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

[1] In this report, we show the absolute return manager's benchmarks including performance target. For Ruffer, we show a benchmark the same as Baillie Gifford's to enable comparison between the two managers.

Performance Summary Net of fees

Performance Summary [1] [i]

		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	2.8	4.0	5.6	1.0	-0.1	-0.4	0.6	2.0	2.9
	Benchmark	1.2	2.8	5.6	1.0	1.0	0.6	0.5	2.4	2.5
	Relative	1.6	1.2	0.0	0.0	-1.1	-1.0	0.1	-0.4	0.4
12 Months (%)	Absolute	24.6	22.2	19.0	6.0	11.7	0.6	6.7	4.4	15.2
	Benchmark	18.0	22.1	18.9	4.0	4.0	2.5	6.6	4.2	13.6
	Relative	5.6	0.1	0.1	1.9	7.4	-1.9	0.1	0.1	1.4
2 Years (% p.a.)	Absolute	21.5	16.2	18.2	7.3	7.0	1.7	5.8	2.2	12.5
	Benchmark	17.7	18.0	18.1	4.0	4.0	2.8	5.8	3.1	12.2
	Relative	3.2	-1.5	0.1	3.1	2.9	-1.1	0.0	-0.8	0.3
3 Years (% p.a.)	Absolute	12.2	8.9	10.1	5.0	4.6	-0.1	8.4	3.7	7.8
	Benchmark	9.8	9.7	10.1	4.0	4.0	2.8	8.3	4.5	7.9
	Relative	2.2	-0.8	0.1	0.9	0.6	-2.8	0.0	-0.8	-0.1

[1] 3 Year performance figure is since inception for Baillie Gifford DGF (22/2/11) and Ruffer (28/2/11). Performance, for periods up to 5 years (gross of fees) is shown in the appendix.

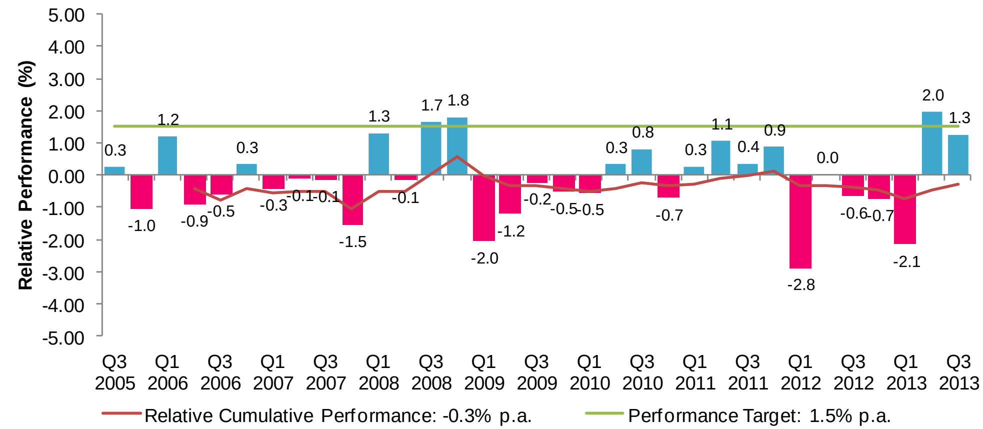
Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

GMO Global Equity

HR View Comment & Rating

No significant news to report.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

GMO posted an absolute return of 4.1% (4.0% net) and outperformed their benchmark over the quarter by 1.3% (1.2% net). Strong absolute and relative performance helped alleviate some of the recent underperformance (12 month relative performance is now positive) although longer term performance does still remain below benchmark. Outperformance by peripheral Eurozone markets helped the strategy's returns from regional allocation and also stock selection in that area. Less positively, their bias to US high quality stocks did continue to detract from performance.

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	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.1	22.6	9.3	9.1
Benchmark	2.8	22.1	9.7	9.3
Relative	1.3	0.4	-0.4	-0.2

* Inception date 29 Apr 2005.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.4	1.5

[1] Gross of fees, [2] Since inception performance differs from cumulative performance in chart as cumulation period in chart is 5 years. Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Baillie Gifford Global Equity

HR View Comment & Rating

Rating

Replace ← On Watch → Retain

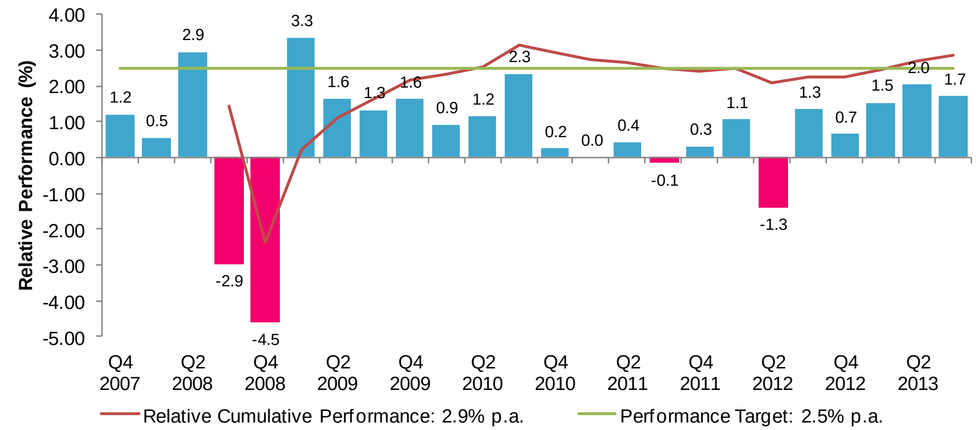
No significant news impacting the Global Alpha team or process.Baillie Gifford ("BG") closed their Diversified Growth Fund ("DGF") to new clients from 28 February 2013 at £2.8bn. At that time the fund was to remain open to new money from existing clients. However since the close, the Fund continued to grow and BG took the decision to close to existing BG clients who were not already invested in the strategy. After 28th June 2013 the fund remained open only to future cash flows from existing Diversified Growth Fund investors. The reason for the close of this fund concerns the strategy's capacity. The fund allocates to insurance linked securities (essentially catastrophe bonds); this is a small market at present and to maintain its allocation of around 9% the firm believes that it has to cap the fund at £6 billion. The fund AuM currently stands at £5bn. As a result Baillie Gifford are taking the prudent decision of further closing the Fund to existing clients as at 28 November 2013, with the exception of those monies that represent routine contributions from existing clients. Additional contributions from portfolio rebalancing will be accepted (BG have not stated a limit to the amount except to say no large contributions!).

Comments

The Fund returned 2.9% (2.8% net) in the third quarter. This return exceeded that of the MSCI All Country World Index, which returned 1.2%. Longer-term performance is also strongly ahead of benchmark over the one, three and five year periods.

The holding of electric car company Tesla has continued to boost returns as have a strong rebound in a number of Baillie Gifford's technology holdings such as Facebook, Trip Advisor and Naspers. Turnover in the portfolio is low (15% over 12 months) reflecting Baillie Gifford's confidence in the shape of the portfolio. They are focussing on the theme of "normalisation", an environment where companies operate in an environment where interest rates are not distorted by central bank policy, margins revert to historic norms and capital investment returns to more typical levels. One example of this work is the recent purchase of M&T Bank, a traditional lending bank in the US which would benefit from an interest rate rise. They also look to pick attractive stocks benefitting from innovation and have added Myriad Genetics (medical tests) and Qualcomm (wireless and semiconductor products).

Relative Quarterly and Relative Cumulative Performance [1] [i]



	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.9	25.2	12.7	8.0
Benchmark	1.2	18.0	9.8	5.2
Relative	1.7	6.0	2.6	2.7

* Inception date 05 Jul 2007.

3 Year Relative Return

Actual % p.a.	Target % p.a.
2.6	2.5

[1] Gross of fees, [2] Since inception performance in table differs from chart above as chart excludes initial part quarter. Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Legal & General UK Equity

HR View Comment & Rating

Legal and General are one of the largest managers of index-tracking funds. UK equity and Index-linked assets were invested on 2 August 2010. The UK equity portfolio has a target weight of 22.5% of Scheme assets and the index-linked portfolio has a target of 7%.

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.6	19.1	10.2	11.8
Benchmark	5.6	18.9	10.1	11.6
Relative	0.0	0.1	0.1	0.2

* Inception date 02 Aug 2010.

Comments

Performance has been in line with the index benchmark (FTSE-All Share) over the quarter and since inception. Index changes, corporate actions, sampling and stocklending had little impact on returns over the period.

[1] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson

Legal & General Index-Linked Gilts

HR View Comment & Rating

Legal and General are one of the largest managers of index-tracking funds. UK equity and Index-linked assets were invested on 2 August 2010. The UK equity portfolio has a target weight of 22.5% of Scheme assets and the index-linked portfolio has a target of 7%.

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.6	6.7	8.4	9.9
Benchmark	0.5	6.6	8.3	9.9
Relative	0.1	0.1	0.1	0.0

* Inception date 02 Aug 2010.

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Comments

Performance has been in line with the index benchmark (FTSE-A Index-Linked Over 15 Years) over the quarter and since inception.

