

PENSIONS COMMITTEE

Wednesday, 17 September 2014 at 7.00 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:

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.

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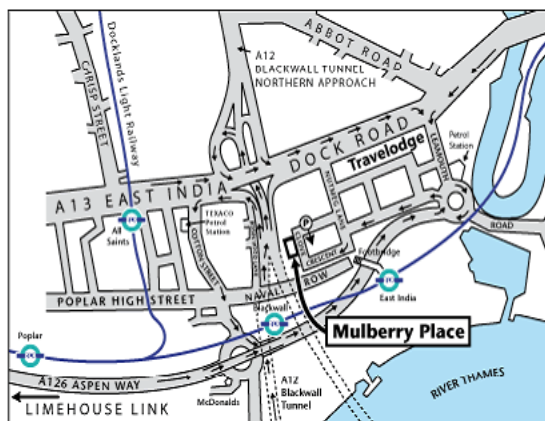
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APOLOGIES FOR ABSENCE

1. APPOINTMENT OF VICE CHAIR

To appoint a Vice Chair for the duration of the Municipal year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

1 - 4

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

3. MINUTES OF THE PREVIOUS MEETING(S)

5 - 20

To confirm as a correct record, the deferred minutes of the Committee on 25 February 2014 and of the Committee held on 16 July 2014.

4. PETITIONS

To receive any petitions

5. REPORTS FOR CONSIDERATION

5.1 Disbandment of Pension Fund Investment Panel

21 - 24

To consider a proposal to stand down the Pension Committee's Investment Panel.

5.2 WM Annual Review of Pension Fund Performance 2013/14

25 - 40

To receive a presentation from WM Company.

5.3 Investment Performance Review and LGPS Updates for Quarter Ended 30 June 2014

41 - 54

To consider the quarterly investment update.

5.4 Fund Managers Update

55 - 72

To receive an update from Mr Haines - Investment Professional

5 .5 Presentation by Fund Managers - Baillie Gifford

To receive a presentation from the above Managers.

5 .6 LGPS Governance Updates

To receive an update from the Investment and Treasury Manager.

5 .7 Training Events

To receive an update.

5 .8 2013/14 Pension Fund Annual Report

73 - 176

To note the annual accounts

6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Next Meeting of the Committee:

Wednesday, 19 November 2014 at 7.00 p.m. to be held in Room MP702, 7th Floor,
Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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Agenda Item 2

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.35 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 profiles 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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.40 P.M. ON WEDNESDAY, 16 JULY 2014

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Clare Harrisson	(Chair)
Councillor Andrew Cregan	
Councillor Ayas Miah	
John Gray	Non-Voting Member (Admitted Body)
Councillor John Pierce	(Substitute for Councillor Rajib Ahmed)

Admitted Bodies, Non-Voting Members Present:

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

Officers Present:

Anant Dodia	– (Pensions Manager)
Kevin Miles	– (Chief Accountant, Resources)
Bola Tobun	– (Investments and Treasury Manager, Resources)
Graham White	– (Interim Head of Legal Operations)
Chris Holme	– (Acting Corporate Director - Resources)
Antonella Burgio	– (Democratic Services)
Nishaat Ismail	– (Committee Officer, Democratic Services, Directorate Law Probity and Governance)

Apologies:

Councillor Rajib Ahmed, Councillor Abdul Asad, Councillor Shafiqul Haque and Councillor Harun Miah

APPOINTMENT OF CHAIR FOR THE MEETING

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

Councillor John Pierce nominated that Councillor Clare Harrisson be appointed Chair of Pensions Committee in the absence of Councillor Rajib Ahmed and the nomination was seconded by Councillor Ayas Miah. There being no other nominations, it was

RESOLVED

That Councillor Clare Harrisson be appointed Chair of Pensions Committee for the duration of the meeting.

PAUSE TO READ URGENT REPORT

The Chair, decided to pause the meeting to allow Members to read an urgent report. And it was

RESOLVED

That the report be presented as an urgent business due to being in breach of statutory duty.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS(S) MEETINGS

The minutes of the meeting held on 25th February 2014 were deferred by the committee to be approved at the next Committee.

VARY ORDER OF BUSINESS

The Chair received a request to vary the order of business. Accordingly the Chair moved and it was

RESOLVED

That item 4 "Training and Development for Members be considered before item 3.5, the Report of the Investment Panel to 31 March 2014.

3. REPORTS FOR CONSIDERATION**3.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings**

The Clerk presented the report which asked the Committee to note the terms of reference, membership of the Committee, as appointed at Annual Council, quorum and meeting dates of the Pensions Committee for the municipal year.

RESOLVED

That the Terms of Reference, membership, quorum and meeting dates of the Pensions Committee be noted.

3.2 Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2014-15

The Clerk presented the report, advising Members of the continued endorsement of John Gray (Admitted Bodies Representative) and Frank West (Union Representative) by their respective nominating bodies and their reappointment, at Annual Council, as non-voting co-optees of the Pensions Committee for the municipal year

RESOLVED

That the continued endorsement 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 .

3.3 Composition of the Pension Fund Investment Panel

The Clerk presented the report advising the Committee that, under its Terms of Reference, it was required to establish an Investment Panel annually comprising all Members of the Pensions Committee or their designated deputies. An Investment Professional as Chair' an Independent Financial Advisor, the Corporate Director of Resources or his designated deputy. The terms of reference also stipulated that up to two Trade Union representatives (or their designated deputies) as nominated by the Staff-side Secretary attend the Investment Panel as observers.

In addition to membership, the Committee was asked to establish terms of reference of the Investment Panel as set out in Appendix 1 and invited to attend its meeting which was to take place at the rising of Pensions Committee.

RESOLVED

1. That an Investment Panel be established.
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.
3. That that up to two Trade Union representatives (or their designated deputies) be nominated by the Staffside Secretary attend the Investment Panel as observers.
4. That the terms of reference for the Investment Panel as set out in Appendix 1 be approved.

3.4 Training and Development For Members

The Investment and Treasury Manager introduced the report, which asked Members to consider a training and development programme in the context of required good governance, fund framework, regulations and guidance with which the fund must comply.

The core technical areas and areas of knowledge that prescribed how the Committee discharged its work and the prerequisite knowledge necessary were set out in appendix 1.

Members noted the following matters:

- The Pension Fund was 72% funded and was therefore in deficit. A strategy exists to target full funding for the Scheme in 20 years.
- Actuarial reviews utilised differing discount values and there was a strategy in place to meet the required payments necessary to be made.
- Pension Funds were long term in their nature, therefore they were required to ensure that funding was sufficient to meet its payment obligations at the time payments were required.
- Pension Fund deficits were calculated on long-term bases and these were affected by many financial circumstances. The deficit presently reported was not unusual in the LGPS and a plan had been formulated to return it to full funding.
- There was an ESG requirement and stewardship responsibilities therefore these would need to be a key part of the skills possessed by Pension Committees.

RESOLVED

1. That 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 be adopted.
2. That officers be charged to prepare a programme of training and development, to be presented at the next meeting of Pensions Committee.

3.5 Report of the Investment Panel to 31 March 2014 & LGPS Discussion

The Investment and Treasury Manager presented the report circulated at agenda item 3.5 which informed Members of the performance of the Fund and its investment managers in the quarter ending 31 March 2014. The Committee heard that:

- The fund value was £1,016M
- The pension scheme was likely to be in the region of 75% funded presently (improved from the valuation position) and there had been good performance during the year.

- The scheme contained rebalancing and diversification mandates to take advantage of outperformance and also diversify risks.
- Performance of Investec had been low and Members were advised that this manager had taken a very defensive position.
- Schroders had performed poorly in recent times and had been on close watch.
- Remedial proposals would be brought to the Committee if poor performance were to continue.

LGPS new governance arrangements-discussion

The Chief Accountant introduced the report asking the Committee to note

- That the Act required that local pensions scrutiny boards were established.
- The secretary of state for communities and local government's consultation on the LG PS Amendment regulations 2014 on the draft scheme of governance regulations.

Common Investment Vehicle

The Committee was informed that in addition to new governance arrangements, a consultation on opportunities for collaborative cost savings and efficiencies had been published by DCLG, which was circulated at appendix D of the report. This is aimed to achieve cost savings in conjunction with active and passive investment managements.

It was noted

- That the Council was considering whether to enrol in the Collective Investment Vehicle (CIV). The Committee in 2014 recommended to Cabinet that the Council acquire share capital in a private limited company to be set up to become the operator for the CIV and officers were presently awaiting advice of managers on proposals for what investment options were available.
- The inception of the CIV was to be part of its executive functions
- The CIV could potentially provide economies of scale to be achieved.

In response to Members questions the following information was provided:

- Concerning whether the pensions board would supersede the pensions Committee, Members were informed that the establishment of the pensions board would not affect the pensions Committee or its powers but the role of the Board would be to scrutinise the work of pensions Committee.
- Concerning whether the pensions board and the Committee could be combined into one body the Committee was informed that the secretary of state must approve such a proposal and this option was not favoured. Additionally there were complex rules around membership of the pensions board.

The acting Corporate Director Resources agreed to circulate an overview document to member following the meeting relating to these two consultations

RESOLVED

That the report be noted.

4. TRAINING EVENTS/ MARKET UPDATE

The Committee received a joint presentation from the Investment and Treasury Manager and the Independent Financial Adviser and a paper was tabled discussing objectives, reasons for asset classes and strategies. These measures combined would enable assets to be invested so that benefits could be paid as they fell due.

The following were noted:

- The span of a pension scheme was 80-100 years therefore it was necessary to ensure asset growth in order to meet the payments that would be required.
- The investment plan was required to take into account the investment strategy and contribution rates to meet the benefits that would need to be paid.
- General life expectancy was greater therefore the LGPS would be required to make greater payments to its members.
- Concerning whether mapping had been done to assess the effects of the new LGPS, the Committee was informed that the new scheme would be based on new rules but the deficit was affected by old rules which would not be affected by the implementation of the new LGPS.
- There would be a change in the accrual rate that would benefit low earners and also comprised a tiered rate of contributions.
- The present asset level was insufficient for the payments that would be required therefore it is necessary to make deficit contributions.
- Diversification of investments was the method employed to reduce overall levels of risk.

Matters concerning the nature of the investments and asset classes was discussed and the following were noted:

- Property investments tended to be in the categories of industrial property as these provided suitable returns. Investment in social housing schemes generally provided poor returns and therefore were not preferred.
- Concerning whether the LGPS invested in arms, the committee was informed that some clear guidelines on ethical investments were given to managers, but on the whole, investments were made on the basis of enhancing return. The Committee heard that the legal view concerning the nature of the investments was that pension schemes had a

fiduciary duty and could not make decisions that would potentially damage returns. It was noted also that managers have an ethical position on the investments.

- Decisions on what the investment priorities would be were determined by the Investment Panel by interviewing investment managers. Additionally Tower Hamlets was a Member of the London Authorities Pension Fund Forum a body which discusses and researches pensions' issues and ethical matters. It was noted that the Pensions Committee of the previous municipal year had made a statement to managers that unethical investments should be discouraged
- The allocation of investments across the classes reflected general local government investment trends and diversification.
- Concerning whether the fund could be diversified into different types of equities or bonds, the Committee was informed that the allocation was diversified into worldwide stocks and global equities. Additionally it was noted that there was a rebalancing mandate between equities and bonds
- Bond yield were presently very low
- The investment manager structure was a mix of passive and active managers
- Diversified funds contained a range of elements and provided a diversified pool of investments. It was noted that diversified funds contained a range of elements and provided a diversified pool of investments. It was noted that diversified funds were presently very defensive as some market adversity was anticipated in the near future.
- Tracker investments track the stock markets both up and down and therefore it was necessary to balance active and passive investments.

The Chair requested that a list indicating where funds were invested be brought to a future meeting.

Action: Bola Tobun

RESOLVED

That the presentation and discussion be noted.

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Updated exercise of discretions under the Local Government Pension Scheme

The Service Head of Human Resources and Workforce Development introduced the report apologising that it had been necessary to table the report as an urgent item.

He presented the report, which asked Members to determine which discretions under the local government pension scheme it wished to adopt or not to adopt. The report recommended the following:

- That the 4 discretions previously agreed in 1998 and 2008 be continued
- Not to adopt the new discretion introduced under the LGPS regulations 2013 pending a full review of the discretions.

It was noted that the discretions applied to voluntary retirements but not to employees made redundant.

RESOLVED

That the proposals be agreed with a full review in six months.

The meeting ended at 8.35 p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee

COMMITTEE: Pensions Committee	DATE: 17 September 2014	CLASSIFICATION: Unrestricted	REPORT NO
REPORT OF: Acting Corporate Director of Resources ORIGINATING OFFICER(S): Investment Panel		TITLE: Disbandment of 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. It recommends that investment advice is provided direct to the Pensions Committee without the need for a separate Investment Panel.
- 1.2. If Members approve this change, the functions of the Investment Panel will be fully incorporated with the Pensions Committee and will be covered at one meeting instead of two.

2. RECOMMENDATIONS

Members are recommended to

- 2.1 To disband the Investment Panel.
- 2.2 To delegate to the Acting Corporate Director of Resources the task of providing quarterly updates on performance and key issues arising out of the quarterly review in a written briefing to Members of the Pensions Committee.

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 which has the same composition of members as this committee and in essence there is, duplicity of function, hence the preposition to disband the Investment Panel.

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 Independent investment adviser for the Committee and a firm of investment consultants to advice 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. NEW ARRANGEMENTS

- 5.1 The Pensions Committee is advised on investment issues by:-
- An independent investment adviser (Raymond Haines)
 - An investment consultant (Hymans Robertson & Co.)
 - The Acting Corporate Director of Resources or his designated deputy.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1. The comments of the Acting 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 are 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.

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

Brief description of "background papers"
N/A

Contact details of Holder
N/A

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STATE STREET GLOBAL SERVICES. STATE STREET INVESTMENT ANALYTICS

London Borough of Tower Hamlets Performance Review

Period Ending 31st March 2014

17th September 2014
Lynn Coventry

LIMITED ACCESS 1

STATE STREET GLOBAL SERVICES. STATE STREET INVESTMENT ANALYTICS

Agenda

Section 1 – Market Environment

Section 2 – Total Fund Performance versus Strategic Benchmark

Section 3 – Manager Performance

Section 4 – Total Fund Performance versus Peer Group

Appendix

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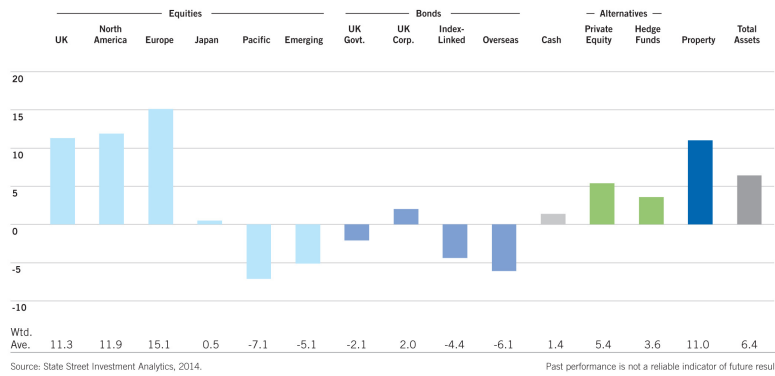
Section 1

Market Environment

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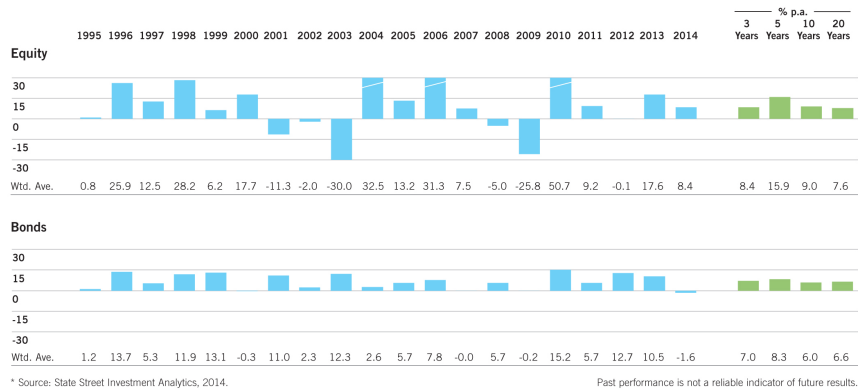
2013/2014 Returns (%)



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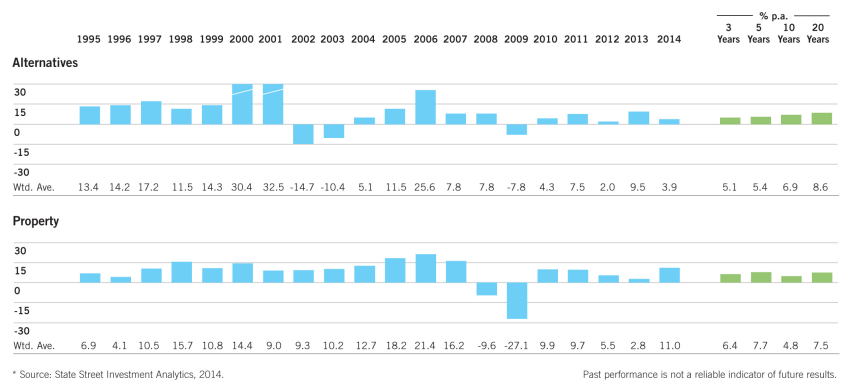
Annual Returns (%)*



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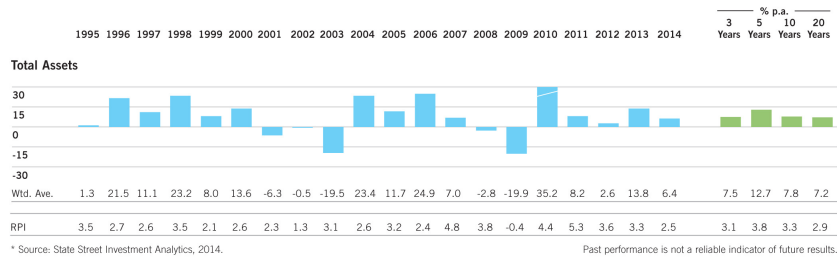
Annual Returns (%)*



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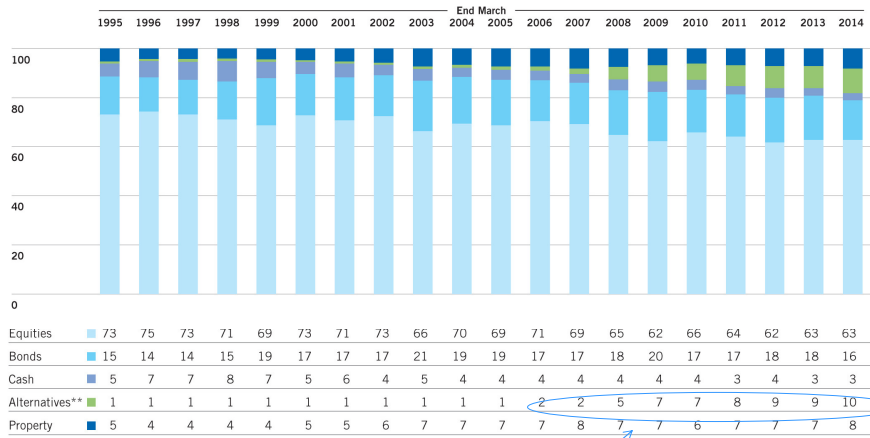
Annual Returns (%)*



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Longer Term Asset Allocation (%)*

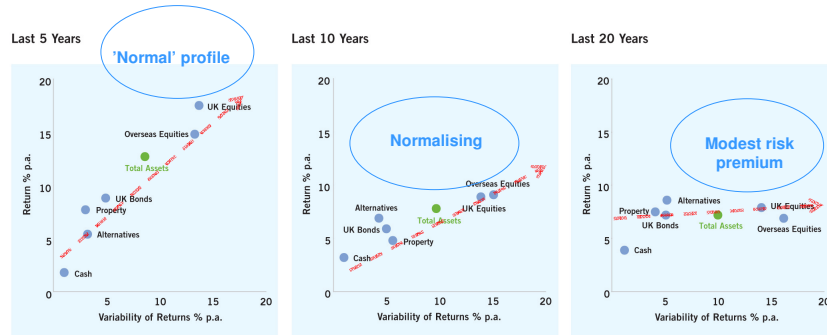


Recent growth

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Long Term Risk and Return*



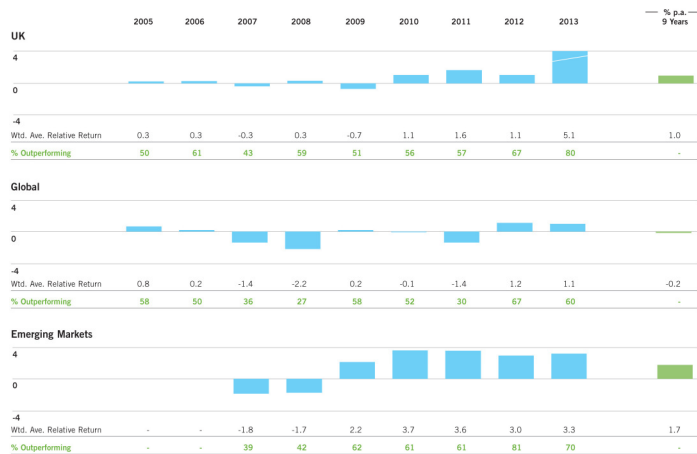
* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

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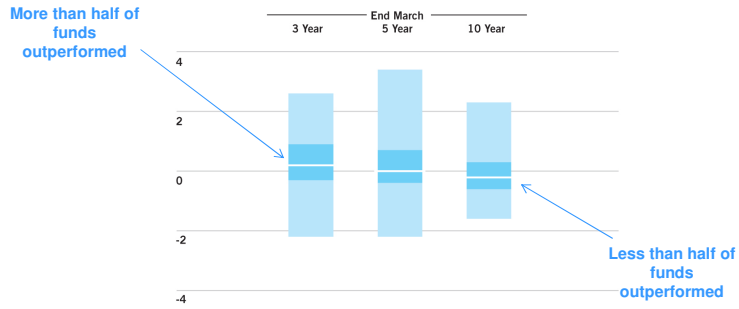
Active Equity Managers Have Had a Relatively Strong Run



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Performance Relative to Benchmark*



* Source: State Street Investment Analytics, 2014.
Past performance is not a reliable indicator of future results.

