PENSIONS COMMITTEE

Wednesday, 16 July 2014 at 6.30 p.m.

Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

This meeting is open to the public to attend.

Members:
Chair: Councillor Rajib Ahmed
Vice Chair: TBA

Councillor Abdul Asad, Councillor Andrew Cregan, Councillor Shafiqul Haque, Councillor Clare Harrisson, Councillor Ayas Miah and Councillor Harun Miah

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

Deputies:
Councillor Abdul Mukit MBE, Councillor John Pierce and Councillor Amy Whitelock Gibbs

[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.gov.uk/committee

Scan this code to view an electronic agenda

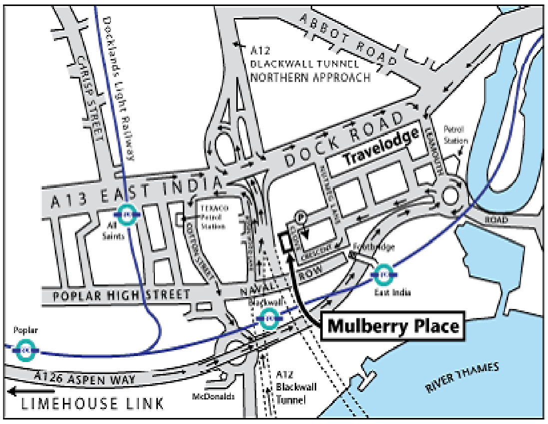
Public Information

Attendance at meetings.
The public are welcome to attend meetings of the Committee. However seating is limited and offered on a first come first served basis.

Audio/Visual recording of meetings.
No photography or recording without advanced permission.

Mobile telephones
Please switch your mobile telephone on to silent mode whilst in the meeting.

Access information for the Town Hall, Mulberry Place.



Bus: Routes: 15, 277, 108, D6, D7, D8 all stop near the Town Hall.
Docklands Light Railway: Nearest stations are East India: Head across the bridge and then through the complex to the Town Hall, Mulberry Place
Blackwall station. Across the bus station then turn right to the back of the Town Hall complex, through the gates and archway to the Town Hall.
Tube: The closest tube stations are Canning Town and Canary Wharf
Car Parking: There is limited visitor pay and display parking at the Town Hall (free from 6pm)

If you are viewing this on line:(http://www.towerhamlets.gov.uk/content_pages/contact_us.aspx)

Meeting access/special requirements.
The Town Hall is accessible to people with special needs. There are accessible toilets, lifts to venues. Disabled parking bays and an induction loop system for people with hearing difficulties are available. Documents can be made available in large print, Braille or audio version. For further information, contact the Officers shown on the front of the agenda

WC P L T

Fire alarm
If the fire alarm sounds please leave the building immediately by the nearest available fire exit without deviating to collect belongings. Fire wardens will direct you to the exits and to the fire assembly point. If you are unable to use the stairs, a member of staff will direct you to a safe area. The meeting will reconvene if it is safe to do so, otherwise it will stand adjourned.

Electronic agendas reports and minutes.
Copies of agendas, reports and minutes for council meetings can also be found on our website from day of publication.

To access this, click www.towerhamlets.gov.uk/committee and search for the relevant committee and meeting date.

Agendas are available at the Town Hall, Libraries, Idea Centres and One Stop Shops and on the Mod.Gov, iPad and Android apps.

QR code for smart phone users.

PAGE NUMBER(S)

APPOINTMENT OF CHAIR FOR THE MEETING

The Chair has given apologies, therefore the Committee will be asked to appoint a Chair for the meeting.

APOLOGIES FOR ABSENCE

3 .4 Training and Development For Members **27 - 40**

To adopt the CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) as the basis for its training and development programme and that a proposed programme of training and development is prepared and presented to the next meeting of the Pensions Committee.

3 .5 Report of the Investment Panel to 31 March 2014 & LGPS Discussion **41 - 146**

To note the contents of the quarterly Investment Report.

4. TRAINING EVENTS

To receive a presentation for training purposes.

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

To consider any other business which the Chair considers to be urgent.

Next Meeting of the Committee:
Wednesday, 17 September 2014, at a time to be advised to be held in Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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.

This page is intentionally left blank

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.35 P.M. ON TUESDAY, 25 FEBRUARY 2014

COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG

Members Present:

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

Others Present:

Barry McKay	(Actuary on Behalf of Hymans Robertson)
Matt Woodman	Representing Hymans Robertson

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Legal Services, Law Probity & Governance)
Anant Dodia	–	(Pensions Manager)
Pearl Emovon	–	Interim Treasury Manager
Kevin Miles	–	(Chief Accountant, Resources)
Lisa Stone	–	(Pensions Accountant)
Antonella Burgio	–	(Democratic Services)

Apologies:

Councillor Craig Aston, Councillor Oliur Rahman, Frank West and John Gray

APOLOGIES

Apologies for absence were received from Co-opted Members Frank West and John Gray

An apology was also received from Mr Haynes, Chair of Investment Panel.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 14th November 2013 were approved as a correct record of proceedings.

3. REPORTS FOR CONSIDERATION

3.1 2013 Actuarial Review / Valuation

The Chief Accountant and Actuary on behalf of Hymans Robertson presented the results of the triennial evaluation of London Borough of Tower Hamlets Pension Fund. By way of background they advised the Committee that the triennial valuation:

- was a legal requirement and necessary for the recalibration of the fund and assessment of funds needed to continue to pay its members
- set out the fund's investments against its likely liabilities
- served to indicate any deficit required in order to meet its obligations
- informed the contribution rate required to be set

Members were informed that:

- the evaluation had been completed giving an indication of the sums needed to pay past and future members
- the last three years, the Fund had been required to perform in an environment of low gilt yields, uncertain markets, poor global economic performance and a reduction in membership.
- the Fund had been stable
- the Fund had outperformed by 20 points since the previous actuarial assessment in 2010
- the Government was looking for credible strategies for funding and funding plans
- although the Fund was in deficit, the position of the Fund was good
- the Government was looking to Councils to establish credible strategies for funding and credible funding plans
- since pension funds were of a long term nature, it was necessary to project their likely returns. Periodic valuations were a recalibration tool with which to address short term volatilities in financial markets and assess sums need to pay members of the fund
- liabilities were assessed over short terms and inform contribution rates which are measured on 20-year terms
- prudent projections of investment returns had been calculated.

The following results were also noted:

- the long-term pay growth evaluation,
- prudent projection on investment returns,
- key assumptions made which were specific to the members
- prudent assumptions and the allowance for improvements in the future.

The Actuary offered his actuarial opinion that:

- the funding policy was consistent with the current funding strategy of the fund. The asset outperformance assumption contained in the discount rate was within the range that would be considered acceptable funding purposes and was also considered to be consistent with the requirement to take a prudent long-term view of the funding liabilities as required by the UK Government
- in the short term, there was scope for considerable volatility and there was a material chance that, in the short – medium terms, asset returns would fall short of target. Therefore stability measures were proposed to dampen down the effect on employers contributions
- the fund did not hold a contingency reserve to protect it against the volatility of equity investments. Modelling had been carried out which indicated that by retaining the present investment strategy together with constraining employer contribution rate changes would enable the fund to strike a balance between minimising the long-term cost and retaining stable contribution rates. It was recommended that the current stabilisation mechanism remain in place until 2017 and reviewed at the next triennial evaluation.

The Actuary also noted that, since March 2013, there had been more favourable economic conditions and, were the fund to be valued at the present time, it would have delivered better results: this was to the benefit of the fund as its value was presently greater. He reminded members that a new local government pension scheme would be effective from 1 March 2014

A Member enquired about the impact of demographic assumptions on the evaluation and fund projection and Members were advised that membership pro files were typical in the context of the staff changes that had taken place since the last actuarial review.

RESOLVED

1. That the funding strategy statement set out in appendix A of the report to be adopted

2. That the recommendations arising from the actuarial review of the pension fund be approved

3.2 Funding Strategy Statement 2013

The Chief Accountant introduced the report which set out how technical investment matters would be approached informing the Committee of the following:

- the Council was required to have a funding strategy statement to indicate how it would recover a deficit and set a contribution rate. It was noted that statutory and admitted bodies into the Local Government Pension Scheme (LGPS) affected deficit recovery and contribution rate.

- the funding strategy must be linked with the fund investment strategy.
- revised investment regulations now required Councils to publish a revised Funding Strategy Statement whenever there was a material change in its policy or a change to its Statement of Investment Principles.
- the Tower Hamlets pension strategy statement was typical of most local authorities.
- admitted and statutory bodies had been consulted on the strategy statement (a response deadline of 21 February 2014 was given) and no comments had been received.
- there had been no substantial changes to the strategy statement since it was last reported to Committee in November 2013.
- there were presently no applications from other admitted or statutory bodies to join the scheme.
- the effect of additional and statutory bodies on the scheme was a matter for Council as its payroll would become reduced. However admission to the pension scheme was not beneficial for statutory bodies (e.g. academies) because their element of the fund would become immature rapidly.

A Member noted that previous funding strategies and structures had been more conservative than those of other local authorities and was advised that this approach had been chosen undertaken because of governance issues caused by Members failing to attend meetings of the Pensions Committee. In the absence of the authorising member decisions, a conservative strategy was chosen.

Concerning the extent to which the fund was bound by the strategy, the Committee was informed that the structure and strategy had a flexibility of 10% either way which enabled movement to the structures at the edges. This would not much affect the fund but served to give flexibility.

RESOLVED

That the funding strategy statement, as set out in appendix A to the report, be adopted.

3.3 Report of Investment Panel for the Quarters Ending 30 September and 31 December 2013

The Hymans Robertson Representative presented the report which advised the Committee of investment performance in Quarters three and four. The following matters were noted:

- performance in both quarters had been good
- Investec and Schroeders only had performed below benchmark
- there had been two Manager under performances in the past 12 months. It was noted that diversification of the fund was in place to meet such situations.

He advised that Investec had been placed under close watch and investment advisors were minded to permit a further period to perform as the manager had improved diversification and returns had stabilised. It was noted that no money had been lost over this 12 month period. Mr Woodman further advised that he had interviewed John Stopford who had put forward cogent arguments for diversification and therefore it was recommended to remain with this manager at present to allow time for performance and avoid transfer costs unless necessary.

He noted that Schroeders' investment in European property had performed poorly and since realignments had delivered good returns in a difficult market. Therefore, since performance had improved, he recommended that this manager be retained.

He also tabled a market update report highlighting the UK equity PE ratio as at 31st of December 2013. This had performed favourably. Noting there was volatility in equity markets, he recommended that equity allocations should be trimmed.

He further noted that property yields were average but property voids were declining and therefore it was likely there would be some opportunity for prices in this market to rally. He recommended that the property allocation be rebalanced to its benchmark level.

RESOLVED

That the investment performance update reports be noted

3.4 Pension Fund Work Plan

The Chief Accountant advised that there had been a printing error in the report. He then introduced the report advising Members that the draft plan had been presented, at this time, for information. This would be brought back for approval in September 2014.

A Member, in order that the Council may demonstrate due diligence on ethical aspects of investment, enquired whether data on ethical investments by fund managers could be communicated to the Committee outside of LAPFF meetings. The Chief Accountant advised that he would report back on this matter at a future meeting.

RESOLVED

That the report noted

Action By:
Kevin Miles (Chief Accountant, Resources

4. FORTHCOMING TRAINING EVENTS

A calendar of training events available was presented and the Chief Accountant asked that any expressions of interest should be made through the clerk.

RESOLVED

That the report be noted

5. EXCLUSION OF THE PRESS AND PUBLIC

Following legal advice taken on the nature of the information to be discussed it was deemed that the report and appendix were suitable for discussion in open session. Accordingly no resolution to exclude press and the public was passed

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

The Chief Accountant introduced to report advising the committee that a proposal to merge London pension schemes (CIV) had been suggested. The following were noted:

- London Councils have asked all London boroughs to express their interest in the merger scheme by the payment of £1.00
- the proposals for fund mergers would reduce managers' fees
- proposals were under investigation at present and Tower Hamlets, Hackney and Southwark councils were jointly seeking advice from a barrister on the implications of pooling their pension schemes.
- it was expected to take a year to initiate the CIV
- An information event was shortly to be held and most London councils had accepted an invitation to this event

The Committee supported the proposal to explore and pursue the expression of interest, However:

- Members asked for care in considering the proposal, since pooling would also mean that councils' individual ability to direct their own preferred investment strategy would be diminished.
- it would be necessary to understand how the Council would be expected to pool its investments and assess what proportion of its investments the Council wished to pool and what proportion it wished to retain under its own control. The Hymans Robertson Representative informed Members that only investments into the same asset management pool would be placed into the appropriate CIV.

RESOLVED

1. That the report and discussion be noted
2. That TH Pension Fund be authorised to express its interest by the payment of £1.00

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.56 p.m.

Chair, Councillor Zenith Rahman
Pensions Committee

This page is intentionally left blank

Agenda Item 3.1

Committee	Date	Classification	Report No.
Pensions Committee	16 July 2014	Unrestricted	

Report of:	Title :
Service Head, Democratic Services **Originating Officer(s) :** Antonella Burgio	Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings **Ward(s) affected: N/A**

1. Summary

1.1 This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2014/15 for Members' information.

2. Recommendation

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

3. Background

3.1. At the Annual Council Meeting on 11th June 2014, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution.

3.2 The terms of reference for the Pensions Committee together with the appointed Membership and Quorum thereof are set out in Appendix A.

4. Membership

4.1 Council on 11th June 2014 agreed that the Membership of the Committee be set at 7 Members in line with the recommendations of the Constitutional Working Party adopted by Council in April 2010 to ensure the proportionality arrangements are upheld.

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

5. Programme of Meetings

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

16 July (Pens Cttee 6.30pm and Invest 7.30pm)
17 Sept (Invest 6.00 or 6.30pm) Pens Cttee 7.30pm
19 Nov (Invest 6.00 or 6.30pm) Pens Cttee 7.30pm
24 Feb (Invest 6.00 or 6.30pm) Pens Cttee 7.30pm

6. Comments of the Chief Financial Officer

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

7. Legal Comments

Appendix A sets out the terms of reference and composition of the committee as set out in Paragraph 3.3.10 of the Council's Constitution. There are no immediate legal consequences arising from this report.

8. Equal Opportunities Implications

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

9. Anti Poverty Implications

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

10. Risk Management Implications

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

11 Sustainable Action for a Greener Environment

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

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

Brief description of "background paper"	If not supplied, Name and telephone
None	

APPENDIX A

PENSIONS COMMITTEE - TERMS OF REFERENCE

Terms of Reference:

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

Membership:

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

At the Annual General Meeting of the Council held on 11th June 2014 the following appointments were made to the Pensions Committee.

Members	Substitutes
Cllr Rajib Ahmed (Chair) Cllr Andrew Cregan Cllr Clare Harrisson Cllr Ayas Miah	(Deputies:- Cllrs Amy Whitelock Gibbs, Abdul Chuni Mukit, John Pierce)
Cllr Abdul Asad Cllr Shafiqul Haque Cllr Harun Miah	(Deputies:-t.b.c)
1 Vacancy	
2 Non Voting Co-opted Members: - • Trade Union Representative Mr Frank West • Admitted Body Mr John Gray	

The quorum of the Pensions Committee is three Members.

This page is intentionally left blank

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	16 June 2014	Unrestricted	
REPORT OF: Service Head, Democratic Services ORIGINATING OFFICER(S): Antonella Burgio Democratic Services Officer		TITLE: Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2013-14 Ward(s) affected: N/A	

1. SUMMARY

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

2. DECISIONS REQUIRED

2.1 No decisions are required. Members are recommended to note the continued nomination of John Gray (Admitted Bodies Representative) and Frank West (Union Representative) as non-voting co-optees of the Pensions Committee for the municipal year 2014-15 and their reappointment at Annual Council on 11th June 2014.

3. REASONS FOR RECOMMENDATIONS

3.1 Under Article 8 (Para. 8.01) and Part 3 Section 3.3.10 of the Constitution, the Council has delegated to the Pensions Committee, responsibility to consider pension matters and meet its obligations and duties under the Superannuation Act 1972 and the various statutory requirements in respect of investment matters.

3.2 Part 3 Section 3.3.10 of the Constitution also provides that membership of the Pensions Committee comprise Elected Members, and include 1 Representative of the Admitted Bodies and 1 Trade Union Representative.

4. ALTERNATIVE OPTIONS

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

5. BACKGROUND

5.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulation. The Regulation also empowers the Fund to admit employees of other 'defined' (e.g. other public bodies, housing corporations) bodies into the Fund.

5.2 The Pensions Committee has specific delegated function that it has to fulfil in representing the Council as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.

5.3 Part 3 Section 3.3.10 of the Constitution provides that membership of the Pensions Committee comprise Elected Members, and also include 1 Representative of the Admitted Bodies to the Pension Fund and 1 Trade Union Representative.

5.4 The Committee's Terms of Reference does not presently stipulate a term of office for these roles. In the absence of a specified term, it is appropriate that the appointment of the co-optees should be periodically reaffirmed to ensure that the persons appointed continue to serve with the endorsement of the external bodies and organisations that (contribute to the Fund and that) have nominated them.

6. APPOINTMENT OF CO-OPTEES

6.1 The external organisations and bodies represented by Mr John Gray have been canvassed and none have objected to his reappointment as representative for Admitted Bodies for the municipal year 2014-15.

6.2 The Council's recognised Trade unions have been contacted and confirmed that they wish Mr Frank West to continue as representatives of Trade Unions for the municipal year 2014-15.

6.3 This matter is therefore brought before the Pensions Committee to note the continued endorsement of Mr Gray and Mr West as co-optees of the Committee and also to note their respective reappointment at Annual Council on 11th June 2014.

7. LEGAL COMMENTS

7.1 The functions of the Pensions Committee under the Council's Constitution are: "to consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters". This includes ensuring the Council meets its various obligations under the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. As referred to in paragraph 3 above, the Council's Constitution provides for 1 Representative of the Admitted Bodies and 1 Trade Union Representative to be co-opted onto the Pensions Committee. The appointments of John Gray and Frank West were agreed at the Annual Council meeting on the 11th June 2014.

8. Comments of the Chief Financial Officer

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

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***

This page is intentionally left blank

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO
Pensions Committee	**16 July 2014**	**Unrestricted**	

REPORT OF:	TITLE:
Corporate Director of Resources ORIGINATING OFFICER(S): **Investment Panel**	Composition of the Pension Fund Investment Panel Ward(s) affected: **N/A**

1. SUMMARY

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

2. RECOMMENDATIONS

2.1 Members are recommended to :

2.1.1 To establish an Investment Panel.

2.1.2 That membership of the Investment Panel comprise:-

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

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

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

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

Brief description of "background papers"	Brief descri of "backgr papers"	Brief description of "background papers"
None		

3. BACKGROUND

3.1 The Pension Fund Regulations require the Council to establish arrangements for monitoring the investment activities of the professional fund managers and ensuring that proper advice is available on investment issues.

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

3.3 The terms of reference satisfy the Regulations, which require a formal statement of the responsibilities of the different parties involved in the investment process.

4. THE REGULATIONS

4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require Councils to invest pension fund cash, which is not immediately required to pay pensions.

4.2 The Regulations require that Councils when undertaking such investment take proper advice at reasonable intervals and consider the need for diversification of investments.

4.3 The Regulations enable Councils to appoint one or more investment managers but in these circumstances are required: -

- To take proper advice
- To consider at least every three months the investments undertaken by the manager.
- To periodically review the managers appointment

4.4 To satisfy the requirement to obtain proper advice the Council has engaged an investment professional to act as chair of the investment panel and a firm of investment consultants to advise on the technical issues.

4.5 In addition the Council employs an independent performance measurement service to provide an analysis of individual manager’s performance on a quarterly basis.

4.6 The Regulations have been supplemented by guidance on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to the Myners report, an independent review of pension investment, which reported in 2001.

4.7 The CIPFA best practice guidance sets out the responsibilities of the different parties involved in the investment process and requires that a periodic review be made of these arrangements and of the performance of the individual parties.

5. CURRENT ARRANGEMENTS

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

- An independent Chair (Raymond Haines)

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

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

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

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

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

7. RISK MANAGEMENT IMPLICATIONS

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

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

8. LEGAL COMMENTS

8.1 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 and under Regulation 11(1) to have a policy in relation to its investments. 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.

8.2 Under regulation 8(1), the Council may appoint one or more investment managers to manage the fund. Where a manager is appointed, regulation 10 (1) requires the Council to keep the manager's performance under review. Under regulation 10(2), at least every three months, the Council must review the investments the investment manager has made for the fund and any other action taken by the manager in relation to it. Regulation 10(3) requires the Council to periodically consider whether or not to retain the investment manager.

9. ANTI-POVERTY IMPLICATIONS

9.1 There is no specific anti poverty implications.

10. EQUAL OPPORTUNITIES IMPLICATIONS

10.1 There are no equality implications.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

APPENDIX 1

INVESTMENT PANEL TERMS OF REFERENCE

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

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

This page is intentionally left blank

<table>
<tr><td>COMMITTEE:
Pensions Committee</td><td>DATE:
16 July 2014</td><td>CLASSIFICATION:
Unrestricted</td><td>REPORT NO.</td><td>AGENDA NO.</td></tr>
<tr><td colspan="2">REPORT OF:
Acting Corporate Director of Resources
ORIGINATING OFFICER(S):
Bola Tobun - Investment & Treasury Manager</td><td colspan="3">TITLE:
Training and Development For Members

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 need for a training and development programme for members of the Pensions Committee.

1.2. The report explains the requirement for good governance of thePension Fund and the framework of legislation, regulation andguidance which the Fund must comply with and that thereforethere is a need for a formal training programme for Membersand Observers of the Pensions Committee.

1.3. The report also refers to the Chartered Instituteof Public Finance and Accountancy (CIPFA) publication“Pensions Finance, knowledge and skills framework, TechnicalGuidance for Elected Representatives and Non-executives inthe Public Sector” (2010). (referred to elsewhere in this report asthe “CIPFA knowledge and skills framework (2010)” Thisprovides a framework for the training and development ofElected Members and other representatives on public sectorpension scheme decision making bodies such as the Tower HamletsPensions Committee.

2. RECOMMENDATION

2.1. For Pensions Committee

2.1.1. The Pensions Committee is requested to agree

(a) That the CIPFA “Pensions Finance, knowledge andskills framework, Technical Guidance for ElectedRepresentatives and Non-executives in the Public Sector” (2010) is adopted as the basis for its trainingand development programme

(b) That a proposed programme of training anddevelopment is prepared and presented to the nextmeeting of the Pensions Committee.