[1] Gross of fees

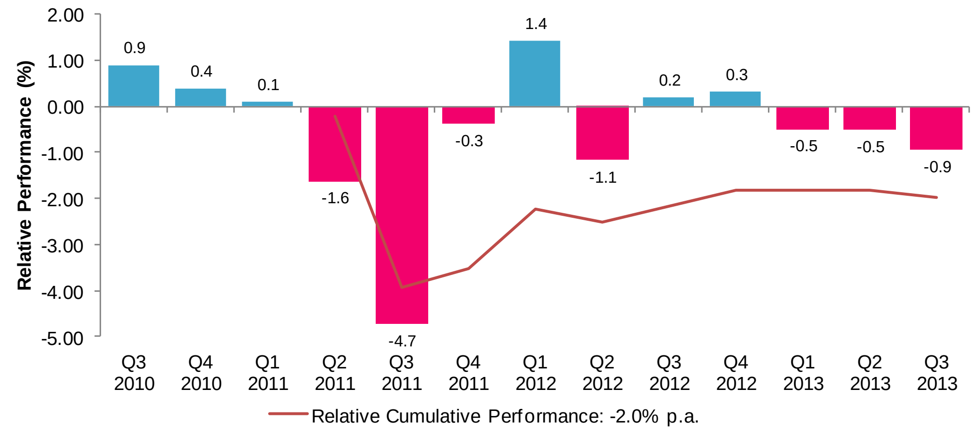
Source: [i] DataStream, Fund Manager, Hymans Robertson

Investec Bonds

HR View Comment & Rating

No significant news to report.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

We have re-stated the benchmark to show the cash index plus target. The performance of the Fund is behind that of the re-stated benchmark over all periods shown since inception. The poor quarters in 2011 (Q2 and, in particular, Q3) continue to be a significant drag but the Fund returns have also failed to keep up with the cash index plus target over the last 12 months (a return of 1% versus benchmark 2.5%).

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The Fund's currency exposure detracted from overall performance and was the largest source of relative underperformance over the quarter. About a third of this underperformance came from the Fund's emerging market currency exposure. US dollar exposure also detracted. On the positive side, the Fund's corporate bond holdings performed well. The Fund retained a cautious stance towards corporate debt exposure, but did take advantage market weakness to add some credit risk (taking advantage of more attractive valuations at the end of quarter two).

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.3	1.0	0.3	-0.6
Benchmark	0.6	2.5	2.8	2.8
Relative	-0.9	-1.5	-2.4	-3.3

* Inception date 26 Apr 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.4	2.0

3 Year Tracking Error

Actual % p.a.	Target % p.a.
N/A	0.0 - 0.0

[1] Gross of fees, [2] Since inception performance in table differs from chart above as chart excludes initial part quarter. Gross of fees

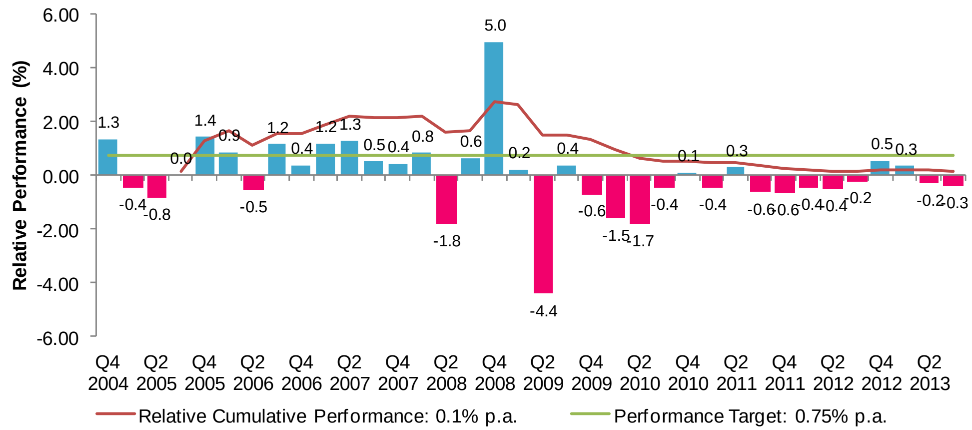
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder Property

HR View Comment & Rating

Schroders announced that Keeran Kang has been promoted to the role of Fund Manager within the Property Multi-Manager team. Keeran will continue to be based in the UK, but over the coming months she will be working with Rob Bingen in Amsterdam to familiarise herself with their international platform of investments before taking over as Fund Manager on their two European fund of fund vehicles; Schroder Real Estate Fund of Funds Continental European Fund I (which Tower Hamlets invests in) and Fund II. Centralising the management of the Property Multi-Manager business in London has been an objective for some time. It should be more efficient to run Property Multi-Manager from one location and Schroders expect to benefit from the experience of a growing direct investment team based in the UK with a pan-European focus. Keeran will also continue to work on individual UK segregated accounts. Rob Bingen will work with Keeran during the transition period, but will then be freed up to focus on expanding their property securities business as Head of Property Securities and Global Solutions.

Relative Quarterly and Relative Cumulative Performance [1] [i]



	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.1	4.6	3.9	0.3
Benchmark	2.4	4.2	4.5	1.4
Relative	-0.3	0.3	-0.6	-1.0

Comments

We do not have confirmed performance data from Schroder at this time. We have estimated performance over the quarter based on change in value of the portfolio.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.6	0.8

[1] Gross of fees, [2] Since inception performance differs from cumulative performance in chart as cumulation period in chart is 5 years. Gross of fees

Source: [i] Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] Fund Manager, Hymans Robertson, Investment Property Databank Limited

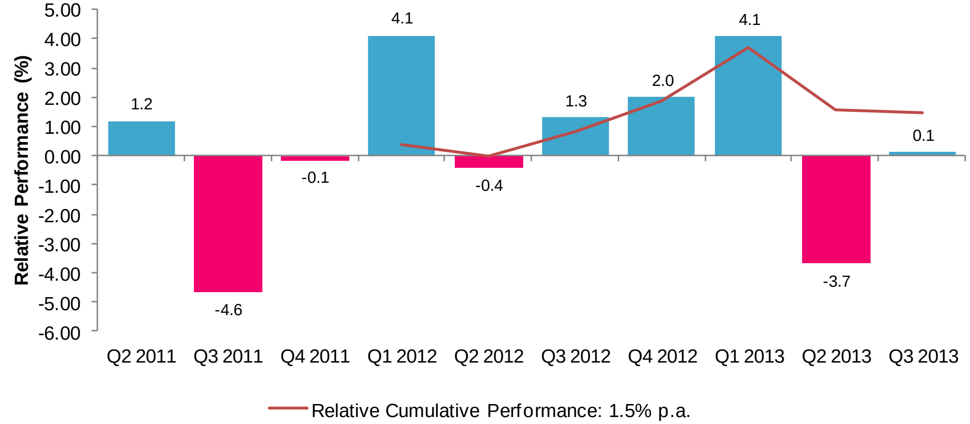
Baillie Gifford Diversified Growth Fund

HR View Comment & Rating

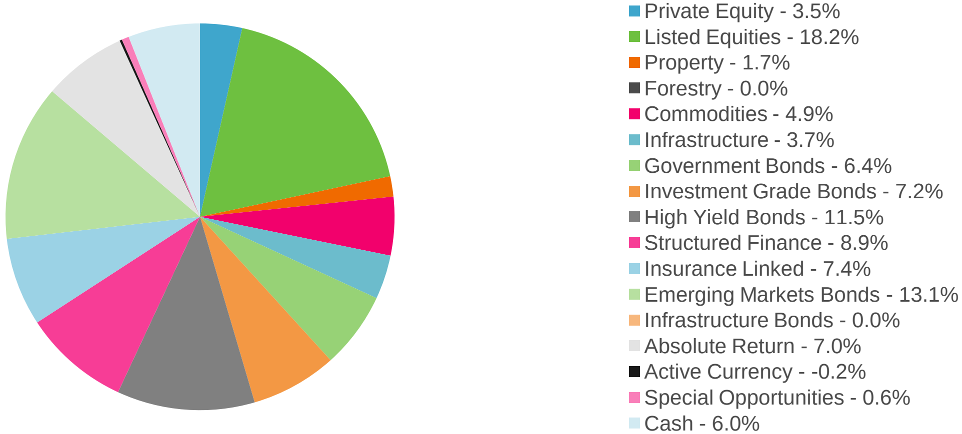
The Fund had a positive return over the quarter driven by strong equity and credit markets although exposure to emerging market bonds held back returns. Baillie Gifford have reduced the cash position in the Fund from 13% to 6% and invested across government, investment grade and high yield bonds and also in listed equities. Baillie Gifford think improving growth prospects and monetary policy provide a good environment for equities. Baillie Gifford believe government bond yields to be at attractive levels and that the asset class can benefit from any flight to safety if equities fall. They also see corporate bond yields as attractive. Baillie Gifford believe that emerging market bonds have been unfairly "sold off" represent an attractive risk return trade off – they will selectively increase exposure.

Performance of the Fund remains above its benchmark target over the short and longer term (and we have now started showing the benchmark comparison to include the 3.5% outperformance target above base rate). Volatility also remains below the Funds 10% target.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Asset Allocation at Quarter End



Volatility

	Annual Volatility
Actual	7.10%
Maximum	10.00%

[1] Excludes initial part quarter (22/2/11 to 31/3/11, relative performance +0.3%). Gross of fees

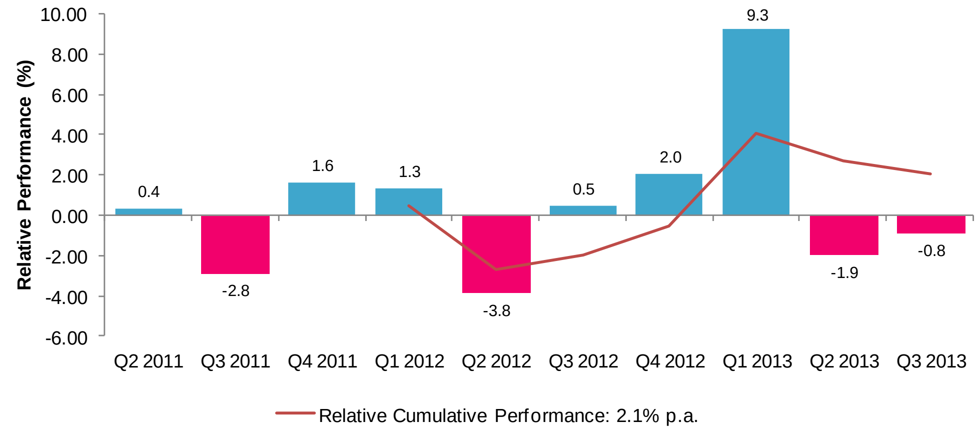
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] Fund Manager