Section 2

Total Fund Performance versus Strategic Benchmark

Fund Structure & Benchmarks

	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
Emerging Markets		4.5		Pacific ex Japan ex S. Korea
UK Gilts				MSCI EM
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						18.0	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
Emerging Markets						1.0	Pacific ex Japan ex S. Korea
Pooled Bonds		100.0				14.0	MSCI EM
UK Index Linked	100.0					3.0	LBOR 3 Month + 2%
Cash							FTSE A Gov Index-Linked > 3 yrs
Property			100.0			12.00	HSBC/FP Pooled All
Diversified Growth				100.0	100.0	10.0	Balanced Funds Average
	3.0	14.0	12.0	5.0	5.0	100.0	50% Base Rate +3.5% 50% 3 Month LBOR +2%

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 LBOR +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.

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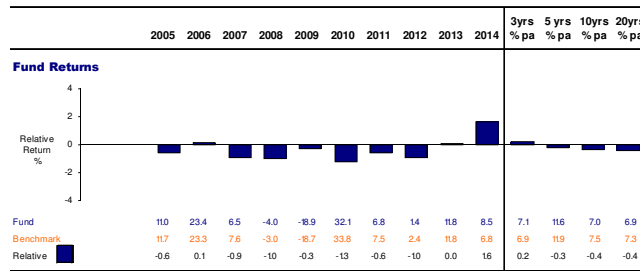
Total Fund Value Summary

Fund Value		Value at	Capital	Value at	%		
Values (GBP)'00 Mandate		29/03/2013	Gain / loss	31/03/2014	Fund		
		Transaction:	Income				
GMO	Eq Gbl	226,306	6,226	27,986	6,156	260,518	26
L & G	Eq UK	194,621	0	17,447	0	212,068	21
BAILLIE GIFF	Eq Gbl	163,062	361	19,644	0	183,067	18
SCHRODERS	Prop UK	95,751	3,545	5,891	3,445	105,188	10
INVESTEC	Bd Gbl	97,033	0	468	0	97,501	10
L & G	Bd UK IL	51,422	0	-2,252	0	49,170	5
BAILLIE GIFF	Structured	46,313	69	507	0	46,888	5
RUFFER	Absolute	45,518	0	-488	0	45,030	4
INT MGD	Cash	9,325	7,481	0	106	16,806	2
Total Fund		929,350	17,682	69,204	9,707	1,016,236	100

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Total Fund Performance



- The Fund outperformed the benchmark over the latest year for the first time in 8 years and only the second time in the last decade.
- Over the longer term of 20 years the Fund has achieved an absolute return of 6.9% per annum which was behind the benchmark return of 7.3% per annum. This compared with the UK RPI index of 2.9% per annum, a real return of 3.9% per annum.

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Latest Year Attribution

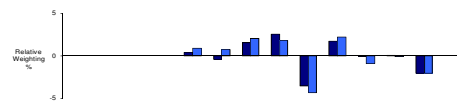
Summary

Fund Return	8.5
Benchmark Return	6.8
Relative Performance	1.6
attributable to:	
Asset Allocation	-0.4
Stock Selection	2.0

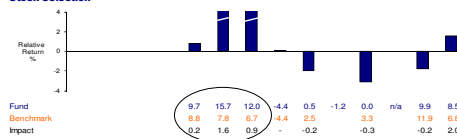
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below

	UK Equities	US Equities	Global Eq	Pooled UK IL	Bonds	Cash	Alternatives	Current Instr	Property	Total Fund
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Asset Allocation



Stock Selection

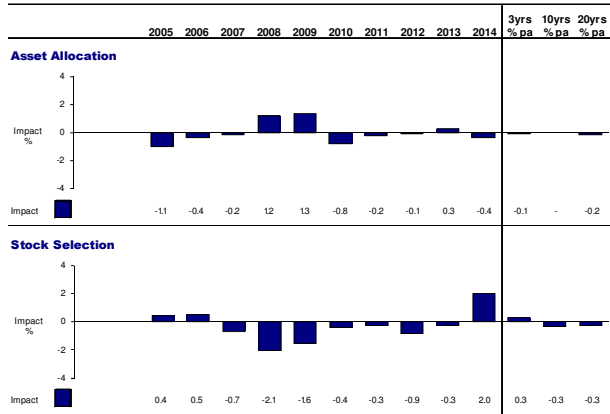


- Stock selection in Equities was most beneficial.

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Long Term Attribution

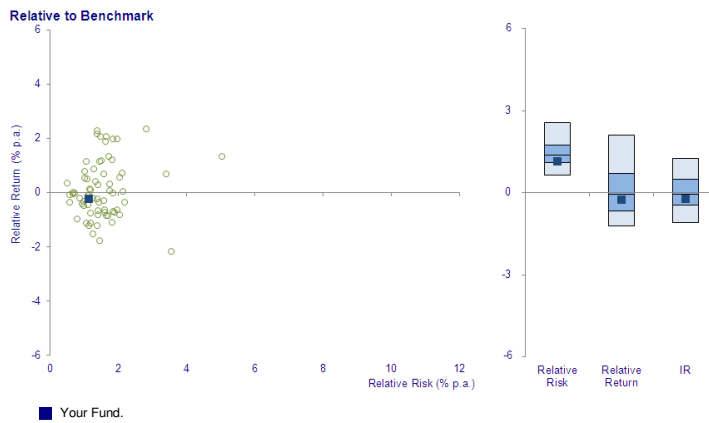


• Longer term stock selection has been unfavourable. This was due mainly to below benchmark returns in UK equities.

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Relative Risk and Return – 5 Years % p.a.



• Relative risk is low compared to other Fund's within the local authority universe. Unfortunately relative risk has not been rewarded in relative return during this period.

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Section 3

Manager Performance

Latest Year Attribution

Fund Return	8.5
Benchmark Return	8.8
Relative Performance	1.6
attributable to:	
Strategic Allocation	-0.5
Manager Contribution	1.8
Residual	0.3

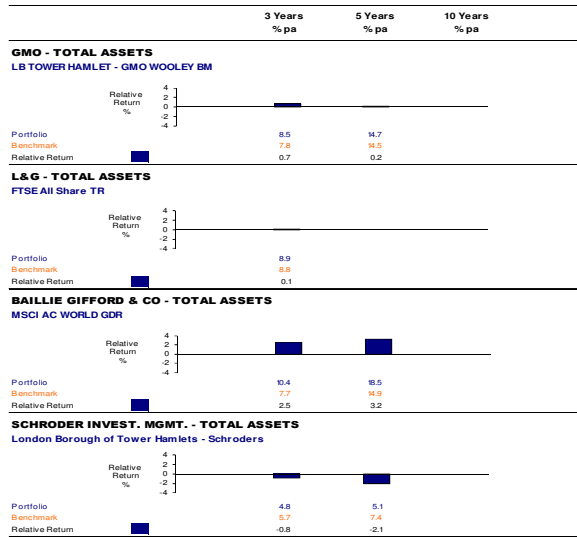
The relative performance can be attributed to the effects of manager contribution and strategic allocation.

Strategic Allocation			Manager Contribution			
Distribution		Policy	Investment	Weighted Contribution	% Return	
Portfolio	Benchmark	Contribution	Manager		Portfolio	Benchmark
24.4	25.0	-	GMO	1.6	15.1	8.0
20.9	20.0	-	L&G		9.0	8.8
17.5	16.0	-	BAILLIE GIFFORD & CO	0.9	12.0	6.7
10.4	14.0	0.1	INVESTEC ASSET MANAGEMENT	-0.2	0.5	2.5
10.3	12.0	-0.1	SCHRODER INVEST. MGMT.	-0.2	9.7	11.9
5.5	3.0	-0.3	L&G	-	-4.4	-4.4
5.0	5.0	-	BAILLIE GIFFORD & CO	-0.1	1.1	4.0
4.9	5.0	-	RUFFER INVESTMENT MGMT LTD	-0.2	-1.1	2.5
1.0	0.0	-0.1	INTERNALLY MANAGED	-	1.0	0.4
				1.8		

GMO and Baillie Gifford above benchmark returns were most beneficial.

Ruffer not achieving objective to achieve positive returns over a 12 month period.

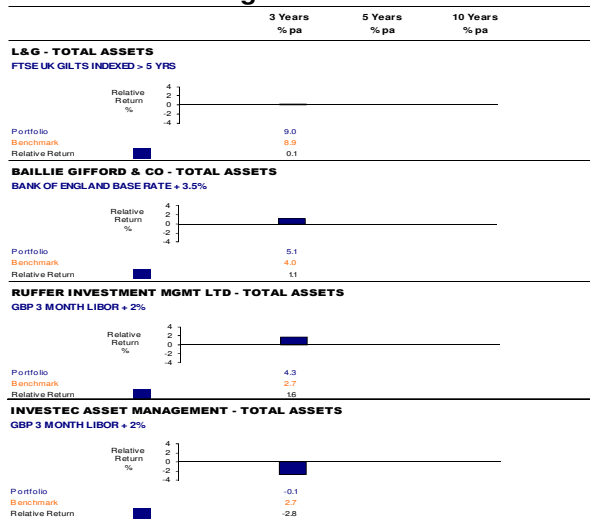
Manager Performance Longer Term



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Manager Performance Longer Term



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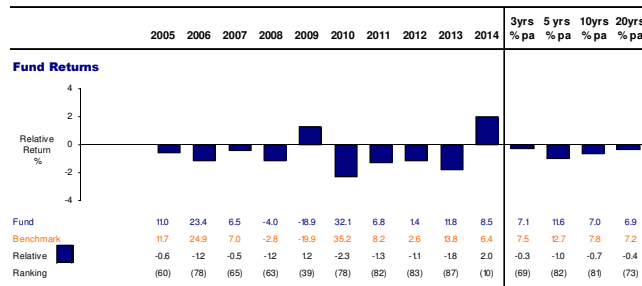
Section 4

Total Fund Performance versus Peer Group

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Total Fund Performance



- The Fund is 2% ahead of the local authority average return over the latest year, ranking in the top range of returns within the universe.
- However, over the longer term of 10 years there have only been 2 years where above average returns have been recorded.
- The return of 6.9% per annum over the 20 year period was 0.4% per annum behind the local authority average return.

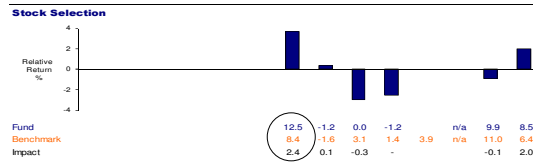
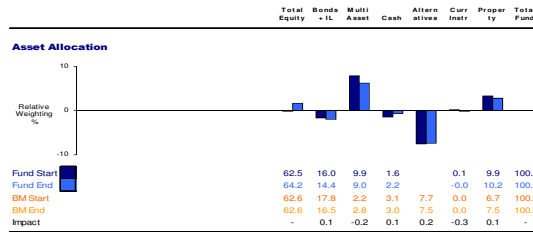
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Latest Year Attribution

Fund Return	8.5
Benchmark Return	6.4
Relative Performance	2.0
attributable to:	
Asset Allocation	-
Stock Selection	2.0

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



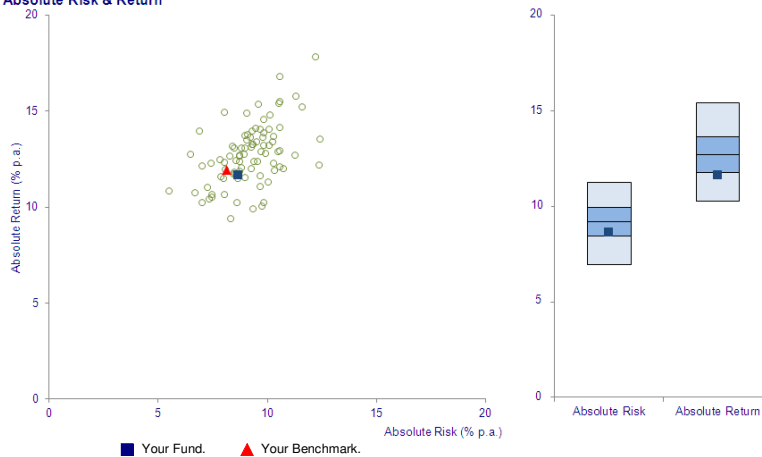
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The well above average return in Equities was most beneficial.

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Absolute Risk and Return – 5 Years % p.a.

Absolute Risk & Return



The Fund has lower absolute risk compared to other funds within the universe. During a period where risk assets have been rewarded in return, the Fund return is within lower quartile range of returns.

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Appendix

Summary of Long Term Returns and Rankings

Return %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	3yrs % pa	10yrs % pa	20yrs % pa
Total Equity	2.6 (50)	32.1 (25)	5.1 (94)	-7.8 (87)	-24.4 (24)	48.4 (68)	9.2 (41)	-0.3 (84)	8.9 (87)	2.5 (1)	9.1 (85)	8.7 (50)	7.2 (77)
UK Equities	5.6 (23)	28.6 (17)	7.2 (98)	-8.7 (97)	-30.9 (77)	50.2 (68)	8.3 (75)	1.4 (75)	8.5 (86)	3.7 (50)	9.1 (67)	7.1 (94)	7.0 (94)
N. America	3.7 (64)	27.5 (16)	-2.9 (65)	-3.5 (45)	-12.2 (22)	42.4 (39)	9.0 (55)	7.3 (35)	14.9 (96)	8.2 (96)	10.1 (96)	8.2 (62)	6.9 (100)
Europe ex UK	8.7 (20)	35.0 (79)	11.9 (27)	4.5 (1)	-32.9 (77)	49.9 (36)	7.2 (58)	-8.0 (100)	10.0 (100)	32.1 (1)	6.9 (80)	9.5 (67)	9.0 (59)
Japan	-3.1 (22)	46.1 (75)	-7.1 (16)	-14.2 (25)	-9.4 (1)	30.9 (18)	3.4 (2)	-1.1 (80)	2.6 (75)	0.7 (31)	3.9 (75)	4.5 (19)	13 (10)
Pacific	24.8 (1)	35.9 (47)	8.7 (44)	8.5 (6)	-6.0 (75)	57.7 (12)	7.3 (12)	-2.3 (35)	24.4 (1)	3.9 (1)	8.1 (1)	8.5 (1)	7.5 (25)
Other Intl.	0.8 (61)	60.3 (55)	2.9 (78)	2.5#									
Global Eq				-7.9#	-22.4	55.2	13	8.8	10.0	10.4			
Bonds + I.	-0.1#	-0.3#	6.3	-0.7	2.7	13	4.2	4.9	-12	2.6			
UK Bonds	6.2 (33)	9.1 (30)	18 (8)	2.0 (53)	-0.4 (42)	2.4 (85)	-0.1#						
UK I.	5.7 (45)	8.3 (56)	2.8 (50)	9.8 (1)	-3.1 (78)	10.8 (36)	6.2 (84)	21.2 (38)	11.8 (33)	-4.4 (52)	9.0 (35)	7.0 (54)	
Cash	8.0 (3)	13.4 (3)	7.4 (12)	8.7 (9)	1.1 (74)	2.5 (22)	2.0 (29)	0.6 (50)	16 (32)	-12 (78)	0.3 (64)	5.2 (9)	n/a
Multi Asset							-0.1#	3.6	10.9	0.0	4.7		
Property	8.1 (56)	22.6 (43)	21.0 (7)	-8.2 (26)	-27.0 (38)	4.8 (77)	6.9 (80)	4.6 (64)	0.7 (64)	9.9 (77)	5.0 (63)	4.3 (59)	6.9 (51)
Total Assets	11.0 (60)	23.4 (78)	6.5 (65)	-4.0 (63)	-19.9 (38)	32.1 (78)	6.8 (82)	1.4 (83)	11.8 (87)	8.5 (10)	7.1 (69)	7.0 (81)	6.9 (73)

no 1 invested in this area for the entire period

Local Authority Universe Asset Class Performance*

	% of Asset Class		% p.a. Return			
	At end 2012/13	At end 2013/14	3 Yrs	5 Yrs	10 Yrs	20 Yrs
Equities	100	100				
UK Equities	38.8	38.2	10.3	17.5	8.9	7.9
Overseas Equities	52.8	52.9	6.9	14.8	9.1	6.9
North America	18.5	18.5	12.1	17.2	8.0	8.1
Continental Europe	12.8	13.6	7.9	15.0	9.8	8.8
Japan	5.4	4.9	5.5	9.3	3.7	1.0
Pacific ex Japan	5.7	5.1	2.3	14.9	12.6	7.0
Emerging Markets	9.1	9.2	-1.2	12.6	11.5	-
Global	8.4	8.9	8.1	14.8	-	-
Bonds	100	100				
UK	58.5	57.4	7.3	8.8	5.9	7.2
Index-Linked	23.1	22.3	8.4	8.6	6.9	7.3
Overseas Bonds	12.9	15.2	3.5	5.3	5.1	5.2
Pooled	5.5	5.0	5.0	9.2	-	-
Alternatives	100	100				
Private Equity	55.5	55.5	7.5	6.0	-	-
Hedge Funds	30.5	29.2	3.6	5.6	-	-
Other Alternatives	13.9	15.4	0.9	3.7	-	-

* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

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Agenda Item 5.3

COMMITTEE: Pensions Committee	DATE: 17 September 2014	CLASSIFICATION: Unrestricted	REPORT NO. .
REPORT OF: Acting Corporate Director of Resources ORIGINATING OFFICER(S): Bola Tobun - Investment & Treasury Manager		TITLE: Investment Performance Review and LGPS Updates for Quarter Ended 30 June 2014 Ward(s) affected: N/A	

1. SUMMARY

- 1.1 This report informs Members of the performance of the Fund and its investment managers for the quarter ending 30th June 2014.
- 1.2 For the quarter, the Fund achieved a return gross of fees of 1.8%, which is - 0.3% below the benchmark return of 2.1%. In money terms the portfolio had an increase of £18.8m made up of market appreciation of £21.1m less fund manager's underperformance valued at £2.3m.
- 1.3 In the twelve months to the end of June 2014, the Fund returned 10.4%, this exceeds the benchmark by 1.2%. In money terms, the Fund increased by £97.5m, this is made up of £90.9m of market appreciation and £6.6m attributed to the managers' outperformance.
- 1.4 For longer term performance the Fund posted three year returns of 7.2% matching the benchmark and posted five year returns of 11.0%, 0.2% below the benchmark return of 11.2%.
- 1.5 For this quarter end four out of the eight mandates matched or achieved returns above the benchmark. The Fund performance was below the benchmark over the quarter, this was mainly due to poor relative returns from Baillie Gifford Global Equities and Investec Bonds portfolio.
- 1.6 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 the strategic benchmark weight.