3. REASON FOR DECISION

3.1. Governance is defined as the action, manner or system of governing. Good governance is vital and is promoted in the context of a pension scheme/fund by having Members and Observers on the decision making body who have the ability, knowledge and confidence to challenge and to make effective and rational decisions. The “CIPFA knowledge and skills framework (2010)” provides a framework for the training and development of members/observers with the objective of improving knowledge and skills in all relevant areas of the activity of a Pensions Committee.

4. BACKGROUND

4.1. The Local Government Pension Scheme operates within a statutory and regulatory framework which includes the Superannuation Act 1972 and various statutory instruments including the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The department for Communities and Local Government (CLG) which is the government department responsible for the Local Government Pension scheme and CIPFA have also issued codes and guidance in respect of the scheme. The CLG Local GovernmentPension Scheme Governance Compliance Statements Statutory Guidance (2008) sets out nine principles for the governance of schemes including training.

4.2. In 2000 the government commissioned a review of investment management in the United Kingdom led by Paul Myners (now Lord Myners). Arising from Paul Myners’ report the government issued a set of ten investment principles in 2001. In 2002 theLocal Government Pension Scheme (Management and Investment of Funds) Regulations 1988 were amended to require Local Government Pension Scheme Funds to report against these “Myners” principles.

4.3. In 2007 the government reviewed the “Myners” principles and in 2008 published a new set of six investment principles. These have now been reviewed and amplified in the context of the Local Government Pension Scheme by a group involving the department for Communities and Local Government, CIPFA and other stakeholders.

4.4. Principle 1 of the six revised “Myners” Principles is “Effective decision making” which states that in the context of the Local Government Pension Scheme it should be ensured that “decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation”; and that “ those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of *interest.*

5. EXISTING TRAINING AND DEVELOPMENT FOR PENSION FUND COMMITTEE MEMBERS AND OBSERVERS

5.1 The former Pensions committee agreed a Training Policy.Since the approval of the Training Policy,training has been provided in the form of presentations to the entire Committee and through opportunities for individuals to attend training coursessuch as those provided by the Local Government Employers organisation.

5.2 The training provided by the Tower Hamlets and other Local Government Pension Funds in recent years has improved the knowledge and skills of those who serve on decision making bodies responsible for the Local Government Pension Scheme.

5.3 However there has been a lack of an agreed definition of the knowledge and skills that those who serve on such decision making bodies require. This deficiency has however now been addressed by the local authority accountancy body CIPFA in one of its publication “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010). (referred toelsewhere in this report as the “CIPFA knowledge and skills framework (2010)”

6. <u>THE CIPFA KNOWLEDGE AND SKILLS FRAMEWORK</u>

6.1 As the CIPFA knowledge and skills framework states a great deal of work has been done in recent years to address the provision of training to those who serve on decision-making bodies. However in the absence of any detailed definition of what knowledge and skills are actually required to carry out a particular role, it is difficult to ascertain whether training is truly effective.

6.2 Therefore in an attempt to determine the right skill set for Pensions Committee Members/Observers CIPFA has developed a technical knowledge and skills framework which is intended to have two primary uses:

• As a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs

• As an assessment tool for individuals to measure their progress and plan their development

6.3 There are six areas of knowledge and skills CIPFA has identified as the core technical requirements relating to those involved in decision making. They are:

• Pensions legislative and governance context

• Pensions accounting and auditing standards

• Financial Services procurement and relationship management

• Investment performance and risk management

• Financial markets and products knowledge

• Actuarial methods, standards and practices

6.4 The main issues covered in each of the six areas listed above are set out in Appendix 1.

6.5 At present the status of the CIPFA knowledge and skills framework is persuasive rather than mandatory. However CIPFA states that it understands the CLG is considering whether to amend the Local Government Pension Scheme (Administration) Regulations to require funds to include in their Annual Report a statement on whether they have adopted the CIPFA knowledge and skills framework as a basis for the training and development of those involved in pension scheme finances. In the interim the CIPFA Pensions Panel recommends that, as demonstration of good practice, users of the framework make a voluntary disclosure in their pension scheme Annual Reports that covers:

- How the framework has been applied
- What assessment of training needs has been undertaken
- What training has been delivered against the identified training needs

6.6 To help organisations achieve the standards set down in the framework, CIPFA is in the process of developing a repository of knowledge sources and knowledge and skills self-assessment tool to provide a web based tool for testing and extending the knowledge of an individual.

6.7 A very short training session to ensure that all Members and Observers of the Pensions Committee have an understanding of the Pensions Legislative and Governance framework as it applies to the Local Government Scheme will be held at this (16 July 2014) meeting of the Committee.

7. ALTERNATIVES CONSIDERED

7.1 The Committee could continue to base its approach to training on the Training Policy approved by the former Pensions Committee. The adoption of the CIPFA knowledge and skills framework (2010) however indicates that the Committee is following national guidance on the content of training for Committee Members and Observers.

8. CONCLUSION

8.1 The adoption of the CIPFA "*Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector*" (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.

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 Whilst there are no immediate legal consequences arising from this report it is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge.

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***

Background Information
Pensions Finance, knowledge and skills framework, Technical Guidance forElected Representatives and Non-executives in the Public Sector, CIPFA(2010)
Investment decision making and disclosure in the Local Government PensionScheme, A Guide to the Application of the Myners Principles, CIPFA (2009)

APPENDIX 1

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

Core technical areas and areas of knowledge

Legislative and governance framework
- General pensions framework
- Scheme-specific legislation for LGPS
- Pensions regulators and advisors
- Constitutional framework for pension fund committees within administering authorities
- Pension scheme governance

Accounting and auditing standards
- Accounts and Audit regulations
- Role of internal and external audit

Procurement of financial services and relationship management
- Procurement requirements of UK and EU legislation
- Supplier risk management

Investment performance and risk management
- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Committee
- Performance of support services

Financial markets and investment products
- Investment strategy
- Financial markets
- Regulatory requirements regarding investment products

Actuarial methods, standards and practices
- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

HYMANS ROBERTSON

A brief guide

to the local government pension scheme

Introduction from John Wright

John Wright
Head of Public Sector Consulting

Public sector pensions is a hot topic at the moment and with the emphasis on governance, taking on decision making responsibilities for an LGPS pension fund may feel rather daunting. This brief guide is designed to assist you in your role by familiarising you with some key areas:

- An overall understanding of the Local Government Pension Scheme (LGPS) and how it is set up
- The main areas of risk involved in running your fund and the management of these risks
- The sort of decisions that you may be asked to make

This brief guide has been written mainly for elected Members new to the role of dealing with an LGPS pension fund, however, it is also useful if you are already involved in pension committees or panels and looking for a summary of the important role you play in the 'stewardship' of your funds: an important role that gives you responsibility for the investment decisions of the fund and ensuring the scheme is administered effectively and fairly, with strong governance, on behalf of all its stakeholders.

With more than 90 years' experience of local government pension funds, Hymans Robertson has a long history of working with local authorities. We currently provide advice and support to over half of the LGPS funds in the UK. We use this extensive experience to help make life easier for those, like you, who are making decisions on the safe running of your fund.

I hope you find this brief guide helpful.

John Wright

@Hymansrobertson

Basics of the Local Government Pension Scheme (LGPS)

The LGPS is a **defined benefit, funded** occupational pension scheme, set up under a Parliamentary Act. It provides pension benefits for those who work in the local authority arena and is open to employees of local government employers as well as a wide range of other public sector employers, including **admitted bodies**. The pension benefits under the LGPS are set nationally and are very secure as they are guaranteed by statute.

Separate Regulations apply in England & Wales, Scotland and Northern Ireland. Historically the Schemes were almost identical in each area but in recent years differences have become more pronounced.

Although the LGPS is a nationwide scheme it is actually administered locally and is made up of a large number of standalone funds – normally administered by local authorities. It is the management of these funds that we consider in this booklet.

Definitions

CARE – From 1 April 2014 the LGPS became a **Career Average Revalued Earnings** based scheme. With pension accruing each year based on scheme members' earnings over their career. Previously the benefits under the scheme were on a formula based on length of service and salary on leaving.

Funded – this means that a fund is built up from contributions, investment income and growth in order to meet future benefit payments as they fall due. Most of the other public sector schemes are unfunded or pay-as-you-go scheme, which means that pensions are paid directly out of revenue, like many other public sector schemes.

Admitted bodies – an employer that has applied to participate in the scheme under an admission agreement – usually employers such as charities or contractors. Admitted bodies generally provide a public service which is closely linked to the functions of a local authority.

Key LGPS Facts

- Made up of 99 regional funds
- Over 4.1 million members
- Total fund size is over £140 billion
- Total expenditure on benefits is around £7 billion p.a.

Who's who in the LGPS

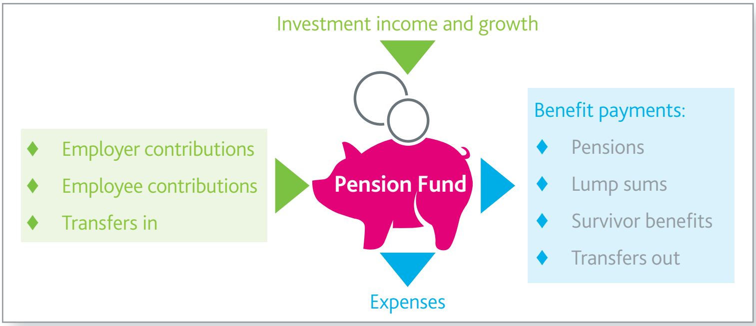
The main parties involved in the management and administration of the LGPS are:

- Department Communities and Local Government (DCLG) – the central Government Department, which has overall responsibility for the strategic management and policy making in relation to the LGPS in England and Wales. The Scottish equivalent is **Scottish Public Pensions Agency**, whilst the Northern Irish version is the **Department of the Environment**.
- The Administering Authority – often, but not necessarily, the largest council in the fund – they take on the role of pension fund administrators.
- The Pension Committee (or equivalent) – primarily made up of elected Members from the Council acting under delegated authority as the administering authority. Typically the other councils within the fund will also be represented. The committee usually has overall responsibility for the fund providing a similar function to that of trustees in private sector pension schemes.
- Officers – employees of the administering authority whose role it is to carry out the day to day administration and management of the fund on behalf of the elected Members. The actual day to day administration may be carried out by an in house team, an external contractor or a local authority shared service.
- Employers – local authorities, public service organisations, admission bodies and private contractors providing an outsourced service.
- Scheme members – the employees who build up pension benefits.
- Advisers – there are many experts whose assistance you may need to rely upon. The list includes auditors, lawyers, investment managers, actuaries, investment consultants and custodians.
- The Pensions Regulator – the Pensions Regulator ensures that codes of practice are complied with and high standards of governance are met.
- Other bodies – other groups that you will come across include LGA (Local Government Association), who provide guidance on the technical aspects of the LGPS, and CIPFA (Chartered Institute of Public Finance and Accountancy) who provide support on investment and governance aspects.

Your own officers will be able to provide you with details of the people involved in your fund, and your governance arrangements.

The Role of the Actuary

Your main concern when running a pension fund is to ensure that there are sufficient funds to pay for the pension benefits as they fall due and contributions are received at an appropriate level and in a timely manner. The following diagram shows how money flows in to and out of the fund.



Your fund actuary will carry out regular actuarial valuations of the fund with the following objectives:

- To comply with legislation (it is mandatory to have an actuarial valuation every 3 years)
- To monitor the ongoing health of the fund (e.g do you have enough money to pay the pensions)
- To recommend appropriate contribution rates for employers and
- To monitor the actual experience of the fund against the assumptions made

In order to carry out the valuation, assumptions need to be made about future experience. The most important decisions will be around the **discount rate** to use and the **mortality assumptions**. At valuation time, your actuary will provide assistance in determining these assumptions.

Definitions

Discount rate – the future payments due need to be discounted to give a present value. A discount rate is chosen to reflect the investment return that is expected on the fund.

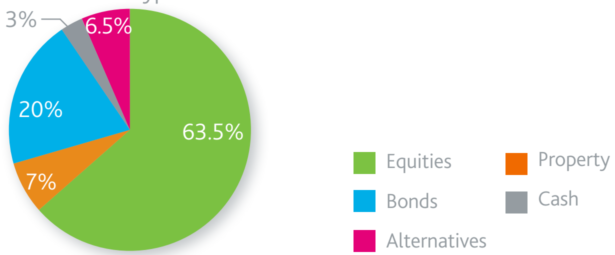
Mortality assumptions – one of the greatest unknowns for a pension fund is how long benefits will be paid for. People are currently living longer than they did in the past. The extent to which improvements are occurring needs to be actively monitored. At Hymans Robertson we have created Club Vita to do this.

Investment Decisions

One of your main tasks will be to decide where the fund's assets are invested. You need to decide on the overall strategy (i.e. the mix of asset types), and then the investment managers to do the actual buying and selling. Key things to keep in mind are:

- Of the asset classes **equities, property** and **alternative** assets are essentially return seeking. By contrast **bonds** are usually held for stability and security
- A high allocation to return seeking assets helps to keep pensions affordable. However, return seeking assets increase downside risk
- Asset and manager diversification (not putting all of your eggs in one basket) should help to reduce the downside risk
- A long term approach, seeking return, is generally considered appropriate – hence the high allocation to equities and alternatives seen in the LGPS world.

The asset allocation for a typical LGPS fund could look like this:



Definitions

Equities: "shares" in companies give an entitlement to dividends and the prospect of capital gains. Equities are expected to deliver a higher return than bonds over the long term.

Bonds: Bonds provide a regular income and are repaid in full at maturity. **Gilts** are issued by the UK Government and **Corporates** are issued by companies. Corporate bonds are higher risk than gilts and therefore have a higher interest rate. **Index-linked** gilts provide income and maturity payments which increase (or decrease) in line with inflation.

Property: Investments are usually in commercial property. Due to the size of individual properties and the need for diversification, investment is often through pooled funds.

Alternatives: Asset classes that add diversification by delivering returns in a pattern that differs from equities. Includes Hedge Funds, Infrastructure, Global Tactical Asset Allocation and Diversified Growth Funds.

'Must have' Documents

- Funding Strategy Statement
- Statement of Investment Principles
- Administration Strategy
- Governance Strategy
- Communications Strategy

What does my role on the committee entail?

It is important that you feel you have the appropriate knowledge and training to make these decisions. CIPFA have produced a Knowledge Skills Framework and code of practice in delivering good governance and what is expected from pension committees. During your period of office, the main decisions that you are likely to have to make are as follows.

- Deciding upon an appropriate investment strategy for your fund
  - Based on advice from your investment advisers
  - Setting performance benchmarks for the managers
- Dealing with investment managers
  - Selecting new investment managers by means of beauty parades
  - Monitoring manager's performance over time
  - Sacking managers where necessary
- Dealing with your fund actuary
  - Ensuring that you have an appropriate funding strategy for setting contributions
  - Agreeing contribution rates at the triennial valuation
  - Monitoring the progress of the funding level between valuations
- Ensuring that all relevant documentation is in order
  - Reviewing and updating the mandatory documents
  - Ensuring administering authority policies are up-to-date
  - Approving your pension fund accounts in time
- Be responsible for the risk management of the fund
  - Maintaining a risk register up-to-date
  - Ensuring that appropriate policies are in place to deal with the admission of employers into the fund, and the departure of employers from the fund
  - Ensuring the smooth administration of the fund for members and employers
  - Keeping an eye out for possible long term risks e.g. how your mortality experience is changing over time

For any further help or assistance on the topics raised in this booklet please contact us on

☎ 0141 566 7777

Knowledge and skills

Finance officers will be well aware of their responsibilities when finalising LGPS pension fund accounts of their requirement, under the CIPFA code of practice, that requires a statement that those responsible for the governance of the pension fund have the necessary skills. The CIPFA code of practice embeds the requirement to ensure those charged with pension scheme governance have access to the skills and knowledge to carry out their role effectively.

CIPFA have also published technical guidance for Representatives and Practitioners in the public sector within a Knowledge & Skills framework (KSF). The framework outlines the required skills - set for those responsible for pension financial management and decision making.

The six areas of the framework:

- Pensions legislative & governance context
- Pension accounting & auditing standards
- Financial services procurement & relationship development
- Investment performance & risk management
- Financial markets & product knowledge
- Actuarial methods, standards & practice

It is seen as best practice to sign up to the CIPFA code of practice and you may want to check that your fund has done so, and how the relevant skills and knowledge for yourself will be monitored and measured.

Workplace pension Reform

Public sector pension schemes have been under the microscope in recent years and this has included the LGPS.

The change to the LGPS which came into being from April 2014 in England and Wales, ahead of the other public sector schemes, includes a new benefit and contribution structure and introduce control costs.

The Public Sector Pensions Reform Act 2013 introduced a more unified legal framework and enables public sector schemes to outline their own controls.

The concept of automatic participation of workplace pension schemes was also introduced from 1 October 2012 whereby employees are auto enrolled into pension arrangements at least every three years and this has done a lot to improve pension provision from the LGPS with many new entrants deciding to not opt out.

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**16 July 2014**	**Unrestricted**		
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): Bola Tobun - Investment & Treasury Manager		TITLE: **Investment Performance Review for Quarter Ended 31 March 2014** Ward(s) affected: N/A		

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

1. SUMMARY

1.1 This report informs Members of the performance of the Fund and its investment managers for the quarter ending 31st March 2014. Full details are contained in Hymans Robertson's quarterly reports and WM Quarterly Performance Review, as appendix A and B respectively.

1.2 In the quarter to the end of March 2014 the Fund achieved a return gross of fees of 1.3% which is 0.7% above the benchmark of 0.6%. The twelve month Fund return of 8.5% exceeds the benchmark by 2.3% at 6.2%. Over the longer term, performance is ahead of the benchmark with three year returns of 7.1% being 0.8% above the benchmark and five year returns of 11.6%, 0.1% above the benchmark of 11.5%.

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. 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 March quarter end; this is the same as the previous quarter. Performance was ahead of the benchmark over the quarter, mainly due to strong relative returns from the two global equity mandates.

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 year ending 31 March 2014.

Legal & General Investment Management

5.5 Legal & General has been appointed (02 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 31 March 2014 had a market value of £261.3m. The value of the assets taken on at the commencement of the contract was £204.7m.

5.6 The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 yrs benchmark for the UK Index-Linked Mandates.

Baillie Gifford & Co

5.7 Baillie Gifford has been appointed to manage two distinct mandates; global equity mandate with the value of this contract at the commencement of the mandate on the 5 July 2007 was £118.9m. The value of assets under management as of 31 March 2014 was £183m. The performance target for this mandate is +2% to 3% above the benchmark MSCI AC World Index gross of fees over a rolling 3-5 year periods.

5.8 And the Diversified Growth Fund mandate with contract value of £40m at the commencement of the mandate which was 22 February 2011. The value of assets under management as of 31 March 2014 was £46.9m. The performance target for this mandate is to outperform the benchmark (UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%.

GMO

5.9 GMO has been appointed to manage a Global Equity Mandate which at 31 March 2014 had a market value of £260.5m. The initial value of the assets taken on at the commencement (29 April 2005) of the contract was £201.8m.

5.10 The performance target is to outperform a balanced global equity benchmark by 1.5% per annum net of fees over a rolling three year period.

Investec Asset Management

5.11 Investec has been appointed to manage a Global Bond Mandate which at 31 March 2014 had a market value of £97.5m. The initial value of the assets taken on at the commencement (26 April 2010) of the contract was £97m.

5.12 The performance target is to outperform the benchmark (3 Month LIBOR) by 2.0% per annum net of fees over a rolling three year period.

Ruffer Investment Management

5.13 Ruffer has been appointed to manage an Absolute Return Fund; the value of this contract at the commencement of the mandate on the 28 February 2011 was £40m. The value of assets under management as of 31 March 2014 was £45m.

5.14 The overall objective is firstly to preserve the capital over rolling 12 month periods and secondly to grow portfolio at a higher rate after fees than could reasonably be expected from the alternative of depositing the cash value of the portfolio in a reputable UK bank.

Schroder Investment Management

5.15 Schroder has been appointed to manage a property mandate. The value of this mandate at the commencement of the contract on the 20 September 2004 was £90m. The value of assets under management at 31 March 2014 was £105.2m.

5.16 The performance target for this mandate is to outperform the IPD UK Pooled Property Fund Indices All Balanced Funds Median by 0.75% net of fees over a rolling three year period.

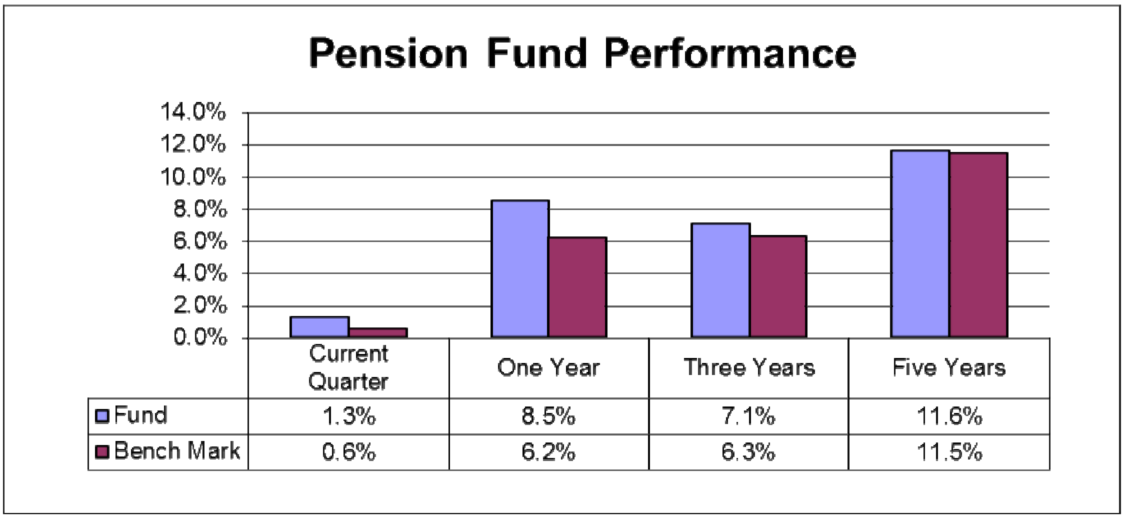
6. INVESTMENT PERFORMANCE

6.1 The Fund's overall value has increased by £17.3m from £998.9m as of 31 December 2013 to £1,016.2m as of 31 March 2014.

6.2 The fund outperformed the benchmark this quarter with a return of 1.3% compared to the benchmark return of 0.6%. Since April 2011 the fund has outperformed the benchmark by 0.8% per annum. The twelve month period sees the fund outperforming the benchmark by 2.3%.