Ruffer Total Return Fund

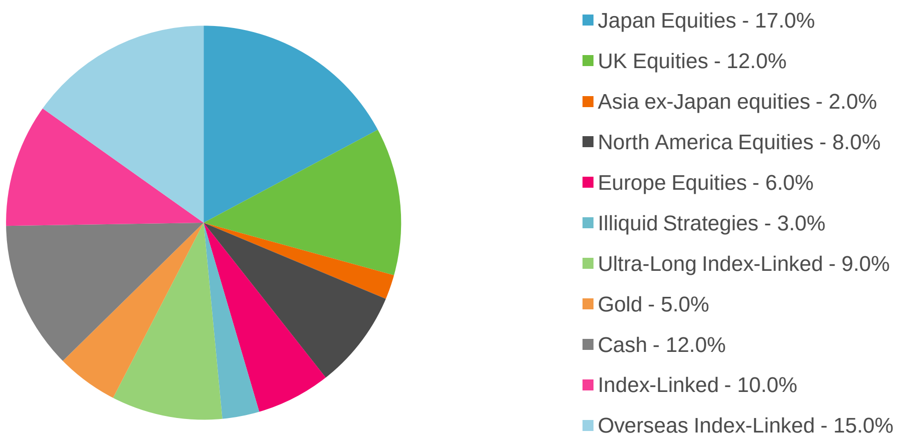
HR View Comment & Rating

The Ruffer Absolute Return Fund returned -0.1% for the quarter (net of fees), and has returned 11.7% over the year to 30 September 2013. We have shown a benchmark for the fund as UK base Rate +3.5% p.a. (consistent with Baillie Gifford's DGF benchmark) to assist comparison of the two funds. Equity stock selection was the major contributor to performance, investing in high yielding but out of favour US defence stocks such as Lockheed Martin and General Dynamic was beneficial (Ruffer had sold most of their "global mega stocks" in the first half of the year believing their share prices were too high. They also introduced more cyclical holdings and small company exposure also helped performance. Sterling strength and dollar weakness hurt performance over the quarter, as did option protection on equities (as equities rose). They continue to position the portfolio cautiously (cut back equity and raised cash to 12%) despite low interest rates and improvement in developed equities. They remain conscious of the spectre of the US debt burden and the propensity for stock markets to fall should anything go wrong in the resolution of this issue. 45% of the portfolio remains in equity however, with a third in Japan where Ruffer remain positive.

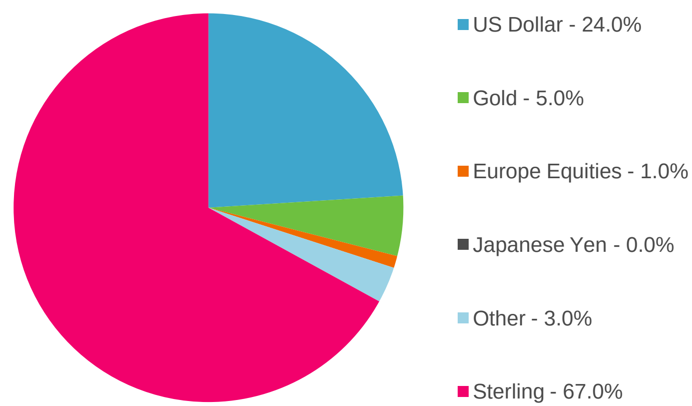
Relative Quarterly and Relative Cumulative Performance [1] [i]



Asset Allocation at Quarter End



Currency Allocation at Quarter End



[1] Excludes initial part quarter (28/2/11 to 31/3/11, relative performance -1.0%). Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] Fund Manager

Performance Summary (Gross of Fees)

Performance [1] [i]

		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	2.9	4.1	5.6	1.1	0.2	-0.3	0.6	2.1	3.0
	Benchmark	1.2	2.8	5.6	1.0	1.0	0.6	0.5	2.4	2.5
	Relative	1.7	1.3	0.0	0.1	-0.8	-0.9	0.1	-0.3	0.5
12 Months (%)	Absolute	25.2	22.6	19.1	6.5	12.8	1.0	6.7	4.6	15.5
	Benchmark	18.0	22.1	18.9	4.0	4.0	2.5	6.6	4.2	13.6
	Relative	6.0	0.4	0.1	2.4	8.4	-1.5	0.1	0.3	1.7
3 Years (% p.a.)	Absolute	12.7	9.3	10.2	5.5	5.6	0.3	8.4	3.9	8.1
	Benchmark	9.8	9.7	10.1	4.0	4.0	2.8	8.3	4.5	7.9
	Relative	2.6	-0.4	0.1	1.4	1.6	-2.4	0.1	-0.6	0.2
5 Years (% p.a.)	Absolute	13.8	9.8	11.8	N/A	N/A	-0.6	9.9	0.3	8.1
	Benchmark	10.4	10.3	11.6	N/A	N/A	2.8	9.9	1.4	8.2
	Relative	3.1	-0.5	0.2	N/A	N/A	-3.3	0.0	-1.0	-0.1

[1] 5 Year performance figure is since inception for Investec Bond mandate (26/04/10) and for L&G UK Equity and Index-Linked Gilts mandates (02/08/10). 3 Year performance figure is since inception for Baillie Gifford DGF (22/2/11) and Ruffer (28/2/11).

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

Asset Allocation

Summary of Benchmarks

	Total Fund		Baillie Gifford Diversified Growth Fund		Baillie Gifford Global Equity		GMO Global Equity		Investec Bonds	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	24.0	1.0	-	-	8.2	1.3	10.0	-1.3	-	-
North American Equity	15.0	0.7	-	-	51.3	-4.5	30.0	-0.8	-	-
European Equity	10.0	2.3	-	-	16.4	3.9	30.0	4.4	-	-
Pacific Basin Equity	9.0	-2.5	-	-	12.9	-4.8	25.5	-5.4	-	-
Emerging Market Equity	3.0	1.1	-	-	11.3	2.8	4.5	1.7	-	-
Bonds	14.0	-3.9	-	-	-	-	-	-	100.0	0.0
UK Index Linked Gilts	3.0	2.0	-	-	-	-	-	-	-	-
Property	12.0	-1.8	-	-	-	-	-	-	-	-
Alternatives	10.0	-0.6	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.7	-	-	0.0	1.2	0.0	1.5	-	-
Trustee Bank Account	0.0	0.9	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**5.0**	-0.3	**16.0**	1.8	**25.0**	0.3	**14.0**	-3.9

Asset Allocation (Cont.)

Summary of Benchmarks

	Legal & General Index-Linked Gilts		Legal & General UK Equity		Ruffer Total Return Fund		Schroder Property		Trustee Bank Account	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	-	-	100.0	0.0	-	-	-	-	-	-
North American Equity	-	-	-	-	-	-	-	-	-	-
European Equity	-	-	-	-	-	-	-	-	-	-
Pacific Basin Equity	-	-	-	-	-	-	-	-	-	-
Emerging Market Equity	-	-	-	-	-	-	-	-	-	-
Bonds	-	-	-	-	-	-	-	-	-	-
UK Index-Linked Gilts	100.0	0.0	-	-	-	-	-	-	-	-
Property	-	-	-	-	-	-	100.0	-1.0	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	1.0	-	-
Trustee Bank Account	-	-	-	-	-	-	-	-	100.0	0.0
Proportion of Total Assets	**3.0**	2.0	**20.0**	1.1	**5.0**	-0.3	**12.0**	-1.7	**0.0**	0.9

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Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

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	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

HYMANS ROBERTSON
The Spirit of Independence

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2013

Prepared By:

Matt Woodman - Senior Investment Consultant
David Millar - Senior Investment Analyst

For and on behalf of Hymans Robertson LLP
February 2014

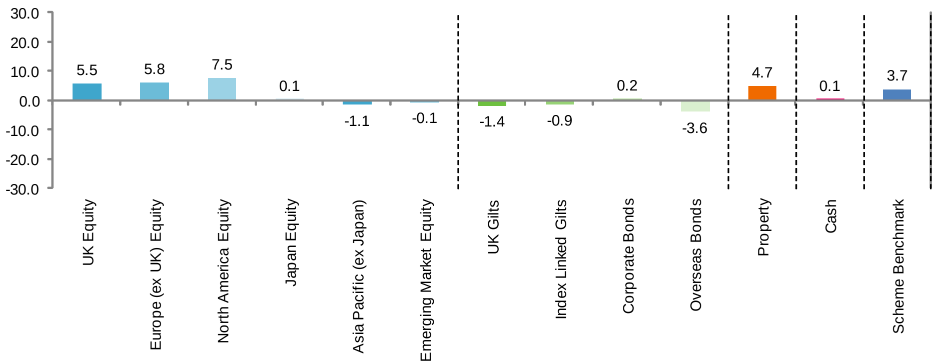
Real people. Real skills. Real results.

Contents

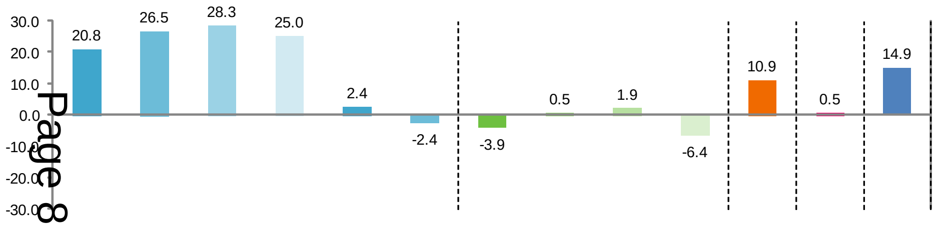
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Historic Returns for World Markets to 31/12/2013

3 Months (%)



12 Months (%)



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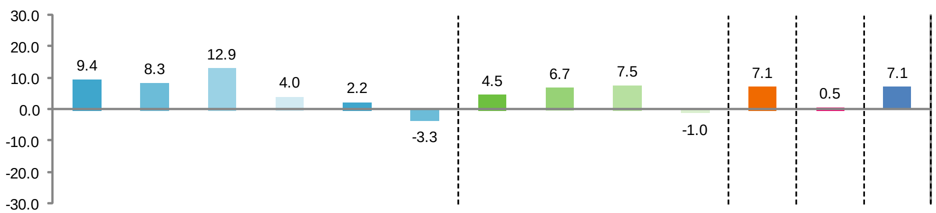
3 Years (% p.a.)