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. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.
- 5.2 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 Pensions Committee.
- 5.3 This report informs Members of the performance of the Fund and its investment managers for the quarter 30 June 2014.

Legal & General Investment Management

- 5.4 Legal & General was appointed (2 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 30 June 2014 had a market value of £266.6m. The value of the assets taken on at the commencement of the contract was £204.7m.
- 5.5 The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 years benchmark for the UK Index-Linked Mandates.

Baillie Gifford & Co

- 5.6 Baillie Gifford manage two distinct mandates; global equity mandate and diversified growth fund mandate. The global equity fund had had a value of £118.9m at the start of the mandate in July 2007. The value of assets under management as of 30 June 2014 was £183.6m. 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.
- 5.7 The diversified growth fund mandate was opened in February 2011 with contract value of £40m. The value of assets under management as at 30 June 2014 was £47.9m. 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

- 5.8 GMO manages a Global Equity Mandate which at 30 June 2014 had a market value of £267m. The initial value of the assets taken on at the commencement (29 April 2005) of the contract was £201.8m.
- 5.9 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

- 5.10 Investec manages a Global Bond Mandate which at 30 June 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.

5.11 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

5.12 Ruffer manage an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. The value of assets under management as of 30 June 2014 was £45.3m.

5.13 Their 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

5.14 Schroder manage a property mandate. The value of this mandate on 20 September 2004 was £90m. The value of assets under management at 30 June 2014 was £110.1m.

5.15 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.

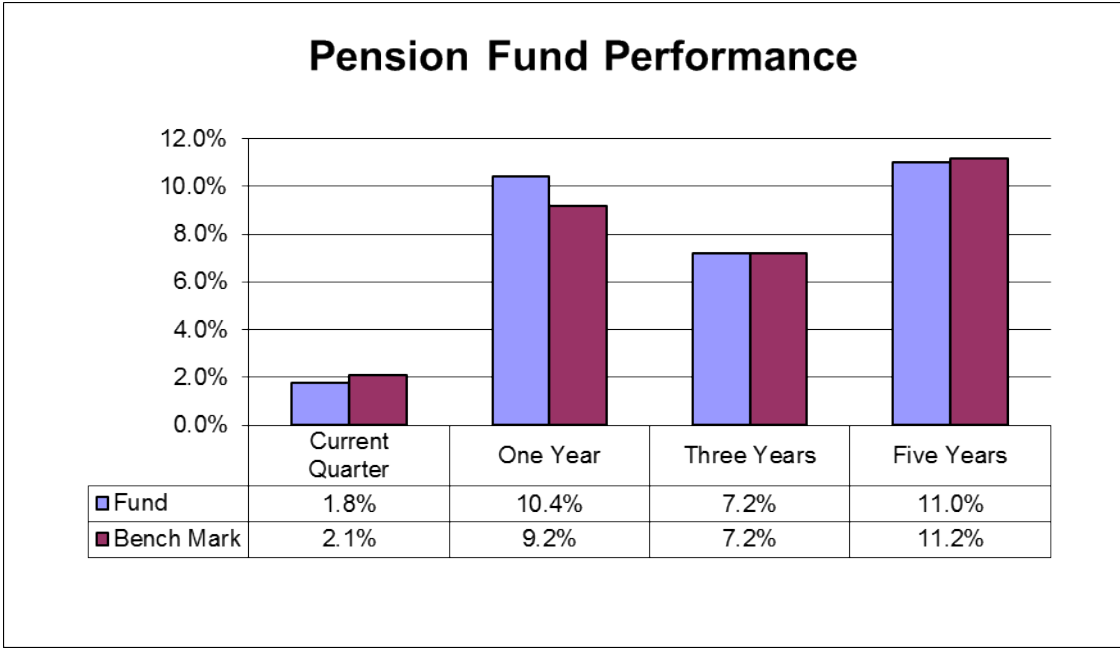
6. INVESTMENT PERFORMANCE

6.1 The Fund's overall value has increased by £18.8m from £1,016.24m as of 31 March 2014 to £1,035m as of 30 June 2014.

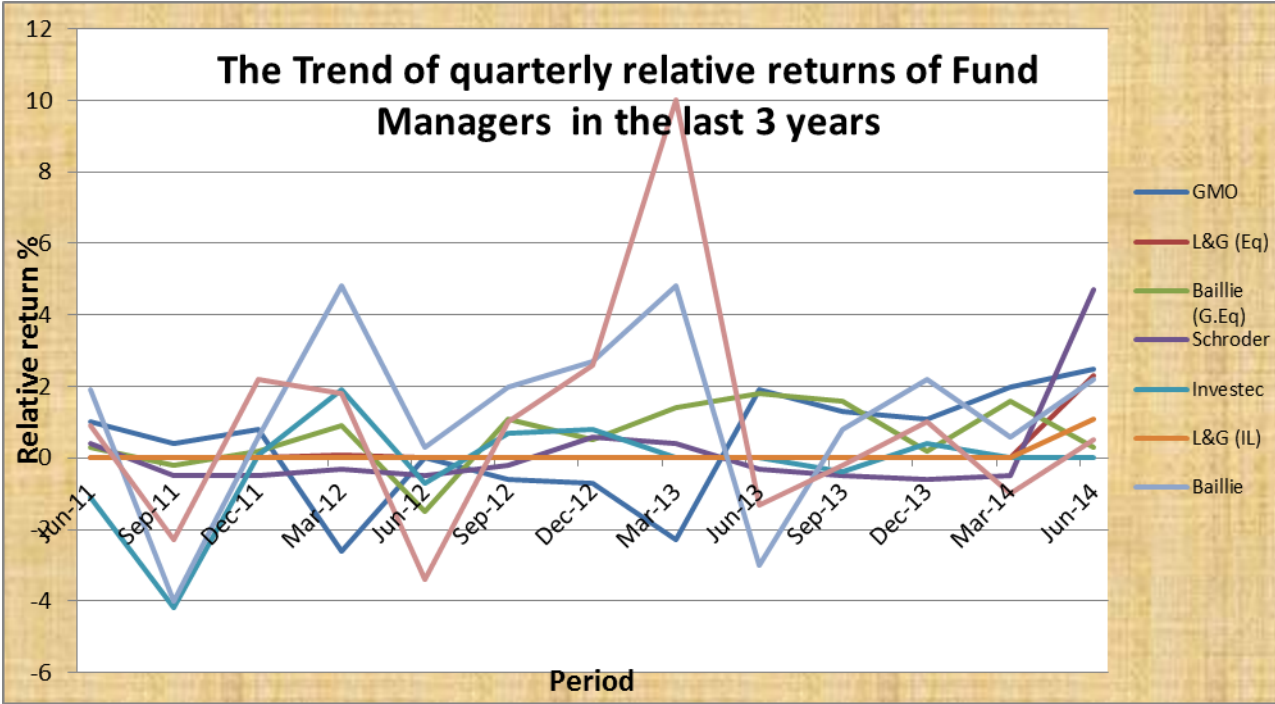
6.2 The fund underperformed the benchmark this quarter with a return of 1.8% compared to the benchmark return of 2.1%. The twelve month period sees the fund outperforming the benchmark by 1.2%.

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

Table 1 – Pension Fund Performance



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



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

7. MANAGERS

7.1 The Fund currently employs six specialist managers with eight different mandates. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value June 2014 £M	Benchmark Weight % of Fund Managers	Actual Weight % of Fund Managers	Difference %	Value March 2014 £M	Date Appointed
GMO	Global Equity	267.0	25.0%	25.8%	0.8%	260.5	29 Apr 2005
Baillie Gifford	Global Equity	183.6	16.0%	17.7%	1.7%	183.0	5 Jul 2007
L & G UK Equity	UK Equity	216.9	20.0%	21.0%	1.0%	212.1	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	48.0	5.0%	4.6%	-0.4%	46.9	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	45.3	5.0%	4.4%	-0.6%	45.0	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	49.7	3.0%	4.8%	1.8%	49.2	2 Aug 2010
Investec Bonds	Bonds	97.5	14.0%	9.4%	-4.6%	97.5	26 Apr 2010
Schroder	Property	110.1	12.0%	10.6%	-1.4%	105.2	30 Sep 2004
Cash	Currency	17.0	0.0%	1.6%	1.7%	16.8	
Total		1,035.1	100.0%	100.0%	0.0%	1,016.2	

- 7.2 The Fund was valued at £1,035.1million as at 30 June 2014. This includes cash held and being managed internally (LBTH Treasury Management), this has increased to 1.6% 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	One Year	Three Years	Five Years
GMO Global Equities	0.30%	4.90%	0.50%	0.40%
Baillie Gifford Global Equities	-2.20%	0.80%	1.70%	2.40%
L & G UK Equity	0.00%	0.10%	0.10%	N/A
Baillie Gifford Diversified Growth	1.10%	2.30%	1.10%	N/A
Ruffer Total Return Fund	-0.10%	-1.80%	1.40%	N/A
L & G Index Linked-Gilts	0.00%	0.10%	0.10%	N/A
Investec Bonds	-0.60%	-2.10%	-2.40%	N/A
Schroder	0.30%	-1.30%	-0.90%	-1.20%
Total Variance (Relative)	-0.30%	1.10%	0.00%	-0.20%

- 7.4 **GMO** made absolute return of 2.5% in the quarter, outperforming the benchmark of 2.2% by 0.3%. The portfolio value has increased by £6.5m since 31 March 2014. This increase is made up of a benchmark/market value appreciation of £5.724m and GMO out performance of £0.78m.
- 7.5 Strong returns for equity markets globally during this quarter generally resulted in small reductions in GMO's assessment of equity market opportunities. Hence the marginal outperformance delivered by the manager this quarter.
- 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** delivered marginally positive return of 0.3% in the quarter against a benchmark of 2.6% resulting in relative underperformance of -2.2%.
- 7.8 For this quarter, the portfolio increased by £0.5m. Assuming the portfolio posted the benchmark return of 2.6% for the quarter, the portfolio would have increased by £4.76m but the manager did not capture the available market value appreciation for the reporting period.
- 7.9 The fund's holdings in Whole Foods detracted from performance over the quarter, as the share price fell due to reduced earnings expectations as competition in the industry has intensified. The manager has retained the position, however is now monitoring the competitive environment more diligently. During the period, the fund purchased a holding in Workday, a cloud based enterprise software provider, as Baillie Gifford see significant growth potential for the company. The manager also took advantage of

- temporary share price weakness to add to holdings in Amazon, LinkedIn, and Tesla Motors.
- 7.10 Over the longer term, the portfolio performance remains ahead of the benchmark for 12 months, 3 years and 5 years.
- 7.11 **L & G (UK Equity)** performance has been in line with the index benchmark (FTSE-All Share) since inception, as expected.
- 7.12 **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.
- 7.13 **Investec (Bonds)** – The portfolio posted a flat return against benchmark return of 0.6% this quarter. Longer term performance remains negative. The portfolio has been behind the benchmark since inception.
- 7.14 For this quarter, the portfolio was flat. Assuming the portfolio achieved benchmark return of 0.6% for the quarter, the portfolio would have increased by £0.585m but the manager did not capture the available market value appreciation for the reporting period due to their adopted strategy/approach.
- 7.15 Longer term performance remains below the benchmark for 12 months, 3 years, 5 years and since inception. 12 months to reporting period the benchmark returned 2.5% and the portfolio has delivered 0.4%. In money terms assuming the portfolio posted a benchmark return for the period, the market valuation would have been £99.571m, instead of actual portfolio valuation of £97.531m, indicating uncaptured market gain of £2m.
- 7.16 The most significant contribution to the negative relative performance was the Fund's credit and interest rate exposure, to which the portfolio is positioned defensively.
- 7.17 The manager believes that they will be able to benefit from a return to normalisation in core government yields, although this failed to materialise over the quarter. This negative relative performance was somewhat offset by strong performance of the fund's emerging market debt exposure, in particular its hard currency debt.
- 7.18 Currency also made a modest positive contribution despite sterling strengthening over the period.
- 7.19 **Schroder (Property)** returned 4.7% in the quarter against a benchmark of 4.3% resulting in marginal outperformance of the benchmark by 0.3%. In money terms the benchmark appreciation for the portfolio was £4.5m but the portfolio appreciated by £4.9m, posting a gain of £0.4m.
- 7.20 Although the portfolio posted marginally positive return this quarter. The longer term performance has lagged the benchmark. There has been an underperformance of -1.2% p.a. over the 5 years to 30 June 2014.

- 7.21 The biggest contribution to absolute returns continues to come from the Fund's in UK holdings. Over the 12 months to 30 June 2014, UK funds made a positive contribution to relative returns, with the UK portfolio now showing an outperformance over its benchmark over all periods.
- 7.22 The Fund's European holdings continue to act as a drag on returns, despite this being just 5% of the portfolio by value.
- 7.23 Over the quarter £5 million was invested into Metro Property Unit Trust, funded by a partial sale of Standard Life UK Shopping Centre PUT (£1.76m) and capital distributions from two specialist funds.
- 7.24 **Baillie Gifford Diversified Growth Fund** delivered a 2.2% return for the quarter, outperformed the benchmark of 1.0% by 1.2%. In money terms, the portfolio increased by £1.057m, £0.47m of it was market appreciation and £0.587m can be attributed to value added by manager's strategy and approach.
- 7.25 The long term performances are ahead of the benchmark. The last 12 months are ahead by 3.0% and the last 3 years by 1.1% above benchmark.
- 7.26 Emerging market bonds had the most significant positive contribution to returns over the quarter, representing a reversal in investor sentiment toward the asset class.
- 7.27 Holdings in listed equities, investment grade bonds and infrastructure also enhanced quarterly returns. Only absolute return strategies detracted from performance, mainly due to the fund's short position in the Australian dollar vs the US dollar.
- 7.28 The manager has a cautious outlook on the markets and in accordance with this view has increased exposure to defensive assets, such as government bonds, investment grade bonds and structured finance.
- 7.29 The allocation to cash was cut to 7% due to the higher yield offered by liquid structured finance products. Despite strong performance from high yield bonds over the past year, the manager continued to reduce exposure to the asset class as spreads have contracted to their tightest levels since the beginning of the financial crisis. The manager opened a new position in Allianz's merger arbitrage fund to profit from increased M&A activity.
- 7.30 **Ruffer Total Return Fund (Absolute Return)** underperformed by -0.1% in the quarter, and -1.8% over the year to 30 June 2014. The fund's relative performance suffered over the quarter as a whole, as the fund's allocation to 'non-equity' assets has meant that it has not benefitted fully from the recent equity market growth. US Dollar exposure also detracted as, despite the Fed's tapering of quantitative easing and increasing expectations of interest rate hikes, the currency remained relatively weak.
- 7.31 The fund is ahead of target over 3 years and since the mandate's inception. The main driver for positive performance was the fund's allocation to US Treasury Inflation Protected Securities (TIPS), as valuations rose due to falling long term interest expectations in the US, despite expectations for short term inflation increasing. The fund's allocation to oil stocks also added

value, benefitting as the price of crude oil increased over the quarter due to ongoing political tensions in the Middle East.

Cash Management

- 7.32 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.
- 7.33 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 Acting Corporate Director of Resources to manage on a day to day basis within set parameters.
- 7.34 As at 30 June 2014 the Pension Fund internal cash balance was £18.6m.
- 7.35 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 August 2014 the Pension Fund in house cash position stood at £18.7m.

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 30 June 2014 are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark	Fund Position as at 30 Jun 2014	Variance as at 30 Jun 2014	Variance as at 31 Mar 2014
UK Equities	24.0%	24.7%	0.7%	0.8%
Global Equities	37.0%	39.40%	2.4%	2.1%
Total Equities	61.0%	64.1%	3.1%	2.9%
Property	12.0%	10.6%	-1.4%	-1.8%
Bonds	14.0%	9.4%	-4.6%	-4.4%
UK Index Linked	3.0%	4.8%	1.8%	1.8%
Alternatives	10.0%	9.0%	-1.0%	-1.0%
Cash	0.0%	2.1%	2.1%	2.5%
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 Updates

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 Administration regulations are being updated to reflect the provisions in the Public Sector Pension Act.

Draft Regulations on Scheme Governance Arrangements – Consultation Response

9.2 DCLG's governance discussion paper was circulated in June 2013 with 15 August 2014 deadline. The Council responded to the consultation.

9.3 At the last meeting you were advised that 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 Board is established to assist the administering authority in complying with regulations. Each administering authority is required to establish a local pension board by 01 April 2015 to be responsible for assisting it to secure compliance with these regulations, any other legislation relating to the governance and administration of the scheme and requirements imposed by the Pensions Regulator in relation to the scheme. The local pension board is also to be responsible for assisting the administering authority to ensure the effective and efficient governance and administration of the scheme.

- 9.5 The regulations allow for the possibility of local authority administering authorities combining an existing pension committee established under the powers of s.101 of the Local Government Act 1972 (LGA1972) and the local pension board into a single body subject to approval by the Secretary of State. There are obstacles inherent in trying to form a joint committee/board under two separate pieces of primary legislation may make the operation of a joint body impractical. The understanding of many is, that the Pension Board does serve a different role to that of a s.101 pension committee. The LGA1972 is designed with elected members in mind and as such, many of its provisions do not sit well with the constitution of a pension board. It is also worth noting that there are benefits in ensuring a clear separation between the two bodies since they appear to be conceived with different functions in mind.
- 9.6 The regulations provide alternative versions of regulation 106(5), with respondents asked to choose between a version in which a pension board's constitution complies with LGA1972 and a version in which the administering authority has greater flexibility around voting rights, sub-committees, joint committees and the payment of expenses. While there may appear to be benefits in adopting the LGA1972 provisions, given that they are already there and provide a ready-made framework, there are concerns that this is not the best approach. For s.101 type rules are not compatible with the different roles of pension boards. In particular, the membership of pension boards is required to be broader than that of s.101 pension committees. While it may be possible to amend the s.101 option to include a series of exemptions from some of the restrictions of LGA1972, the more straightforward approach, the general view, is to go with option two which enables administering authorities to prescribe their own procedures and requirements. However, if this is the case, there do need to be some safeguards to ensure that administering authorities cannot frustrate the intention of the regulations. As a minimum, the regulations must ensure that employer and scheme representatives are given equal and full voting rights. Also the expenses of the pension board should be viewed as the cost of good administration.
- 9.7 It is for the administering authority to determine the membership of the local pension board but it must have an equal number of employer and scheme member representatives with relevant experience and the capacity to represent, with a total of at least 4, and must together form the majority of the membership. A member of a local authority may not be appointed as an employer or scheme member representative.
- 9.8 Generally there are concerns over the prohibition on elected members being appointed as scheme member or employer representatives. While it is desirable to ensure a degree of separation between the existing pension committee and the new pension board, it is believed that this aim can best be achieved by other means. There is also the requirement for "capacity and experience" is proving unpopular in some quarters. Capacity can be read as meaning someone having available time and resource to carry out their pension board functions or it can be taken as meaning they have knowledge and skills or the capability to acquire these. Both definitions are welcome when considering membership of a local pension board. In the

absence of a definition the term “experience” is potentially more problematic. Clearly some experience of pension schemes would be useful for a pension board member but if the expectation is set too high it will make it impossible to fulfil.