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

Table 1 – Pension Fund Performance



7. MANAGERS

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

Table 2: Management Structure

Manager	Mandate	Value March 2013 £M	Benchmark Weight % of Fund Managers	Actual Weight % of Fund Managers	Difference %	Value Dec 2013 £M	Date Appointed
GMO	Global Equity	**260.5**	25.0%	25.6%	0.6%	**255.4**	29 Apr 2005
Baillie Gifford	Global Equity	**183.0**	16.0%	18.0%	2.0%	**179.4**	5 Jul 2007
L & G UK Equity	UK Equity	**212.1**	20.0%	21.0%	1.0%	**213.4**	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**46.9**	5.0%	4.6%	-0.4%	**46.5**	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**45.0**	5.0%	4.3%	-0.7%	**45.4**	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**49.2**	3.0%	4.8%	1.8%	**47.5**	2 Aug 2010
Investec Bonds	Bonds	**97.5**	14.0%	9.6%	-4.4%	**97.4**	26 Apr 2010
Schroder	Property	**105.2**	12.0%	10.4%	-1.6%	**102.3**	30 Sep 2004
Cash	Currency	**16.8**	0.0%	1.7%	1.7%	**11.7**	
Total		**1,016.2**	**100.0%**	**100.0%**	**0.0%**	**998.9**	

7.2 The fund value of £1,016 million as at 31 March 2014, which includes cash held, this has increased to 1.7% of the total assets value.

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

Table 3: Manager Investment Performance relative to benchmark

Manager	Current Quarter	Previous Quarter	One Year	Three Years	Five Years
GMO	2.0%	1.2%	6.5%	0.7%	0.2%
Baillie Gifford	1.6%	0.2%	5.3%	2.6%	3.2%
L & G UK Equity	0.0%	0.0%	0.1%	0.1%	N/A
Baillie Gifford Diversified Growth	0.6%	0.6%	0.6%	4.6%	N/A
Ruffer Total Return Fund	-1.0%	-0.4%	-1.6%	3.6%	N/A
L & G Index Linked-Gilts	0.0%	0.0%	0.1%	0.1%	N/A
Investec Bonds	0.0%	-0.1%	0.0%	-0.8%	N/A
Schroder	-0.5%	-0.6%	-1.9%	-0.8%	-2.1%
Total Variance (Relative)	**+0.7%**	**+0.4%**	**+2.2%**	**+0.8%**	**0.2%**

7.4 **GMO** made absolute return of 2.3% in the quarter, outperforming the benchmark of 0.3% by 2. The portfolio value has increased by £5.1m since 31 December 2013. This increase is made up of a benchmark/market value appreciation of £0.64m and GMO out performance of £4.46m.

7.5 The relative outperformance against the benchmark came from European and UK value stocks, with both European value stocks, and European stocks in general, performing well. The Fund benefited from overweight positions to Italy and France, as well as stock selection in Italy, France and the US. Underweights to Switzerland and Denmark slightly detracted from relative returns. At the sector level, an underweight to Consumer Discretionary and stock selection within Utilities, Industrials and Information Technology added to returns.

7.6 Strong performance over the past 12 months means that the Fund's performance since inception is now marginally above the benchmark, despite the poor relative performance exhibited during 2012 and Q1 2013.

7.7 **Baillie Gifford** returned 2.2% in the quarter against a benchmark of 0.5% resulting in relative outperformance of 1.7%. Over 12 months, a return of 12.4% is 5.3% above the benchmark. Over 3 years relative return exceeded benchmark by 2.6%, which is in line with their target.

7.8 The most significant positive impacts on performance over the quarter came from Tesla Motors and Ryanair. Tesla, the manufacturer of electric cars, continued to build on momentum from the previous quarter when it was the largest positive contributor to the fund's returns while Ryanair's shares rose as the airline expands its service to more affluent passengers and to offer flights to more destinations. After a strong return during the previous quarter, Amazon was one of the main detractors from performance over the first quarter of 2014 as its earnings disappointed due to increased competition and it did not meet analyst expectations. Shares in Rolls Royce also hurt performance as the company lowered growth expectations due to defence spending cuts in the US.

7.9 The portfolio value has increased by £20m since the 31 March 2013. This is made up of £10.8m market value appreciation and fund manager out performance of £9.2m.

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

7.11 **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.

7.12 **Investec (Bonds)** – The fund return was flat with the benchmark of 0.1% this quarter. Longer term performance remains negative, reflecting the negative returns experienced by the Fund during 2011. The portfolio has been behind the benchmark since inception.

7.13 The portfolio's corporate debt exposure performed well over the quarter, with both investment grade and high yield bonds producing strong returns. Spreads narrowed over the period. The credit hedges which have been implemented with the aim of minimising downside risk led to an overall negative performance from this asset class.

7.14 The portfolio's interest rate exposure produced a marginally negative return over the quarter. Short duration exposure to German Bunds, US Treasuries and Japanese government bonds detracted from returns, outweighing the slight positive contribution from long duration exposure to Canada, Sweden and the UK.

7.15 Currency and emerging market debt exposure slightly added to returns, reflecting the overall upward movement of emerging markets over the period. Investec are considering shorter duration issues to reduce spread duration at the fund level. This is based on their view that there is limited scope for spreads to rally and there is some risk of some sell off.

7.16 **Schroder (Property)** marginally underperformed benchmark by -0.5% in the quarter. Long term performance has also lagged the benchmark; with an underperformance of -2.1% p.a. over the 5 years to 31 March 2014. The positive absolute performance was due to the Fund's UK holdings. Over the 12 months to 31 March 2014 UK value add funds made a positive contribution to relative returns, with the Central London office market in particular having consistently delivered good returns over the past three years.

7.17 The Fund's European holdings were the most significant contributor to the Fund lagging the benchmark for this quarter ending. Within this region, the Axa European Real Estate Opportunity Fund II lost around 20% of its value following revaluation of its assets by an external valuer, on the basis of a shorter holding period given the fund expires in April 2015.

7.18 **Baillie Gifford Diversified Growth Fund outperformed the** benchmark of 0.1% by 0.6%. Performance in the last 12 months was 0.6% above benchmark.

7.19 Quarter ending March 2014 saw little growth for most developed economies, with most of the Fund’s asset class holdings producing broadly flat returns. High yield credit was the biggest contributor to overall performance, due in part to the Fund’s significant allocation to this sector, whilst active currency and absolute return holdings detracted from performance.

7.20 Baillie Gifford has a cautious view on markets because of uncertainty about the unwinding of monetary easing by central banks and the search for yield in the low rate environment which is reflected by falling yields of non-investment grade bonds. In accordance with this view, the manager has retained high exposure to developed market government bonds, investment grade bonds, gold and cash.

7.21 **Ruffer Total Return Fund (Absolute Return)** underperformed by -1.0% in the quarter, and -1.6% over the year to 31 March 2014. The negative return was largely driven by investor uncertainty over unrest in Ukraine and Syria which, with the uncertain macroeconomic outlooks for China, Europe and the U.S., contributed to increased volatility across equity, currency, commodity and fixed income markets.

7.22 The key detractor from performance was the Fund’s exposure to Japanese equities. After significant outperformance in 2013, Japanese equities fell in the first quarter and the Yen strengthened, hurting the Fund’s hedged exposure to Japanese banks, financials and a select few other companies. The Fund benefitted from its exposure to government bonds as investors retreated to fixed income.

Cash Management

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

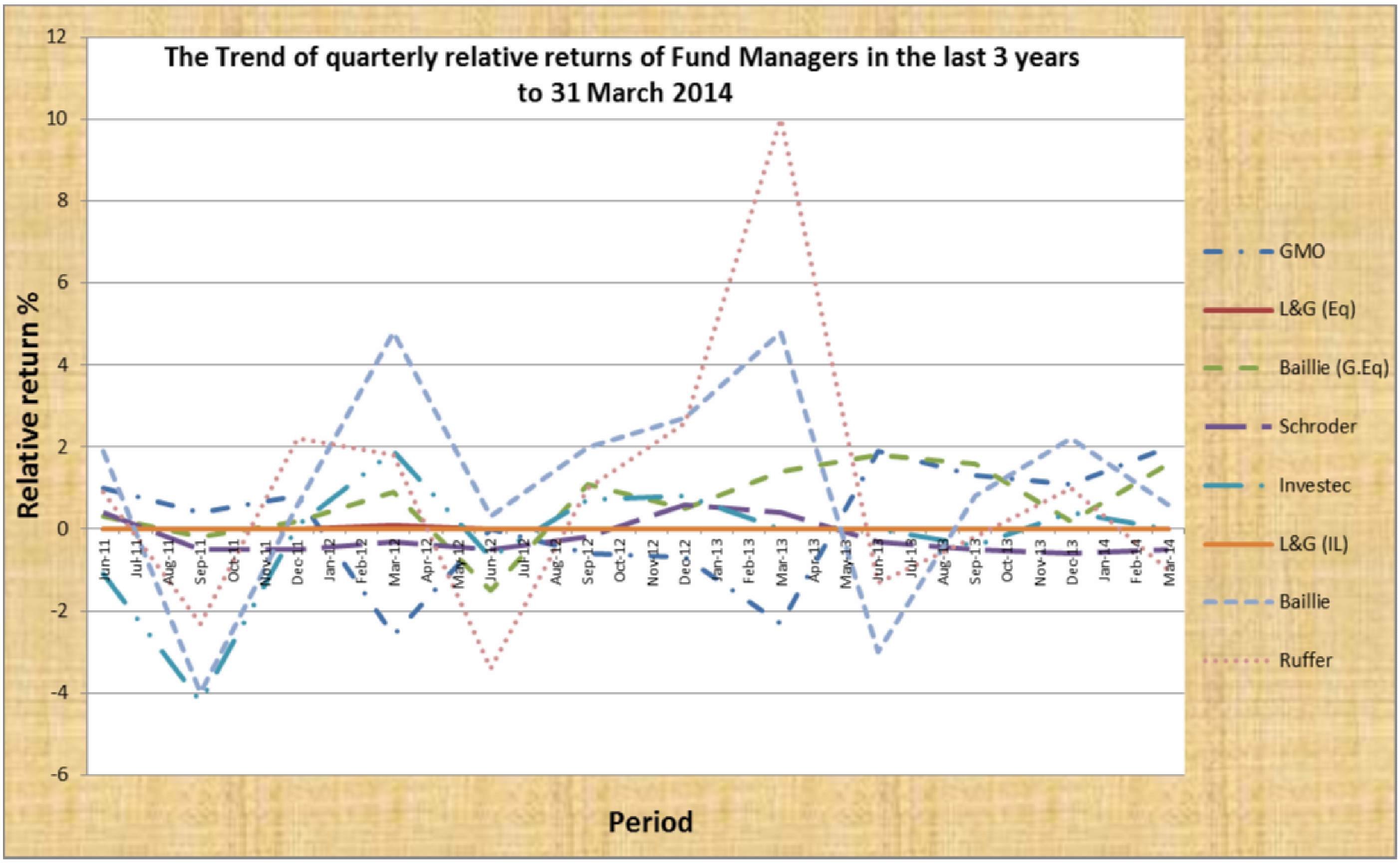
7.24 The Pension Fund invests in accordance with the Council’s Treasury Management strategy agreed by Full Council in February 2014, which is delegated to the Corporate Director of Resources to manage on a day to day basis within set parameters.

7.25 As at 31 March 2014 the Pension Fund internal cash balance was £16.8m.

7.26 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund's cash remains the overriding priority, ahead of yield. As at 31 May 2014 the Pension Fund in house cash position stood at £17.9m.

7.27 Interest generated for the year from cash held internally was £0.062m up to March 2014.

7.28 Set out below is a graphical representation of the fund managers relative return against their benchmark.



8 ASSET ALLOCATION

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

8.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.

8.1.2 The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

8.1.3 The deficit recovery term. All Council funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

8.2 The benchmark asset distribution and the fund position at 31 March 2014 are as set out below:

Table 4: Asset Allocation

Mandate	Fund Benchmark 2013/14	Fund Position 31 Mar 2014	Variance as at 31 Mar 2014	Variance as at 30 Dec 2013
UK Equities	24.0%	21.0%	1.5%	1.5%
Global Equities	37.0%	44.0%	1.7%	1.7%
Total Equities	**61.0%**	**64.2%**	**3.2%**	**3.2%**
Property	12.0%	10.0%	-1.8%	-1.8%
Bonds	14.0%	9.7%	-4.3%	-4.3%
UK Index Linked	3.0%	4.8%	1.8%	1.8%
Alternatives	10.0%	9.2%	-0.8%	-0.8%
Cash	0.0%	2.0%	2.0%	2.0%
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. LGPS Current Issues Update

Changes to the LGPS 2014

9.1 As outlined at previous meetings the new LGPS scheme became effective from 1 April 2014. The changes to the Public Sector Pensions Act emanated from the recommendations in the Hutton report. The LGPS has implemented the changes 1 year ahead of the rest of the public sector and is estimated to have saved approximately £500m by doing so.

.

LGPS New Governance Arrangements – Discussion Paper consultation

9.2 DCLG's governance discussion paper was circulated in June 2013.

9.3 As discussed at previous meetings, the Public Service Pension Act 2013 has a number of governance provisions which have to be incorporated into specific LGPS regulations by CLG. The Act makes certain provisions which limit the scope for manoeuvring on the regulations by CLG.

9.4 The Act already requires that a local Pension scrutiny Board is established to assist the administering authority in complying with regulations etc., however CLG have scope to determine whether the Pension Board can be one and the same as the existing statutory pension committees or whether a separate body is required. They are aiming to implement the changes with as little bureaucracy as possible.

9.5 One example of regulatory restriction is that the Act requires an equal number of employer representatives and scheme member representatives, hence CLG have limited scope in this respect.

9.6 At a national level a national LGPS advisory board has set up a shadow advisory board which is now operational and they have started to assist in formulating the role of the new national body. They recently produced a paper on their view of the changes required to the LGPS.

9.7 DCLG has recently produced a consultation on their proposals for the new governance arrangements (Appendix C).

9.8 Officers will work up an options proposal for the implementation of the new governance arrangements in consultation with legal and the chair and deputy chair of the pensions committee and this will be brought to the meeting on September 2014 for approval.

Call for Evidence on the Future structure of the Local Government Pension Scheme

9.9 The Local Government Association's call for evidence on the structure of the LGPS was circulated in June 2013 with a closing date on 27 September 2013. The aim is to seek to identify the optimum structure to enable delivery of the new scheme benefit and governance changes for the LGPS.

9.10 The aim of the structural reform as outlined in the call for evidence is to achieve a number of high level and secondary objectives.

High level objectives

1. Dealing with deficits
2. Improving Investment returns

Secondary Objectives
1. To reduce investment fees
2. To improve the flexibility of investment strategies
3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

9.11 Hymans Robertson (an actuary and investment advising firm with the biggest LGPS footprint) was commissioned to carry out the above work and their report was submitted to the Minister in early December 2013.

Consultation Paper on proposals for the Restructure of the LGPS – LGPS Opportunities for Collaboration, Cost Savings and Efficiencies

9.12 The awaited consultation paper on the proposals for LGPS structural reform "**LGPS Opportunities for Collaboration, Cost Savings and Efficiencies"** was published in May 2014 and is attached as **Appendix D.**

9.13 The consultation follows on from the responses received to the call for evidence on the options for structural reform of the Local Government Pension Scheme (LGPS) which ran from 21 June to 27 September 2013. The consultation sets out the Government's preferred approach to reform. The consultation duration is for 10 weeks with a deadline of 11 July 2014.

9.14 The recommendations outlined in the consultation paper drew on three sources of evidence:

- Call for evidence responses (133 responses were received)
- An in depth analysis of the call for evidence responses carried out by the Shadow LGPS Scheme Advisory Board
- The work commissioned jointly by the Local Government Minister and the Cabinet Minister under the contestable policy framework. A cost benefit evidence backed analysis of three possible structures for LGPS was carried out by Hymans Robertson. This entailed a detailed review of the LGPS in aggregate.

9.15 **KEY PROPOSALS**

- Establishing collective investment vehicles (CIV) to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and
- to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.

- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

10. London Collective Investment Vehicle (CIV) Update

10.1 Members have been updated of the various debates surrounding rationalisation of the LGPS which saw the schemes facing the possibility of mergers.

10.2 The various reviews prompted London Funds (as part a London Council's led initiative) to look into options for forging collaboration within London via a CIV, which it is anticipated would deliver substantial savings without the cost, implementation risk and loss of local discretion surrounding a merger. Members agreed to make a contribution of £25,000 towards the costs of further exploration and possible set up of a CIV.

10.3 The preliminary work of the group was completed in late 2013 and a CIV structure has been proposed. The recommended pooling structure called an Authorised Contractual Scheme (ACS) has a lead time of some 6-8 months.

10.4 The aim is to seed the CIV with equity investments with a view to expanding the asset offering to incorporate other investments.

Acquiring Share Capital in the CIV ACS operator

10.5 At the last pensions committee meeting on 25 February 2014 a separate report was brought on the CIV. Members agreed to recommend to Cabinet that the Council acquire share capital in a private limited company to be set up to become the operator for the CIV. That report will be going to Cabinet on the 23 July 2014. The recommendations of that report were as follows:

10.6 To participate in the establishment of the London (LGPS) Collective Investment Vehicle (CIV)

10.7 To participate in the establishment of a private company limited by shares to be incorporated to be the Authorised Contractual Scheme Operator (the 'ACS Operator') of the London (LGPS) Collective Investment Vehicle (CIV), the ACS Operator to be structured and governed as outlined in this report.

10.8 That following the incorporation of ACS Operator, the London Borough of Tower Hamlets:

10.8.1 become a shareholder in the ACS Operator.

10.8.2 contribute £1 to the ACS Operator as initial capital;

10.8.3 appoint an executive member to exercise the Council's rights as shareholder of the ACS

10.9 *Under Regulation 11 of the Local Authorities (Arrangement for the Discharge of Functions) (England) Regulations 2012 to establish the Pensions CIV Joint Committee, pursuant to the existing London Councils Governing Agreement dated 13 December 2001 as amended, to act as a representative body for the Local Authorities participating in these arrangements; and*

10.10 *to delegate to this Joint Committee those functions necessary for the proper functioning of the ACS Operator including the effective oversight of the ACS Operator and the appointment of Directors.*

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

12. LEGAL COMMENTS

12.1 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.

12.2 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.

12.3 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.

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

13. ONE TOWER HAMLETS CONSIDERATIONS

13.1 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.

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

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

15. RISK MANAGEMENT IMPLICATIONS

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

15.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

16. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

17. EFFICIENCY STATEMENT

17.1 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	

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for First Quarter of 2014

Prepared By:

Matt Woodman - Senior Investment Consultant
Mike Burns - Investment Analyst

For and on behalf of Hymans Robertson LLP
May 2014

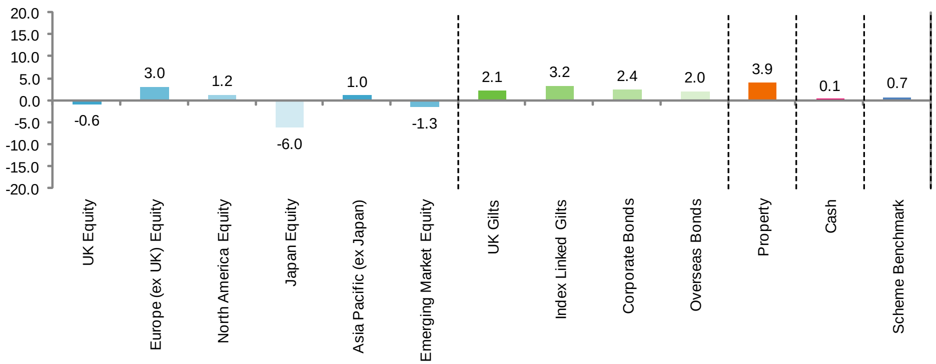
Real people. Real skills. Real results.

Contents

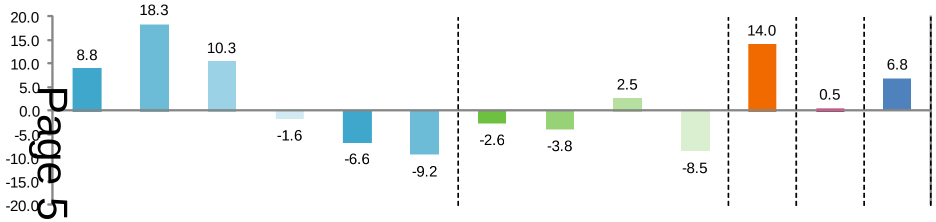
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile 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 31/03/2014

3 Months (%)

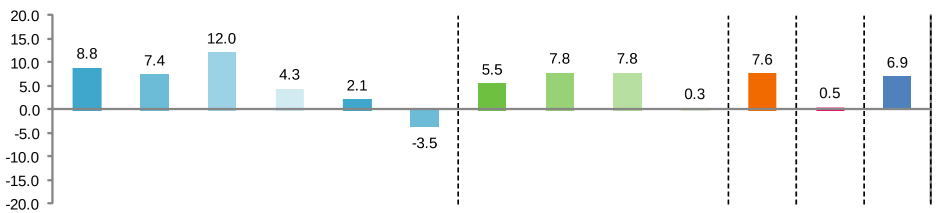


12 Months (%)



Page 57

3 Years (% p.a.)



Market Comment

In the March budget, branded as a budget for 'savers', the Chancellor of the Exchequer announced an increase in the threshold for tax free savings and greater flexibility in the operation of defined contribution pension plans. At the same time, the Office for Budget Responsibility (OBR) revised its forecast for UK economic growth in 2014, from 2.4% to 2.7%. On this basis, the economy will surpass its pre-crisis peak later this year. Despite the more optimistic tone of published economic data, a number of commentators expressed concerns over the strength and breadth of the recovery and whether it is sufficient to resolve problems of a more structural nature. Consequently, further austerity measures remain on the agenda.

In the US, strong economic growth and improved labour market conditions provided the Central Bank with the opportunity to reduce further its bond buying programme. In addition, policy statements from senior officials indicated that short term interest rates may rise in early 2015. In the UK, the Bank of England was less forthright, with the Governor warning that the economic recovery is not yet secure and that when interest rates rise they will do so only gradually.

Far-East equity markets were unsettled by the prospect of less supportive policy in the US but quickly recovered their losses. Other negative influences affecting equity markets included continuing tensions in the Middle-East and the stand-off between Russia and Ukraine over Crimea.