Market Comment

The quarter to end December 2013 started with the 'shutdown' of the US government over the failure to agree a federal budget. Concerns over whether the federal debt ceiling would be renewed, and the possibility of the US defaulting on its sovereign debt, created a sense of crisis. World financial markets responded with caution to these events.

On the economic front, news was very mixed. Forecasts for global economic growth for 2013 and 2014 were revised down by a number of credible agencies. Weakness in emerging markets was cited as one of the main contributory factors. The UK was an exception, with forecasts for economic growth revised upwards for 2013 and 2014. In the December autumn statement, the Chancellor of the Exchequer claimed that the country is heading in the 'right direction', although the Office for Budget Responsibility emphasised that it viewed the recent improvement as a cyclical boost rather than a structural improvement.

In December, and after much speculation, the US central bank announced a scaling back of its monthly asset buying program, from $85bn to $75bn a month. This is likely to be phased out entirely during 2014 but official guidance indicates no rise in interest rates until there is clear evidence of sustainable economic growth. In contrast to US policy, the European central bank provided further monetary easing through a reduction in short-term interest rates, as inflation in the Eurozone dipped below 1% p.a.

Key events during the quarter were:

Global Economy

· Forecasts for UK economic growth were revised upwards by the Office for Budget Responsibility;
· Global economic growth forecasts were revised down by the IMF;
· Strong economic growth in UK and US contrasted sharply with slow growth in the Eurozone;
· Short-term interest rates were unchanged in UK and US and cut, from 0.50% to 0.25%, in the Eurozone;
· UK inflation (CPI) fell to a four year low (2.1%) in November.

Equities

· The best performing sectors relative to the 'All World' Index were Technology (+4.2%) and Industrials (+1.5%); the worst were Utilities (-4.8%) and Basic Materials (-2.5%);
· Shares in Royal Mail rise strongly against issue price of 330p.

Bonds and Currencies

· UK government bonds yields drifted higher on rising optimism about economic outlook;
· Sterling's trade weighted index closed 2013 at its highest level for over 4 years.

[1] Overseas equity returns shown in Sterling

Source: [i] DataStream, Hymans Robertson, Investment Property Databank Limited

Portfolio Summary

Valuation Summary [1]

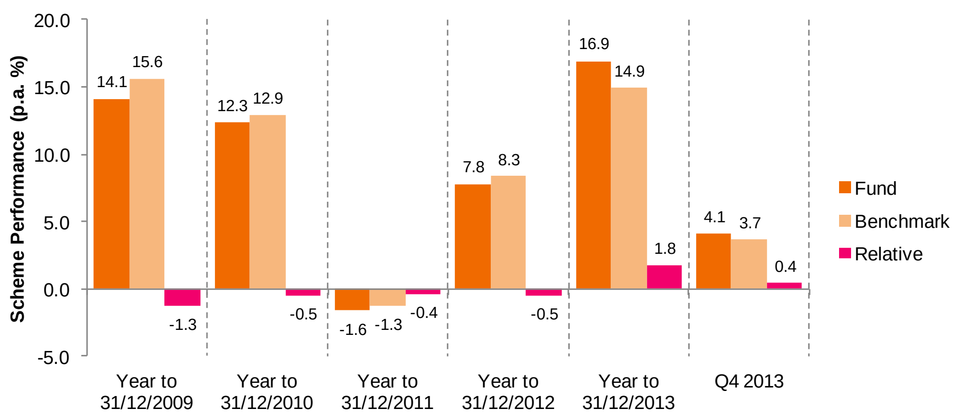
Asset Class	Q3 2013 Values (£m)	Q4 2013 Values (£m)	Actual Proportion %	Target Proportion %	Difference %
Global Equity	609.3	641.2	64.2	61.0	3.2
Bonds	144.8	144.9	14.5	17.0	-2.5
Property	97.7	101.5	10.2	12.0	-1.8
Alternatives	90.4	92.0	9.2	10.0	-0.8
Cash	6.5	7.7	0.8	0.0	0.8
Trustee Bank Account	8.2	11.7	1.2	0.0	1.2
Total inc. Trustee Bank Account	**957.0**	**998.9**	**100.0**	**100.0**	

Comments

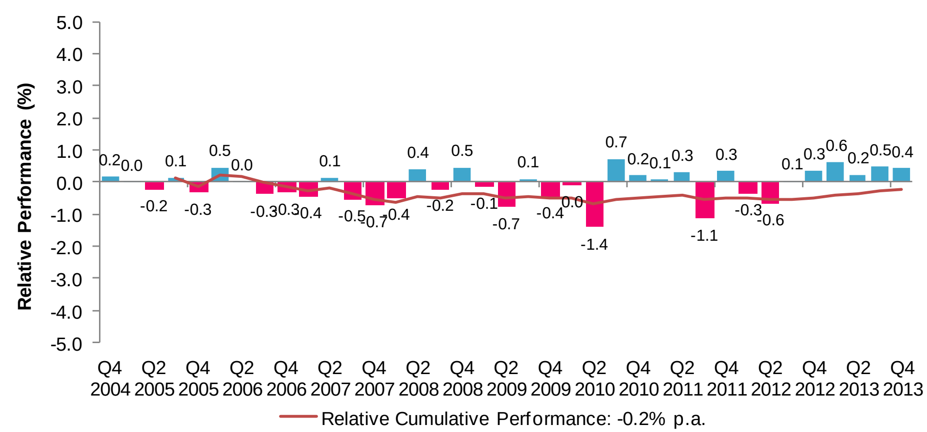
Performance was ahead of the benchmark over the quarter with the strongest relative returns from GMO and the Baillie Gifford DGF. The equity managers produced the strongest absolute returns with the Total Fund returning 4.1%. We have restated the Absolute Return Managers' benchmarks to include their performance target. This also feeds into the Total Fund benchmark. For Baillie Gifford DGF and Ruffer, we have shown the same benchmarks (Baillie Gifford's to aid comparison of these two managers (UK Base Rate +3.5%). Investec (absolute return bonds) benchmark is Cash +2% p.a.

The managers' allocations remain broadly similar to last quarter and the Fund remains close to its strategic asset allocation (within the +/-5% tolerance ranges around the 83% "growth and equity like", 17% Bonds target). There were no manager or benchmark changes over the quarter or since the addition of the absolute return managers in quarter 1 of 2011.

Performance Summary [2] [i]



Relative Quarterly and Relative Cumulative Performance [3] [ii]



[1] Cash is that cash held within Schroders Property and Baillie Gifford & GMO Global Equity Mandates, [2] Gross of fees, [3] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

Manager Summary

Manager Valuations

Manager	Value (£m) Q3 2013	Value (£m) Q4 2013	Actual Proportion %	Target Proportion %	Difference %
Baillie Gifford Global Equity	170.6	179.4	18.0	16.0	2.0
GMO Global Equity	242.0	255.4	25.6	25.0	0.6
Legal & General UK Equity	202.3	213.4	21.4	20.0	1.4
Baillie Gifford Diversified Growth Fund	45.5	46.5	4.7	5.0	-0.3
Ruffer Total Return Fund	44.9	45.4	4.5	5.0	-0.5
Investec Bonds	96.9	97.4	9.7	14.0	-4.3
Legal & General Index-Linked Gilts	47.9	47.5	4.8	3.0	1.8
Schroder Property	98.7	102.3	10.2	12.0	-1.8
Trustee Bank Account	8.2	11.7	1.2	0.0	1.2
Total	**957.0**	**998.9**	**100.0**	**100.0**	0.0

Manager Summary [1]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *				
Baillie Gifford Global Equity	Active	05 Jul 2007	MSCI AC World Index	+2% to 3% p.a. (Gross) over rolling 3-5 year periods					●
GMO Global Equity	Quantitative	29 Apr 2005	Bespoke	1.5% (net)			●		
Legal & General UK Equity	Passive	02 Aug 2010	FTSE All Share Index	Track Benchmark					●
Baillie Gifford Diversified Growth Fund	Diversified Growth	22 Feb 2011	UK Base Rate	Outperform by 3.5%p.a. (net) over rolling 5 years with annual volatility of less than 10%					●
Ruffer Total Return Fund	Absolute Return	28 Feb 2011	Cash	Preserve capital and deliver consistent, positive returns over longer term					●
Investec Bonds	Target Return	26 Apr 2010	3 Month LIBOR	Outperform by 2%p.a.				●	
Legal & General Index-Linked Gilts	Passive	02 Aug 2010	FTSE Index-Linked Over 5 Years	Track Benchmark					●
Schroder Property	Fund of Funds	30 Sep 2004	IPD All Balanced Funds Weighted Average	+0.75% (Net)				●	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

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[1] In this report, we show the absolute return manager's benchmarks including performance target. For Ruffer, we show a benchmark the same as Baillie Gifford's to enable comparison between the two managers.