- 9.9 Local pension boards must not have a conflict of interest, the administering authority must satisfy themselves of this and a member of the local pension board must provide information reasonably requested to enable this.
- 9.10 As the administering authority we must have regard to guidance issued by the Secretary of State in relation to local pension boards. We are hoping in formulating such guidance, that the DCLG will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator. Such guidance will probably need to include the following:
- Minimum number of local pension board meetings per year
 - Determining employer and scheme member constituencies for representation on the local pension board
 - Local pension board reporting requirements
 - Local pension board whistle-blowing mechanisms
 - Complying with the Pension Regulator’s code of practice given that this was not written for LGPS funds specifically e.g. good governance around funding and investment and what it actually means for local pension boards.
- 9.11 Officers are currently evaluating 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 November 2014 meeting for approval.

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

- 9.12 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.
- 9.13 DCLG Consultation Paper on proposals for the Restructure of the LGPS – LGPS Opportunities for Collaboration, Cost Savings and Efficiencies with a deadline of 11 July 2014, LBTH responded.

10. London Collective Investment Vehicle (CIV) Update

- 10.1 London’s local authorities currently have over £24 billion of assets under management. London Councils’ analysis shows that in 2012-13 approximately £72.8 million was paid in fees across 253 fund mandates from 87 fund managers.
- 10.2 To date, 28 boroughs have agreed to contribute £25,000 each to a fund (another is likely to contribute shortly), which is being used to commission specialist advice associated with the development of the proposed CIV.

- 10.3 The CIV is being developed for and on behalf of the London boroughs and the boroughs will participate on an entirely voluntary basis. As such, considerable attention has been given to ensuring that the proposed governance and operational structures of the CIV reflects the wishes and needs of the boroughs, both on day one and into the future.
- Investment in the ACS (Authorised Contractual scheme) should be voluntary, allowing both entry and withdrawal.
 - Boroughs choose which asset classes to invest into, and how much.
 - Boroughs should have sufficient control over the ACS Operator.
 - Investing authorities will take a shareholding interest in the Operator.
 - Shareholders will have membership of the Pensions Joint committee.
 - ACS Operator will provide regular information to participating boroughs
 - ACS will not increase the overall investment risk faced by boroughs.
- 10.4 Since April, work has been underway to set up the operating company required for the establishment of the ACS. With this work nearly complete, procurement of a number of service providers for the ACS has started, beginning with an Asset Servicer, a partner organisation that will be integral to the overall operation.
- 10.5 By the end of autumn 2014 contracts should be in place with all the key outsourced partners for the ACS. Current thinking suggests that the Operator will initially be based on an outsourced model in order to facilitate the quickest and most pragmatic route to the CIV's launch.
- 10.6 A private limited company has now been created by London Council's and LBTH acquired share capital in the company following the approval of the Pensions Committee and the Cabinet.
- 10.7 The first meeting of the joint select committee will take place shortly.
- 10.8 A shortlist of three suppliers has been selected to take forward into the competitive dialogue stage for the Asset servicer procurement.

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 11.1. The comments of the Acting Corporate Director Resources are incorporated in 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***

*Hymans Robertson's Briefing notes, Hymans
quarterly reports and WM Quarterly Performance Review*

Robert:

*Bola Tobun Investment & Treasury
Manager x4733*

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2014

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Prepared By:

Matt Woodman - Senior Investment Consultant
Mike Burns - Investment Analyst

For and on behalf of Hymans Robertson LLP
August 2014

Agenda Item 5.4

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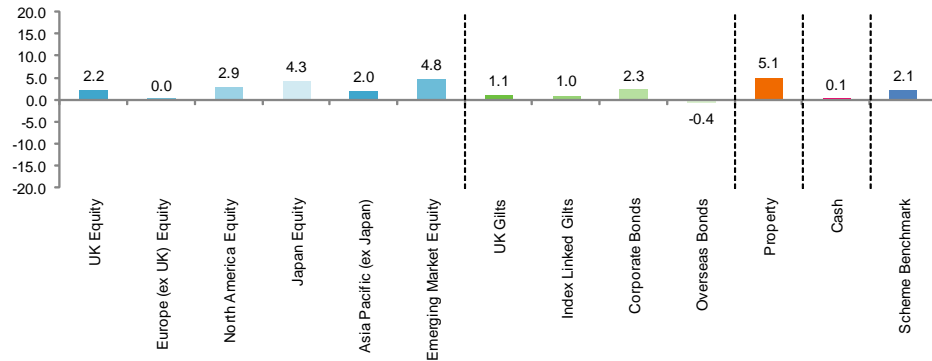
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in 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.

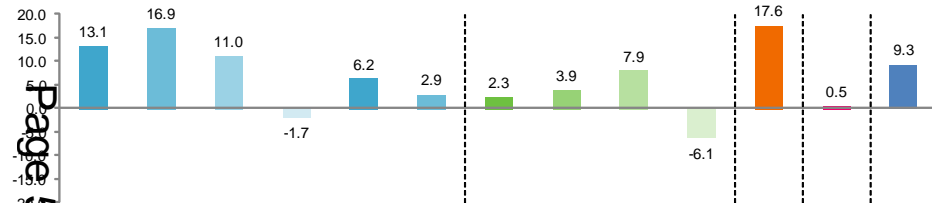
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Historic Returns for World Markets to 30/06/2014

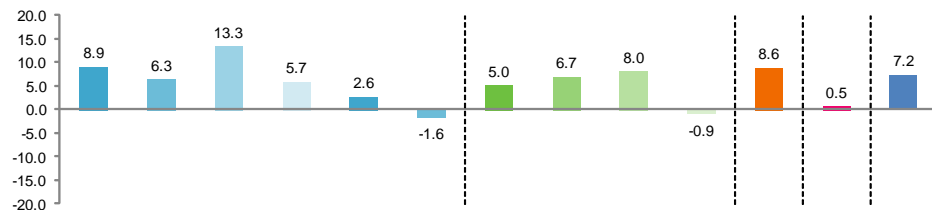
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

In general, equity markets were buoyant over the quarter. Economic signals were mixed and included the publication of disappointing economic growth figures for the US and Eurozone during the three months to end March. The OECD, IMF and World Bank cut their forecasts for global economic growth in 2014, but still expect a higher level of activity compared with last year. In contrast, there were examples of positive news, with signs of modest economic growth in some Eurozone countries and strong manufacturing and jobs data from the US.

Short-term interest rates in the UK and US were unchanged during the quarter. In June, the European Central Bank (ECB) reduced interest rates, from 0.25% to 0.15%, against a background of low economic growth and concerns over a deflationary spiral. This is in contrast to central bank policy in other major economies. There was speculation that the Bank of England may soon raise short-term rates on the basis of low unemployment, reasonable growth and encouraging forward-looking manufacturing data. The US central bank, the Federal Reserve, continues to taper its QE programme (expected to finish in October), although it did dismiss the possibility of using a rate rise to curb the recent growth in asset values.

Conflicts and political tensions caused volatility in energy markets. Oil prices hit a nine month high, reflecting concerns that global supply might be affected by the re-intensification of conflict in Iraq.

Key events during the quarter were:

Global Economy

- The OECD, IMF and World Bank reduced their forecasts for global economic growth for 2014;
- Growth forecasts for the 28 nation European Union were revised modestly upwards by the European Commission, from 1.5% to 1.6%;
- The ECB was the first major central bank to introduce a negative deposit rate (the rate which commercial banks receive on their deposits at the Bank), cutting the rate from 0% to -0.1%;
- UK unemployment rate fell to a 5 year low.

Equities

- The best performing sectors relative to the FTSE All World Index were Oil & Gas (+6.4%) and Utilities (+2.4%); the worst were Consumer Services (-1.8%) and Financials (-1.7%);
- Merger and acquisition activity dominated headlines. Sizeable international deals were attempted, but not always concluded – most notably the unsuccessful hostile takeover bid for AstraZeneca from pharmaceutical giant Pfizer.

Bonds and Currencies

- Gilt yields fell marginally (prices rose) at medium & long maturities, but rose at the 'short end';
- Sterling hit a six year high against the dollar, reflecting speculation that the Bank of England will raise interest rates ahead of other central banks.

[1] Overseas equity returns shown in Sterling

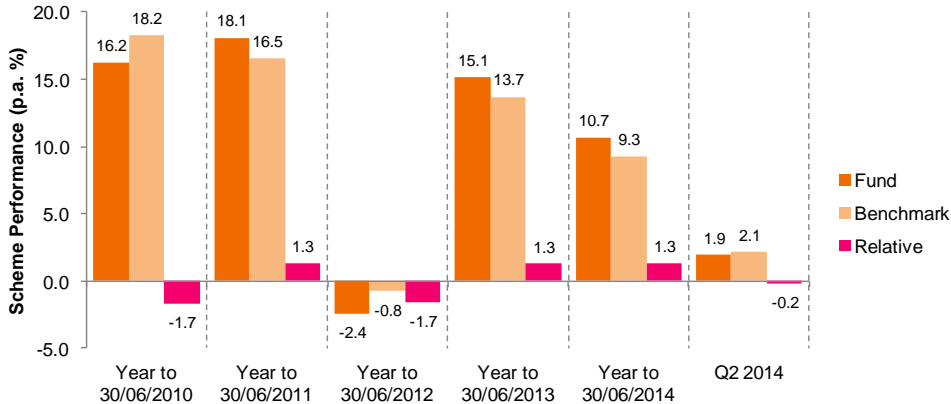
Portfolio Summary

Valuation Summary ^[1]

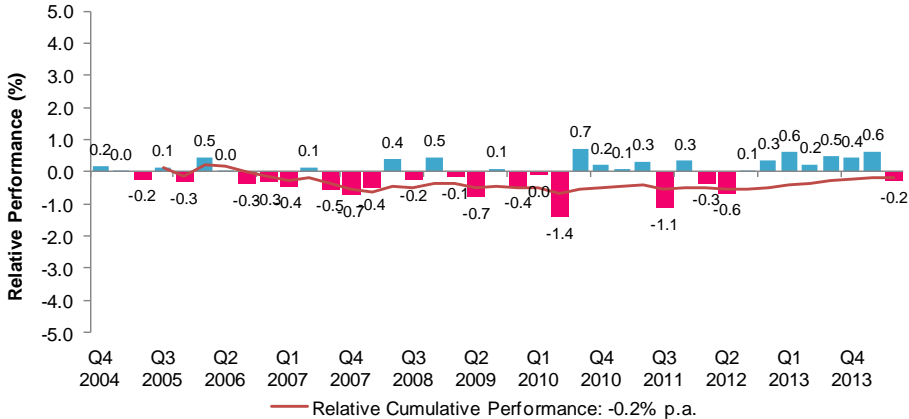
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2014	Q2 2014			
Global Equity	649.3	663.5	64.1	61.0	3.1
Bonds	146.7	147.3	14.2	17.0	-2.8
Property	103.7	109.8	10.6	12.0	-1.4
Alternatives	91.9	93.2	9.0	10.0	-1.0
Cash	8.6	5.0	0.5	0.0	0.5
Trustee Bank Account	16.8	17.0	1.6	0.0	1.6
Total inc. Trustee Bank Account	1017.0	1035.8	100.0	100.0	

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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)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2014	Q2 2014			
Baillie Gifford Global Equity	183.1	183.6	17.7	16.0	1.7
GMO Global Equity	261.3	267.8	25.9	25.0	0.9
Legal & General UK Equity	212.1	216.9	20.9	20.0	0.9
Baillie Gifford Diversified Growth Fund	46.9	47.9	4.6	5.0	-0.4
Ruffer Total Return Fund	45.0	45.3	4.4	5.0	-0.6
Investec Bonds	97.5	97.5	9.4	14.0	-4.6
Legal & General Index-Linked Gilts	49.2	49.7	4.8	3.0	1.8
Schroder Property	105.2	110.1	10.6	12.0	-1.4
Trustee Bank Account	16.8	17.0	1.6	0.0	1.6
Total	1017.0	1035.8	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]

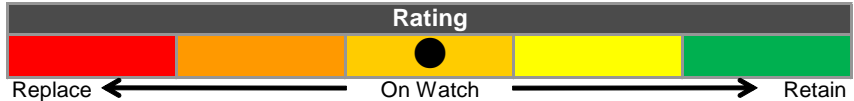
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		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	0.3	2.4	2.3	2.3	0.5	-0.1	1.1	4.6	1.8
	Benchmark	2.6	2.2	2.2	1.0	1.0	0.6	1.1	4.3	2.1
	Relative		0.3	0.1	1.3	-0.5	-0.7	0.0	0.3	-0.3
12 Months (%)	Absolute	10.8	14.9	13.2	6.6	0.6	-0.0	4.4	13.4	10.4
	Benchmark	9.6	9.9	13.1	4.0	4.0	2.5	4.3	15.1	9.3
	Relative	1.0	4.6	0.1	2.5	-3.3	-2.5	0.1	-1.4	1.0
2 Years (% p.a.)	Absolute	18.8	17.9	15.6	6.9	6.7	0.9	3.5	7.6	12.6
	Benchmark	15.3	16.3	15.5	4.0	4.0	2.6	3.5	8.2	11.5
	Relative	3.0	1.4	0.1	2.7	2.6	-1.6	0.0	-0.6	1.0
3 Years (% p.a.)	Absolute	10.5	8.4	9.0	5.3	4.1	-0.2	7.8	5.5	7.2
	Benchmark	8.5	8.2	8.9	4.0	4.0	2.7	7.8	6.7	7.2
	Relative	1.8	0.2	0.1	1.2	0.1	-2.8	0.0	-1.1	0.0

[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.

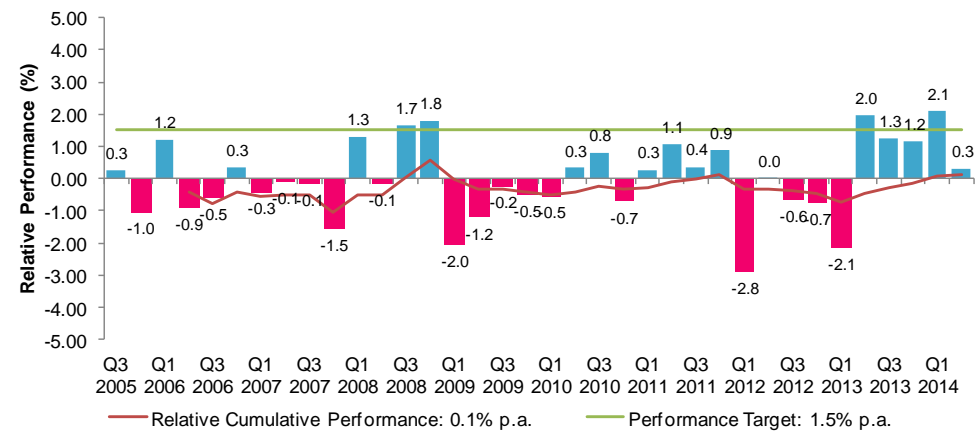
GMO Global Equity

HR View Comment & Rating



Uncertainties remain around the recent changes to the GMO portfolio construction methodology. Although performance has seen a welcome improvement, we remain on a watching brief whilst the situation unfolds.

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



Comments

The global equity mandate outperformed the benchmark over the quarter, delivering an absolute return of 2.5%. GMO has outperformed significantly over 12 months (+4.8%), and are also ahead over 3 years and since inception of the mandate.

The portfolio's position in high quality US stocks had a negative impact on performance over the quarter as high quality stocks underperformed the US market. The European value position (c.40% of total portfolio weight) also detracted, as European stocks lagged the broader market. Positive contribution to performance came from the newly established Emerging Market and Japanese positions, with security selection a key driver.

Performance Summary [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.5	15.1	8.6	9.5
Benchmark	2.2	9.9	8.2	9.3
Relative	0.3	4.8	0.4	0.2

* Inception date 29 Apr 2005.

3 Year Relative Return

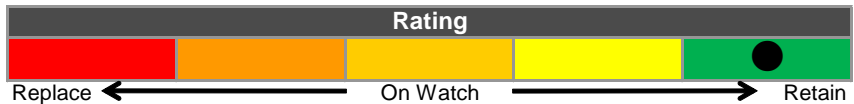
Actual % p.a.	Target % p.a.
0.4	1.5

[1] Gross of fees

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

Baillie Gifford Global Equity

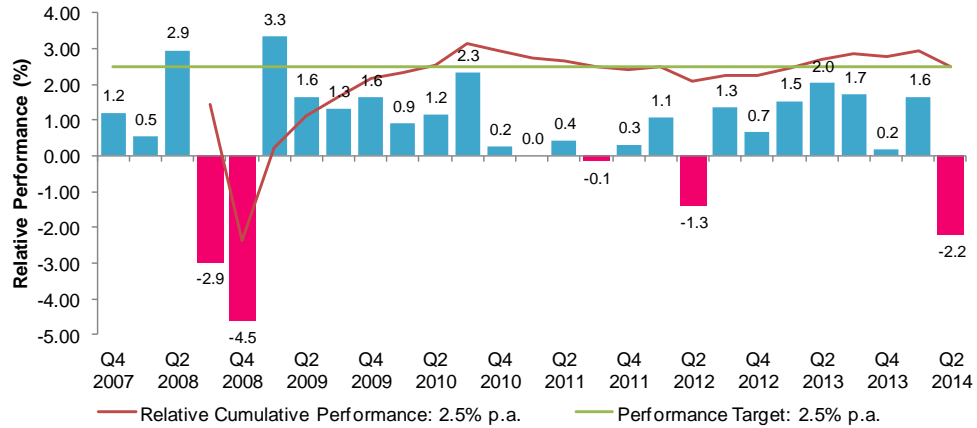
HR View Comment & Rating



No significant news to report over the quarter.

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



Comments

The Fund underperformed the benchmark by 2.2% over the quarter, delivering a positive absolute return of 0.4%. The fund is relatively concentrated and seeks to generate strong absolute returns over the long-term through the use of an unconstrained bottom-up approach. The fund has delivered on this over the longer term, as performance remains ahead of the benchmark over 12 months, 3 years and since inception of the mandate.

Baidu, the Chinese search engine, made the most significant contribution to returns over the quarter as its net income increased by 24% due to mobile revenue growth. This represented a reversal as the stock had been the main detractor from performance over the previous quarter. Illumina also enhanced returns following increased demand for genetic sequencing technology within the wider healthcare sector.

The fund's holdings in Whole Foods detracted from performance over the quarter, as the share price fell due to reduced earnings expectations as competition in the industry has intensified. The manager has retained the position, however is now monitoring the competitive environment more diligently. During the period, the fund purchased a holding in Workday, a cloud based enterprise software provider, as Baillie Gifford see significant growth potential for the company. The manager also took advantage of temporary share price weakness to add to holdings in Amazon, LinkedIn, and Tesla Motors.

Performance Summary [2] [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.4	11.2	11.0	8.3
Benchmark	2.6	9.6	8.5	5.8
Relative	-2.2	1.4	2.3	2.3

* Inception date 05 Jul 2007.

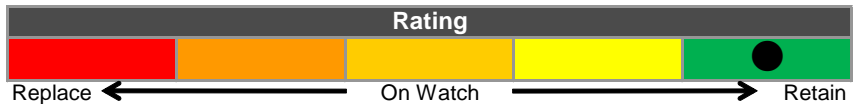
3 Year Relative Return

Actual % p.a.	Target % p.a.
2.3	2.5

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

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	2.3	13.3	9.1	11.4
Benchmark	2.2	13.1	8.9	11.2
Relative	0.1	0.2	0.1	0.2

* Inception date 02 Aug 2010.