Key events during the quarter were:

Global Economy
· Forecasts of UK economic growth for 2014 and 2015 were revised upwards by the Office for Budget Responsibility;
· UK inflation (CPI) fell to a four year low of 1.7% (v. target of 2%) in February;
· Eurozone inflation fell to 0.5% in March (the lowest rate since November 2009);
· Japan reported a record trade deficit in 2013, as a weak Yen pushed up the cost of imports;
· China set an economic growth target of 7.5% for 2014 (same as 2013);
· Short-term interest rates were unchanged in UK, Eurozone, US and Japan.

Equities
·The best performing sectors relative to the 'All World' Index were Utilities (+6.4%) and Health Care (+5.2%); the worst were Telecommunications (-3.3%) and Consumer Services (-2.5%);
·The UK government announced a plan to sell further shares in Lloyds Banking Group, to bring its holding down to 25%.

Bonds and Currencies
· Bond markets rose (yields fell) on easing of inflationary pressures in the UK, Europe and US;
· Argentinian devaluation caused sharp fluctuations in other emerging market currencies.

[1] Overseas equity returns shown in Sterling

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

Portfolio Summary

Valuation Summary [1]

Asset Class	Values (£m) Q4 2013	Q1 2014	Actual Proportion %	Target Proportion %	Difference %
Global Equity	641.2	649.3	63.8	61.0	2.8
Bonds	144.9	146.7	14.4	17.0	-2.6
Property	101.5	103.7	10.2	12.0	-1.8
Alternatives	92.0	91.9	9.0	10.0	-1.0
Cash	7.7	8.6	0.8	0.0	0.8
Trustee Bank Account	11.7	16.8	1.7	0.0	1.7
Total inc. Trustee Bank Account	**998.9**	**1017.0**	**100.0**	**100.0**	

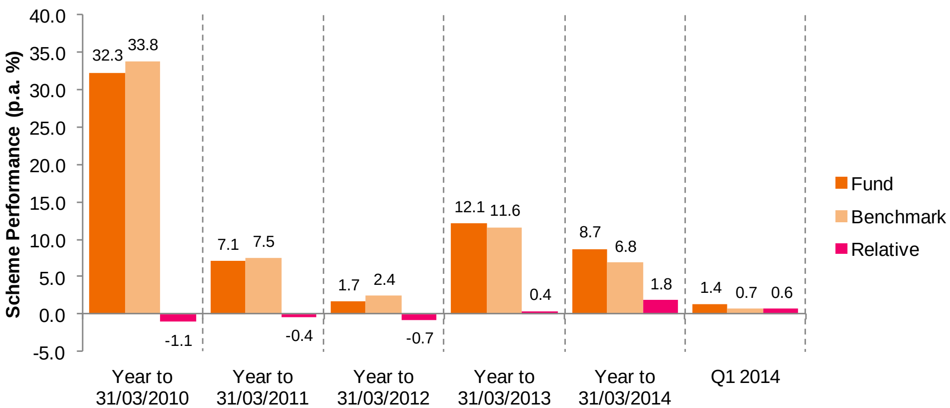
Page 58

Comments

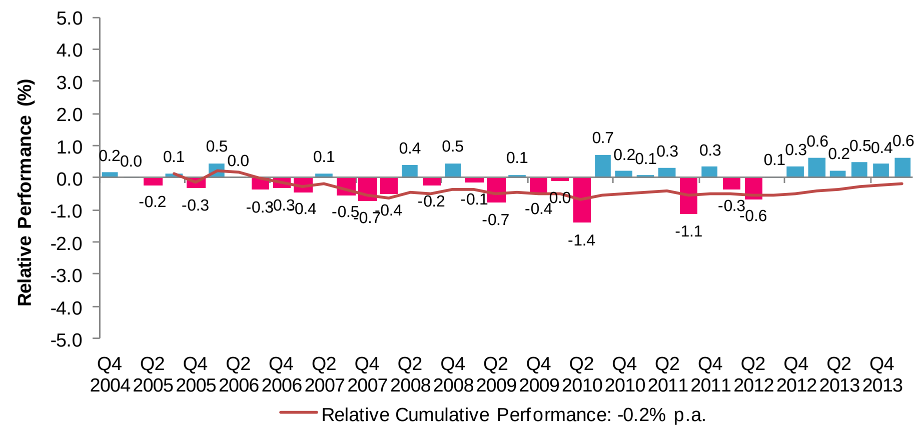
Performance was ahead of the benchmark over the quarter, mainly due to strong relative returns from the two global equity mandates. As before, the Absolute Return Managers' benchmarks include their respective performance targets. This also feeds into the Total Fund benchmark.

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 have been 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) Q4 2013	Q1 2014	Actual Proportion %	Target Proportion %	Difference %
Baillie Gifford Global Equity	179.4	183.1	18.0	16.0	2.0
GMO Global Equity	255.4	261.3	25.7	25.0	0.7
Legal & General UK Equity	213.4	212.1	20.9	20.0	0.9
Baillie Gifford Diversified Growth Fund	46.5	46.9	4.6	5.0	-0.4
Ruffer Total Return Fund	45.4	45.0	4.4	5.0	-0.6
Investec Bonds	97.4	97.5	9.6	14.0	-4.4
Legal & General Index-Linked Gilts	47.5	49.2	4.8	3.0	1.8
Schroder Property	102.3	105.2	10.3	12.0	-1.7
Trustee Bank Account	11.7	16.8	1.7	0.0	1.7
Total	**998.9**	**1017.0**	**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	2.1	2.3	-0.6	0.8	-0.9	0.0	3.6	2.7	1.3
	Benchmark	0.6	0.2	-0.6	1.0	1.0	0.6	3.6	3.3	0.7
	Relative	1.5	2.0	0.0	-0.2	-1.9	-0.6	0.0	-0.6	0.6
12 Months (%)	Absolute	12.2	14.6	8.9	1.2	-1.1	0.1	-4.3	9.6	8.4
	Benchmark	6.7	7.8	8.8	4.0	4.0	2.5	-4.5	11.9	6.8
	Relative	5.2	6.4	0.1	-2.7	-4.9	-2.4	0.1	-2.0	1.5
2 Years (% p.a.)	Absolute	15.6	13.9	12.8	5.9	4.8	0.7	3.4	5.0	10.1
	Benchmark	11.7	12.6	12.7	4.0	4.0	2.6	3.3	6.0	9.2
	Relative	3.4	1.2	0.1	1.8	0.7	-1.9	0.0	-1.0	0.8
3 Years (% p.a.)	Absolute	10.6	8.1	8.9	5.2	4.3	-0.5	9.0	4.6	7.1
	Benchmark	7.7	7.6	8.8	4.0	4.0	2.7	9.0	5.8	6.9
	Relative	2.7	0.4	0.1	1.2	0.3	-3.1	0.0	-1.1	0.2

[1] 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

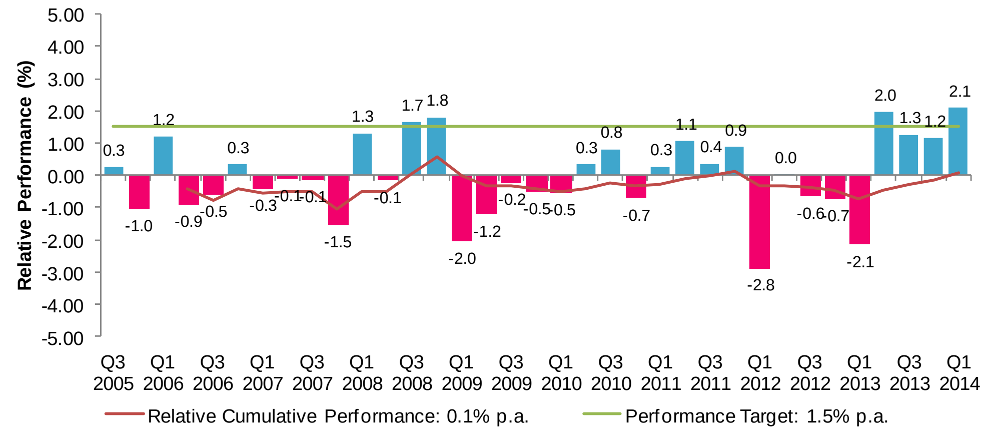
HR View Comment & Rating

Rating				
		●		

Replace ← On Watch → Retain

GMO is well on the way to fully implementing its new investment process though we do not see the recent, welcome, improvement in performance as a product of the new process. In the first quarter of 2014 the manager introduced emerging market exposure with an immediate 10% allocation sourced from US equities. It is unusual for GMO to make such a substantive move in a single quarter but this is a product of the process change; they see the value in markets such as Russia and China as compelling. We have no issues with this move as an investment decision but we remain watchful of the process changes it is implementing.

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



Comments

The portfolio has performed strongly in Q1 2014 and over the last 12 months, providing strong positive absolute and relative returns.

Returns over the 3 months to 31 March were largely driven by value stocks in Europe and the US. The relative outperformance against the benchmark came from European and UK value stocks, with both European value stocks, and European stocks in general, performing well.

The Fund benefited from overweight positions to Italy and France, as well as stock selection in Italy, France and the US. Underweights to Switzerland and Denmark slightly detracted from relative returns.

At the sector level, an underweight to Consumer Discretionary and stock selection within Utilities, Industrials and Information Technology added to returns.

Strong performance over the past 12 months means that the Fund's performance since inception is now marginally above the benchmark, despite the poor relative performance exhibited during 2012 and Q1 2013.

A strong recovery in this portfolio may be an opportunity to rebalance the allocation with Baillie Gifford's equity portfolio.

Performance Summary [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.3	14.9	8.5	9.5
Benchmark	0.2	7.8	7.6	9.3
Relative	2.1	6.6	0.8	0.2

* Inception date 29 Apr 2005.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.8	1.5

[1] Gross of fees

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

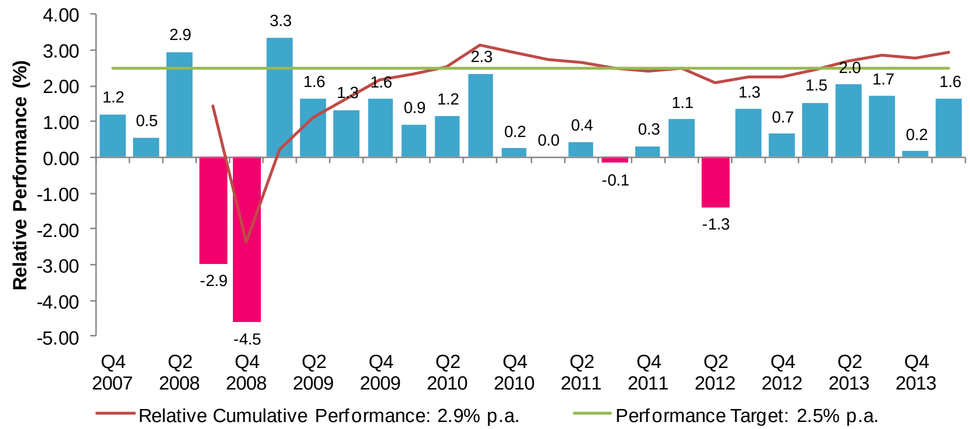
Baillie Gifford Global Equity

HR View Comment & Rating

No significant news to report over the quarter.

Page 62

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



Comments

Baillie Gifford's Global Alpha Fund posted a return of 2.2% during a quarter in which global equity returns were modest. The fund outperformed the MSCI All Country World Index by 1.6% during the period and remains ahead of the benchmark over all time periods shown.

The Global Alpha Fund seeks to generate long-term returns through the use of fundamental bottom-up analysis. The most significant positive impacts on performance over the quarter came from Tesla Motors and Ryanair. Tesla, the manufacturer of electric cars, continued to build on momentum from the previous quarter when it was the largest positive contributor to the fund's returns while Ryanair's shares rose as the airline expands its service to more affluent passengers and to offer flights to more destinations. After a strong return during the previous quarter, Amazon was one of the main detractors from performance over the first quarter of 2014 as its earnings disappointed due to increased competition and it did not meet analyst expectations. Shares in Rolls Royce also hurt performance as the company lowered growth expectations due to defence spending cuts in the US. Despite uncertainty in the equity markets, the manager continues to focus on identifying companies with effective managements and that enjoy competitive advantages in their industries.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.2	12.7	11.1	8.5
Benchmark	0.6	6.7	7.7	5.6
Relative	1.6	5.6	3.2	2.7

* Inception date 05 Jul 2007.

3 Year Relative Return

Actual % p.a.	Target % p.a.
3.2	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	-0.6	8.9	8.9	11.6
Benchmark	-0.6	8.8	8.8	11.4
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%.

Page 64

Performance Summary [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.6	-4.3	9.0	9.3
Benchmark	3.6	-4.5	9.0	9.2
Relative	0.0	0.2	0.1	0.0

* Inception date 02 Aug 2010.

Comments

Performance has been in line with the index benchmark (FTSE-A Index-Linked Over 5 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 over the quarter.

Comments

The Fund underperformed its Cash +2% p.a. benchmark over the quarter, producing a flat return net of fees. Longer term performance remains negative, reflecting the negative returns experienced by the Fund during 2011.

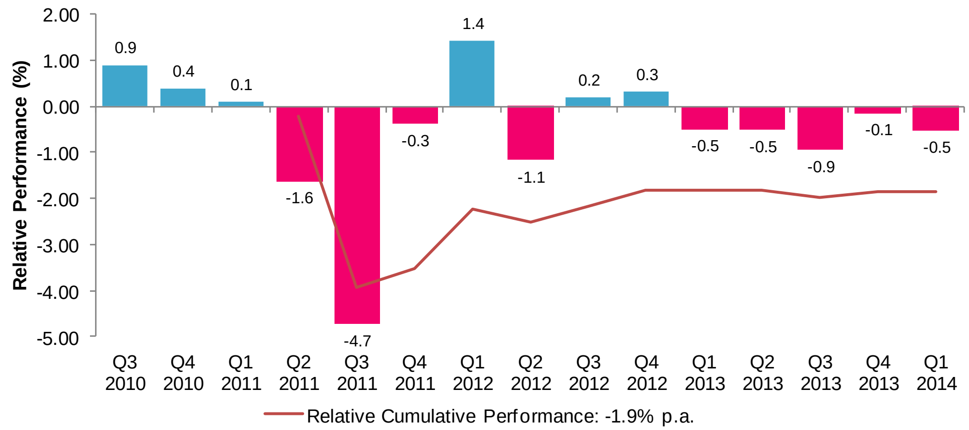
The portfolio's corporate debt exposure performed well over the quarter, with both investment grade and high yield bonds producing strong returns. Spreads narrowed over the period; and as has happened previously under these conditions lower quality credit outperformed higher quality credit. However credit hedges which have been implemented with the aim of minimising downside risk led to an overall negative performance from this asset class.

The portfolio's interest rate exposure produced a marginally negative return over the quarter. Short duration exposure to German Bunds, US Treasuries and Japanese government bonds detracted from returns, outweighing the slight positive contribution from long duration exposure to Canada, Sweden and the UK.

Currency and emerging market debt exposure slightly added to returns, reflecting the overall upward movement of emerging markets over the period.

Investec are considering shorter duration issues to reduce spread duration at the fund level. This is based on their view that there is limited scope for spreads to rally and there is some risk of some sell off.

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



Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.1	0.5	-0.1	-0.3
Benchmark	0.6	2.5	2.7	2.8
Relative	-0.5	-2.0	-2.8	-3.0

* Inception date 26 Apr 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.8	2.0

[1] Gross of fees. Benchmark is Cash +2% p.a., [2] Gross of fees.

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

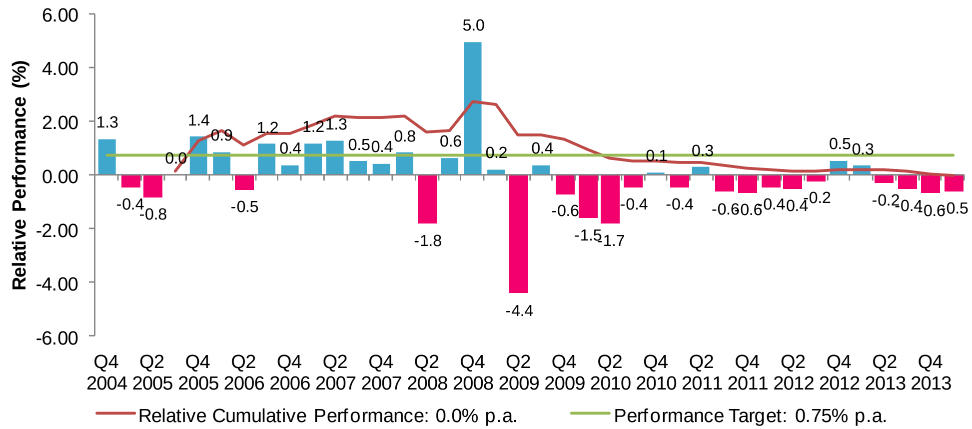
Schroder Property

HR View Comment & Rating

Schroders announced in May that Peter Harrison, who re-joined Schroders in March 2013 from RWC Partners as Global Head of Equities, will take on the newly created role of Head of Investment. Harrison's new role means that he takes on some of CEO Mike Dobson's responsibilities and will surely only fuel speculation that he will eventually succeed Dobson. At the current time, this is not expected to impact the management of Tower Hamlets' portfolio.

Page 66

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



Comments

The segregated property portfolio managed by Schroders underperformed its benchmark by -0.6% net of fees over the quarter. Long term performance has also lagged the benchmark; with an underperformance of -2.6% p.a. over the 5 years to 31 March 2014.

The positive absolute performance was due to the Fund's UK holdings. Over the 12 months to 31 March 2014 UK value add funds made a positive contribution to relative returns, with the Central London office market in particular having consistently delivered good returns over the past three years.

The Fund's European holdings were the most significant contributor to the Fund lagging the benchmark over Q1 2014. Within this region, the Axa European Real Estate Opportunity Fund II lost around 20% of its value following revaluation of its assets by an external valuer, on the basis of a shorter holding period given the fund expires in April 2015.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.8	9.8	4.8	5.2
Benchmark	3.3	11.9	5.8	7.6
Relative	-0.5	-1.8	-0.9	-2.3

3 Year Relative Return

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

[1] Gross of fees, [2] 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

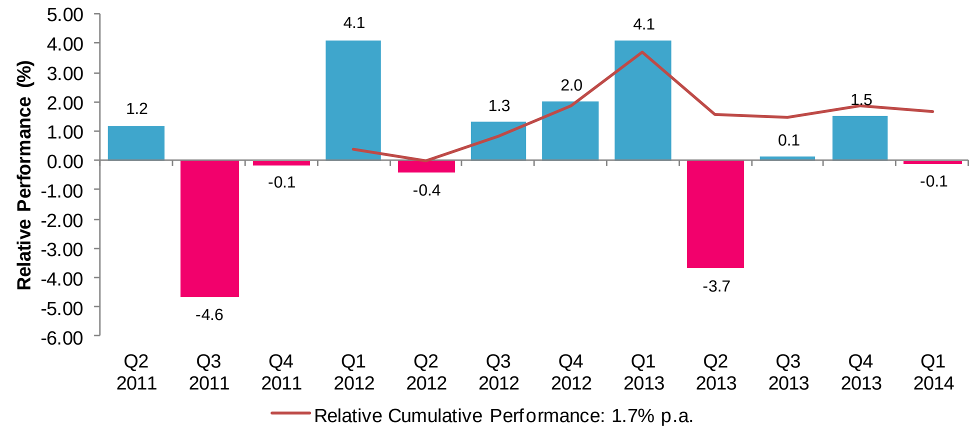
HR View Comment & Rating

No significant news to report over the quarter.

Q1 2014 saw little growth for most developed economies, with most of the Fund's asset class holdings producing broadly flat returns. High yield credit was the biggest contributor to overall performance, due in part to the Fund's significant allocation to this sector, whilst active currency and absolute return holdings detracted from performance.

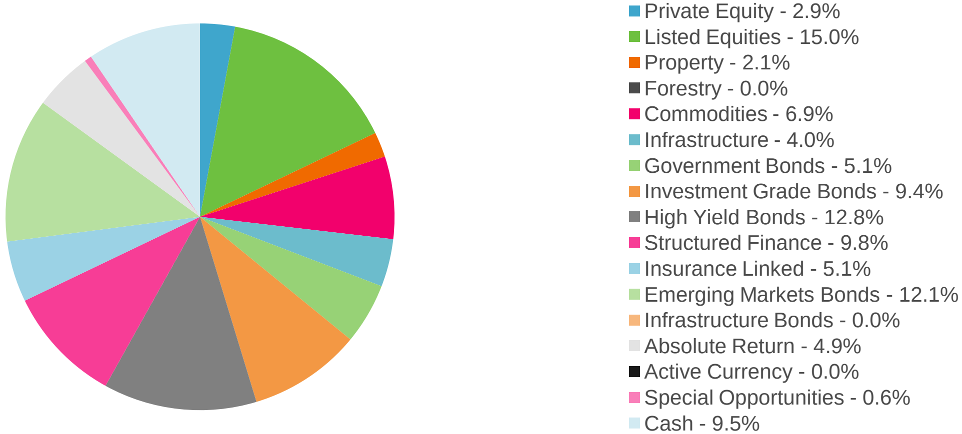
Baillie Gifford has a cautious view on markets because of uncertainty about the unwinding of monetary easing by central banks and the search for yield in the low rate environment which is reflected by falling yields of non-investment grade bonds. In accordance with this view, the manager has retained high exposure to developed market government bonds, investment grade bonds, gold and cash.

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



Asset Allocation at Quarter End

Page 67



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

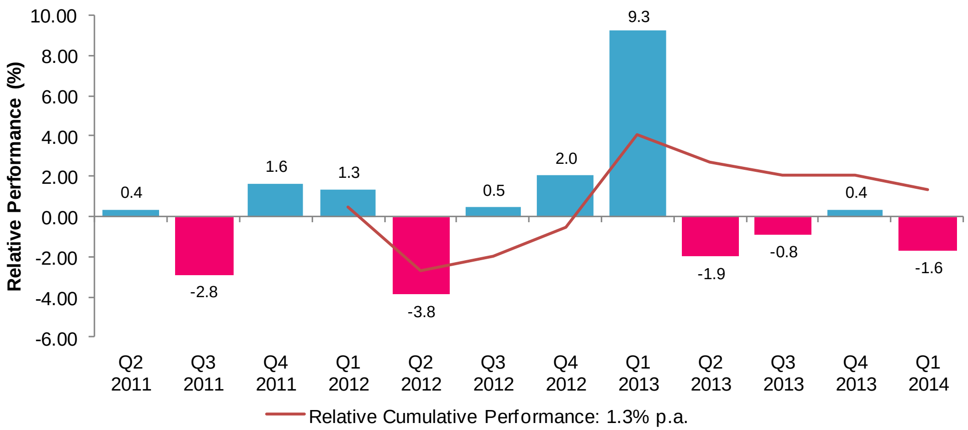
Jane Tufnell, who is one of the founding partners of Ruffer will be leaving at the end of June. Tufnell is primarily responsible for the firm's private client side and not involved in investment, so there is no impact expected on the management of Tower Hamlets' holdings. We will continue to monitor Ruffer and will keep clients updated of any progressive changes as a result of Tufnell's departure.