Performance Summary Net of fees

Performance Summary [1] [i]

		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	5.1	5.5	5.5	2.4	1.1	0.4	-0.9	3.6	4.0
	Benchmark	5.0	4.3	5.5	1.0	1.0	0.6	-0.9	4.3	3.7
	Relative	0.1	1.1	0.0	1.4	0.1	-0.2	0.0	-0.7	0.4
12 Months (%)	Absolute	27.3	24.8	20.9	5.5	9.9	0.1	0.7	7.9	16.6
	Benchmark	21.1	22.4	20.8	4.0	4.0	2.5	0.6	9.2	14.9
	Relative	5.1	2.0	0.1	1.4	5.6	-2.3	0.1	-1.2	1.5
2 Years (% p.a.)	Absolute	20.0	15.9	16.6	8.1	6.3	1.7	0.5	3.6	11.9
	Benchmark	16.3	17.4	16.5	4.0	4.0	2.7	0.5	4.6	11.6
	Relative	3.2	-1.3	0.1	4.0	2.2	-1.0	0.0	-0.9	0.3
3 Years (% p.a.)	Absolute	10.6	8.0	9.5	5.4	4.6	-0.3	7.6	4.2	7.1
	Benchmark	8.3	8.2	9.4	4.0	4.0	2.8	7.6	5.3	7.1
	Relative	2.1	-0.2	0.1	1.3	0.6	-2.9	0.0	-1.1	0.0

[1] 3 Year performance figure is since inception for Baillie Gifford DGF (22/2/11) and Ruffer (28/2/11). Performance, for periods up to 5 years (gross of fees) is shown in the appendix. Baillie Gifford DGF, Ruffer and Investec benchmarks include outperformance target.

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

GMO Global Equity

HR View Comment & Rating

GMO has been making incremental changes to its global equity investment process over the past 12 – 24 months. The manager has now decided to accelerate the changes as follows:

- Momentum, previously the driving signal for 30% of the portfolio allocation will be dropped;
- Quality Adjusted Value, previously the driving signal for 30% of the portfolio allocation, will be dropped;
- Relative Value, which replaced Intrinsic Value as the signal for 40% of the portfolio allocation in Q2 2012, will effectively become the sole signal/driver for the strategy

The Officers and Advisers have reviewed GMO's proposed changes and recommend the Committee retain the mandate currently. However, given the changes, we have put GMO "on watch". Further information will be provided at the next Committee meeting.

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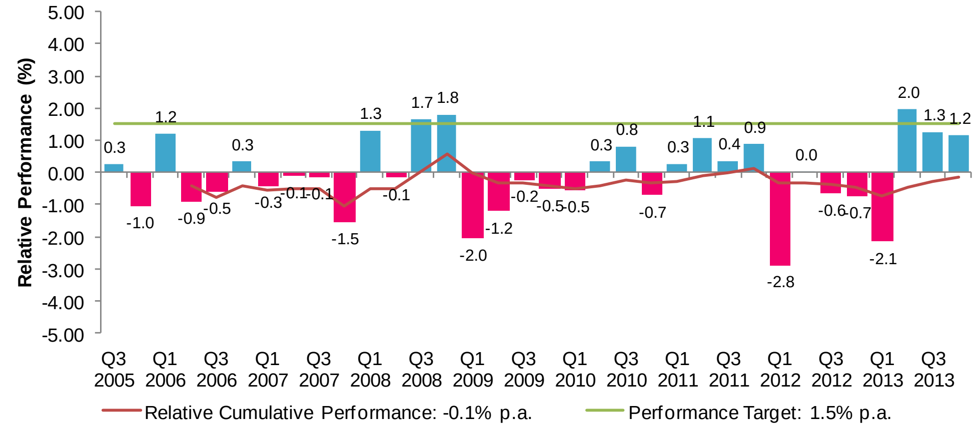
Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

The portfolio has performed strongly in quarter 4 and over the last 12 months, providing strong positive absolute and relative returns and the recovery is evident in positive 3 year returns as well.

Stock selection was positive in the final quarter, particularly in Europe and North America. The quality adjusted valuation discipline was helpful, with holdings in Europe and US financials identified from this driving performance. However, the allocation to US high quality held back returns.

GMO believe that stock markets appear overvalued but that there are pockets that are priced to deliver better returns. They still feel US high quality remain the most attractive on valuation terms. They also believe value stocks in developed markets outside the US can produce good returns as they have been held back by the European crisis. They also remain positive on Emerging Markets which they feel have been depressed in recent years.

Performance Summary [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.5	25.1	8.4	9.5
Benchmark	4.3	22.4	8.2	9.6
Relative	1.2	2.2	0.2	-0.1

* Inception date 29 Apr 2005.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.2	1.5

[1] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Baillie Gifford Global Equity

HR View Comment & Rating

No significant news impacting the Global Alpha team or process.

More generally, three new Partners will be appointed from 1st May 2014. They are: Tom Coutts, Stuart Dunbar and David Henderson. As announced last year, there will be two retiring partners this May: Mick Brewis (Head of North American equities team) after 28 years at the firm, and Michael MacPhee (investment manager in Global Opportunities team) after 25 years. The changes will see partner numbers increase from 39 to 40 on 1st May 2014 and we view this as positive in terms of succession planning.

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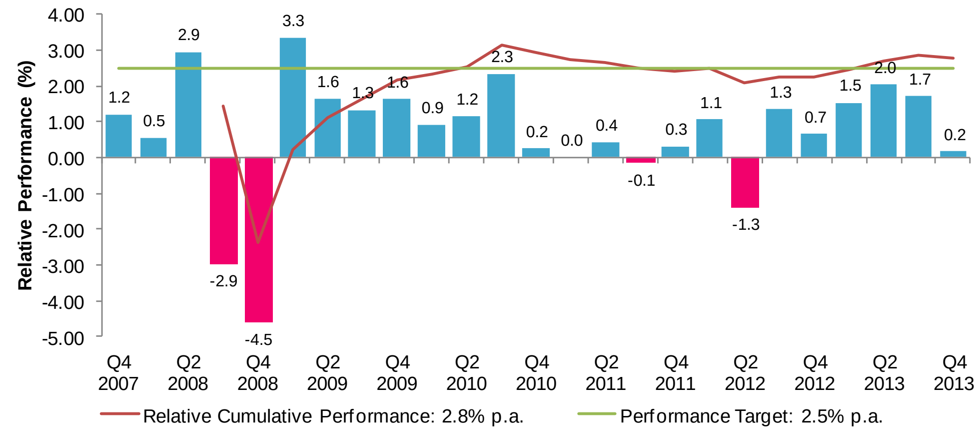
Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

The portfolio modestly outperformed over the quarter and its performance remains significantly ahead of benchmark over the longer term. Amazon was the most positive contributor over the quarter and continued its robust top line growth and investment for the future. Despite share price rise, Baillie Gifford believe the scope for upside remains very substantial. Prudential was another strong positive holding, driven by performance in Asia. On the negative side, Tesla (electric cars) was the biggest detractor, with its share price falling on the back of some safety concerns following vehicle fires. However, Baillie Gifford have reviewed the holding and remain convinced by the stock and take comfort from a German Federal Motor Transport Authority report which cleared the vehicles in question of any defects. The portfolio has for some time had a bias towards companies with exposure to emerging markets economies. Baillie Gifford remain convinced that the longer-term investment case in many of these markets remains intact – factors such as demographics, productivity differentials and fiscal sustainability. They believe short-term share price weakness may offer the long-term investor some good opportunities. Turnover in the portfolio remains very low (16% over the year and 4% over the quarter). Changes have seen Baillie Gifford move away modestly from stocks they classify as “growth stalwarts” or “rapid growth” into those with “cyclical growth” or “latent growth”.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.2	27.8	11.1	8.5
Benchmark	5.0	21.1	8.3	5.8
Relative	0.2	5.5	2.6	2.6

* Inception date 05 Jul 2007.

3 Year Relative Return

Actual % p.a.	Target % p.a.
2.6	2.5

[1] Gross of fees, [2] Since inception performance in table differs from chart above as chart excludes initial part quarter.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Legal & General UK Equity

HR View Comment & Rating

Legal and General are one of the largest managers of index-tracking funds. UK equity and Index-linked assets were invested on 2 August 2010. The UK equity portfolio has a target weight of 22.5% of Scheme assets and the index-linked portfolio has a target of 7%.

Performance Summary [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.5	21.0	9.5	12.6
Benchmark	5.5	20.8	9.4	12.5
Relative	0.0	0.2	0.1	0.2

* Inception date 02 Aug 2010.

Comments

Performance has been in line with the index benchmark (FTSE-All Share) over the quarter and since inception. Index changes, corporate actions, sampling and stocklending had little impact on returns over the period.

[1] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson

Legal & General Index-Linked Gilts

HR View Comment & Rating

Rating				
				●

Replace ← On Watch → Retain

Legal and General are one of the largest managers of index-tracking funds. UK equity and Index-linked assets were invested on 2 August 2010. The UK equity portfolio has a target weight of 22.5% of Scheme assets and the index-linked portfolio has a target of 7%.

Performance Summary [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.9	0.7	7.7	8.9
Benchmark	-0.9	0.6	7.6	8.8
Relative	0.0	0.1	0.1	0.0

* Inception date 02 Aug 2010.

Comments

Performance has been in line with the index benchmark (FTSE-A Index-Linked Over 15 Years) over the quarter and since inception.