Comments

Performance has been broadly 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.

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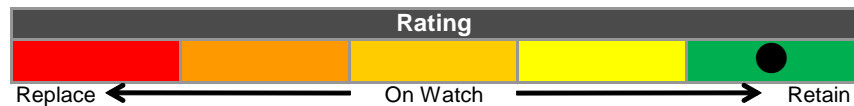
[1] Gross of fees

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%.

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Comments

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

Performance Summary ^[1] ^[i]

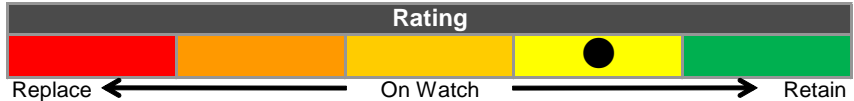
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.1	4.4	7.8	9.0
Benchmark	1.1	4.3	7.8	8.9
Relative	0.0	0.1	0.1	0.0

* Inception date 02 Aug 2010.

[1] Gross of fees

Investec Bonds

HR View Comment & Rating



Given the relative performance of Investec since inception, the Officers and Advisers have been closely monitoring the position and assessing possible triggers for a review of the appointment.

As much of Investec's relative performance has reflected a defensive positioning as markets have continued to rally, the Officers and Advisers have agreed two triggers for review:

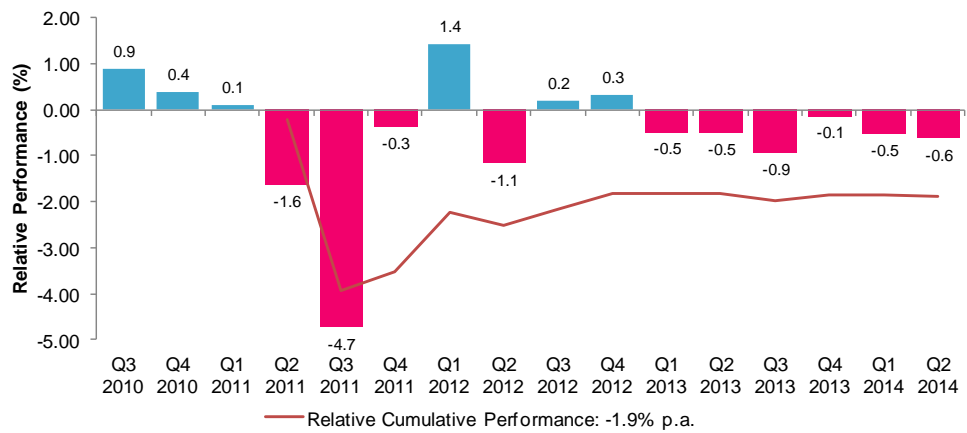
1. Sustained underperformance in a market correction.
2. John Stopford, the key portfolio manager, leaving Investec.

Comments

The portfolio delivered a flat return over the quarter, lagging its cash+2% p.a. target. The most significant contribution to negative relative performance was the Fund's credit and interest rate exposure, to which the portfolio is positioned defensively. The manager believes that they will be able to benefit from a return to normalisation in core government yields, although this failed to materialise over the quarter.

This negative relative performance was somewhat offset by strong performance of the fund's emerging market debt exposure, in particular its hard currency debt. Currency also made a modest positive contribution despite the sterling strengthening over the period.

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



Performance Summary [2] [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.0	0.4	0.2	-0.3
Benchmark	0.6	2.5	2.7	2.7
Relative	-0.6	-2.1	-2.4	-3.0

* Inception date 26 Apr 2010.

3 Year Relative Return

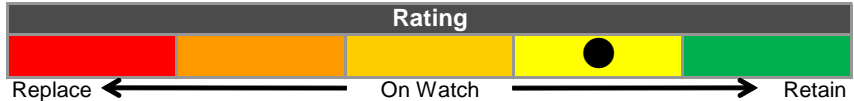
Actual % p.a.	Target % p.a.
-2.4	2.0

[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

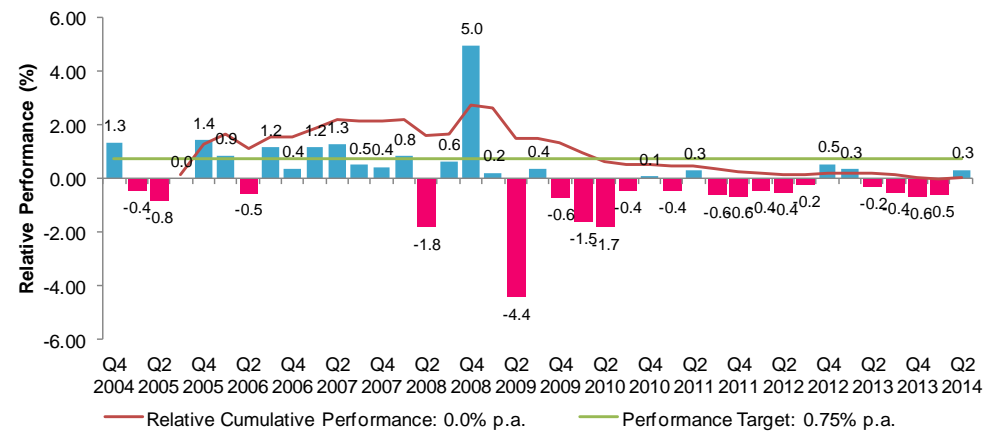
HR View Comment & Rating



There were no significant changes to report during the quarter. Our central rating for the Schroders Property Fund remains a 4 ("Retain").

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



Comments

The segregated property portfolio managed by Schroders outperformed its benchmark by 0.3% net of fees over the quarter. Longer term performance has lagged the benchmark however; with an underperformance of 1.1% p.a. over the 3 years to 30 June 2014.

The biggest contribution to absolute returns continues to come from the Fund's UK holdings. Over the 12 months to 30 June 2014 UK value add funds made a positive contribution to relative returns, with the UK portfolio now showing an outperformance over its benchmark over all periods. The Fund's European holdings continue to act as a drag on returns, despite this amounting to just 5% of the portfolio by value.

Over the quarter £5 million was invested into Metro Property Unit Trust, funded by a partial sale of Standard Life UK Shopping Centre PUT (£1.76m) and capital distributions from two specialist funds.

Performance Summary [2] [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	4.7	13.6	5.7	7.8
Benchmark	4.3	15.1	6.7	9.3
Relative	0.3	-1.3	-0.9	-1.3

3 Year Relative Return

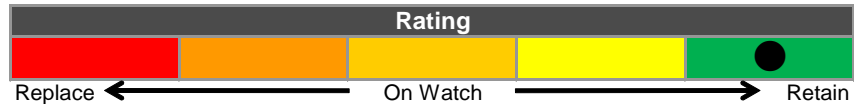
Actual % p.a.	Target % p.a.
-0.9	0.8

[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

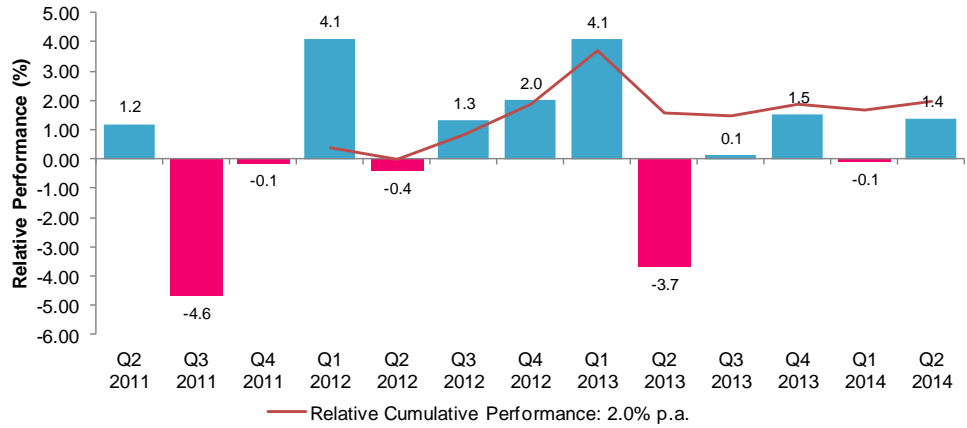
HR View Comment & Rating



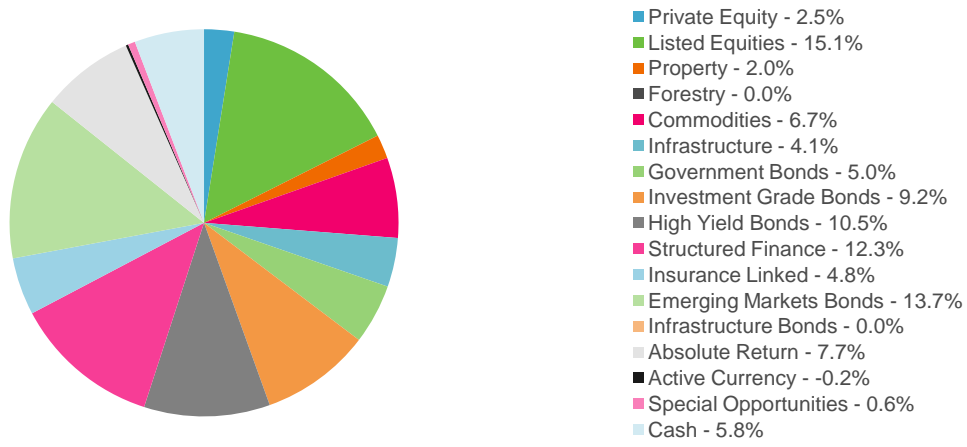
No significant news to report over the quarter.

Emerging market bonds had the most significant positive contribution to returns over the quarter, representing a reversal in investor sentiment toward the asset class. Holdings in listed equities, investment grade bonds and infrastructure also enhanced quarterly returns. Only absolute return strategies detracted from performance, mainly due to the fund's short position in the Australian dollar vs the US dollar. This position has been retained as a play on slower Chinese growth which the manager anticipates. The manager has a cautious outlook on the markets and in accordance with this view has increased exposure to defensive assets, such as government bonds, investment grade bonds and structured finance. The allocation to cash was cut to 7% due to the higher yield offered by liquid structured finance products. Despite strong performance from high yield bonds over the past year, the manager continued to reduce exposure to the asset class as spreads have contracted to their tightest levels since the beginning of the financial crisis. The manager opened a new position in Allianz's merger arbitrage fund to profit from increased M&A activity.

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



Asset Allocation at Quarter End



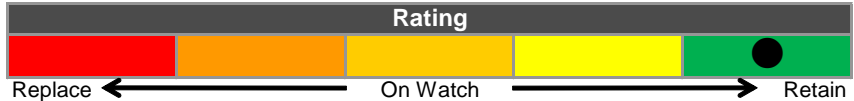
Volatility

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.

Ruffer Total Return Fund

HR View Comment & Rating

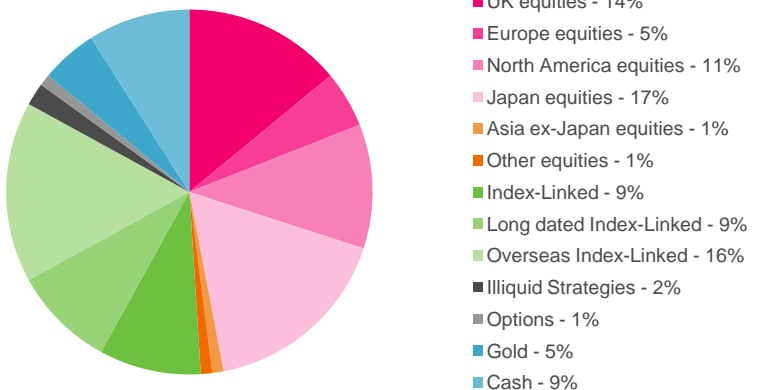


No significant developments to report during the quarter.

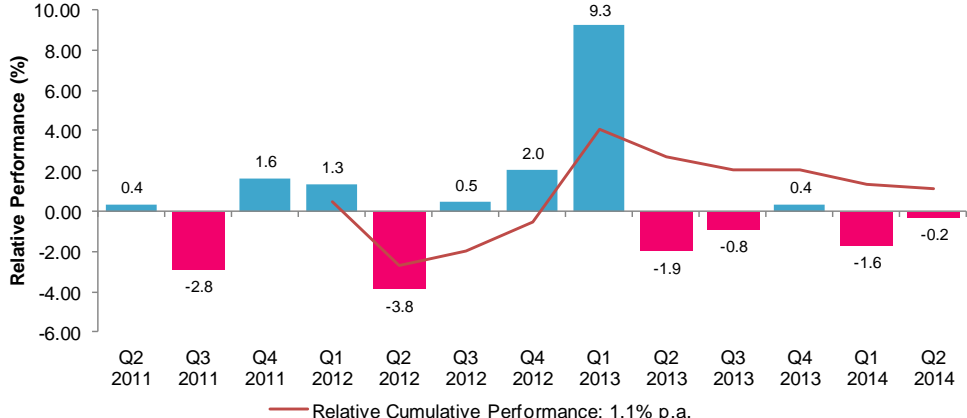
Ruffer's Absolute Return Fund delivered an absolute performance of 0.5% over the quarter, underperforming its cash+2% target. The fund is also behind target over 12 months, but ahead of target over 3 years and since the mandate's inception. The main driver for positive performance was the fund's allocation to US Treasury Inflation Protected Securities (TIPS), as valuations rose due to falling long term interest expectations in the US, despite expectations for short term inflation increasing. The fund's allocation to oil stocks also added value, benefitting as the price of crude oil increased over the quarter due to ongoing political tensions in the Middle East.

The fund's relative performance suffered over the quarter as a whole, as the fund's allocation to 'non-equity' assets has meant that it has not benefitted fully from the recent equity market growth. US Dollar exposure also detracted as, despite the Fed's tapering of quantitative easing and increasing expectations of interest rate hikes, the currency remained relatively weak.

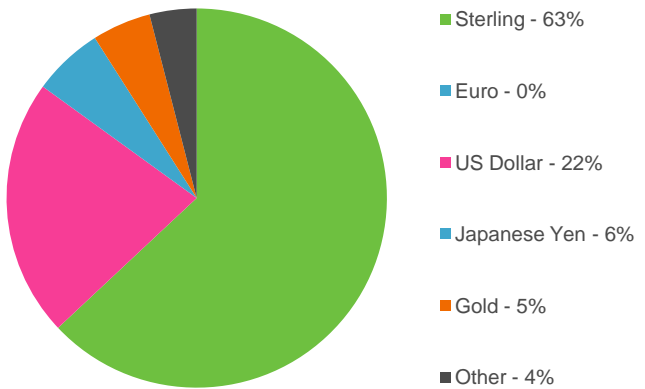
Asset Allocation at Quarter End



Relative Quarterly and Relative Cumulative Performance [1]



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]

		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	0.4	2.5	2.3	2.4	0.8	0.0	1.1	4.7	1.9
	Benchmark	2.6	2.2	2.2	1.0	1.0	0.6	1.1	4.3	2.1
Relative			0.3	0.1	1.4	-0.2	-0.6	0.0	0.3	-0.2
		-2.2								
12 Months (%)	Absolute	11.2	15.1	13.3	7.1	1.6	0.4	4.4	13.6	10.7
	Benchmark	9.6	9.9	13.1	4.0	4.0	2.5	4.3	15.1	9.3
Relative		1.4	4.8	0.2	3.0	-2.3	-2.1	0.1	-1.3	1.3
3 Years (% p.a.)	Absolute	11.0	8.6	9.1	5.8	5.2	0.2	7.8	5.7	7.5
	Benchmark	8.5	8.2	8.9	4.0	4.0	2.7	7.8	6.7	7.2
Relative		2.3	0.4	0.1	1.7	1.1	-2.4	0.1	-0.9	0.3
5 Years (% p.a.)	Absolute	17.4	13.8	11.4	6.0	4.8	-0.3	9.0	7.8	11.3
	Benchmark	14.0	13.2	11.2	4.0	4.0	2.7	8.9	9.3	11.2
Relative		3.0	0.5	0.2	1.9	0.7	-3.0	0.0	-1.3	0.1

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[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).

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	0.7	-	-	7.8	1.4	10.0	-1.7	-	-
North American Equity	15.0	3.0	-	-	52.8	-6.6	30.0	7.9	-	-
European Equity	10.0	1.9	-	-	16.7	3.4	30.0	2.2	-	-
Pacific Basin Equity	9.0	-4.7	-	-	11.8	-2.9	25.5	-14.9	-	-
Emerging Market Equity	3.0	2.2	-	-	10.9	3.9	4.5	5.4	-	-
Bonds	14.0	-4.6	-	-	-	-	-	-	100.0	0.0
UK Index-Linked Gilts	3.0	1.8	-	-	-	-	-	-	-	-
Property	12.0	-1.4	-	-	-	-	-	-	-	-
Alternatives	10.0	-1.0	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.5	-	-	0.0	0.8	0.0	1.2	-	-
Trustee Bank Account	0.0	1.6	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	5.0	-0.4	16.0	1.7	25.0	0.9	14.0	-4.6

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Asset Allocation (Cont.)

Summary of Benchmarks

	Legal & General Index-Linked Gilts		Legal & General UK Equity		Ruffer Total Return Fund		Schroder Property		Trustee Bank Account	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	-	-	100.0	0.0	-	-	-	-	-	-
North American Equity	-	-	-	-	-	-	-	-	-	-
European Equity	-	-	-	-	-	-	-	-	-	-
Pacific Basin Equity	-	-	-	-	-	-	-	-	-	-
Emerging Market Equity	-	-	-	-	-	-	-	-	-	-
Bonds	-	-	-	-	-	-	-	-	-	-
UK Index-Linked Gilts	100.0	0.0	-	-	-	-	-	-	-	-
Property	-	-	-	-	-	-	100.0	-0.2	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	0.2	-	-
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	-1.4	0.0	1.6

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Performance Calculation

Geometric vs Arithmetic Performance

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

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

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

Period	Arithmetic Method			Geometric Method			Difference
	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.

Agenda Item 5.8

COMMITTEE: Pensions Committee	DATE: 17 September 2014	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Acting Corporate Director of Resources		TITLE: 2013/14 Pension Fund Annual Report		
ORIGINATING OFFICER(S): Bola Tobun – Investment & Treasury Manager		Ward(s) affected: N/A		

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

1. SUMMARY

- 1.1 This report presents the draft Annual Pension Fund Report and Statement of Accounts.
- 1.2 The Statement of Accounts have been prepared under International Financial Reporting Standards (IFRS) rules and are now presented for consideration by the Pensions Committee.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the:
 - Pension Fund Annual Report;
 - Pension Fund Statement of Accounts;
 - Funding Strategy Statement;
 - Statement of Investment Principles;
 - Governance Compliance Statement.

3. REASONS FOR DECISIONS

- 3.1 The Local Government Pension Scheme (Administration) Regulation 2008 requires the Authority as the administering body for the London Borough of Tower Hamlets Pension Fund to publish an annual report by 1 December following the year end. The Pensions Committee will be asked to approve the audited final accounts at its meeting on 19 November 2014.
- 3.2 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets.

4. ALTERNATIVE OPTIONS

- 4.1 The draft Pension Fund Annual Report and Statement of Accounts are presented to Members to give them an early sight of the report. Although, this is not a requirement it is good practice to keep Members informed on the activities and performance of the Fund.