Ruffer's Absolute Return Fund generated a negative return of -0.9% over the first quarter, and -1.1% over the year to 31 March 2014. The negative return was largely driven by investor uncertainty over unrest in Ukraine and Syria which, with the uncertain macroeconomic outlooks for China, Europe and the U.S., contributed to increased volatility across equity, currency, commodity and fixed income markets.

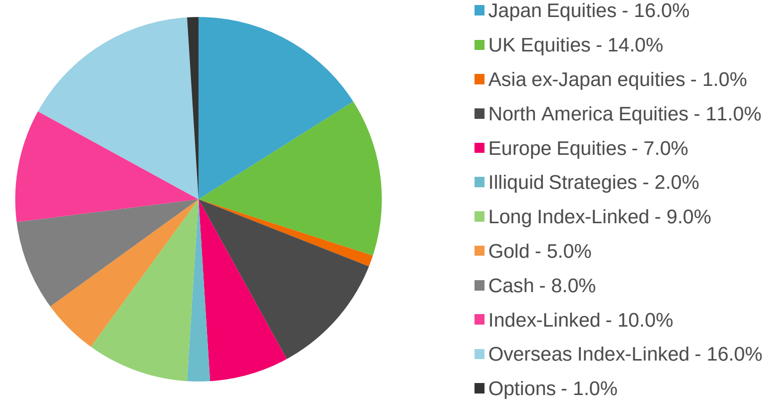
The key detractor from performance was the Fund's exposure to Japanese equities. After significant outperformance in 2013, Japanese equities fell in the first quarter and the Yen strengthened, hurting the Fund's hedged exposure to Japanese banks, financials and a select few other companies.

The Fund benefitted from its exposure to government bonds as investors retreated to fixed income. The Fund's allocation to gold contributed positively; after the sharp decline in 2013 gold reverted to its 'safe haven' appeal during the period of market volatility. Although broader equity markets were unsettled over the quarter, the Fund made gains from some of its individual stock selections including Microsoft and Barratt Developments.

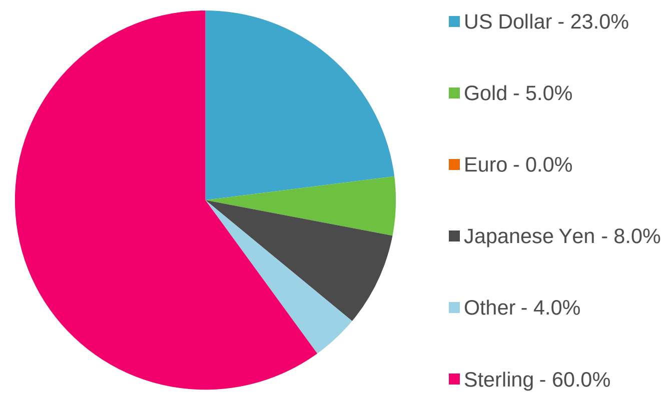
Relative Quarterly and Relative Cumulative Performance [1]



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)

Performance Summary (Gross of Fees)

Performance [1] [i]

Period	Measure	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	2.2	2.3	-0.6	0.9	-0.7	0.1	3.6	2.8	1.4
	Benchmark	0.6	0.2	-0.6	1.0	1.0	0.6	3.6	3.3	0.7
	Relative	1.6	2.1	0.0	-0.1	-1.6	-0.5	0.0	-0.5	0.6
12 Months (%)	Absolute	12.7	14.9	8.9	1.7	-0.1	0.5	-4.3	9.8	8.7
	Benchmark	6.7	7.8	8.8	4.0	4.0	2.5	-4.5	11.9	6.8
	Relative	5.6	6.6	0.1	-2.2	-4.0	-2.0	0.2	-1.8	1.8
3 Years (% p.a.)	Absolute	11.1	8.5	8.9	5.8	5.4	-0.1	9.0	4.8	7.4
	Benchmark	7.7	7.6	8.8	4.0	4.0	2.7	9.0	5.8	6.9
	Relative	3.2	0.8	0.1	1.7	1.3	-2.8	0.1	-0.9	0.5
5 Years (% p.a.)	Absolute	19.2	14.7	11.6	5.7	4.9	-0.3	9.3	5.2	11.9
	Benchmark	14.9	14.5	11.4	4.0	4.0	2.8	9.2	7.6	11.9
	Relative	3.8	0.2	0.2	1.6	0.9	-3.0	0.0	-2.3	0.0

[1] 5 Year performance figure is since inception for Investec Bond mandate (26/04/10), L&G UK Equity and Index-Linked Gilts mandates (02/08/10), Baillie Gifford DGF mandate (22/2/11) and Ruffer mandate (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	0.8	-	-	7.7	2.3	10.0	-1.6	-	-
North American Equity	15.0	3.4	-	-	52.7	-5.6	30.0	8.8	-	-
European Equity	10.0	1.4	-	-	17.1	2.2	30.0	0.7	-	-
Pacific Basin Equity	9.0	-4.8	-	-	11.7	-3.6	25.5	-14.8	-	-
Emerging Market Equity	3.0	2.0	-	-	10.7	2.8	4.5	5.3	-	-
Bonds	14.0	-4.4	-	-	-	-	-	-	100.0	0.0
UK Index Linked Gilts	3.0	1.8	-	-	-	-	-	-	-	-
Property	12.0	-1.8	-	-	-	-	-	-	-	-
Alternatives	10.0	-1.0	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.8	-	-	0.0	1.8	0.0	1.5	-	-
Trustee Bank Account	0.0	1.7	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**5.0**	-0.4	**16.0**	2.0	**25.0**	0.7	**14.0**	-4.4

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	-1.4	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	1.4	-	-
Trustee Bank Account	-	-	-	-	-	-	-	-	100.0	0.0
Proportion of Total Assets	**3.0**	1.8	**20.0**	0.9	**5.0**	-0.6	**12.0**	-1.7	**0.0**	1.7

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.

WM PERFORMANCE SERVICES
A State Street Business

Quarterly Performance
Service

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED

QUARTERLY PERFORMANCE REVIEW

PERIODS TO END MARCH 2014

Produced 09 May 2014

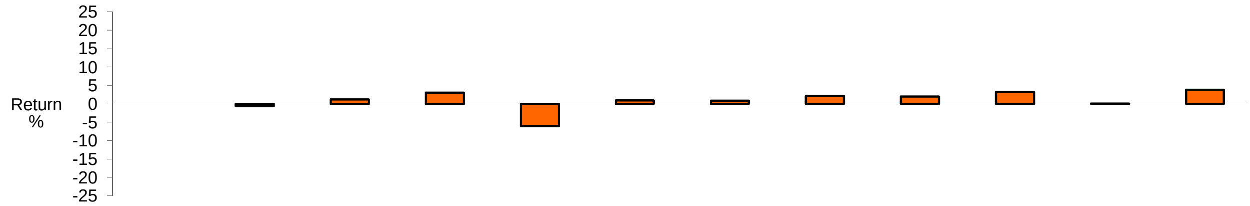
Contents

Market Background

Periods to end March 2014
Pound Sterling

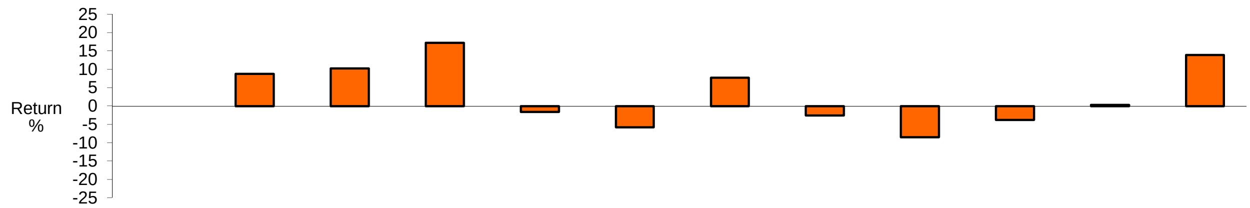
This page details the performance of the major markets.

Latest Quarter



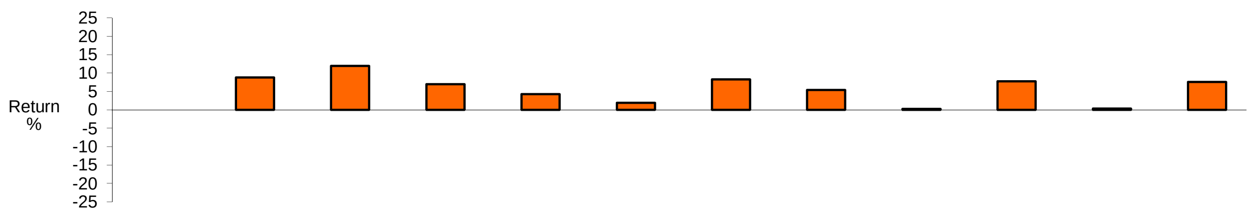
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	-0.6	1.2	3.0	-6.0	0.9	0.9	2.1	2.0	3.2	0.1	3.9

Last 12 Months



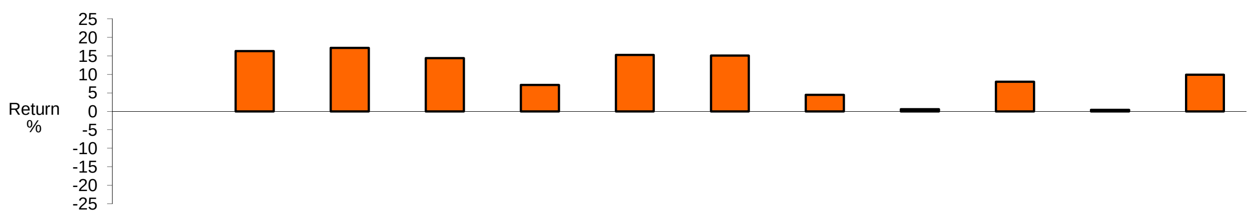
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	8.8	10.3	17.3	-1.6	-5.8	7.7	-2.6	-8.5	-3.8	0.4	14.0

Last Three Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	8.8	12.0	7.0	4.3	2.0	8.3	5.5	0.3	7.8	0.4	7.6

Last Five Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	16.3	17.1	14.4	7.2	15.3	15.1	4.5	0.6	8.0	0.4	9.9

	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Index Used	FT All Share	FTSE WORLD N	FTSE WORLD E	FT Japan	FT Pac x Jap	FT Wld x UK	UK Gilts AS	JPM Glb x UK	I/L Gilts AS	7 Day LIBID	IPD Monthly

Fund Structure and Benchmarks

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end March 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Structure

The Fund is managed on a specialist basis with GMO and Baillie Gifford managing the Global Equities on an active basis. UK equities and UK Index-Linked are passively managed by L&G. Investec manage an absolute return pooled bond fund and Schroders are the property manager. During February 2011, Baillie Gifford and Ruffer were appointed to manage Diversified Growth Funds.

Benchmark

The Fund's performance is analysed relative to customised benchmarks, the weighting and relevant indices are shown below.
On a quarterly basis the Fund will be measured against its Customised Benchmark. On an annual basis there is secondary analysis undertaken relative to the WM Local Authority Universe.
The fund structure and benchmarks are noted below.

	L&G	GMO	Baillie Gifford	Benchmark Indices
Global Equities			100.0	MSCI AC World GDR
UK Equities	100.0	10.0		FTSE All Share
Overseas Equities		90.0		
North America		*30.0*		*FTSE AW North America*
Europe		*30.0*		*FTSE AW Dev Europe ex UK*
Japan		*17.0*		*FTSE AW Japan*
Pacific ex Japan		*8.5*		*FTSE AW Dev Asia Pacific ex Japan ex S. Korea*
Emerging Markets		*4.5*		*MSCI EM*
UK Gilts				
Overseas Bonds				
UK Index Linked				
Cash				
Property				
	20.0	25.0	16.0	

	L&G	Investec	Schroders	Baillie Gifford	Ruffer	Total Combined	Benchmark Indices
Global Equities						16.0	MSCI AC World GDR
UK Equities						22.5	FTSE All Share
North America						*7.4*	FTSE AW North America
Europe						*7.4*	FTSE AW Europe ex UK
Japan						*4.3*	FTSE AW Japan
Pacific ex Japan						*2.4*	FTSE AW Dev Asia Pacific ex Japan ex S. Korea
Emerging Markets						*1.0*	MSCI EM
Pooled Bonds		100.0				14.0	LIBOR 3 Month
UK Index Linked	100.0					3.0	FTSE A Gov Index-Linked > 5 yrs
Cash							
Property			100.0			12.00	HSBC/IPD Pooled All Balanced Funds Average
Diversified Growth				100.0	100.0	10.0	50% Base Rate/ 50% 3 Month LIBOR
	3.0	14.0	12.0	5.0	5.0	100.0	

Targets

GMO: +1.5% p.a. net of fees over a rolling 3 year period.
Baillie Gifford Global Equity: + 2 - 3 % p.a. gross of fees over a rolling 3 year period.
Schroders: +0.75% p.a. net of fees over a rolling 3 year period.
Baillie Gifford Diversified Growth: 3.5% p.a. above the UK Base Rate (after fees).
Investec: 3 Month LIBOR +2% p.a.
Ruffer: Overall objective is firstly to preserve the capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable UK bank.

WM Contact: Lynn Coventry
Direct Telephone: (0131) 315 5258 Fax Number: (0131) 315 2999 E-mail: lynn.coventry@statestreet.com

Performance Summary

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2014**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**
Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Value

Values (GBP)'000	Mandate	Value at 31/12/2013	Transactions	Capital Gain / loss	Income	Value at 31/03/2014	*% Fund*
GMO	Eq Glbl	254,817	851	4,850	1,187	260,518	26
L & G	Eq UK	213,358	0	-1,290	0	212,068	21
BAILLIE GIFF	Eq Glbl	179,353	97	3,617	293	183,067	18
SCHRODERS	Prop UK	102,292	1,000	1,895	926	105,188	10
INVESTEC	Bd Glbl	97,380	0	121	0	97,501	10
L & G	Bd UK I/L	47,472	0	1,698	0	49,170	5
BAILLIE GIFF	Structured	46,547	17	324	0	46,888	5
RUFFER	Absolute	45,434	0	-403	0	45,030	4
INT MGD	Cash	11,715	5,091	0	36	16,806	2
Total Fund		998,368	7,057	10,812	2,442	1,016,236	100

The table shows the value of each Portfolio at the start and end of the period.
The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of the investments.

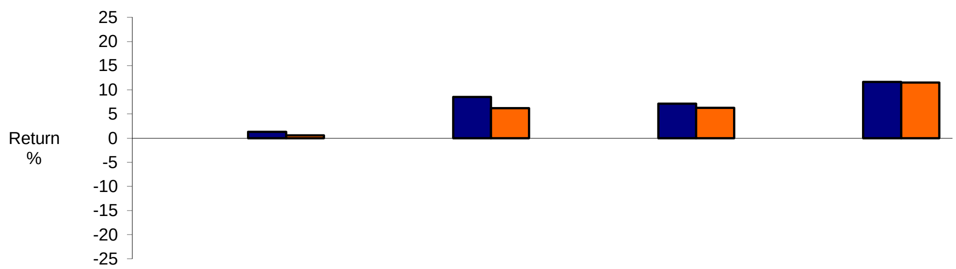
Performance Summary

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2014**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.3	8.5	7.1	11.6
Benchmark	0.6	6.2	6.3	11.5
Relative Return	0.7	2.2	0.8	0.2

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

Detailed Analysis of the Latest Quarter Performance

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

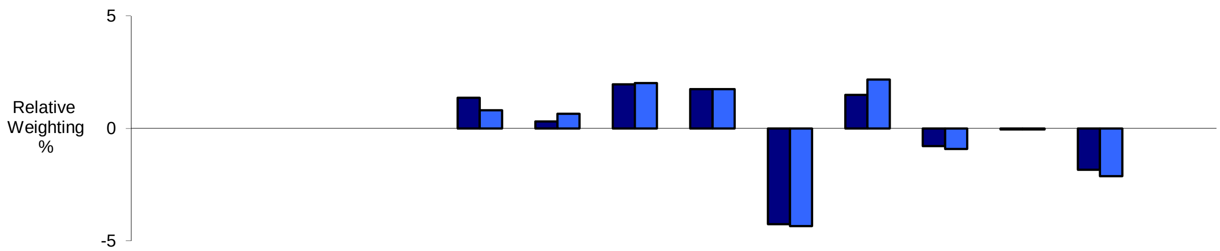
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return		1.3
Benchmark Return		0.6
Relative Performance		0.7
	attributable to:	
	Asset Allocation	-
	Stock Selection	0.7

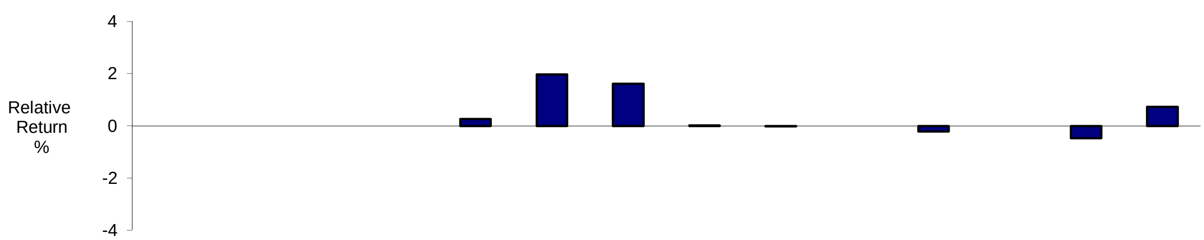
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

Asset Allocation



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund Start	23.9	22.8	18.0	4.8	9.8	1.5	9.2	-0.0	10.2	100.0
Fund End	23.0	23.1	18.0	4.8	9.6	2.2	9.0	-0.0	10.2	100.0
BM Start	22.5	22.5	16.0	3.0	14.0		10.0		12.0	100.0
BM End	22.2	22.5	16.0	3.1	13.9		10.0		12.3	100.0
Impact	-	-	-	0.1	-	-	-	-	-0.1	-

Stock Selection



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund	-0.4	2.4	2.2	3.6	0.1	-0.2	-0.1	n/a	2.8	1.3
Benchmark	-0.6	0.5	0.5	3.6	0.1		0.1		3.3	0.6
Impact	0.1	0.4	0.3	-	-		-		-	0.7

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Long Term Performance Analysis

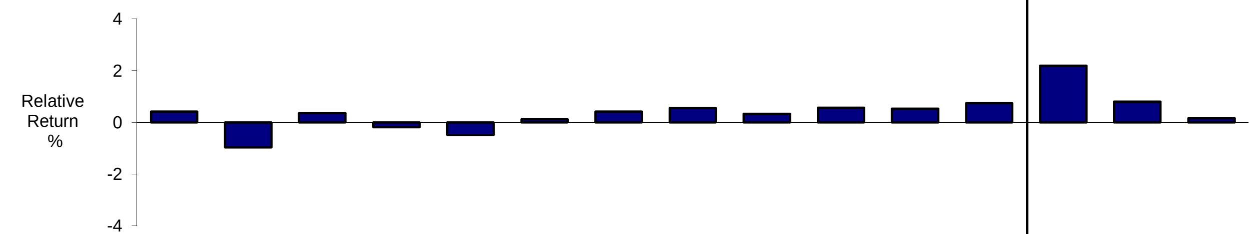
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page looks in more detail at the long term performance, plotting it relative to the Benchmark.