[1] Gross of fees

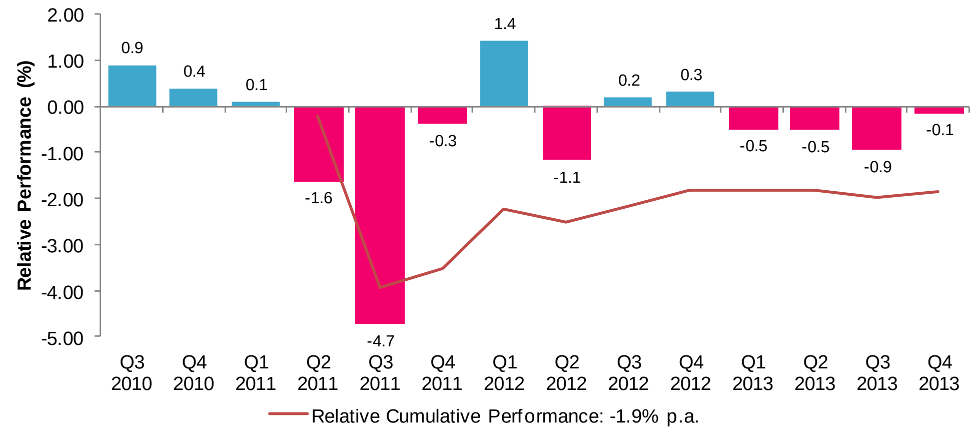
Source: [i] DataStream, Fund Manager, Hymans Robertson

Investec Bonds

HR View Comment & Rating

No significant news to report.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

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The Fund's corporate bonds performed well over the quarter, with healthier growth prospects encouraging buyers. The Fund added exposure to non-cyclical or emerging market credit, positions that Investec believe are cheap. The Fund's duration or interest rate sensitivity position produced a flat return over the quarter. It's currency position detracted, with the largest position (US dollar) and also emerging market currency having a negative impact. The Fund added to US dollar and emerging market currency exposure on weakness.

We have re-stated the benchmark to show the cash index plus target. The performance of the Fund is behind that of the re-stated benchmark over all periods shown since inception. The poor quarters in 2011 (Q2 and, in particular, Q3) continue to be a significant drag but the Fund returns have also failed to keep up with the cash index plus target over the last 12 months (a return of 0.5% versus benchmark 2.8%).

It should be noted that the strategic decision to invest in a cash plus mandate has been correct over the quarter as Investec outperformed longer dated bond indices. Their relative performance remains disappointing though.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.5	0.5	0.1	-0.4
Benchmark	0.6	2.5	2.8	2.8
Relative	-0.1	-1.9	-2.6	-3.1

* Inception date 26 Apr 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.6	2.0

3 Year Tracking Error

Actual % p.a.	Target % p.a.
N/A	0.0 - 0.0

[1] Gross of fees. Benchmark is Cash +2% p.a., [2] Since inception performance in table differs from chart above as chart excludes initial part quarter. Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder Property

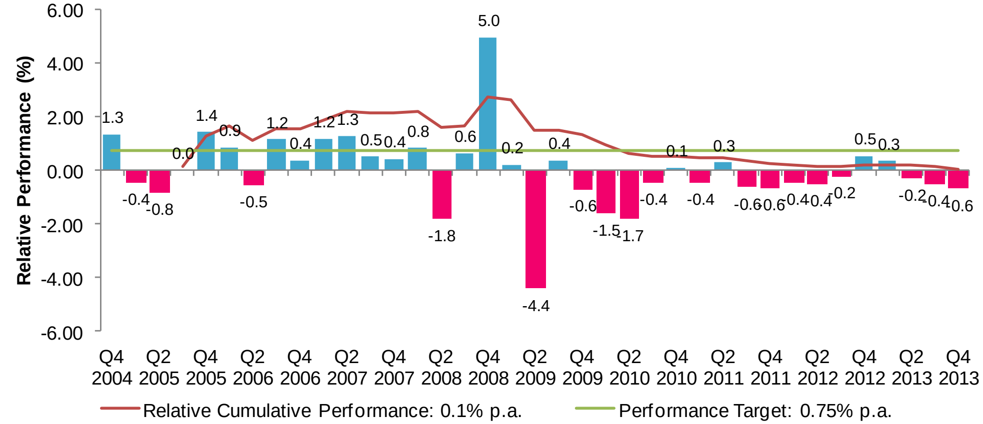
HR View Comment & Rating

Schroders has announced that William Hill is stepping down as Head of Property. Hill has been at Schroders for almost 25 years and in his current position for 22 of those years. He has clearly been influential in driving forward the property business at Schroders, therefore his departure is significant news. He does not have another role lined up and will become an adviser to Schroders on property matters in order to ensure a smooth handover in the coming months. Duncan Owens will replace Hill as Head of Property with immediate effect. Owens joined Schroders in the role of Head of Property Investment at the beginning of 2012 when Schroders bought over the Invista business. Owens was CEO at Invista and has over 23 years of UK and European real estate experience. Clearly Owens has already taken over some of Hill's responsibilities; indeed he is already Chairman of the Investment Committee for the Schroders Property Fund. Although this is significant news, it should not impact the day to day management of property portfolios, at least in the short term. We will arrange to meet with Duncan Owens in order to understand his future vision for the property business. We have downgraded their rating to reflect the performance difficulties. We do not recommend review of their mandate though.

Comments

We do not have confirmed performance data from Schroder at this time. We have estimated performance over the quarter based on change in value of the portfolio.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	3.7	8.1	4.4	3.0
Benchmark	4.3	9.2	5.3	5.2
Relative	-0.6	-1.0	-0.9	-2.1

3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.9	0.8

[1] Gross of fees, [2] Since inception performance differs from cumulative performance in chart as cumulation period in chart is 5 years. Gross of fees

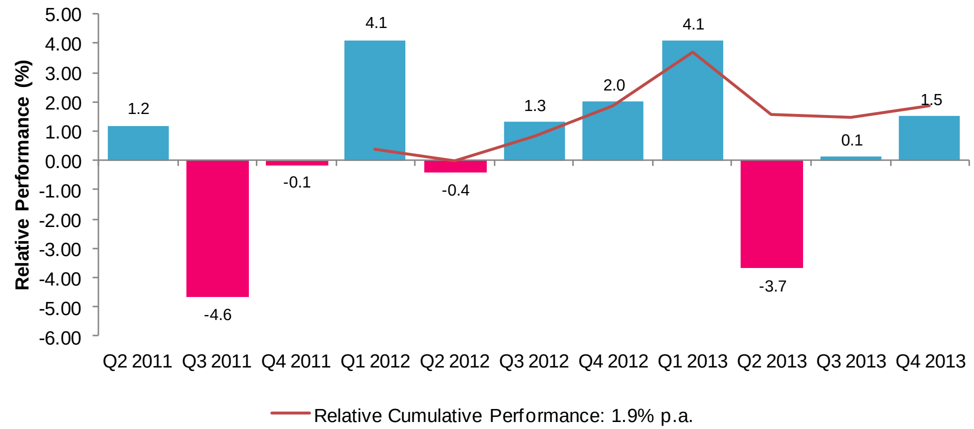
Source: [i] Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] Fund Manager, Hymans Robertson, Investment Property Databank Limited

Baillie Gifford Diversified Growth Fund

HR View Comment & Rating

There has been no change to the portfolio management team but there has been a change to the Diversified Growth Review Group (DGRG) membership, with Michael MacPhee leaving the group at the end of 2013. Michael is a partner in the firm and is retiring in April after 25 years with Baillie Gifford; his place on the DGRG is being taken by Hamish Dingwall, a global sector specialist and partner in the firm. The drivers of this performance have been similar over both the quarter and year. Economic risk assets such as equities and high yield debt generally did well, whilst in contrast, emerging market assets and gold struggled. Listed equities, in particular, enjoyed a strong finish to the year and so delivered the largest positive contribution to the Fund's return over the quarter. Most other asset classes contributed helpfully to performance with niche areas such as insurance linked and infrastructure again delivering steady returns.They have reduced exposure to listed and private equity and increased their overall exposure to investment grade and high yield bonds. They have continued to reduce exposure to insurance linked securities and made smaller reductions to other asset classes where prices have risen. Consequently, the size of the fund's cash position has increased over the quarter.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Asset Allocation at Quarter End

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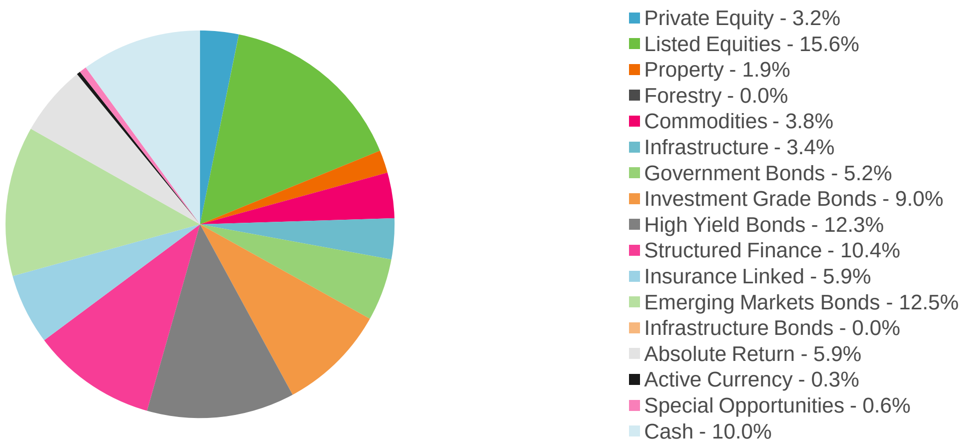


Volatility

	Annual Volatility
Actual	6.50%
Maximum	10.00%

[1] Excludes initial part quarter (22/2/11 to 31/3/11, relative performance +0.3%). Gross of fees. Benchmark is Base Rate +3.5% p.a.