5. BACKGROUND

- 5.1 The Council as the administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
- 5.2 The contents and format of the accounts are determined by statutory requirement and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).
- 5.3 It should be noted that the Accounts are still in draft form and currently being audited by the Councils auditors, KPMG. A set of audited accounts will be presented to Members for approval the 19 November 2014 meeting of the Pensions Committee.
- 5.4 The Department Communities and Local Government (DCLG) have introduced an additional requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

6. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

- 6.1 The Accounts comprise two main statements with supporting notes. The main statements are:
 - Dealings with Members Employers and Others which is essentially the funds revenue account
 - The Net assets Statement which can be considered as the funds balance sheet.
- 6.2 The return on investment section of the Accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:
 - The financial transactions relating to administration of the fund.
 - The transactions relating to its role as an investor.
- 6.3 The fund income section of the Report principally relates to the receipt of contributions from employers and active members and the payment of pensions benefits. The section indicates that the Fund is cash positive in that the receipt of contributions exceeds the pension payments by £8.2m in 2013/14 compared to £3.3m in 2012/13 and £3.7m in 2011/12.
- 6.4 Whilst the Fund net cashflow position in 2013/14 has increased significantly this year, it expected that the Fund will become cashflow negative over the next two years - although the exact timing is difficult to predict.
- 6.5 Overall, fund membership has risen and the increase in active members is significantly more than the rise in other categories of membership. The number of active members have gone up by 1,494 (28.2%), whilst the increases in deferred, and retired membership numbers are 372 (5.9%) and 98 (2.4%) respectively. And surprisingly the dependants membership declined slightly by 4 (-0.4%). The Fund is expected to become cashflow negative over time as fund membership matures.
- 6.5 The investment performance section of the Report details returns on the investment portfolio and the impact of managers' activities and investment markets on the value of investments. The Fund achieved a return on its investment portfolio of 8.5% in 2013/14 outperforming benchmark of 6.8% by

1.7%. 3 year returns slightly ahead of benchmark of 6.9%, but 10 year returns lag benchmark by 0.4% at 7.0%.

- 6.6 Overall, fund assets increased by £86m. The increase was mostly due to gains made from performance of financial markets in which the Fund held its investments and a net gain between fund income and expenditure.
- 6.7 The net asset statement represents the net worth (£1,013m) of the fund as the 31st March 2014. The statement reflects how the transactions outlined in the other statement have impacted on the value of the fund's assets.
- 6.8 The Annual report also includes three key statements (Funding Strategy Statement, Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.
- 6.9 The Funding Strategy Statement undergoes a detailed review and update after each triennial valuation – a revised statement is attached to this report for approval.
- 6.10 The purpose of the Funding Strategy statement is threefold:
 - To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
 - To support the regulatory framework to maintain stable employer contributions rates as much as possible; and
 - To take a prudent longer-term view of funding those liabilities.
- 6.11 The Statement of Investment Principles facilitates adherence to best practice in the management of pension schemes as set out by the revised Myners Principles and the Fund is required to state the extent to which it has complied with these principles.
- 6.12 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.
- 6.13 No issues have been identified by the auditor in reviewing the pension fund accounts for 2013/14, however due to delays in providing an opinion on the Councils Statement of Accounts (which include the pension fund accounts), the auditor is not able to include his opinion in the Pension Annual Report at this stage.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1. The comments of the Acting Corporate Director Resources are incorporated into the report.

1. LEGAL COMMENTS

- 7.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report.
- 7.2 The report should deal with the following matters:
 - (a) management and financial performance during the year of the pension;
 - (b) an explanation of the investment policy for the fund and a review of performance;

- (c) a report on arrangements made during the year for administration of the fund;
- (d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
- (e) a Governance Compliance Statement;
- (f) a Fund Account and Net Asset Statement;
- (g) an Annual Report dealing with levels of performance and any other appropriate matters;
- (h) the Funding Strategy Statement;
- (i) the Statement of Investment Principles;
- (j) statements of policy concerning communications with members and employing authorities; and
- (k) any other material which the authority considers appropriate.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 12.1 There are no any Crime and Disorder Reduction implications arising from this report.

12. EFFICIENCY STATEMENT

- 13.1 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 members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

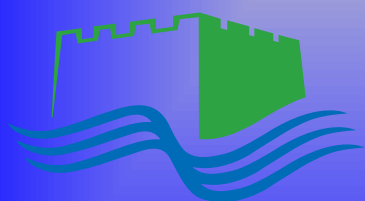
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

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

The London Borough of Tower Hamlets Pension Fund

Annual Report 2013/14



TOWER HAMLETS

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Foreword by Chris Holme: Acting Corporate Director, Resources

This report details the financial position of your Pension Fund and the performance of the professional fund managers appointed to administer its investment portfolio.

The economic backdrop within the UK and US are showing signs of improvement, but downside risks persist and the Eurozone economy remains fragile. Ongoing geopolitical tensions are still impacting on financial markets so the value of our investments has seen some volatility.

The 31 March 2013 triennial valuation of the Fund recognised an estimated deficit of £365m with corresponding funding level of 72% compared to the last valuation (31 March 2010) which recognised estimated deficit of £305m with corresponding funding level of 71%. Although equities have rebounded; bond yields are at record lows potentially raising the valuation of the Fund's liabilities. However, it is worth noting that the Council is a long term investor and has a relatively secure long term income stream. Therefore, the Fund should be able to alter strategy that enables it to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

The Fund has seen significant positive movement in the year benefiting from continued recovery in the financial markets, especially equities. The overall value of the portfolio of assets grew 8.5% in 2013/14 outperforming benchmark by 1.7%. This performance is reflective of average return on pension fund assets nationally and also average gains in financial markets. This year's performance follows on from good performances in 2012/13 and 2011/12 with average returns of 11% and 32% respectively. Markets continue to be volatile therefore the short to medium term outlook for the performance of the Fund remains uncertain.

The Investment Strategy allocates assets across a range of asset classes and further attempts to minimise exposure to significant movements within each asset class by appointing fund managers that pursue contrasting but complementary investment strategies. This approach ensures a diversified and balanced portfolio that targets steady and sustainable growth. However, asset allocation can drift away from target over time due to market or manager performance. To ensure that strategic asset allocation is in line with target and Fund Strategy objectives, the Fund's swing manager, L&G Investment Management is tasked with rebalancing the portfolio between equities and bonds when allocation significantly varies from target.

The Fund net cash flow position has increased significantly this year, it is expected that the Fund will become cash flow negative over the next two years - although the exact timing is difficult to predict. The Pensions Committee recognised this issue and agreed that, if necessary, income from two of the eight mandates can be recalled to ensure the Fund is able to pay its liabilities as they fall due.

Local Government Pension Scheme (LGPS) are still undergoing major changes to reduce the costs of running the scheme. We are presently waiting for the outcomes/decisions on the government consultation on proposed governance and structure of the LGPS. We continue to keep abreast of all proposed regulatory and changes.

Chris Holme

Governance of the Pension Scheme

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute.

The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets Pension Fund. The Pensions Committee has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and sets investment policy on behalf of the Council and other employers in the Fund. Therefore, the Pensions Committee considers all investment aspects of the Pension Fund.

MANAGEMENT AND ADVISERS TO THE PENSION FUND

Pensions Committee:

Councillors:

- Councillor Zenith Rahman (Chair)
- Councillor Judith Gardner
- Councillor Ann Jackson
- Councillor Shiria Khatun
- Councillor Craig Aston
- Councillor Oliur Rahman

Trade Union Representative (non-voting):

- John Gray (Unison)
- Frank West (GMB)

Admitted Bodies Representative (non-voting): John Gray (Circle Anglia Ltd)

Investment Advisers

Hymans Robertson
Raymond Haines (Independent Investment Adviser)

Actuarial Services

Hymans Robertson

Custodian

State Street Bank

Investment Performance

WM Company

Legal Advisors

In-House Team

Acting Corporate Director

Chris Holme

Auditor

KPMG LLP (UK)

Investment Managers

Baillie Gifford
GMO UK Limited
Investec Asset Management
Legal & General Investment Management
Ruffer LLP
Schroders Investment Management

The Pension Fund Regulations require the Council to obtain proper advice on the Fund's investment strategy. To obtain this advice the Pensions Committee has constituted an Investment Panel including professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the fund and individual managers and to consider technical reports on investment issues.

During 2013/14 the members of the Investment Panel were: -

Investment Panel

Raymond Haines, Independent Adviser (Chairman)
Councillor Zenith Rahman (Chair)
Councillor Judith Gardner
Councillor Ann Jackson
Councillor Shiria Khatun
Councillor Craig Aston
Councillor Oliur Rahman
John Gray (Unison)
Frank West (GMB)

Matt Woodman, Hymans Robertson

Chris Holme, Acting Corporate Director, Resources

Risk Management

The Funding Strategy Statement (appendix 3) explains the fund's key risks and how they are identified, mitigated, managed and reviewed.

The investment managers and custodian are audited separately and at different times. The Council receives AAF01/06 and SSAE16 reports that provides from their independent auditors.

The council is the primary employer in the Fund and the risks of late payment of contributions are with admitted and scheduled bodies who are treated by the Pension Regulations as part of the Council for pension purposes. All contributions received from external payroll providers are reconciled monthly.

The LGPS Scheme (2014)

The new scheme will not change pensions already being paid or benefits built up before April 2014, **existing benefits will be protected in full**. The main changes are as follows:

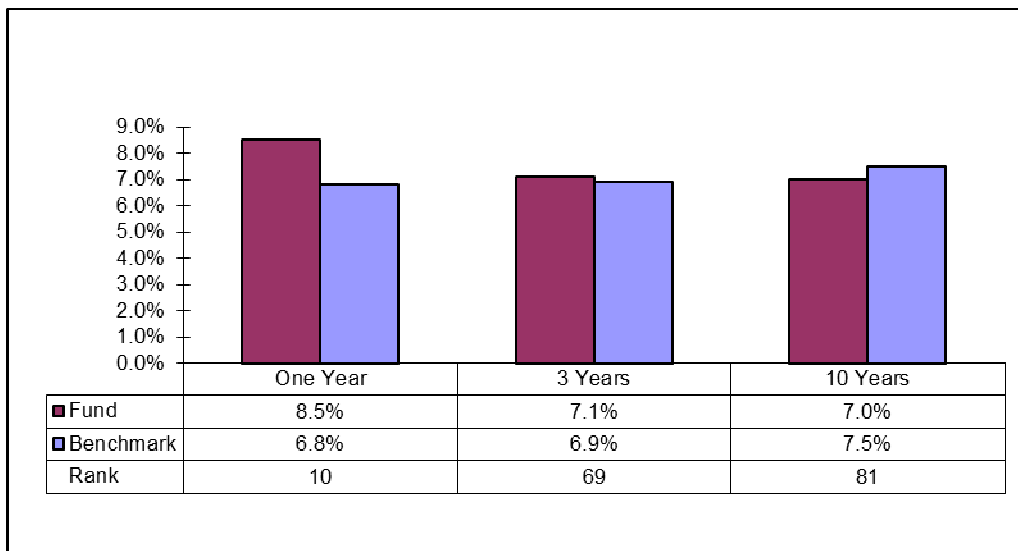
- A career average revalued earnings (CARE) scheme;
- The retirement age, which is currently 65, to be linked to the state pensionable age;
- The move to an accrual rate of 1/49th compared with 1/60th as at present;
- Pensions to be increased in line with the consumer prices index;
- Pensionable pay to include overtime;
- An increase in the employee's contribution rate for those earning over £34,000; and
- Introduction of the 50:50 option which will enable new scheme members to pay half contributions for half pension benefits.

Investment Performance of the Fund

The Council’s Statement of Investment Principles sets the Fund’s investment objective as “to follow an investment strategy which will achieve an appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk”.

In 2013/14 the fund had a strong performance achieving a return on its investment portfolio of 8.5%, outperforming the benchmark of 6.8%. The three year return also outperformed the benchmark with the fund returning 7.1% against a benchmark of 6.9%. The return for 10 year continued to lag the benchmark by 0.5% as it contains the negative equity returns of 2008/09.

Fund Performance (One, Three and 10 Years)



Fund Management Activity

The year was essentially a period of consolidation in which the manager appointments and asset allocation changes resulting from the restructuring initiated in 2010/11 began to be reflected in the fund’s performance. A recovery in the equity markets and strong returns from the fund’s two global equity managers was a major contributor to the outperformance.

The fund continued to be cash flow positive as concerns over a move toward negative cash flow were alleviated by the introduction of auto enrolment which brought an increase in the number of active members.

Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 31 March 2014 as set out below. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

Analysis of Asset Allocation

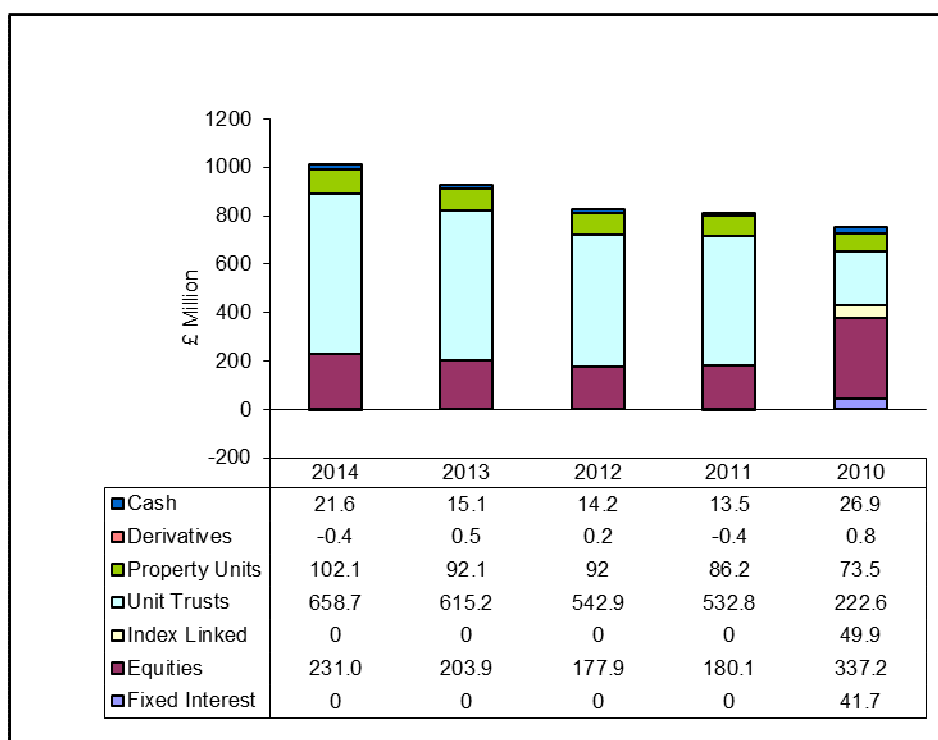
Asset Class	Benchmark	Fund Position	Variance
UK Equities	24.0%	24.8%	0.8%
Global Equities	37.0%	39.1%	2.1%
UK Index Linked	3.0%	4.8%	1.8%
Pooled Bonds	14.0%	9.6%	-4.4%
Property	12.0%	10.2%	-1.8%
Alternatives	10.0%	9.0%	-1.0%
Cash	0.0%	2.5%	2.5%

All investment activity is regulated by the Fund's Statement of Investment Principles which together with the Myners Compliance Statement are set out in Appendix 2.

Financial Accounts

During the financial year 2013/14 the value of the Fund increased by £86.1m. This is principally attributable to the performance of the financial markets in which the Fund held its investments. The "cash" sum includes the amount held by fund managers and the Pension Fund bank account.

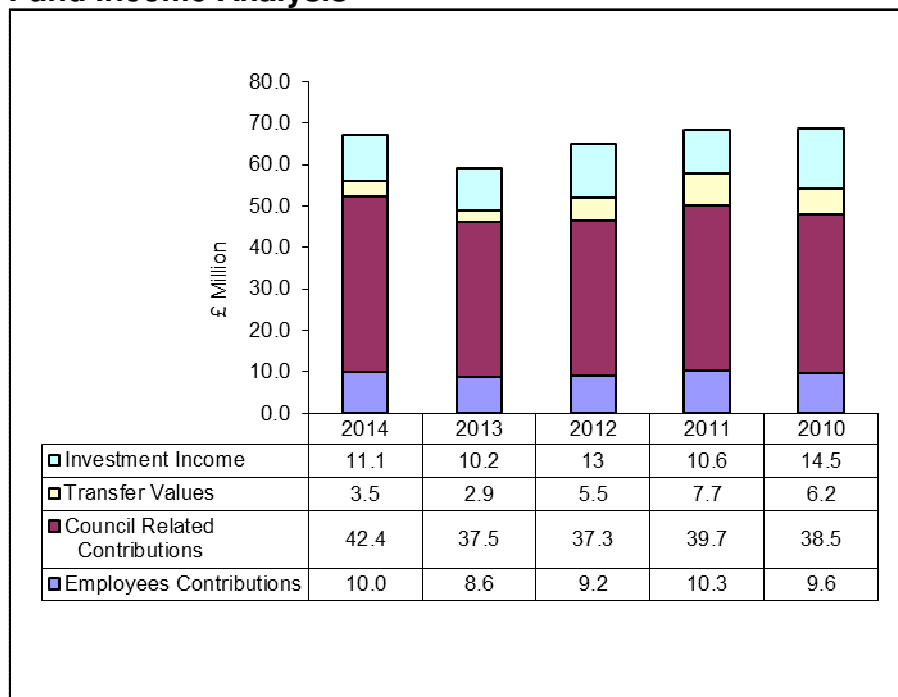
ANALYSIS OF ASSET CLASS



Fund Income

There was a significant increase in the amount of income received by the Fund in 2013/14 compared to 2012/13. As illustrated by the below chart, all income streams recorded notable reductions other than employer related contributions, which increased slightly.

Fund Income Analysis



Investment income increased over the year by £0.9m (9%) due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) increased by £0.6m (20.7%). Both employee and employer contributions increased significantly due to the auto-enrolment exercise carried out in the year. Employee contributions increased by £1.4m (16.2%) and employer contributions increased by £4.9m (13.1%)

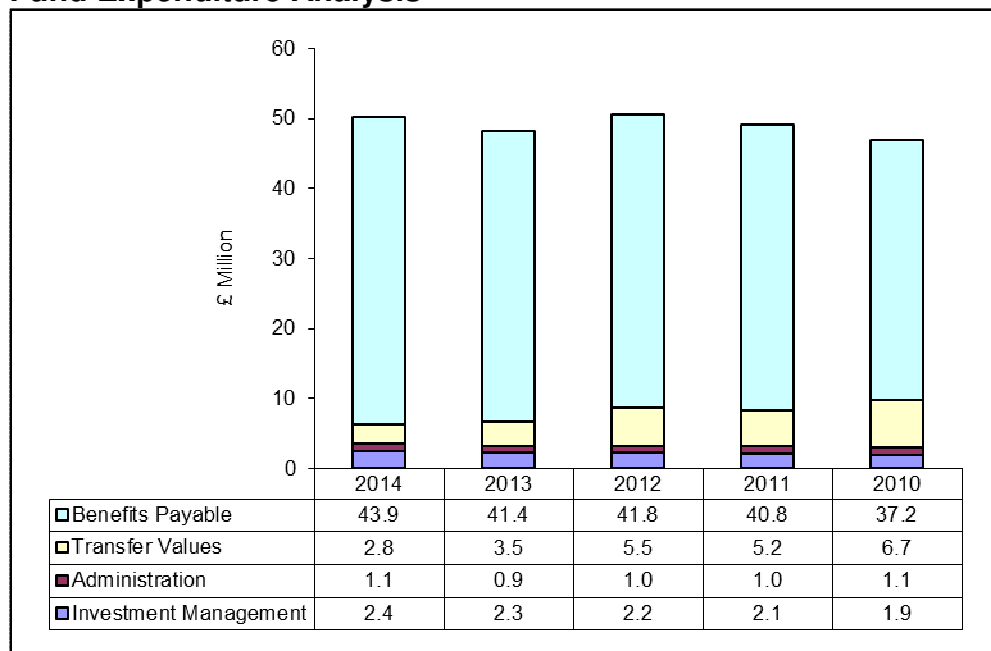
Fund Income Variance Analysis

Type of Income	2014 £m	2013 £m	Variance %
Employees Contributions	10	8.6	16.3%
Council Related Contributions	42.4	37.5	13.1%
Transfer Values	3.5	2.9	20.7%
Investment Income	11.1	10.2	8.8%
Total Fund Income	67	59.2	13.2%

Fund Expenditure

In 2013/14 the overall Fund expenditure increased by £2.1m (4.4%). The major contributor to the increase was the rise in benefits payable of £2.5m (6%) offset by a fall in transfer values of £0.7m (20%). There was a modest increase in investment management and administration costs.