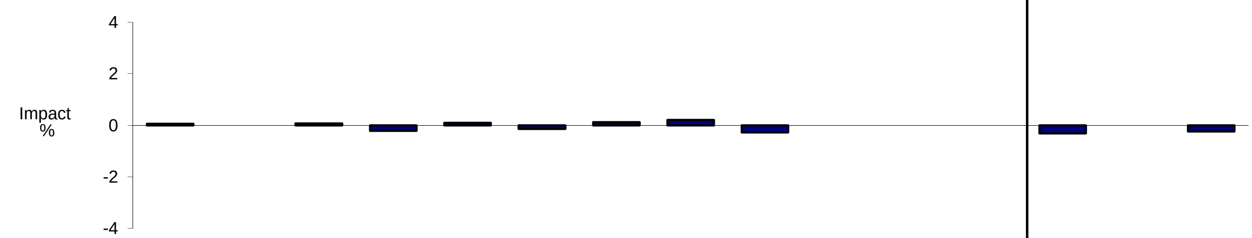
Fund Returns



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	1.5	-9.2	5.1	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	8.5	7.1	11.6
Benchmark	1.1	-8.4	4.7	4.9	-2.1	2.4	2.3	8.3	-0.3	2.3	3.5	0.6	6.2	6.3	11.5
Relative	0.4	-1.0	0.4	-0.2	-0.5	0.1	0.4	0.6	0.3	0.6	0.5	0.7	2.2	0.8	0.2

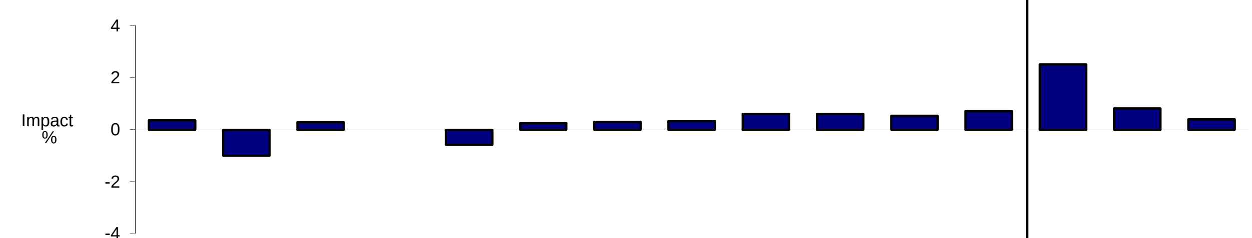
The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

Asset Allocation



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Impact	0.1	-	0.1	-0.2	0.1	-0.1	0.1	0.2	-0.3	-	-	-	-0.3	-	-0.2

Stock Selection



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Impact	0.4	-1.0	0.3	-	-0.6	0.3	0.3	0.3	0.6	0.6	0.5	0.7	2.5	0.8	0.4

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

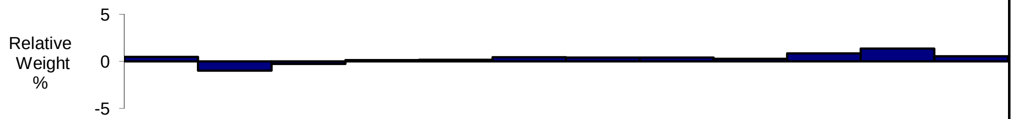
Long Term Asset Allocation

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

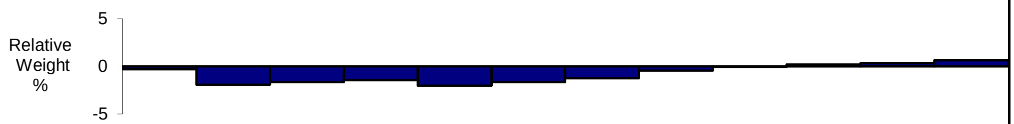
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



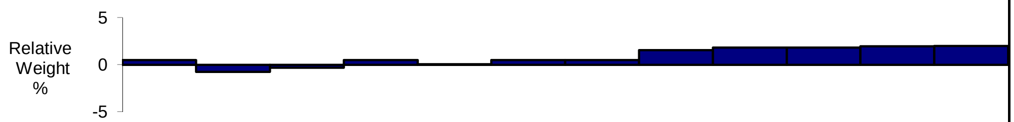
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	23.0	21.5	22.2	22.6	22.7	23.0	22.9	22.9	22.8	23.4	23.9	23.0			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1

OVERSEAS EQUITIES



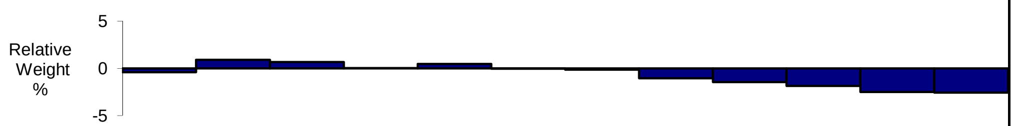
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	22.2	20.6	20.9	21.1	20.5	20.8	21.3	22.1	22.4	22.7	22.8	23.1			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5			
Impact	-	-	-	-0.1	-	-	-	-0.1	-	-	-	-	-	-	-0.1

GLOBAL POOLED INC UK



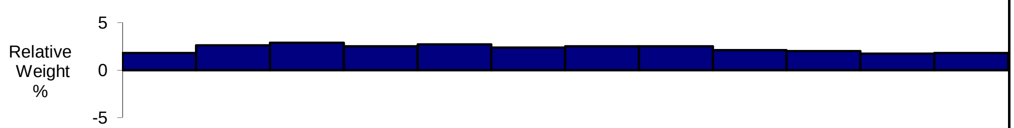
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	16.5	15.2	15.7	16.5	16.1	16.5	16.5	17.5	17.8	17.8	18.0	18.0			
Benchmark	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

TOTAL BONDS PLUS INDEX-LINKED



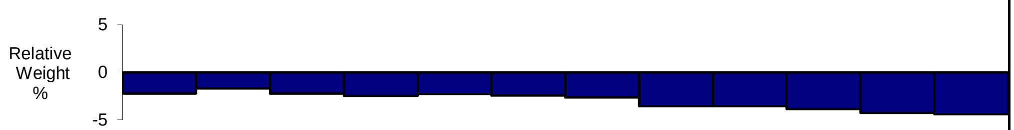
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	16.6	17.9	17.7	17.1	17.5	17.0	16.9	16.0	15.6	15.1	14.5	14.4			
Benchmark	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0			
Impact	0.1	0.1	0.2	-0.1	-	-0.1	0.1	0.2	-0.2	-	-	0.1	-	0.2	-

U.K. INDEX - LINKED



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	4.8	5.6	5.9	5.5	5.7	5.4	5.5	5.5	5.1	5.0	4.8	4.8			
Benchmark	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0			
Impact	0.1	0.3	0.1	-0.2	0.1	-0.1	0.1	-	-0.2	-	-0.1	0.1	-0.2	-	-

POOLED BONDS



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	11.8	12.3	11.8	11.5	11.8	11.6	11.3	10.4	10.4	10.1	9.8	9.6			
Benchmark	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0			
Impact	-	-0.2	0.1	0.1	-0.1	-	0.1	0.2	-	0.1	0.1	-	0.2	0.1	0.1

For each area of investment the initial weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

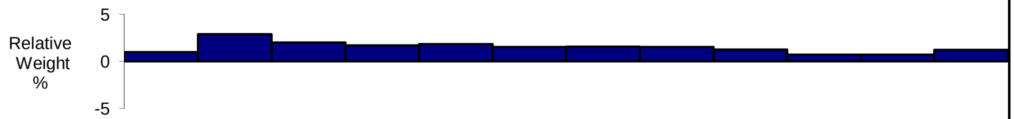
Long Term Asset Allocation

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

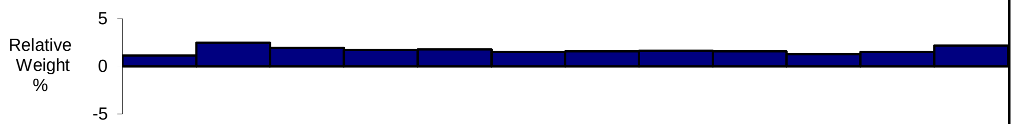
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



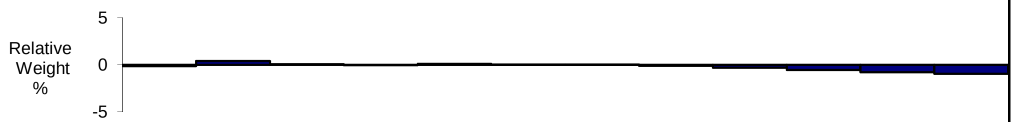
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	11.0	12.9	12.0	11.7	11.9	11.5	11.6	11.5	11.3	10.7	10.7	11.2			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0			
Impact	-	0.1	-0.1	-0.1	0.1	-	-	-0.1	-	-	-	-	-0.1	-0.1	-0.2

TOTAL CASH



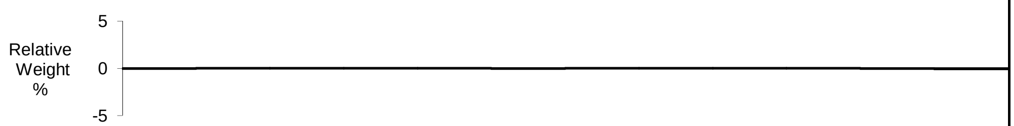
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	1.2	2.5	2.0	1.7	1.8	1.5	1.6	1.6	1.6	1.3	1.5	2.2			
Benchmark															
Impact	-	0.1	-0.1	-0.1	0.1	-	-	-0.1	-	-0.1	-	-	-0.1	-0.1	-0.2

ALTERNATIVES



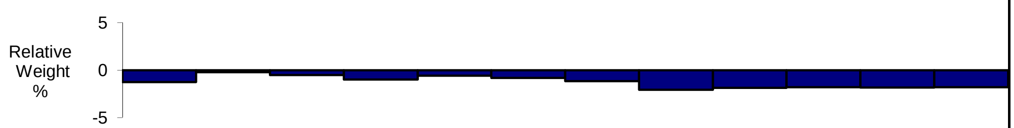
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	9.8	10.4	10.1	10.0	10.1	10.0	10.0	9.9	9.7	9.5	9.2	9.0			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1

CURRENCY INSTRUMENTS



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.1	0.0	0.0	-0.0	-0.0			
Benchmark															
Impact	-	-	-	-	-	-	-	0.1	-	-	-0.1	-	-0.1	0.1	0.1

TOTAL PROPERTY



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	10.7	11.8	11.5	11.0	11.4	11.2	10.9	9.9	10.1	10.2	10.2	10.2			
Benchmark	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0			
Impact	-	-0.2	-	-	-	-	-	0.1	-	-	-	-0.1	-0.1	-	-

For each area of investment the initial weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

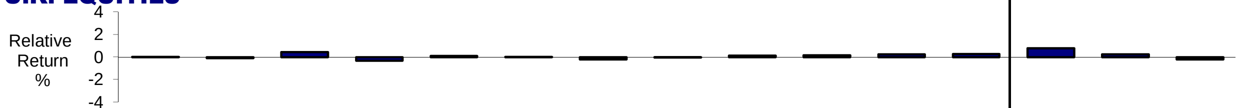
- indicates a value less than 0.05 and greater than -0.05

Long Term Stock Selection

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end March 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

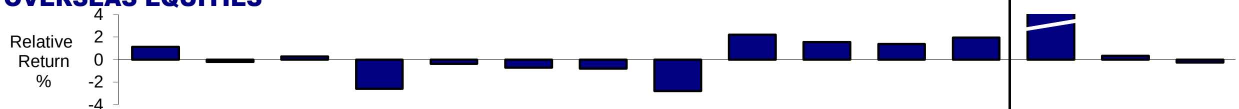
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



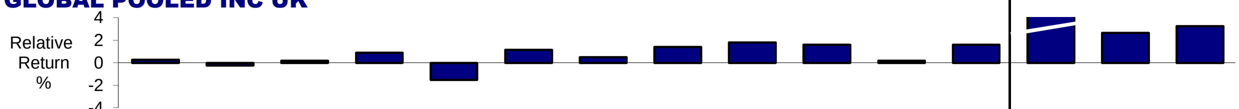
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	1.9	-13.6	8.9	5.8	-2.5	4.7	3.6	10.3	-1.5	5.8	5.7	-0.4	9.7	9.1	16.1
Benchmark	1.9	-13.5	8.4	6.1	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	8.8	8.8	16.3
Impact	-	-	0.1	-0.1	-	-	-	-	-	-	0.1	0.1	0.2	0.1	-

OVERSEAS EQUITIES



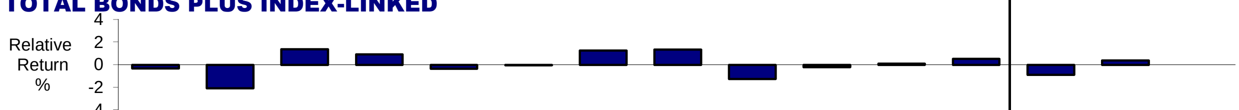
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	2.1	-15.4	5.4	6.3	-4.8	2.9	3.4	11.4	2.8	4.1	5.6	2.4	15.7	8.1	14.1
Benchmark	0.9	-15.3	5.1	9.2	-4.5	3.7	4.2	14.6	0.5	2.5	4.2	0.5	7.8	7.7	14.3
Impact	0.2	-	0.1	-0.6	-0.1	-0.1	-0.2	-0.6	0.5	0.4	0.3	0.4	1.6	0.1	-

GLOBAL POOLED INC UK



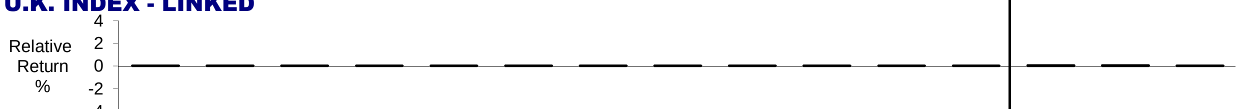
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	0.6	-15.0	7.8	9.9	-5.0	5.1	2.8	15.8	1.7	2.8	5.2	2.2	12.4	10.6	18.6
Benchmark	0.3	-14.8	7.6	9.0	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	6.7	7.7	14.9
Impact	-	-	-	0.1	-0.2	0.2	0.1	0.2	0.3	0.3	-	0.3	0.9	0.5	0.5

TOTAL BONDS PLUS INDEX-LINKED



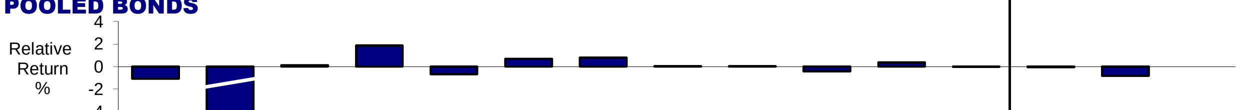
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	0.6	-0.6	3.3	0.8	-0.0	-0.4	2.3	3.1	-2.5	-0.0	0.0	1.3	-1.2	2.6	4.3
Benchmark	1.0	1.5	1.9	-0.1	0.3	-0.4	1.0	1.7	-1.2	0.2	-0.1	0.7	-0.3	2.2	
Impact	-0.1	-0.5	-	0.2	-0.1	0.1	0.1	-	-	-	-	-	-	-0.1	-

U.K. INDEX - LINKED



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	4.5	7.8	9.8	-2.0	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	-4.4	9.0	8.8
Benchmark	4.5	7.8	9.8	-2.0	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	-4.4	8.9	8.8
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

POOLED BONDS



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-0.9	-4.0	0.4	2.2	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	0.5	-0.1	
Benchmark	0.2	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.7	
Impact	-0.1	-0.5	-	0.2	-0.1	0.1	0.1	-	-	-	-	-	-	-0.1	-0.1

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.
The impact of stock selection is the relative return weighted by the level of investment in the area.
not invested in this area for the entire period
- indicates a value less than 0.05 and greater than -0.05

Long Term Stock Selection

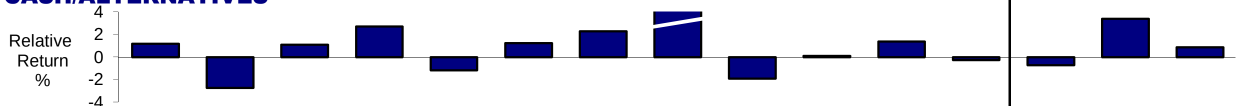
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

	---------- 2011 ----------			--------------- 2012 ---------------				--------------- 2013 ---------------				2014	1yr	3yrs	5yrs
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1		% pa	% pa

CASH/ALTERNATIVES

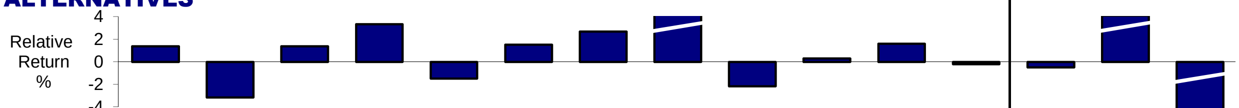


	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	1yr	3yrs	5yrs
Fund	1.4	-2.6	1.3	2.9	-1.0	1.4	2.4	6.6	-1.8	0.2	1.5	-0.1	-0.2	4.0	1.5
Benchmark	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.6	0.7
Impact	0.1	-0.3	0.1	0.3	-0.2	0.2	0.3	0.7	-0.2	-	0.1	-	-0.1	0.4	0.2

TOTAL CASH

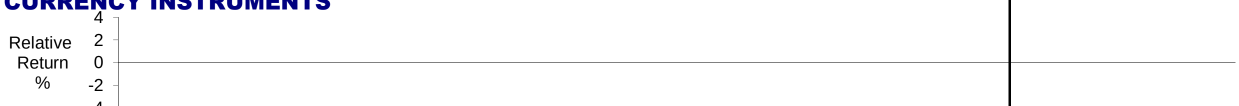
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	1yr	3yrs	5yrs
Fund	0.1	0.5	0.2	-0.2	0.5	-0.4	0.1	1.5	0.2	-1.0	-0.2	-0.2	-1.2	0.3	1.1
Benchmark															
Impact															

ALTERNATIVES



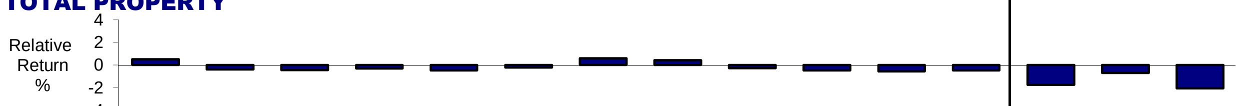
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	1yr	3yrs	5yrs
Fund	1.6	-3.0	1.6	3.5	-1.3	1.7	2.8	7.4	-2.0	0.4	1.7	-0.1	0.0	4.7	-3.9
Benchmark	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.6	0.7
Impact	0.1	-0.3	0.1	0.3	-0.2	0.2	0.3	0.7	-0.2	-	0.1	-	-0.1	0.4	0.2

CURRENCY INSTRUMENTS



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	1yr	3yrs	5yrs
Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark															
Impact															

TOTAL PROPERTY



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	1yr	3yrs	5yrs
Fund	2.3	1.2	0.7	0.3	-0.4	-0.3	0.2	1.2	1.2	2.0	3.7	2.8	9.9	5.0	5.3
Benchmark	1.8	1.6	1.2	0.6	0.1	-0.1	-0.4	0.8	1.4	2.4	4.3	3.3	11.9	5.7	7.5
Impact	0.1	-	-0.1	-	-0.1	-	0.1	-	-	-	-0.1	-	-0.2	-0.1	-0.2

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Rolling Years with Relative Risk

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2014**

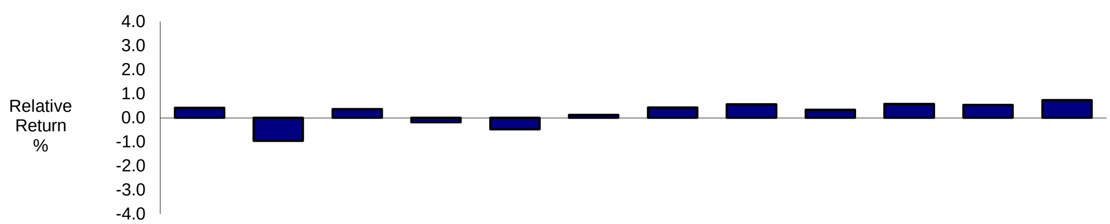
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

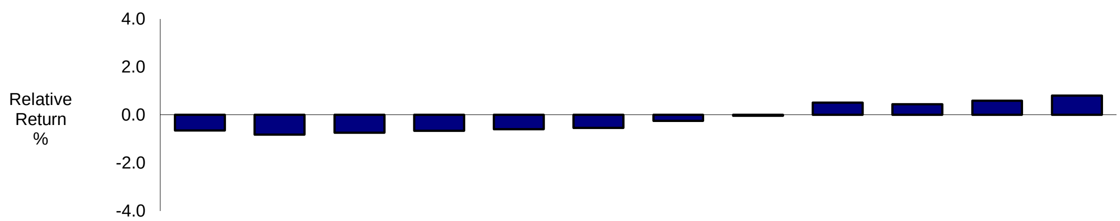
	---------- 2011 ----------			-------------- 2012 --------------				-------------- 2013 --------------				2014
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	811.9	823.6	757.6	794.3	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4
Net Investment	4.2	12.3	0.7	-0.2	4.6	1.0	3.9	2.2	3.7	0.8	6.2	7.1
Capital Gain/Loss	7.4	-78.3	35.9	35.5	-24.5	18.5	20.9	73.3	-2.7	24.9	36.2	10.8
Final	823.6	757.6	794.3	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2
Income	4.7	2.0	2.8	2.2	3.2	2.3	1.9	2.3	3.2	2.3	2.4	2.4
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100
Proportions (%) In												
Total Equity	62	57	59	60	59	60	61	63	63	64	65	64
Total Bonds												
UK IL	5	6	6	6	6	5	6	6	5	5	5	5
Property	11	12	11	11	11	11	11	10	10	10	10	10

Quarterly Returns



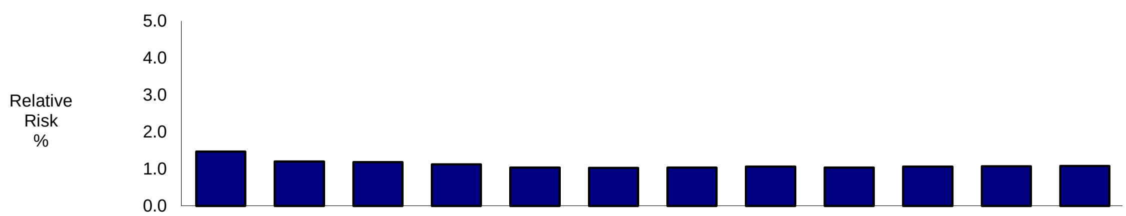
Fund	1.5	-9.2	5.1	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3
Benchmark	1.1	-8.4	4.7	4.9	-2.1	2.4	2.3	8.3	-0.3	2.3	3.5	0.6
Relative Return	0.4	-1.0	0.4	-0.2	-0.5	0.1	0.4	0.6	0.3	0.6	0.5	0.7

Annualised Rolling 3 Year Returns



Fund	5.5	4.6	7.8	12.7	9.9	5.8	5.7	6.6	9.5	7.8	7.1	7.1
Benchmark	6.2	5.4	8.6	13.4	10.6	6.4	6.0	6.6	9.0	7.3	6.5	6.3
Relative Return	-0.6	-0.8	-0.7	-0.7	-0.6	-0.5	-0.2	-0.0	0.5	0.4	0.6	0.8

Rolling 3 Year Risk



Relative Risk	1.5	1.2	1.2	1.1	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1
Information Ratio	-0.4	-0.7	-0.6	-0.6	-0.6	-0.5	-0.2	-0.0	0.5	0.4	0.6	0.7

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Summary of Manager Performance

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

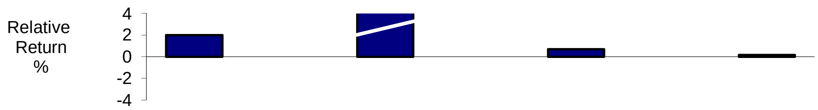
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

GMO - TOTAL ASSETS

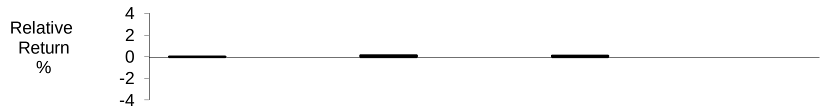
LB TOWER HAMLET - GMO WOOLEY BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.4	15.1	8.5	14.7
Benchmark	0.3	8.0	7.8	14.5
Relative Return	2.0	6.5	0.7	0.2

L&G - TOTAL ASSETS

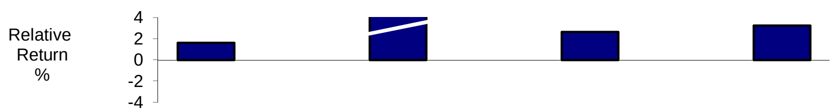
FTSE All Share TR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-0.6	9.0	8.9	
Benchmark	-0.6	8.8	8.8	
Relative Return	0.0	0.1	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