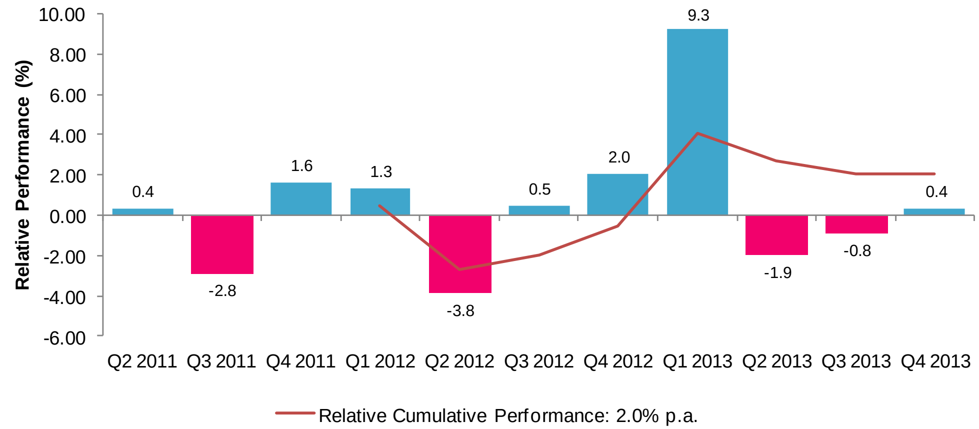
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] Fund Manager

Ruffer Total Return Fund

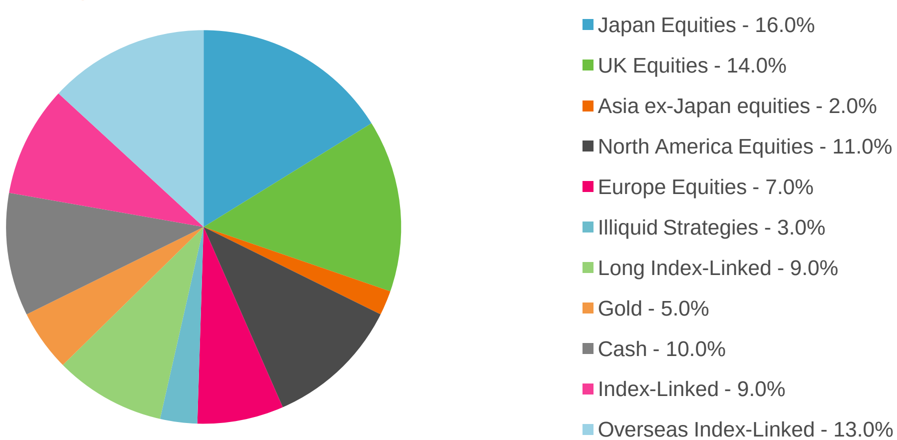
HR View Comment & Rating

Equity performance was the main driver of portfolio returns in quarter 4. Japanese equity holdings helped performance (although sterling strength diminished the local currency returns) but overall made a contribution of 2.2% to return. Equities in Western markets were also a significantly positive contributor with a number of holdings posting double digit returns – this included Volkswagen, BP, Lockheed Martin and Microsoft. With a split in market performance between equity and non equity, more protective assets had a negative impact. Equity option protection was unused, bonds were out of favour and the gold price fell, all had a negative impact and diluted overall return. Ruffer remain cautious about the valuation of equity markets which have performed strongly over the last year despite questions over the underlying fundamentals. They have around 50% of the portfolio in equity but have attempted to remove the more expensive or potentially vulnerable areas. Around one third of their equity is in Japan where they feel there is good fundamental value and scope for upside. Despite recent losses, they retain the view that their protective assets remain important and continue to hold index-linked bonds, gold and options as appropriate offsets.

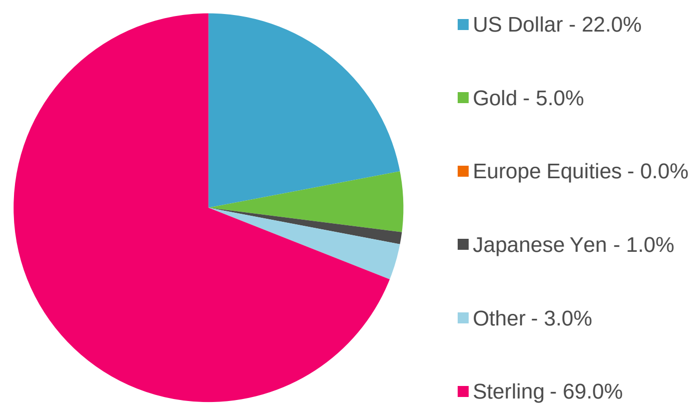
Relative Quarterly and Relative Cumulative Performance [1] [i]



Asset Allocation at Quarter End



Currency Allocation at Quarter End



[1] Excludes initial part quarter (28/2/11 to 31/3/11, relative performance -1.0%). Gross of fees. Benchmark shown is Base Rate +3.5% p.a. (to aid comparison with Baillie Gifford DGF)

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] Fund Manager

Performance Summary (Gross of Fees)

Performance [1] [i]

		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	5.2	5.5	5.5	2.5	1.4	0.5	-0.9	3.7	4.1
	Benchmark	5.0	4.3	5.5	1.0	1.0	0.6	-0.9	4.3	3.7
	Relative	0.2	1.2	0.0	1.5	0.4	-0.1	0.0	-0.6	0.4
12 Months (%)	Absolute	27.8	25.1	21.0	6.0	10.9	0.5	0.7	8.1	16.9
	Benchmark	21.1	22.4	20.8	4.0	4.0	2.5	0.6	9.2	14.9
	Relative	5.5	2.2	0.2	1.9	6.7	-1.9	0.1	-1.0	1.8
3 Years (% p.a.)	Absolute	11.1	8.4	9.5	5.9	5.6	0.1	7.7	4.4	7.4
	Benchmark	8.3	8.2	9.4	4.0	4.0	2.8	7.6	5.3	7.1
	Relative	2.6	0.2	0.1	1.8	1.5	-2.6	0.1	-0.9	0.3
5 Years (% p.a.)	Absolute	16.9	11.0	12.6	N/A	N/A	-0.4	8.9	3.0	9.7
	Benchmark	12.3	11.7	12.5	N/A	N/A	2.8	8.8	5.2	9.9
	Relative	4.1	-0.6	0.2	N/A	N/A	-3.1	0.0	-2.1	-0.2

[1] 5 Year performance figure is since inception for Investec Bond mandate (26/04/10) and for L&G UK Equity and Index-Linked Gilts mandates (02/08/10). 3 Year performance figure is since inception for Baillie Gifford DGF (22/2/11) and Ruffer (28/2/11).

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

Asset Allocation

Summary of Benchmarks

	Total Fund		Baillie Gifford Diversified Growth Fund		Baillie Gifford Global Equity		GMO Global Equity		Investec Bonds	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	24.0	1.5	-	-	8.1	1.1	10.0	-0.2	-	-
North American Equity	15.0	2.0	-	-	52.3	-6.0	30.0	4.1	-	-
European Equity	10.0	1.7	-	-	16.7	2.7	30.0	2.2	-	-
Pacific Basin Equity	9.0	-3.0	-	-	12.2	-3.5	25.5	-8.2	-	-
Emerging Market Equity	3.0	1.0	-	-	10.8	3.1	4.5	1.2	-	-
Bonds	14.0	-4.3	-	-	-	-	-	-	100.0	0.0
UK Index Linked Gilts	3.0	1.8	-	-	-	-	-	-	-	-
Property	12.0	-1.8	-	-	-	-	-	-	-	-
Alternatives	10.0	-0.8	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.8	-	-	0.0	2.6	0.0	0.9	-	-
Trustee Bank Account	0.0	1.2	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**5.0**	-0.3	**16.0**	2.0	**25.0**	0.6	**14.0**	-4.3

Asset Allocation (Cont.)

Summary of Benchmarks

	Legal & General Index-Linked Gilts		Legal & General UK Equity		Ruffer Total Return Fund		Schroder Property		Trustee Bank Account	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	-	-	100.0	0.0	-	-	-	-	-	-
North American Equity	-	-	-	-	-	-	-	-	-	-
European Equity	-	-	-	-	-	-	-	-	-	-
Pacific Basin Equity	-	-	-	-	-	-	-	-	-	-
Emerging Market Equity	-	-	-	-	-	-	-	-	-	-
Bonds	-	-	-	-	-	-	-	-	-	-
UK Index-Linked Gilts	100.0	0.0	-	-	-	-	-	-	-	-
Property	-	-	-	-	-	-	100.0	-0.7	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	0.7	-	-
Trustee Bank Account	-	-	-	-	-	-	-	-	100.0	0.0
Proportion of Total Assets	**3.0**	1.8	**20.0**	1.4	**5.0**	-0.5	**12.0**	-1.8	**0.0**	1.2

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Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

Activity	Responsible Person	Pensions Committee/ Investment Panel / Managers' Meeting	Meeting June 2014 (TBC)	Meeting Aug 2014 (TBC)	Meeting Nov 2014 (TBC)	Meeting Feb 2015 (TBC)
Quarterly Performance Reporting of Fund Managers and update on emerging/current issues	Report of the Corporate Director of Resources	Pensions Committee and Investment Panel	√	√	√	√
Fund Managers' Meeting Presentation	Schedule of meetings and attendees to be confirmed by Hymans Robertson LLP	Managers' Meeting	√	√	√	√
Member Training	Chief Financial Strategy Officer	Pensions Committee/ Investment Panel	√	√	√	√
Consideration of (Annual Review) of Statement of Investment Principles (If necessary)	Report of the Corporate Director of Resources	Pensions Committee/ Investment Panel		√		
Consideration of Governance Compliance Statement (If necessary)	Report of the Corporate Director of Resources	Pensions Committee/ Investment Panel		√		
Presentation on Fund Performance 2013/14	The WM Company	Pensions Committee		√		
Review of actuarial and investment advice and custodial services arrangements for the Pension Fund	Report of the Corporate Director of Resources	Pensions Committee/ Investment Panel			√	
Pension Fund Work Plan 2014/15	Report of the Corporate Director of Resources	Pensions Committee				√
Review/Approval of Annual Report 2013/14	Report of the Corporate Director of Resources	Pensions Committee		√	√	
Review of Fund Managers' internal control measures (SAS 70)	Report of the Corporate Director of Resources	Pensions Committee			√	
Report on impact and implementation of LGPS 2014	Report of the Corporate Director of Resources	Pensions Committee	√			
Report on impact and implementation of Collective Investment Vehicle	Report of the Corporate Director of Resources	Pensions Committee/Investment Panel	√			
Other Ad-hoc items for consideration	Various	Pensions Committee/Investment Panel	√	√	√	√

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**25 February 2014**	**Unrestricted**	O.