Fund Expenditure Analysis



The increase in benefits payable is due to Council making a higher number of redundancies in the year in order to meet its savings targets. The decrease in transfers out is due to a reduction in the number of staff leaving and also in the value of their funds being transferred out. There has been a reduction in administration costs of £126k (15.6%) owing to the restructure of the Council's Finance Department however this does not show in the table as it has been offset by the purchase cost of the new pension administration system. Similarly the fee reduction offered by the fund manager GMO does not show in the table as it has been subsumed by the increase in investment management fees which are performance based and have risen in line with the increase in the market value of the funds held.

Fund Expenditure Variance Analysis

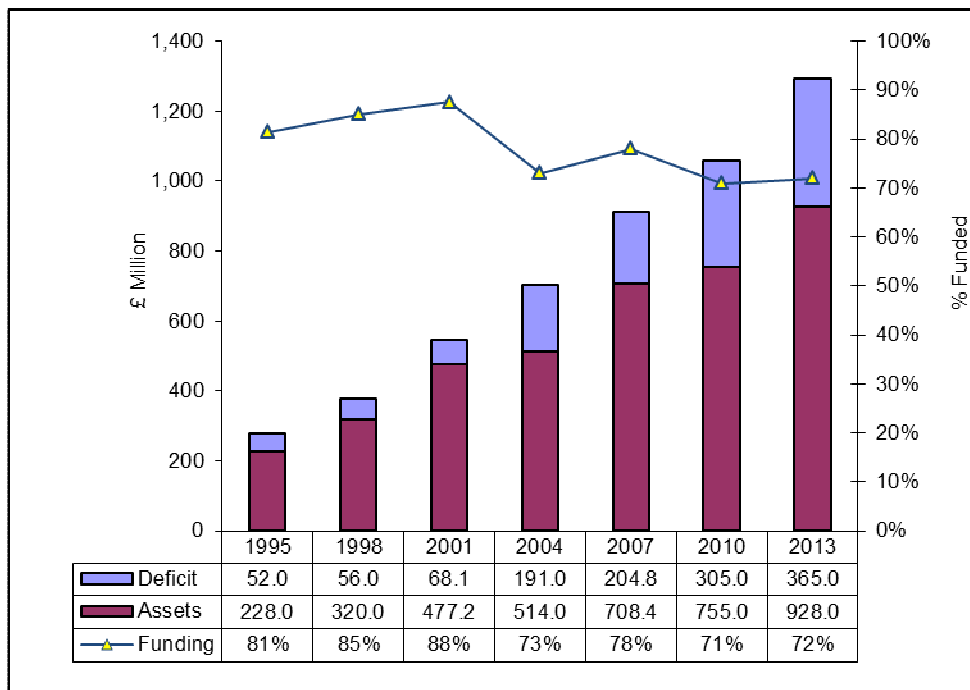
Type of Expenditure	2014	2013	Variance £m	Variance %
Investment Management	2.4	2.3	0.1	4.3%
Administration	1.1	0.9	0.2	22.2%
Transfer Values	2.8	3.5	-0.7	-20.0%
Benefits Payable	43.9	41.4	2.5	6.0%
Total Fund Expenditure	50.2	48.1	2.1	4.4%

Funding Level

The Council is required to value the Pension Fund every three years.

The fund was valued by the consultant actuary Hymans Robertson LLP as at the 31st March 2013. The Actuary calculated that the Pension Fund is 71.8% funded and has a deficit of £365m.

Movement in Funding Level



The funding position increased by 0.8% between the previous revaluation in 2010 and the 2013 valuation. This is principally attributable to an increase in the market value of assets with a reduction in ill-health retirements and slower rate of increase in salaries having a positive effect too. The deficit increase of £60m was brought about by an increase in the value of the Fund’s liabilities owing to the decrease in the real gilt yield.

On the recommendation of the Actuary, the Council adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £18.5m in 2014/15 rising to £20.5m and £22m in 2015/16 and 2016/17 respectively, into the pension fund specifically to recover the deficit.

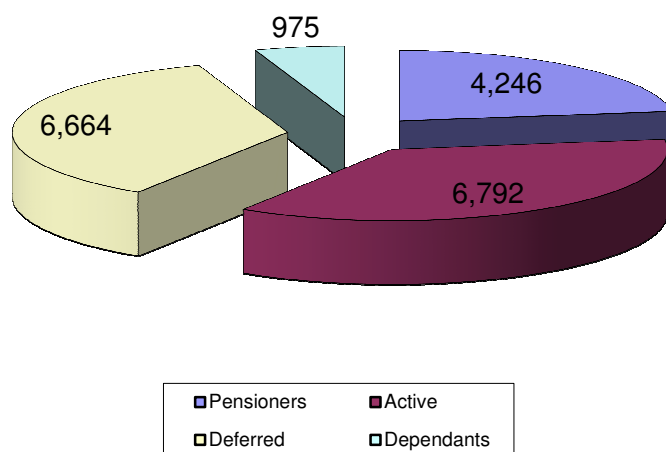
Although the increase in deficit has necessitated an increase in the overall monetary amounts payable by the Council, the contribution rate element of this has been held at 15.8% of employee pay.

It should be emphasised that the deficit does not affect employees’ pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases.

The 2013 valuation exercise has shown the fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

Scheme Membership

The Fund currently has a membership of 18,677 comprising the following categories as set out in the below chart.



The total pension fund membership has increased by 11.7% between 2012/13 and 2013/14. The number of actives members (those currently contributing to the fund) has increased by 28.2% owing to the auto enrolment exercise carried out in the year which has seen employee contributions increase by 16.3%. The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 372 (5.9%) and pensioner members by 2.4%. There has been little movement in the dependants category. The table below sets out the movement in membership number between the different categories in 2012/13 and 2013/14.

Movement in Fund Membership

Membership Type	31-Mar-14	31-Mar-13	Variance No.	Variance %
Actives	6,792	5,298	1,494	28.2%
Deferreds	6,664	6,292	372	5.9%
Pensioners	4,246	4,148	98	2.4%
Dependants	975	979	-4	-0.4%
Total	18,677	16,717	1,960	11.7%

The membership of the fund over the last five years is as set out below.

Membership Type	31-Mar-14	31-Mar-13	30-Mar-12	31-Mar-11	31-Mar-10
Actives	6,792	5,298	5,252	5,686	5,669
Deferreds	6,664	6,292	6,060	5,601	5,319
Pensioners	4,246	4,148	4,064	3,914	2,906
Dependants	975	979	940	931	925
Total	18,677	16,717	16,316	16,132	14,819

Contributions to the Fund

Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 7.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 15.8% to 44.1% of pensionable pay.

The following table shows the contributing employers and the contributions received from each during the year.

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets	6,159	8,848,875	21,209,827
Agilisys	47	117,996	292,525
Bethnal Green Academy	22	44,401	264,060
Canary Wharf College	5	5,214	12,708
Capita	8	13,111	31,759
Circle Anglia Ltd	3	6,189	41,987
Culloden Academy	18	9,352	49,845
East End Homes	42	101,517	452,599
Ecovert FM Ltd	15	8,146	21,971
Gateway Housing Association	1	1,922	9,109
Greenwich Leisure Limited	7	16,360	44,353
Look Ahead Housing and Care	2	3,287	10,062
Old Ford Academy	33	13,449	73,439
One Housing Group	10	14,877	179,301
Redbridge Community Housing Ltd	2	3,678	10,016
Sir William Burrough School	8	14,083	57,372
St.Pauls Way Community School	20	45,081	103,557
Swan Housing Association	1	1,922	16,654
Tower Hamlets Community Housing	19	50,594	245,751
Tower Hamlets Homes Limited	370	661,250	1,651,656
Total	6,792	9,981,304	24,778,551

* The Council contributed an additional £16.5m in respect of deficit funding

The full accounts are as set out in Appendix 1.

The Council is required to publish a number of statements relating to the operation of the fund. The statements and the associated reports are as set out in the following appendices.

- Appendix 2 Statement of Investment Principles
- Appendix 3 Funding Strategy Statement
- Appendix 4 Communications Strategy Statement
- Appendix 5 Governance Compliance Statement

For further information on the Local Government Pension Scheme and your entitlement, please contact Anant Dodia at anant.dodia@towerhamlets.gov.uk or by telephoning 020 7364 4248.

Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2013 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2014 to 31 March 2017 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 71.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £365m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £18.5m (2014/15) rising to £20.5m (2015/16) and £22m (2016/17).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2014 to 31 March 2017 is 35.5% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2014 to 31 March 2017 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Name as per 31 March 2013	Year ending 31 March 2015	Minimum Contribution for the year ending				
		Additional Monetary Deficit Payment £	Year ending 31 March 2016	Additional Monetary Deficit Payment £	Year ending 31 March 2017	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	15.8%	18.5m	15.8%	20.5m	15.8%	22m
Tower Hamlets Community Housing Limited	34.7%		36.1%		37.6%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	31.1%		32.3%		33.6%	
Greenwich Leisure Limited	17.7%		17.7%		17.7%	
Swan Housing Association Limited	26.2%	10k	26.2%	10k	26.2%	11k
Gateway Housing Association (Bethnal Green & Victoria Park)	25.6%	26k	25.6%	27k	25.6%	28k
One Housing Group (Toynbee Island Homes)	41.4%		41.4%		41.4%	
Circle Anglia Limited	27.7%		27.7%		27.7%	
Tower Hamlets Homes	23.1%		23.1%		23.1%	
Look Ahead Housing & Care Limited	19.9%		19.9%		19.9%	
Ecovert FM Limited	22.5%		22.5%		22.5%	
Bethnal Green Academy	20.6%	141k	20.6%	146k	20.6%	152k
Sir William Burrough School	25.3%		23.6%		21.8%	
St Pauls Way Community School	16.7%		17.8%		18.9%	
Capita	19.6%		19.6%		19.6%	
Canary Wharf College	15.9%		15.9%		15.9%	
Agilisys	16.8%		16.8%		16.8%	

In addition to the certified contribution rates, payments to cover the additional liabilities arising from early retirements (other than ill-health) will be made to the Fund by the employers.

The next triennial valuation of the Fund is due as at 31 March 2016. The contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Independent auditor's report to the members of London Borough of Tower Hamlets Pension Fund

APPENDIX 1 - PENSION FUND ACCOUNTS

PENSION FUND ACCOUNTS			
PENSION FUND ACCOUNT	Note	2012/13 £'000	2013/14 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	37,466	42,401
From members	3	8,637	9,982
Transfers in			
Transfers in from other pension funds	4	2,939	3,527
Benefits			
Pensions	4	(34,271)	(35,681)
Lump sum benefits	4	(7,115)	(8,178)
Payments to and on account of leavers			
Refunds of contributions		(1)	(3)
State scheme premiums		(1)	(3)
Transfers out to other pension funds		(3,458)	(2,778)
Administrative expenses	13	(926)	(1,087)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		3,270	8,180
RETURN ON INVESTMENTS			
		2012/13 £'000	2013/14 £'000
Investment income	11	10,586	11,540
Taxes on Income		(396)	(410)
Change in market value of investments			
Realised		4,989	22,195
Unrealised	10	83,354	46,918
Investment management expenses	16	(2,283)	(2,364)
NET RETURN ON INVESTMENTS		96,250	77,879
Net increase in the Fund during the year		99,519	86,059
Add: Opening net assets of the scheme		827,352	926,871
CLOSING NET ASSETS OF THE SCHEME		926,871	1,012,930
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2013 £'000	2014 £'000
Investments Assets			
Equities		203,869	230,998
Pooled Investment Vehicles			
Unit Trusts		523,418	566,768
Property		92,128	102,073
Other		91,831	91,918
Derivative Contracts			
Forward Foreign Exchange Contracts		654	238
		911,900	991,995
Cash deposits	6	6,198	5,292
Other investment balances	5	1,001	817
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(122)	(647)
Other investment balances	5	(215)	0
Current Assets			
	5	9,752	16,954
Current Liabilities			
	5	(1,643)	(1,481)
TOTAL NET ASSETS		926,871	1,012,930

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

2. ACCOUNTING POLICIES

(a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

(b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

- (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2014. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund Account - Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which it relates. Any amount due in the year but unpaid will be classified as a current asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

(d) Investments

Investments are shown in the Net Assets Statement at market value on the following bases.

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2014.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2014.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2014.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2014. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.
- (vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) Investment Income

- (i) Interest income is recognised in the Fund account as it accrues.
- (ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- (iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.
- (iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

NOTES TO THE PENSION FUND ACCOUNTS

2 ACCOUNTING POLICIES Cont...

Fund account - expense items

(f) **Management Expenses**

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

(g) **Benefits Payable**

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

Financial Assets

- (h) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by

(ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

(iii) Unquoted investments

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

There is just one item in the authority's net asset statement as at 31st March 2014 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2013/14, the Council's actuaries advised that the net pensions liability had decreased by £34.4 million to £488.6 million as a result of higher return on investment assets and a reduction in the salary increase rate.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2014 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £16.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2012/13 £'000	2013/14 £'000
Members normal contributions		
Council	7,571	8,849
Admitted bodies	223	222
Scheduled body	843	911
Total members	8,637	9,982
Employers		
Normal contributions		
Council	17,979	21,210
Admitted bodies	997	1,064
Scheduled bodies	2,282	2,505
Deficit funding contributions		
Council	15,250	16,500
Other contributions		
Council	958	1,122
Total employers	37,466	42,401
Total contributions	46,103	52,383

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2013/14 employees made contributions of £26,465.94 (£44,059.40 in 2012/13) into the AVC Scheme operated by Aviva (Norwich Union) and £6,444.33 to Equitable Life (£6,444.33 in 2012/13). The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831) but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index. Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2012/13				2013/14			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(32,650)	(872)	(749)	(34,271)	(33,852)	(968)	(861)	(35,681)
Lump sum retirement benefits	(4,943)	(768)	(392)	(6,103)	(6,817)	(31)	(288)	(7,136)
Lump sum death benefits	(1,012)	0	0	(1,012)	(990)	0	(52)	(1,042)
Total Pensions and Benefits	(38,605)	(1,640)	(1,141)	(41,386)	(41,659)	(999)	(1,201)	(43,859)
Transfer Values Received	2,939	0	0	2,939	3,527	0	0	3,527
Transfer Values Paid	(3,458)	0	0	(3,458)	(2,778)	0	0	(2,778)
Total	(39,124)	(1,640)	(1,141)	(41,905)	(40,910)	(999)	(1,201)	(43,110)

5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

	2012/13 £'000	2013/14 £'000
Debtors		
Other Investment Balances		
Investment sales	0	27
Dividends receivable	691	514
Tax recoverable	310	276
	<u>1,001</u>	<u>817</u>
Current Assets		
Contributions due from admitted bodies	87	86
London Borough of Tower Hamlets Pension Fund	340	62
	<u>427</u>	<u>148</u>
Total Debtors	1,428	965
Creditors		
Other Investment Balances		
Investment purchases	215	0
Current Liabilities		
Unpaid benefits	1,073	1,171
Administrative expenses	570	263
London Borough of Tower Hamlets Pension Fund		47
	<u>1,643</u>	<u>1,481</u>
Total Creditors	1,858	1,481
Net Debtors	(430)	(516)

6. CASH

The deposits held by fund managers can be further analysed as follows:

	2012/13 £'000	2013/14 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	2,477	3,803
Schroders: Multi Asset Portfolio	15	14
Schroders: Property Portfolio	3,698	1,465
London Borough of Tower Hamlets Pension Fund	9,324	16,806
TOTAL CASH	15,524	22,098

7. TAXATION**UK Income Tax**

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

Value Added Tax

By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

Overseas Tax

Taxation agreements exist between the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2013.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2014

	2013	2014
London Borough of Tower Hamlets		
Active Members	4,789	6,158
Pensioners	3,957	4,043
Deferred Pensioners	5,970	6,332
Dependants	965	959
	15,681	17,492
Admitted & Scheduled Bodies		
Active Members	509	634
Pensioners	191	203
Deferred Pensioners	322	332
Dependants	14	16
	1,036	1,185

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilisys
 Capita
 Circle Anglia Ltd.
 East End Homes
 Ecovert FM Ltd.
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
 Greenwich Leisure Limited
 Look Ahead Housing and Care
 One Housing Group (formerly Island Homes)
 Redbridge Community Housing Ltd.
 Swan Housing Association
 Tower Hamlets Community Housing

Scheduled Bodies

Bethnal Green Academy
 Canary Wharf College
 Sir William Burrough School
 St. Pauls Way Community School
 Tower Hamlets Homes Limited
 Culloden Primary School
 Old Ford Primary School

10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

Manager

Baillee Gifford Life Ltd.
 GMO UK Ltd.
 Investec Asset Management
 Legal & General Investment Management
 Ruffer LLP
 Schroders Asset Management Property Fund

Mandate

Global Equity, Diversified Growth
 Global Equity
 Absolute Return Bonds
 UK Equity, Index Linked Gilts
 Diversified Growth
 Property

The value of the Fund, by manager, as at 31st March was as follows:

	2013		2014	
	£ million	%	£ million	%
Baillee Gifford Life Ltd - Diversified Growth	46.3	5.0	46.9	4.7
Baillee Gifford Life Ltd - Equities	163.1	17.7	183.1	18.4
GMO UK Ltd.	227.3	24.7	261.3	26.2
Investec Asset Management	97.0	10.6	97.5	9.8
Legal & General Investment Management - Equities	194.1	21.1	209.3	20.5
Legal & General Investment Management	51.3	5.6	51.3	5.6
Ruffer LLP	45.5	5.0	45.0	4.5
Schroders Asset Management Property Fund	94.1	10.3	103.1	10.3

10. INVESTMENTS (continued)

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows:

	Market Value as at 1 Apr 2013 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2014 £'000	Transaction Costs £'000
Baillie Gifford Life Ltd - Diversified Growth	46,313	69	0	507	46,889	0
Baillie Gifford Life Ltd - Equities	163,061	0	0	20,005	183,066	0
GMO UK Ltd.	223,829	138,258	(108,035)	2,626	256,678	74
Investec Asset Management	97,034	0	0	468	97,502	0
Legal & General Investment Management	245,390	0	0	15,166	260,556	0
Ruffer LLP	45,518	0	0	(488)	45,030	0
Schroders Asset Management Property	90,633	13,236	(10,879)	8,638	101,628	0
	911,778	151,563	(118,914)	46,922	991,349	74

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2013 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2014 £'000
UK Investment Assets					
Quoted	578,097	13,305	(10,879)	44,296	624,819
Overseas Investment Assets					
Quoted	333,149	138,905	(108,273)	3,158	366,939
Unquoted	532	(647)	238	(532)	(409)
	911,778	151,563	(118,914)	46,922	991,349

Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2014 were forward foreign exchange contracts.

Forward Foreign Exchange Contracts are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The global equity manager GMO is instructed to use forward foreign exchange contracts to minimise currency risk exposure. Net exposure to forward foreign exchange is restricted to 10% of the portfolio.

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2014 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(34,483)	33,836	(647)
Currency contracted to sell	25,701	(25,463)	238
Net Position	(8,782)	8,373	(409)

Contract	Manager	Expiration	Gains/(Losses) on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2014	(16)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2014	3
Danish Krone	GMO UK Ltd	April 2014	
Euro Foreign Currency	GMO UK Ltd	April 2014	2
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2014	
Japanese Yen Foreign Currency	GMO UK Ltd	April 2014	(351)
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2014	(32)
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2014	2
Swedish Krona Foreign Currency	GMO UK Ltd	April 2014	7
Swiss Franc Foreign Currency	GMO UK Ltd	April 2014	8
US Dollar Forward Currency	GMO UK Ltd	April 2014	(32)
Unrealised Loss			(409)

Unrealised losses were made on foreign exchange contracts in the year amounting to £0.409 million.