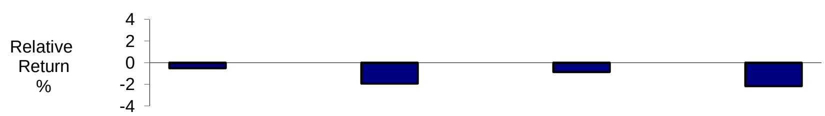
MSCI AC WORLD GDR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.2	12.4	10.6	18.6
Benchmark	0.5	6.7	7.7	14.9
Relative Return	1.6	5.3	2.6	3.2

SCHRODER INVEST. MGMT. - TOTAL ASSETS

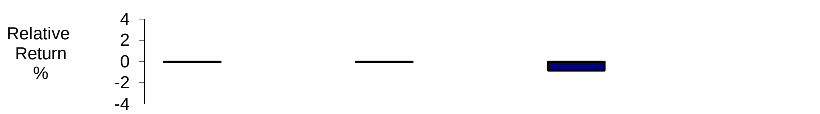
London Borough of Tower Hamlets - Schroders



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.8	9.7	4.8	5.1
Benchmark	3.3	11.9	5.7	7.4
Relative Return	-0.5	-1.9	-0.8	-2.1

INVESTEC ASSET MANAGEMENT - TOTAL ASSETS

GBP 3 MONTH LIBOR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.1	0.5	-0.1	
Benchmark	0.1	0.5	0.7	
Relative Return	-0.0	-0.0	-0.8	

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Summary of Manager Performance

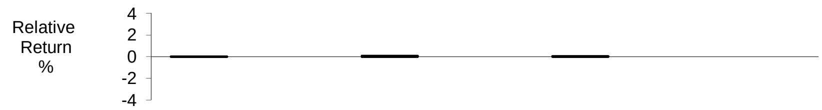
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end March 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

L&G - TOTAL ASSETS

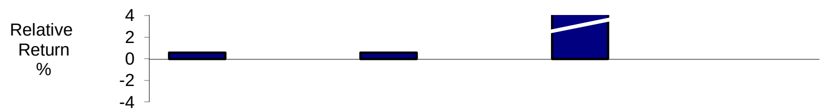
FTSE UK GILTS INDEXED > 5 YRS



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	3.6	-4.4	9.0	
Benchmark	3.6	-4.4	8.9	
Relative Return	0.0	0.1	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

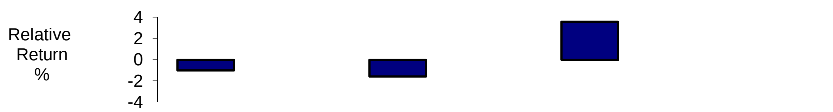
BANK OF ENGLAND BASE (UK REPO)



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.7	1.1	5.1	
Benchmark	0.1	0.5	0.5	
Relative Return	0.6	0.6	4.6	

RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

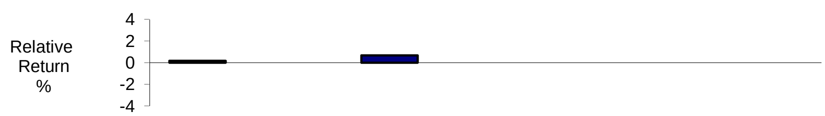
GBP 3 MONTH LIBOR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-0.9	-1.1	4.3	
Benchmark	0.1	0.5	0.7	
Relative Return	-1.0	-1.6	3.6	

INTERNALLY MANAGED - TOTAL ASSETS

LB TOWER HAMLETS INTERNAL BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.3	1.0	n/a	n/a
Benchmark	0.1	0.4	0.4	0.4
Relative Return	0.2	0.7	n/a	n/a

Relative Return

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Performance Summary - Manager Attribution

LONDON BOROUGH OF TOWER HAMLETS — Quarter to end March 2014

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — Pound Sterling

This page analyses in detail the contributions to the Fund performance over the latest period.

Summary

Fund Return		1.3
Benchmark Return		0.6
Relative Performance		0.7
	attributable to:	
	Strategic Allocation	-0.1
	Manager Contribution	0.7
	Residual	0.1

The relative performance can be attributed to the effects of manager contribution and strategic allocation.

Detail

Strategic Allocation				Manager Contribution		
Distribution		Policy	Investment	Weighted	% Return	
Portfolio	Benchmark	Contribution	Manager	Contribution	Portfolio	Benchmark
25.5	25.0	-	GMO	0.5	2.4	0.3
21.3	20.0	-	L&G	-	-0.6	-0.6
17.9	16.0	-	BAILLIE GIFFORD & CO	0.3	2.2	0.5
10.3	12.0	-0.1	SCHRODER INVEST. MGMT.	-0.1	2.8	3.3
9.7	14.0	-	INVESTEC ASSET MANAGEMENT	-	0.1	0.1
4.7	3.0	-	L&G	-	3.6	3.6
4.7	5.0	-	BAILLIE GIFFORD & CO	-	0.7	0.1
4.5	5.0	-	RUFFER INVESTMENT MGMT LTD	-	-0.9	0.1
1.3	0.0	-	INTERNALLY MANAGED	-	0.3	0.1
		-0.1		0.7		

The Strategic Allocation quantifies the impact of the fund being invested differently from the Strategic Benchmark set.

The Manager Contribution comes about from the out / underperformance of each manager relative to their benchmarks weighted by the value of assets held.

= not invested in this area for the entire period

Appendices

Asset Mix and Returns

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	31/12/2013				Gain/		31/03/2014			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	*645,415*	*65*	*64,932*	*65,242*	*7,145*	*1,481*	*652,251*	*64*	*1.3*	*0.1*
U.K. EQUITIES	*238,255*	*24*	*7,179*	*10,224*	*-1,081*	*227*	*234,129*	*23*	*-0.4*	*-0.6*
OVERSEAS EQUITIES	*227,808*	*23*	*57,655*	*55,018*	*4,609*	*960*	*235,054*	*23*	*2.4*	*0.5*
NORTH AMERICA	*101,149*	*10*	*45,296*	*21,280*	*1,675*	*447*	*126,841*	*12*	*1.4*	*1.2*
TOTAL USA	*100,923*	*10*	*45,296*	*21,010*	*1,632*	*447*	*126,841*	*12*	*1.4*	
CONTINENTAL EUROPE	*82,543*	*8*	*10,717*	*17,850*	*4,954*	*143*	*80,363*	*8*	*6.5*	*3.0*
EUROLAND TOTAL	*76,645*	*8*	*10,124*	*16,040*	*4,579*	*124*	*75,308*	*7*	*6.4*	
FRANCE	*25,849*	*3*	*2,832*	*4,372*	*1,955*	*78*	*26,264*	*3*	*8.1*	
GERMANY	*17,532*	*2*	*5,712*	*2,112*	*542*		*21,674*	*2*	*2.5*	
NETHERLANDS	*5,619*	*1*	*773*	*1,965*	*-68*	*1*	*4,359*	*0*	*-0.9*	
ITALY	*11,108*	*1*	*384*	*3,006*	*1,718*		*10,205*	*1*	*17.2*	
BELGIUM	*697*	*0*			*129*		*826*	*0*	*18.5*	
FINLAND	*2,553*	*0*	*7*	*1,003*	*-125*	*5*	*1,431*	*0*	*-4.7*	
AUSTRIA	*1,046*	*0*		*94*	*-66*		*886*	*0*	*-6.6*	
SPAIN	*11,005*	*1*	*417*	*3,260*	*295*	*28*	*8,456*	*1*	*4.0*	
IRELAND	*525*	*0*		*156*	*54*	*12*	*423*	*0*	*12.6*	
PORTUGAL	*710*	*0*		*72*	*146*		*784*	*0*	*20.9*	
GREECE										
LUXEMBOURG										
NON EUROLAND TOTAL	*5,898*	*1*	*593*	*1,810*	*375*	*18*	*5,055*	*0*	*8.2*	
SWITZERLAND	*3,517*	*0*		*1,655*	*180*	*6*	*2,041*	*0*	*7.5*	
DENMARK	*106*	*0*	*253*		*29*	*2*	*387*	*0*	*16.6*	
NORWAY	*1,624*	*0*	*116*	*8*	*224*		*1,957*	*0*	*13.2*	
SWEDEN	*651*	*0*	*224*	*147*	*-57*	*10*	*670*	*0*	*-6.9*	
JAPAN	*40,195*	*4*	*1,642*	*13,890*	*-1,960*	*339*	*25,987*	*3*	*-4.8*	*-6.0*
TOTAL PACIFIC (EX.JAPAN)	*3,920*	*0*		*1,997*	*-60*	*32*	*1,863*	*0*	*-0.8*	*2.4*
GLOBAL POOLED INC UK	*179,353*	*18*	*97*		*3,617*	*293*	*183,067*	*18*	*2.2*	*0.5*
BG INTERNATIONAL EQUITY FUND	*179,353*	*18*	*97*		*3,617*	*293*	*183,067*	*18*	*2.2*	
U.K. INDEX - LINKED	*47,472*	*5*			*1,698*		*49,170*	*5*	*3.6*	*3.6*
POOLED BONDS	*97,380*	*10*			*121*		*97,501*	*10*	*0.1*	*0.1*
CASH/ALTERNATIVES	*106,968*	*11*	*333,093*	*325,888*	*-163*	*36*	*114,009*	*11*	*-0.1*	*0.1*
CURRENCY INSTRUMENTS	*-391*	*0*	*225,529*	*225,662*	*114*		*-409*	*0*	*n/a*	
U.K. PROPERTY	*95,317*	*10*	*1,582*	*1,288*	*2,154*	*795*	*97,765*	*10*	*3.1*	*3.3*
OVERSEAS PROPERTY	*6,206*	*1*			*-257*	*131*	*5,949*	*1*	*-2.1*	
TOTAL ASSETS	**998,368**	**100**	**625,137**	**618,080**	**10,812**	**2,442**	**1,016,236**	**100**	**1.3**	**0.6**

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

not invested in this area for the entire period

Summary of Long Term Returns

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2014**

Benchmark - LOCAL AUTHORITY UNIVERSE — **Pound Sterling**

This page summarises the long term returns at asset class level
A ranking against the peer group is shown in brackets.

	---------- 2011 ----------			--------------- 2012 ---------------				--------------- 2013 ---------------				2014	1yr	3yrs	5yrs
Return %	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1		% pa	% pa
UK Equities	*1.9*	*-13.6*	*8.9*	*5.8*	*-2.5*	*4.7*	*3.6*	*10.3*	*-1.5*	*5.8*	*5.7*	*-0.4*	*9.7*	*9.1*	*16.1*
	(62)	*(60)*	*(19)*	*(86)*	*(37)*	*(50)*	*(75)*	*(78)*	*(48)*	*(52)*	*(46)*	*(37)*	*(52)*	*(66)*	*(91)*
N. America	*1.3*	*-11.4*	*10.1*	*8.5*	*-2.0*	*3.2*	*-0.7*	*14.5*	*1.2*	*-1.8*	*7.4*	*1.4*	*8.2*	*10.1*	*15.7*
	(8)	*(26)*	*(84)*	*(73)*	*(62)*	*(80)*	*(43)*	*(98)*	*(95)*	*(98)*	*(58)*	*(46)*	*(100)*	*(96)*	*(88)*
Europe ex UK	*3.5*	*-25.5*	*3.1*	*5.6*	*-9.0*	*6.7*	*8.7*	*4.3*	*2.9*	*11.6*	*8.0*	*6.5*	*32.1*	*6.9*	*14.4*
	(26)	*(84)*	*(90)*	*(95)*	*(98)*	*(44)*	*(15)*	*(100)*	*(6)*	*(1)*	*(4)*	*(3)*	*(3)*	*(88)*	*(73)*
Pacific	*0.5*	*-19.5*	*8.2*	*11.7*	*-1.1*	*12.6*	*7.2*	*4.2*	*-6.5*	*7.2*	*4.6*	*-0.8*	*3.9*	*8.1*	*18.5*
	(45)	*(85)*	*(16)*	*(10)*	*(7)*	*(2)*	*(9)*	*(96)*	*(17)*	*(4)*	*(3)*	*(85)*	*(3)*	*(4)*	*(8)*
Japan	*1.0*	*-3.8*	*-1.2*	*3.0*	*-4.2*	*-3.2*	*2.4*	*18.6*	*6.1*	*2.1*	*-2.4*	*-4.8*	*0.7*	*3.9*	*8.7*
	(30)	*(51)*	*(15)*	*(100)*	*(27)*	*(56)*	*(77)*	*(81)*	*(20)*	*(22)*	*(92)*	*(29)*	*(48)*	*(88)*	*(53)*
Global Eq	*0.6*	*-15.0*	*7.8*	*9.9*	*-5.0*	*5.1*	*2.8*	*15.8*	*1.7*	*2.8*	*5.2*	*2.2*	*12.4*	*10.6*	*18.6*
	(50)	*(48)*	*(36)*	*(36)*	*(75)*	*(14)*	*(30)*	*(20)*	*(18)*	*(15)*	*(46)*	*(8)*	*(18)*	*(22)*	
UK IL	*4.5*	*7.8*	*9.8*	*-2.0*	*0.8*	*-3.2*	*5.1*	*9.0*	*-7.3*	*0.6*	*-0.9*	*3.6*	*-4.4*	*9.0*	*8.8*
	(32)	*(19)*	*(32)*	*(61)*	*(22)*	*(63)*	*(28)*	*(27)*	*(51)*	*(30)*	*(28)*	*(15)*	*(54)*	*(34)*	*(50)*
Pooled Bonds	*-0.9*	*-4.0*	*0.4*	*2.2*	*-0.4*	*0.9*	*1.0*	*0.2*	*0.1*	*-0.3*	*0.5*	*0.1*	*0.5*	*-0.1*	
	(100)	*(91)*	*(78)*	*(50)*	*(85)*	*(84)*	*(76)*	*(92)*	*(33)*	*(78)*	*(64)*	*(100)*	*(80)*		
Cash	*0.1*	*0.5*	*0.2*	*-0.2*	*0.5*	*-0.4*	*0.1*	*1.5*	*0.2*	*-1.0*	*-0.2*	*-0.2*	*-1.2*	*0.3*	*1.1*
	(45)	*(27)*	*(31)*	*(81)*	*(27)*	*(87)*	*(39)*	*(22)*	*(37)*	*(81)*	*(70)*	*(89)*	*(86)*	*(64)*	*(31)*
Alternatives	*1.6*	*-3.0*	*1.6*	*3.5*	*-1.3*	*1.7*	*2.8*	*7.4*	*-2.0*	*0.4*	*1.7*	*-0.1*	*0.0*	*4.7*	*-3.9*
	(50)	*(74)*	*(20)*	*(16)*	*(77)*	*(32)*	*(20)*	*(22)*	*(86)*	*(28)*	*(39)*	*(77)*	*(85)*	*(62)*	*(100)*
Property	*2.3*	*1.2*	*0.7*	*0.3*	*-0.4*	*-0.3*	*0.2*	*1.2*	*1.2*	*2.0*	*3.7*	*2.8*	*9.9*	*5.0*	*5.3*
	(33)	*(49)*	*(64)*	*(70)*	*(78)*	*(66)*	*(54)*	*(36)*	*(77)*	*(51)*	*(58)*	*(67)*	*(67)*	*(67)*	*(82)*
Total Assets	1.5	-9.2	5.1	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	8.5	7.1	11.6
	(50)	(50)	(69)	(79)	(82)	(84)	(54)	(60)	(14)	(33)	(32)	(23)	(15)	(78)	(94)

not invested in this area for the entire period

Rolling Years with Relative Risk - GMO World Equity

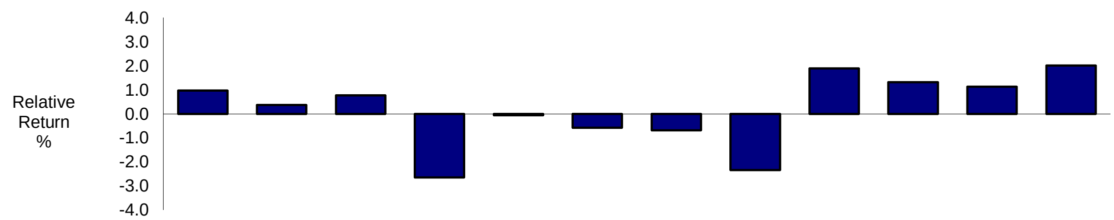
LONDON BOROUGH OF TOWER HAMLETS - GMO | **Periods to end March 2014**
Benchmark - LB TOWER HAMLET - GMO WOOLEY BM | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

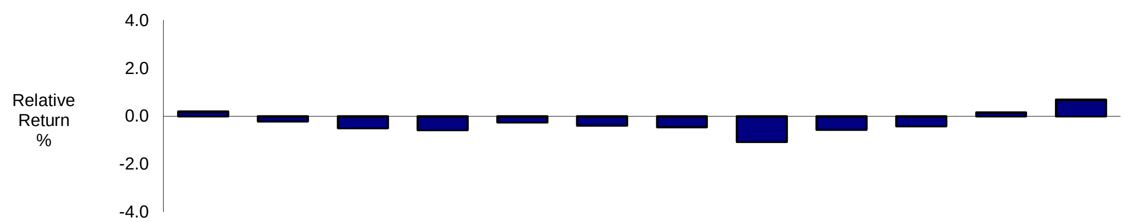
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Values (GBPm's)												
Initial	203.8	208.4	176.8	188.2	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8
Net Investment	4.1	0.9	2.3	0.9	2.7	1.0	1.6	0.8	2.7	1.0	1.7	0.9
Capital Gain/Loss	0.6	-32.6	9.1	9.9	-10.9	4.5	5.6	22.0	2.9	8.2	12.0	4.8
Final	208.4	176.8	188.2	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5
Income	3.6	1.3	2.1	1.5	2.2	1.5	1.1	1.3	2.3	1.3	1.3	1.2
Proportion Of Total Fund (%)	25	23	24	24	24	24	24	24	25	25	26	26

Quarterly Returns



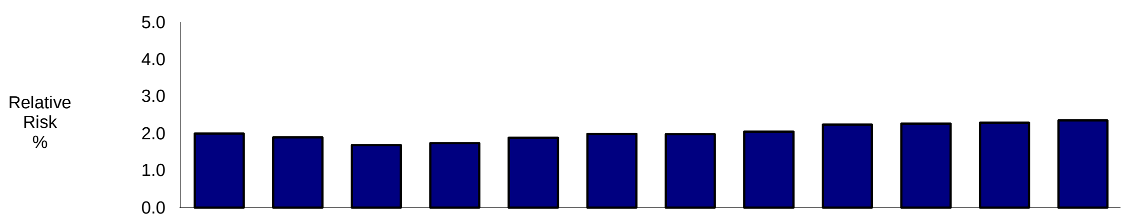
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Fund	2.0	-15.0	6.3	6.0	-4.3	3.1	3.4	11.4	2.3	4.1	5.5	2.4
Benchmark	1.1	-15.3	5.5	8.9	-4.3	3.7	4.1	14.1	0.4	2.7	4.3	0.3
Relative Return	1.0	0.4	0.8	-2.6	-0.0	-0.6	-0.7	-2.3	1.9	1.3	1.1	2.0

Annualised Rolling 3 Year Returns



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Fund	8.7	5.2	7.4	15.0	10.8	4.9	5.5	6.3	11.4	9.3	8.4	8.5
Benchmark	8.4	5.4	7.9	15.7	11.1	5.3	5.9	7.5	12.0	9.8	8.3	7.8
Relative Return	0.2	-0.2	-0.5	-0.6	-0.3	-0.4	-0.5	-1.1	-0.6	-0.4	0.1	0.7

Rolling 3 Year Risk



	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Relative Risk	2.0	1.9	1.7	1.7	1.9	2.0	2.0	2.0	2.2	2.3	2.3	2.4
Information Ratio	0.1	-0.1	-0.3	-0.3	-0.1	-0.2	-0.2	-0.5	-0.3	-0.2	0.1	0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Equity Uk

LB OF TOWER HAMLETS - L&G | **Periods to end March 2014**

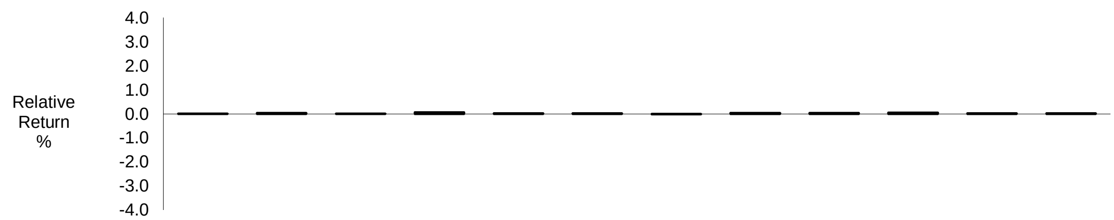
Benchmark - FTSE All Share TR | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011			2012				2013				2014
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	164.1	167.2	144.7	156.8	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	3.1	-22.5	12.2	9.7	-4.3	7.7	6.5	18.3	-3.1	10.8	11.1	-1.3
Final	167.2	144.7	156.8	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	20	19	20	20	20	20	21	21	21	21	21	21

Quarterly Returns

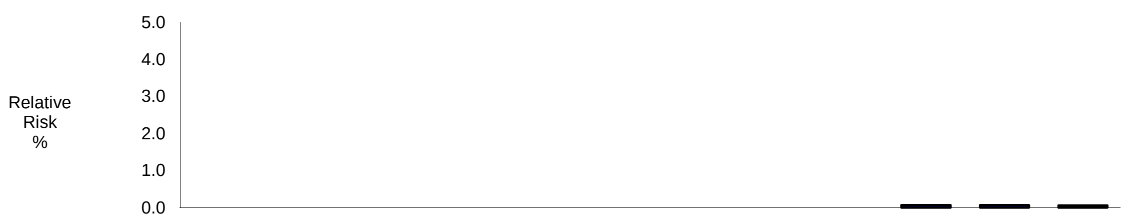


	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Fund	1.9	-13.5	8.4	6.2	-2.6	4.7	3.8	10.4	-1.6	5.6	5.5	-0.6
Benchmark	1.9	-13.5	8.4	6.1	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6
Relative Return	0.0	0.0	0.0	0.1	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns

	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Fund										10.2	9.5	8.9
Benchmark										10.1	9.4	8.8
Relative Return										0.1	0.1	0.1

Rolling 3 Year Risk



	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Relative Risk										0.1	0.1	0.1
Information Ratio										1.7	1.9	1.9