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant	**Pension Fund Work Plan** Ward(s) affected: N/A

Community Plan Theme	All
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

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

2. DECISIONS REQUIRED

2.1 Members are recommended to agree the work plan attached as **Appendix 1** to this report.

3. REASONS FOR DECISIONS

3.1 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.

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

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

4. ALTERNATIVE OPTIONS

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

5. BACKGROUND

5.1 The Council has specific delegated function that it has to fulfil has 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.

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

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

6 WORK PLAN

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

ACTIVITY	PURPOSE
Governance & Staffing	
Member training on specific and general issues	To provide training on specific issues based on identified need or emerging/ current issues. To provide ongoing training to members to enable them to challenge the advice received and equip them with the tools to enter into constructive dialogue with advisers.
Review and refresh key policy documents; the Statement of Investment Principles, Funding Strategy Statement, Governance & Communications Policy Statement as necessary (i.e. where significant changes are made)	Seek member approval and formally publish any updated documents where this is deemed appropriate.
Minimum of four Pensions Committee/Investment Panel meetings to be held during the financial year 2014/15.	To ensure that members are kept up to date on key developments with the London Borough of Tower Hamlets Pension Fund and to ensure that approval is received on key tasks/issues that affect the effective operation of the Fund.

ACTIVITY	PURPOSE
Each Fund manager will attend at least one fund mangers' meeting during the year 2014/15 and more if deemed necessary	To oversee fund manager activities and monitor performance to ensure that they are achieving performance targets and investing fund assets within the confines of the risk parameters and approach agreed with the Council.
Investment & Accounting	
Draft Pension Fund Annual Accounts approved by the Director of Resources in July 2014.	To ensure that the Council meets the regulatory timetable and fulfils its stewardship role to the Fund.
Audited Pension Fund Annual Report to be published on or before the statutory deadline of 1 December 2014	Ensure that the Council fulfils it statutory obligation and to keep members abreast of the Pension Fund activities in a transparent and accessible way.
Review of the Funds investment strategy	To ensure that the Fund's investment strategy is optimal. There are no current plans for a major investment strategy review over the financial year, although manager underperformance/ market developments and the outcome of the 2013 Actuarial Review may require a review of Strategy.
Review of (Actuarial, Investment Advice and Custodian Services)	This may not lead to full re-tendering for these services, but reviews will be commissioned to ensure that the Fund is still receiving good value for its major services. All options will be considered in the review including joining existing framework contracts.
Triennial Valuation of Pension Fund Assets and Liabilities	The Fund is bound by legislation to undertake an actuarial valuation of its assets and liabilities to ensure that appropriate future contribution rates are set and that any Fund deficit are recovered over an appropriate period of time in line with the Fund's Strategy Statement. This report will present to Members the outcome of this exercise.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

8. LEGAL COMMENTS

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

8.2 There are no immediate legal implications arising from this report.

9. ONE TOWER HAMLETS CONSIDERATIONS

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

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

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

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

13. EFFICIENCY STATEMENT

13.1 A work plan should result in a more efficient process of managing the Pension 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

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**25 February 2014**	**Unrestricted**	
REPORT OF: ActingCorporate Director of Resources ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant		TITLE: **Forthcoming Training Events** Ward(s) affected: N/A	

1. SUMMARY

1.1 This report informs Members of the Pensions Committee of forthcoming training events.

2. DECISIONS REQUIRED

Members are recommended to;

2.1 Consider whether they wish to take up any of the courses notified in the report.

2.2 To advise the clerk of any courses they wish to attend.

3. REASONS FOR DECISIONS

3.1 Members are required to undertake training to fulfil regulatory requirements in connection with the management of the Council's pension fund.

3.2 The training offered will enable Members to understand the duties and responsibilities of a trustee and how best to fulfil these effectively, efficiently and in accordance with regulatory requirements.

4. FORTHCOMING TRAINING

The following training events have been notified;

4.1 Schroders

- **Introduction to Investment**
  7th March 2014, 9.30 – 12.30
  21st March 2014, 9.00 – 1.00

4.2 LAPFF

- **LAPFF Business meeting**
  25th March 2014, 10.45 – 1.00

4.3 CIPFA

- **Future Structure of the LGPS**
  4th April 2014, 9.30 – 3.40

4.4 SPS Conferences

- **SPS Investment Strategies and Current Issues for LA Funds** (max three places per fund)
  13th March 2014 8.30 – 16.50

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Schroders

Trustee Training 2014

Agenda

London Part I

Friday, 7 March
Friday, 26 September

09.00 Registration and coffee
09.25 Introduction
09.30 Equity investment
10.00 Fixed income
10.30 Coffee
11.00 Property investment
11.30 Alternative investments
12.00 Economic update
12.30 Lunch

London Part II

Friday, 21 March
Friday, 10 October

09.00 Registration and coffee
09.25 Introduction
09.30 Equity risk management
10.00 Understanding liability risk
10.30 Coffee
11.00 Active asset allocation
11.30 Investment strategy in practice
12.00 Latest thinking on Defined Contribution
12.30 Economic update
13.00 Lunch

Bristol

Friday, 25 April

09.00 Registration and coffee
09.25 Introduction
09.30 Equity risk management
10.00 Understanding liability risk
10.30 Coffee
11.00 Active asset allocation
11.30 Investment strategy in practice
12.00 Latest thinking on Defined Contribution
12.30 Economic update
13.00 Lunch

Leeds

Friday, 19 September

09.00 Registration and coffee
09.25 Introduction
09.30 Equity risk management
10.00 Understanding liability risk
10.30 Coffee
11.00 Active asset allocation
11.30 Investment strategy in practice
12.00 Latest thinking on Defined Contribution
12.30 Economic update
13.00 Lunch

Please note that the content and timing of all sessions may be subject to change at short notice.

25 March 2014 | Business Meeting

9 Prescot Street, 4th floor, London, E1 8AZ

When	Mar 25, 2014 from 10:45 AM to 01:00 PM
Where	9 Prescot Street, 4th floor, London, E1 8AZ
Contact Name	Janice Hayward
Contact Phone	020 7247 2323
Add event to calendar	Outlook

LAPFF Business Meeting

25 March 2014, 10:45am

9 Prescot Street, 4th floor

London, E1 8AZ

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CIPFA The Chartered Institute of Public Finance & Accountancy

The CIPFA Pensions Network Workshops

FUTURE STRUCTURE OF THE LGPS

During 2013 it became clear that 2014 would be a significant year for the LGPS with the implementation of the LGPS 2014 scheme plus application of the 2013 Triennial Valuation results. However, it is the consultation on the future structure of the administration of the LGPS which most commentators believe will see the most fundamental changes to the scheme in recent times. The draft proposals include fund merger and collective investing and much has been written on these issues over the last year, in particular the Call for Evidence responses, where many stakeholders shared their views.

Clearly the work of the Shadow Scheme Advisory Board along with colleagues from DCLG and the LGA will inform much of the final outcomes. In addition, a number of external experts will provide advice and support and all of these key groups will be involved in these workshops. We will hear the latest on the consultation process plus the work of the Shadow Board along with the report from Hymans Robertson and the data analysis from WM Company. There will also be an update from The Pensions Regulator on developments around the Code of Practice to be implemented for 2015 and an insight into the work going on in London to establish a collective investment approach.

This event is aimed at both Investment and Administration Officers involved in the LGPS and will we will use the experiences of Network colleagues to develop best practice and enhance Fund collaboration.

Hosted by RBS

Manchester 3 April & London 4 April

09.30 - 10.00	Coffee and registration
10.00 - 10.05	Chairman's Introductions – Bob Summers
10.05 - 10.45	**Consultation on the Future Structure of the LGPS – Jeff Houston, LGA** The day will commence with review of the latest developments on the reform agenda including the consultation on structural reform and the outcomes and timescales involved plus the implementation of new governance arrangements arising from the Public Service Pensions bill along with other legislative matters to be aware of.
10.45 - 11.20	**A view from the Shadow Scheme Advisory Board** The role of the Shadow Board has been evolving during its first year and this session will review the on-going work programme and its response to the call for evidence along with an outline of how the various sub-committees are moving forward and contributing to the overall outputs.
11.20 - 11.40	**Break**

11.40 – 12.30	**A Consultants view of the reform programme – Hymans Robertson** Following their appointment to produce a key report into the options for structural change, Hymans Robertson will explain the findings of their work around both merging funds and collective investing and discuss how their conclusions fit the current reform programme and help Funds understand what changes could be anticipated and current considerations.
12.30 – 13.10	**LGPS Data Developments – Karen Thrumble, WM Company** Following criticism from Lord Hutton and Brandon Lewis on the state of LGPS data we will hear what WM Company has been doing to address this issue and how this links with the Shadow Advisory Board pursuing a LGPS wide Annual Report. This will include highlighting how existing data can be used and what new data is needed to address the specific requirements set out by the Board and also new governance arrangements.
13.10 – 14.00	**Lunch**
14.00 – 14.45	**The Pensions Regulator –Bob Scruton, TPR** Following the consultation on the draft Public Sector Pensions Scheme Code of Practice we will hear the latest developments from Bob Scruton including the specific implications for the LGPS and how these will be addressed and communicated by TPR.
14.45 – 15.30	**Collective Investment vehicles – TBC** London Councils have been working with a number of LGPS Funds and other external parties to establish a business case for a possible collective investment vehicle for London. This session will explain the work carried out to date including the legal framework, financial benefits and collaborative working.
15.30 – 15.40	**Chairman's Summing up and Close**

The facilitators for these events will be Bob Summers and Neil Sellstrom

We reserve the right to alter the timing or content of sessions where circumstances require.

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