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford World Equity

LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO — **Periods to end March 2014**

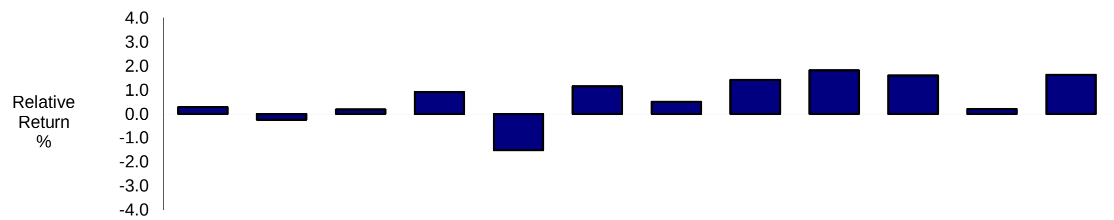
Benchmark - MSCI AC WORLD GDR — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

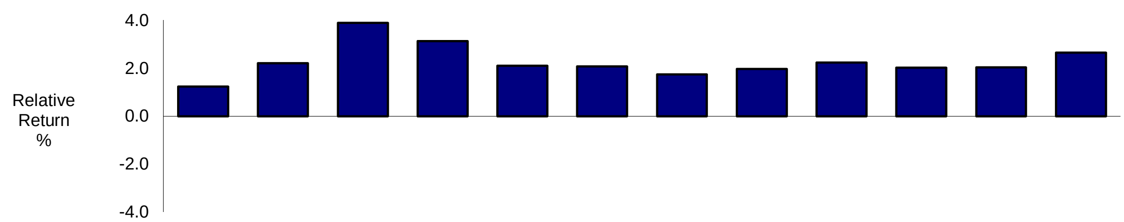
	---------- 2011 ----------			-------------- 2012 --------------				-------------- 2013 --------------				2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	135.0	135.9	115.5	124.6	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4
Net Investment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Gain/Loss	0.8	-20.4	9.0	12.4	-6.9	6.6	3.9	22.2	2.8	4.6	8.6	3.6
Final	135.9	115.5	124.6	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3
Proportion Of Total Fund (%)	16	15	16	17	16	17	16	18	18	18	18	18

Quarterly Returns



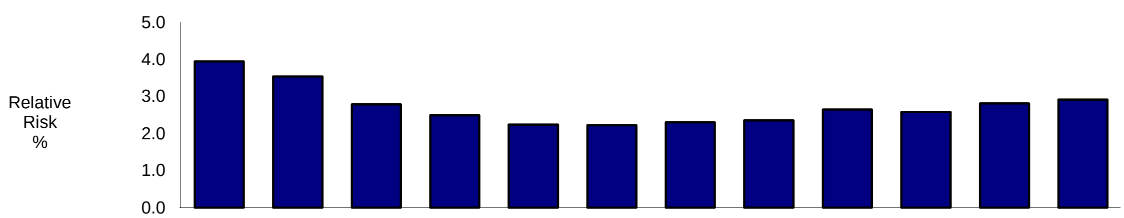
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	0.6	-15.0	7.8	9.9	-5.0	5.1	2.8	15.8	1.7	2.8	5.2	2.2
Benchmark	0.3	-14.8	7.6	9.0	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5
Relative Return	0.3	-0.2	0.2	0.9	-1.5	1.1	0.5	1.4	1.8	1.6	0.2	1.6

Annualised Rolling 3 Year Returns



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	10.3	8.1	14.0	20.7	15.6	9.7	8.8	10.5	15.0	12.0	10.5	10.6
Benchmark	9.0	5.8	9.7	17.1	13.2	7.4	6.9	8.3	12.5	9.8	8.3	7.7
Relative Return	1.2	2.2	3.9	3.1	2.1	2.1	1.7	2.0	2.2	2.0	2.0	2.6

Rolling 3 Year Risk



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk	3.9	3.5	2.8	2.5	2.2	2.2	2.3	2.3	2.6	2.6	2.8	2.9
Information Ratio	0.3	0.6	1.4	1.3	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.9

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Schroders UK Property

LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT. — **Periods to end March 2014**

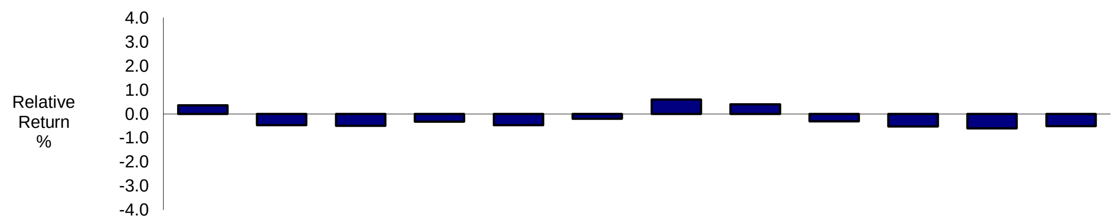
Benchmark - London Borough of Tower Hamlets - Schroders — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

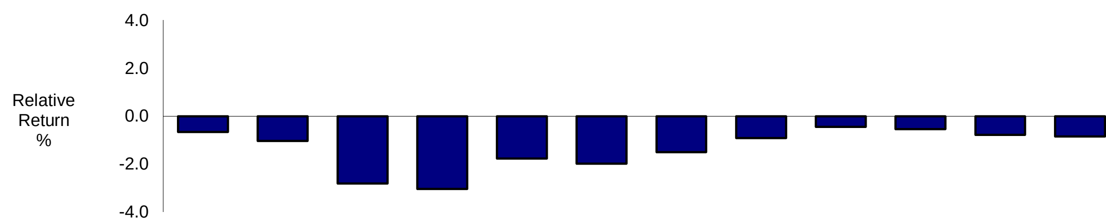
	---------- 2011 ----------			--------------- 2012 ---------------				--------------- 2013 ---------------				2014
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	91.3	93.3	94.3	94.9	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3
Net Investment	1.1	0.6	0.6	0.7	1.0	0.8	0.8	0.9	0.8	0.9	0.8	1.0
Capital Gain/Loss	0.8	0.4	-0.0	-0.4	-1.3	-1.1	-0.7	0.1	0.3	0.9	2.8	1.9
Final	93.3	94.3	94.9	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2
Income	1.1	0.7	0.7	0.7	0.9	0.8	0.8	1.0	0.8	0.9	0.8	0.9
Proportion Of Total Fund (%)	11	12	12	11	12	11	11	10	10	10	10	10

Quarterly Returns



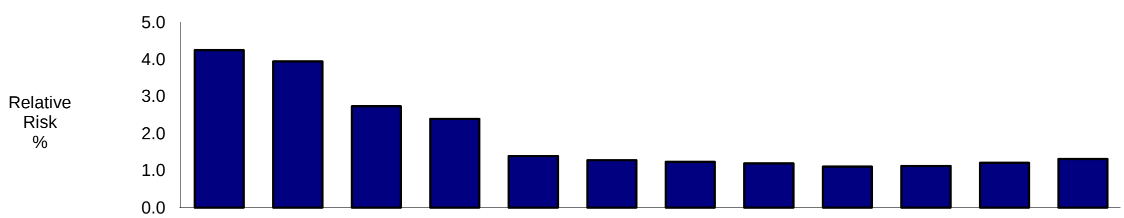
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	2.1	1.1	0.7	0.3	-0.4	-0.3	0.2	1.2	1.1	1.9	3.6	2.8
Benchmark	1.8	1.6	1.2	0.6	0.1	-0.1	-0.4	0.8	1.4	2.4	4.3	3.3
Relative Return	0.4	-0.5	-0.5	-0.3	-0.5	-0.2	0.6	0.4	-0.3	-0.5	-0.6	-0.5

Annualised Rolling 3 Year Returns



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	-3.2	-1.1	2.3	5.2	7.8	6.8	4.5	3.8	3.7	3.9	4.4	4.8
Benchmark	-2.5	-0.0	5.3	8.5	9.7	9.0	6.1	4.7	4.2	4.4	5.2	5.7
Relative Return	-0.7	-1.0	-2.8	-3.0	-1.8	-2.0	-1.5	-0.9	-0.4	-0.5	-0.8	-0.8

Rolling 3 Year Risk



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk	4.2	3.9	2.7	2.4	1.4	1.3	1.2	1.2	1.1	1.1	1.2	1.3
Information Ratio	-0.2	-0.3	-1.0	-1.3	-1.3	-1.5	-1.2	-0.8	-0.4	-0.5	-0.7	-0.6

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Investec Global Bonds

LONDON BOROUGH OF TOWER HAMLETS - INVESTEC ASSET MANAGEMENT — **Periods to end March 2014**

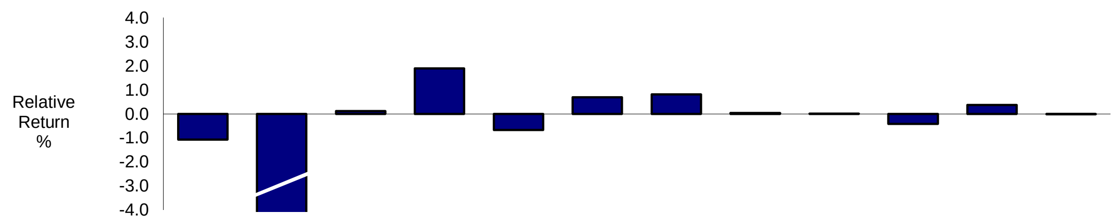
Benchmark - GBP 3 MONTH LIBOR — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011			2012				2013				2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	97.8	97.0	93.1	93.5	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-0.8	-3.8	0.3	2.0	-0.4	0.8	0.9	0.2	0.1	-0.3	0.5	0.1
Final	97.0	93.1	93.5	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	12	12	12	12	12	12	11	10	10	10	10	10

Quarterly Returns

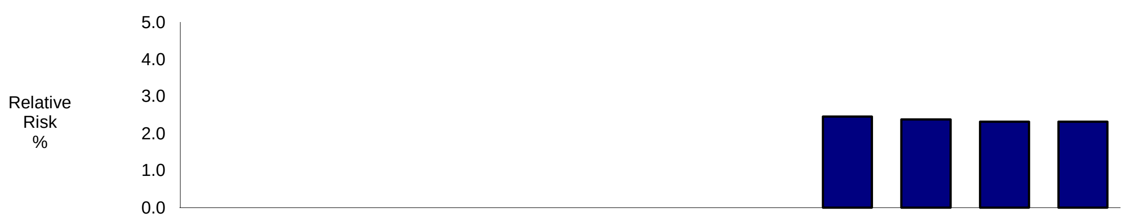


Fund	-0.9	-4.0	0.4	2.2	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1
Benchmark	0.2	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Relative Return	-1.1	-4.2	0.1	1.9	-0.7	0.7	0.8	0.0	0.0	-0.4	0.4	-0.0

Annualised Rolling 3 Year Returns

Fund									0.9	0.3	0.1	-0.1
Benchmark									0.8	0.8	0.7	0.7
Relative Return									0.1	-0.4	-0.6	-0.8

Rolling 3 Year Risk



Relative Risk									2.5	2.4	2.3	2.3
Information Ratio									0.1	-0.2	-0.3	-0.4

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Index Linked

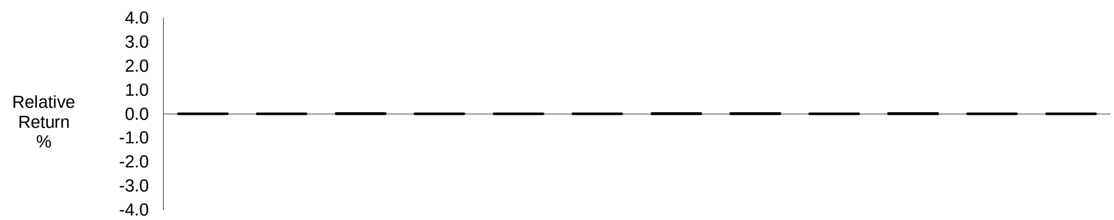
LB OF TOWER HAMLETS - L&G	Periods to end March 2014
Benchmark - FTSE UK GILTS INDEXED > 5 YRS	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	---------- 2011 ----------			--------------- 2012 ---------------				--------------- 2013 ---------------				2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	38.0	39.7	42.7	46.9	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	1.7	3.1	4.2	-0.9	0.4	-1.5	2.3	4.3	-3.8	0.3	-0.4	1.7
Final	39.7	42.7	46.9	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	5	6	6	6	6	5	6	6	5	5	5	5

Quarterly Returns

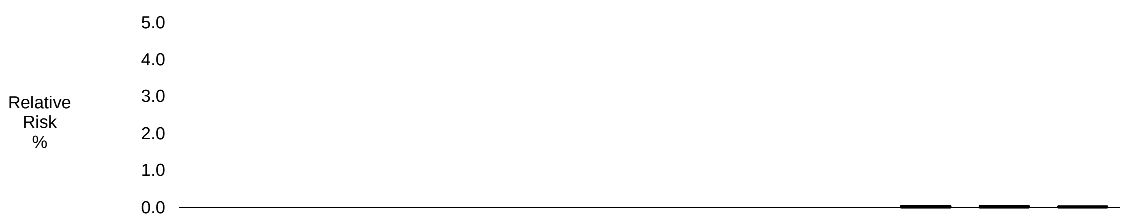


	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	4.5	7.8	9.8	-2.0	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6
Benchmark	4.5	7.8	9.8	-2.0	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6
Relative Return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund										8.4	7.7	9.0
Benchmark										8.3	7.6	8.9
Relative Return										0.0	0.0	0.1

Rolling 3 Year Risk



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk										0.0	0.0	0.0
Information Ratio										1.5	1.6	2.1

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford Divers Growth

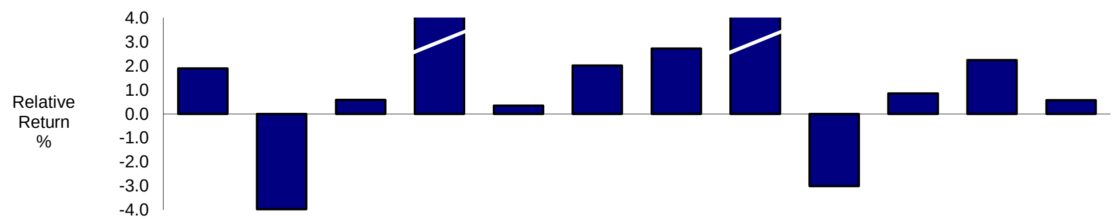
LB OF TOWER HAMLETS - BAILLIE GIFFORD & CO	Periods to end March 2014
Benchmark - BANK OF ENGLAND BASE (UK REPO)	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	---------- 2011 ----------			--------------- 2012 ---------------				--------------- 2013 ---------------				2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	40.2	41.0	39.5	39.7	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.8	-1.6	0.3	2.0	0.2	0.9	1.2	2.2	-1.3	0.4	1.1	0.3
Final	41.0	39.5	39.7	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	5	5	5	5	5	5	5	5	5	5	5	5

Quarterly Returns

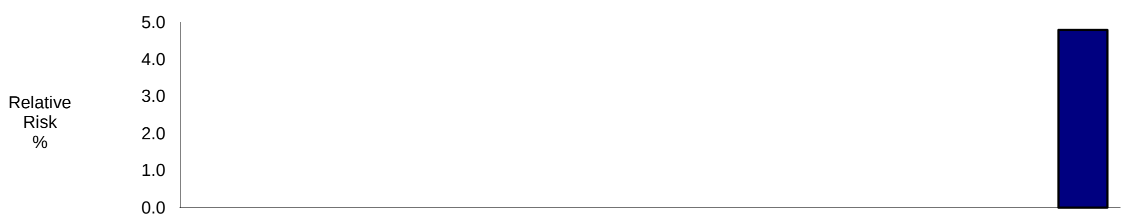


Fund	2.0	-3.8	0.7	5.0	0.5	2.1	2.9	5.0	-2.9	1.0	2.4	0.7
Benchmark	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Relative Return	1.9	-4.0	0.6	4.8	0.3	2.0	2.7	4.8	-3.0	0.8	2.2	0.6

Annualised Rolling 3 Year Returns

Fund	5.1
Benchmark	0.5
Relative Return	4.6

Rolling 3 Year Risk



Relative Risk	4.8
Information Ratio	1.0

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

WM PERFORMANCE SERVICES

Rolling Years with Relative Risk - Ruffer

LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD — **Periods to end March 2014**

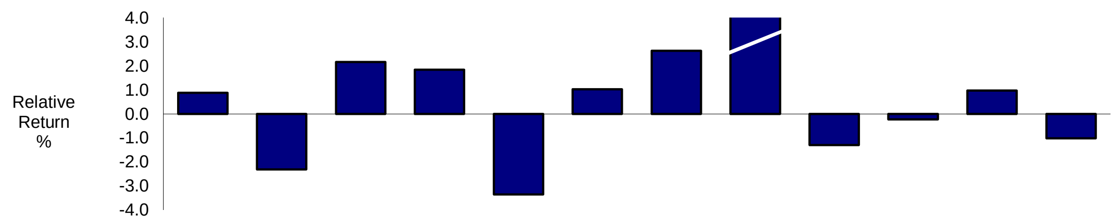
Benchmark - GBP 3 MONTH LIBOR — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011			2012				2013				2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	39.6	40.1	39.2	40.2	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.4	-0.8	0.9	0.8	-1.3	0.5	1.1	4.2	-0.5	-0.0	0.5	-0.4
Final	40.1	39.2	40.2	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	5	5	5	5	5	5	5	5	5	5	5	4

Quarterly Returns

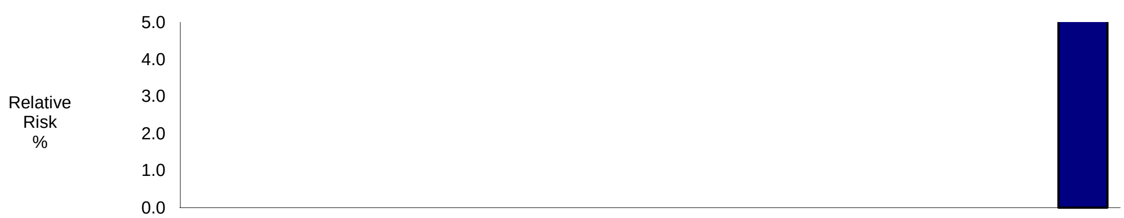


	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	1.1	-2.1	2.4	2.1	-3.1	1.2	2.8	10.1	-1.2	-0.1	1.1	-0.9
Benchmark	0.2	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Relative Return	0.9	-2.3	2.2	1.8	-3.4	1.0	2.6	10.0	-1.3	-0.2	1.0	-1.0

Annualised Rolling 3 Year Returns

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund												4.3
Benchmark												0.7
Relative Return												3.6

Rolling 3 Year Risk



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk												5.5
Information Ratio												0.7

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

ISBN : 978-1-4098-4254-5

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings". The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk.
When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Zone 8/J6, Eland House, Bressenden Place London SW1E 5DU.

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of "Local Government Pensions Scheme Advisory Board" and "local pension board".

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of "relevant experience and capacity" is not to be confused with the requirement for pension boards members to acquire "knowledge and understanding" under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23. **Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

Local pension boards : guidance

2.24. **Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

Scheme advisory board : establishment

2.25. **Regulation 110(1)** provides that a scheme advisory board is established.

2.26. **Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27. **Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28. **Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

Scheme advisory board : membership

2.29. **Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30. **Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31**. Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33**. Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34**. Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35**. Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36**. Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37**. Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.”.

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty’s Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Department for Communities and Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

May 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: https://twitter.com/CommunitiesUK

May 2014

ISBN: 978-1-4098-4190-6

Contents

1. The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs.
Scope of this consultation:	The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division.
Duration:	The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014.
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **11 July 2014**. Electronic responses are preferred. However, you can also write to: Victoria Edwards

	Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU Please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and where relevant, who else you have consulted in reaching your conclusions.
After the consultation:	The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.
Agreement with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	This consultation has been developed drawing on three sources of evidence: • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.
Previous engagement:	As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses. The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering

	authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds.

Additional copies

1.1 This consultation paper is available on the Government's website at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Confidentiality and data protection

1.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the Department.

1.4 The Department will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.

1.6 A copy of the Consultation Principles is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

1.7 Alternatively, you can write to:

DCLG Consultation Co-ordinator,
Zone 8/J6, Eland House,
Bressenden Place
London SW1E 5DU.

2. Introduction and background

Introduction

2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.

2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.

2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.[2] However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.[3] While investment returns and the costs of providing

---

[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

[2] Local government pension scheme funds summary data: 2012 to 2013

[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.[4]

Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:[5]

---

[4] Independent Public Service Pensions Commission: Final Report p.17
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf

[5] Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.

2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.

2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu.

2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board's recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson's analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

Proposal	**Estimated Annual saving**
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of "fund of funds" arrangements in favour of a common investment vehicle for alternative assets	£240 million

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.

3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.

3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.[6] The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.

3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.[7] In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.

3.11 Coupled with the responses to the call for evidence, Hymans Robertson's analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

[6] Local government pension scheme funds summary data: 2012 to 2013
[7] Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated[8]:

> The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

---

[8] Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.[9] On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:[10]

> The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

[9] A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: http://www.lgpsboard.org/index.php/structure-reform/responses-public-view

[10] The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.[11]

Possible model for reform	Net present value of savings over 10 years (£ billions)
Assets pooled into two common investment vehicles	£2.8
Assets pooled in 10 common investment vehicles	£2.6
Fund assets and liabilities merged into five funds	£1.9

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

[11] Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

"There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees…

The regulatory requirements to produce an annual report and accounts and policy statements…ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link."

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.[12] Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund's unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies… As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely "local", as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

---

[12] Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.

4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.

4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".

4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.[13] The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.[14]

4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

---

[13] Local Government Pension Scheme structure analysis; Hymans Robertson p.11
[14] Local Government Pension Scheme structure analysis; Hymans Robertson p.7

4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.

4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.

4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

> Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.[15] However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

[15] More information can be found on the Financial Conduct Authority's website: http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role[16].

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

Equity market [17]	**UK**	**North America**	**Europe excluding UK**	**Japan**	**Developed Pacific excluding Japan**	**Emerging Markets**
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate Local Government Pension Scheme	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return gross of fees	0.1	-1.1	0.2	0.1	0.9	-1.1

16 Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.

17 Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

Extra cost (per annum) of active	0.34*	0.27	0.20	n/a	0.49	0.53

4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.

4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.[18]

4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.[19]

4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.[20] These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.

4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.

4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

[18] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[19] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[20] Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

> There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.

5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieve from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

Local Government Shared Services (“LGSS”) Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

This page is intentionally left blank