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2012/13 £'000	2013/14 £'000
Dividends from overseas equities	7,217	7,886
Net rents from properties	3,159	3,427
Interest on cash deposits	51	58
Foreign tax	159	169
TOTAL	10,586	11,540

12 ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contributions to recover the deficit for the term of the revaluation is as set out below :-

	£m
2014/15	18.50
2015/16	20.50
2016/17	22.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 million per annum.

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2013/14 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2016 and the recommendations implemented from 1st April 2017.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2013. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal	Real
Price inflation (CPI)	2.5%	
Pay increases	3.8%	1.3% Real rates are nominal rates
Funding basis discount rate	4.6%	2.1% adjusted for inflation

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.2	24.2
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	24.3	26.4

Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.503 million (£1,497 million in 2012/13).

13. ADMINISTRATIVE EXPENSES

	2012/13 £'000	2013/14 £'000
Investment Advice	116	153
Performance Measurement	15	15
Administration	806	686
Audit Fees	21	21
Other Fees/Income	(32)	206
	926	1,081

14. RISK MANAGEMENT**Nature and extent of risks arising from financial instruments****Risk and Risk Management**

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure that all trades are settled in a timely manner.

Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2013 and 31st March 2014 is set out below.

Interest Rate Risk	As At 31st March 2013	As At 31st March 2014
Asset Type	£'000	£'000
Cash and cash equivalents	6,198	5,292
Cash balances	9,752	16,954
Fixed interest securities	148,287	146,517
Total	164,237	168,763

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	1,465	(1,465)
Total change in net assets available	168,763	1,688	(1,688)

Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	15,523	155	(155)
Cash balances	427	4	(4)
Fixed interest securities	148,287	(1,483)	1,483
Total change in net assets available	164,237	(1,324)	1,324

14. RISK MANAGEMENT (continued)**Currency risk**

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2013 £'000	As At 31st March 2014 £'000
Overseas quoted securities	205,044	238,710
Overseas unit trusts	7,384	5,949
Cash	2,300	13
Total overseas assets	214,728	244,672

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014 £'000	Change in year in net assets available to pay benefits	
		+5.8% £'000	-5.8% £'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
Total change in net assets available	244,672	258,863	230,481

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2013 £'000	Change in year in net assets available to pay benefits	
		+5.7% £'000	-5.7% £'000
Overseas quoted securities	205,044	216,732	193,356
Overseas unit trusts	7,384	7,805	6,963
Cash	2,300	2,431	2,169
Total change in net assets available	214,728	226,968	202,488

The percentage change in the year of 5.8% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
UK equities	12.1%
Global equity	11.9%
Total fixed interest	2.8%
Alternatives	4.4%
Cash	0.0%
Pooled Property Investments	1.9%

14. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	22,098	0.0%	22,098	22,098
Investment portfolio assets				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
Total assets available to pay benefits	1,014,264		1,102,050	926,478

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	15,523	0.0%	15,523	15,523
Investment portfolio assets				
UK equities	194,137	13.4%	220,151	168,123
Global equity	386,358	12.8%	435,812	336,904
Total fixed interest	148,287	2.9%	152,587	143,987
Alternatives	91,831	4.7%	96,147	87,515
Pooled Property Investments	90,633	1.4%	91,902	89,364
Net derivative assets	532	0.0%	532	532
Investment income due	1,001	0.0%	1,001	1,001
Amounts receivable for sales			0	0
Amounts payable for purchases	(215)	0.0%	(215)	(215)
Total assets available to pay benefits	928,087		1,013,440	842,734

Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

15. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
Financial Assets				
Loans and receivables	0	0	16,611	17,709
Financial assets at fair value through profit or loss	911,246	991,757	994	5,592
Total Financial Assets	911,246	991,757	17,605	23,301
Financial Liabilities				
Payables	0	0	(1,858)	(1,481)
Financial liabilities at fair value through profit or loss	0	0	(122)	(647)
Total Financial Liabilities	0	0	(1,980)	(2,128)

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy. The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	1,013,339	(409)	0	1,012,930

During the year ended 31st March 2014 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2013 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	203,869	0	0	203,869
Pooled Funds				
Unit Trusts	523,418	0	0	523,418
Property Unit Trust	92,128	0	0	92,128
Other	91,831	0	0	91,831
Derivative Contracts				
Forward Foreign Exchange Contracts	0	532	0	532
Cash and bank Deposits	15,864	0	0	15,864
Current Assets	1,087	0	0	1,087
Current Liabilities	(1,858)	0	0	(1,858)
	926,339	532	0	926,871

15. FINANCIAL INSTRUMENTS DISCLOSURES**Net gains and losses on financial instruments**

	Long-term	
	2012/13 £'000	2013/14 £'000
Financial Assets		
Loans and receivables		
Financial assets at fair value through profit or loss*	88,568	69,645
Total Financial Assets	88,568	69,645
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	(225)	(532)
Total Financial Liabilities	(225)	(532)

16. INVESTMENT MANAGEMENT EXPENSES

	2012/13 £'000	Fund Value %	2013/14 £'000	Fund Value %
Payments to Managers	2,283	0.25	2,364	0.23

17. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £680k (£806k 2012/13) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £16.5m (£15.3m 2012/13) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2014, the Fund held an average investment of £6.0m (£5.5m 31st March 2013), earning interest of £62k (£68k in 2012/13).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.3m (£2.2m 2012/13) from this company.

Fund administration expenses payable to the administering authority are as set out in the table below.

Fund Administration Expenses	2012/13 £'000	2013/14 £'000
Payroll / HR Support	478	374
Corporate Finance	328	306
	806	680

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2014 include:

Chief Accountant

The financial value of their relationship with the fund is as set out below

	2012/13 £'000	2013/14 £'000
Short term benefits	25	18
Long term/post retirement benefits	3	4

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2013/14 there were no Members of the Pension Fund Committee who had involvement with other organisations.

Compensation of key management - It was not practical to include costs relating to key management personnel within the Pension Fund Accounts, principally as they are charged to the Council's Accounts and have not been charged to the Pension Fund. All costs are disclosed within note 33 of the Council's main accounts.

18. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

19. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

20. IMPAIRMENT LOSSES

During 2013/14 impairment losses were nil (impairment losses in 2012/13 were also nil).

Appendix 2 - Statement of Investment Principles

Introduction

This is the Statement of Investment Principles adopted by the London Borough of Tower Hamlets Pension Fund (“the Scheme”) as required by the Local Authority Pension Scheme (Management and Investment of Funds) Regulations 2009. It is subject to periodic review by the Pensions Committee which acts on delegated authority of the London Borough of Tower Hamlets. The Pensions Committee receives recommendations and advice from the Investment Panel which oversees the investment management of the Scheme on a day to day basis. The terms of reference for the Pensions Committee within the Council’s Constitution (3.1.1.10 1) 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.

The Pensions Committee has responsibility for:

- Determining an overall investment strategy
- Appointing the investment managers, an independent custodian, an investment advisor, the actuary and any other external consultants where considered necessary
- Reviewing on a regular basis the investment managers’ performance and the quality of their internal controls systems
- Reviewing the Statement of Investment Principles, the Governance Compliance Statement and the Funding Strategy Statement at regular intervals

In preparing this Statement, the Pensions Committee has taken written advice from the Investment Practice of Hymans Robertson Consultants and Actuaries.

The Myners Code of Investment Principles

The Government commissioned a report in 2000 entitled “Review of Institutional Investment in the UK”. The Review, which was undertaken by Paul Myners was published in March 2001 and is referred to as The Myners Review. The Pensions Committee of the London Borough of Tower Hamlets believes the Myners Report constitutes an important guide to best practice in the management of pension schemes. Following a review in October 2008 the Treasury published a revised set of six principles. Local authorities are required to state the extent to which the administering authority Compliant with the six principles set out in a document published by the Chartered Institute of Public Finance and Accountancy entitled “CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme Investment in the United Kingdom”.

The Investment Panel has produced, and maintains, a record of compliance (Myners Code Adherence Document) with these principles on behalf of the Pensions Committee.

The extent to which the Scheme complies with these principles is outlined in the table at the end of this document.

Fund Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Council aims to fund the Scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Scheme's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Investment Panel has translated these objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to the Scheme's authorised investment managers. The strategic benchmark has been translated into benchmarks for the Scheme's investment managers which are consistent with the Scheme's overall strategy. The Scheme benchmark is consistent with the Investment Panel's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing basis).

The Investment Panel monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme.

To achieve its objectives the Pensions Committee has agreed the following with the Investment Panel:

Choosing Investments: The Investment Panel is responsible for the appointment of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Investment Panel, after seeking appropriate investment advice, has given the managers specific directions as to the asset allocation, but investment choice has been delegated to the managers, subject to their specific benchmarks and asset guidelines.

Kinds of investment to be held: The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management. The Investment Panel considers all of these classes of investment to be suitable in the circumstances of the Scheme. The Fund's structure and benchmarks are set out in the table below.

Current Managers and Mandates		
Manager	Mandate	Target
Baillie Gifford	Global Equities	Outperform benchmark by 2-3% over a rolling 3 year period
	Diversified Growth	3.5 above UK Base Rate
GMO	Overseas Equities	Outperform benchmark by 1.5% over a rolling 3 year period
Investec	Pooled Bonds	3 month LIBOR +2% pa
Legal & General	UK Equities	FTSE All share
	UK Index Linked	FTSE A Gov Index Linked >5yrs
Ruffer	Diversified Growth	Greater than the expected return on cash
Schroders	Property	Outperform benchmark by 0.75% over a rolling 3 year period

Balance between different kinds of investments: The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain diversified portfolios of investments through direct holdings or pooled vehicles. The asset allocation varies over time due to the impact of changing market conditions and manager performance creating an imbalance between target and actual allocation. When the Fund moves more than 5% away from target then consideration is given to rebalancing.

Risk: The Investment Panel provides a practical constraint on Scheme investments deviating greatly from its intended approach by adopting a specific asset allocation benchmark and by setting manager-specific benchmark guidelines. The Investment Panel monitors the managers' adherence to benchmarks and guidelines. In appointing more than one investment manager, the Investment Panel has considered the risk of underperformance of any single investment manager.

Expected return on investments: Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Scheme. In the short term returns are measured against a peer group benchmark.

Realisation of investments: The majority of investments held within the Scheme may be realised quickly if required. As the Fund is cash flow positive there will not be a need to realise investments quickly at least in the medium term.

Social, Environmental and Ethical Considerations: The Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark. However, the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments. The investment managers have confirmed they pay due attention to these factors in the selection, retention and realisation of investments. The Investment Panel will monitor the managers' statements and activities in this regard.

Exercise of Voting Rights: The Investment Panel has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their processes and practices in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The Fund does not currently participate in a stock lending arrangement.

Additional Voluntary Contributions (AVCs): The Pensions Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Principle	Compliance	Compliance
<p>Principle 1: Effective Decision Making</p> <p>Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resources to make them effectively and monitor their implementation; Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</p>	<p>The Council has a Pensions Committee and an Investment Panel who meet on a quarterly basis for decision making purposes.</p> <p>The Fund's Governance Compliance Statement sets out the governance structure, Terms of Reference, delegations and representation.</p> <p>All members and officers of the Committee are required to undertake training on a periodic basis to ensure that they attain the necessary knowledge and skills with which to undertake their duties effectively. To ensure that they are fully aware of their statutory and fiduciary responsibilities new members are provided with a handbook containing the Committee's terms of reference, standing orders and operational procedures. Two training days per year are arranged for the committee members to deliver training.</p> <p>The committee intends to use the CIPFA knowledge and skills framework as the basis for a training programme to assess the training needs of its members and to actively monitor the progress made.</p> <p>The Fund contracts an actuary, a professional investment advisor and an independent investment advisor all of who attend committee meetings throughout the year and provide advice to committee members. Other expert advisors attend as required.</p>	<p>Compliant</p>
<p>Principle 2: Clear Objectives</p> <p>An overall investment objective should be</p>	<p>The Fund's aims and objectives are set out in its Funding Strategy Statement and Investment Management Agreements are in place on the segregated mandates held by the Fund. The funding strategy is</p>	<p>Compliant</p>

<p>set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<p>reviewed at each triennial valuation and the actuarial position and financial impact on scheme employers and tax payers is considered when formulating the investment strategy.</p> <p>All external procurement is conducted within EU procurement regulations and the authority's own procurement rules.</p> <p>The Fund is aware of the investment management fees charged by the investment managers and transaction related costs, and this is considered when letting and monitoring contracts for investment management.</p>	
<p>Principle 3: Risk and Liabilities In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>Following each triennial valuation the Committee assesses the structure of the Fund's liabilities and, where necessary, amends its investment strategy to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed by all employers. The Fund's liabilities are long term in nature and the investment strategy reflects this liability profile by investing in long term generating assets. The Fund's benchmark includes a significant holding in equities in pursuit of long term higher returns. Allowances are made for periods of underperformance in the short term.</p> <p>The triennial valuation sets out the liability profile for each individual employer. The strength of covenant of each employing body and risk of default is taken into consideration when setting the employer contribution rate.</p> <p>The Fund has an active risk management programme in place. The risk management process is outlined in the Fund's Annual Report and Accounts.</p> <p>The Committee receives the external auditor's Annual Governance Report which states their assessment of the risk management process.</p>	<p>Compliant</p>

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<p>Principle 4: Performance assessment Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.</p>	<p>The Fund's Investment Panel meets quarterly to review the Fund's performance against its investment objective. In consultation with the Fund's investment advisors the Committee will assess the performance of the investment managers and consider whether any action is required. The fund managers attend the Investment Panel meetings periodically. The Fund employs the WM company to measure the performance of its investment managers. The Fund's Annual Report is presented to the Committee explaining the Fund's activities and decisions taken during the year. This allows the Investment Panel to reflect on the effectiveness of its strategy and also the management of the fund managers to deliver against agreed benchmarks.</p>	Compliant
<p>Principle 5: Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the statement of investment principles. Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>The Fund requires its investment managers to adopt the Institute Shareholders Committee Statement of Principles. The extent to which these principles are taken into account in the selection, retention and realisation of investments is left to the manager's discretion. The manager's activities in this regard are reviewed by the Investment Panel. The Fund's approach to responsible ownership is set out in its Statement of Investment Principles. Any significant issues arising over the year are reported in the Fund's Annual Report.</p>	Compliant
<p>Principle 6: Transparency and reporting Administering authorities act in a transparent manner, communicating with stakeholders on issues relating to their</p>	<p>The Fund publishes a Governance Policy Statement, a Communications Strategy, a Funding Strategy Statement, and a Statement of Investment Principles. The statements are reviewed and updated when required and are approved by the Pensions Committee.</p>	Compliant

<p>management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.</p>	<p>Fund manager performance data is included in the Fund's Annual Report and Accounts.</p> <p>The statements form part of a suite of annual report documentation which may be found on the website http://www.towerhamlets.gov.uk</p> <p>An Annual Benefits Statement is sent hard copy to active and deferred members of the Fund. Pensioner members receive an annual newsletter detailing any information affecting pensions in payment.</p>	
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Appendix 3 - FUNDING STRATEGY STATEMENT

1 Introduction

1.1 What is this document?

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

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

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

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee.

Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

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

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

- affordability of employer contributions,
- transparency of processes,

- stability of employers' contributions, and
- prudence in the funding basis.

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

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

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

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

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

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

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

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

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

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

2.3 How are contribution rates calculated for different employers?

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

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

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for

each employer together with individual past service adjustments according to employer-specific circumstances.

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

2.4 What else might affect the employer's contribution?

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

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

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

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

2.5 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

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

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

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

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

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

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

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

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these

techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

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

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

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

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

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

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

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

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
	Local Authorities	Police, Fire, Colleges etc	Academies	Open to new entrants	Closed to new entrants	
Sub-type						(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			Attained Age approach (see Appendix D – D.2)		Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No employers of this type	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	NA	14 years	20 years	Future working lifetime of remaining active members	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	NA	% of payroll	% of payroll	Monetary amount	% of payroll

Treatment of surplus	Covered by stabilisation arrangement	NA	Spread over recovery period	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority
Phasing of contribution changes	Covered by stabilisation arrangement	NA	Maximum of 3 years	3 years - <u>Note (e)</u>	3 years - <u>Note (e)</u>	Maximum of 3 years
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	<u>Note (g)</u>	<u>Note (h)</u>		<u>Notes (h) & (i)</u>

<p>Cessation of participation: cessation debt payable</p>	<p>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <u>Note (j)</u>.</p>	<p>Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <u>Note (j)</u>.</p>	<p>Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.</p>
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Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

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

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

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

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

Note (c) (Deficit Recovery Periods)

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

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

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

Note (d) (Deficit Recovery Payments)

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

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

Note (e) (Phasing in of contribution changes)

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

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government

restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

Note (g) (New Academy employers)

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

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

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

Note (h) (New Admission Bodies)

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;

- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

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

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

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

Note (j) (Admission Bodies Ceasing)

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

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

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

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

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

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

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

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

3.4 Pooled contributions

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

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing

out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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

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

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

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

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

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The

Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.8 Ill health insurance

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

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

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

3.9 Employers with no remaining active members

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

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This may require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

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

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

- a) A draft version of the FSS was issued to all participating employers on 27 January 2014 for comment;
- b) Comments were requested within 22 days; and
- c) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.towerhamlets.gov.uk;
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A summary issued to all Fund members;

- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at www.towerhamlets.gov.uk

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

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

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

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

C3 Demographic risks

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

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

C4 Regulatory risks

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

C5 Governance risks

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

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

Appendix D – The calculation of Employer contributions

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

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

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

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

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

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

D2 How is the Future Service Rate calculated?

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

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

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

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

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

b) Employers which do not admit new entrants

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

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

D3 How is the Solvency / Funding Level calculated?

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

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

For the value of the employer’s asset share, see [D5](#) below.

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

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

D4 What affects a given employer’s valuation results?

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

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

over the period between each triennial valuation.

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

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

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

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

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

b) Salary growth

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

c) Pension increases

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

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

d) Life expectancy

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

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

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

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

e) General

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

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

Appendix F – Glossary

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

The London Borough of Tower Hamlets Pension Fund

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

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

Appendix 4 - Communications Strategy Statement

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Introduction

This is the Communications Strategy Statement of London Borough of Tower Hamlets Pension Fund.

The Fund liaises with over 12 employers and approximately 15,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Strategy Statement should be sent to:

London Borough of Tower Hamlets
Town Hall
Human Resources
Payroll & Pensions Services
Mulberry Place
5 Clove Crescent
London E14 2BG

Telephone: 020 7364 4251

Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

Regulatory Framework

This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) Regulations 1997. The provision requires us to:

“...prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members.
- (b) representatives of members.
- (c) prospective members.
- (d) employing authorities.”

In addition it specifies that the Statement must include information relating to:

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employing authorities.”

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a “*reasonable period*”.

The draft Code of Practice³ issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

Responsibilities and Resources

Within the Pension Section, the responsibility for communication material is performed by our Pensions Manager with the assistance of two Principal Pensions Officers.

Although, the team write all communications within the section, all design work is carried out by the Council's Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this Statement.

All printing is carried out by an external supplier, which is usually decided upon by the Council's Creative & Technical team.

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this Communication Policy Statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admitted bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pensions Section staff;

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

How we communicate

General communication

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by

³ Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible.

Our pension section staffs are responsible for specific tasks. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person.

Branding

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform to the branding of the Council.

Accessibility

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, on all communication from the Pension Fund office we will include a statement offering the communication in large print, Braille, on cassette or in another language on request.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- for our employers to be employers of choice.
- to increase take up of the LGPS employees.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

Scheme booklet	Paper based and on intranet	At joining and major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based and on intranet	Annually and after any scheme changes	Via employers for Actives. Post to home address for deferred & pensioners	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and on intranet	Annually	On request	All
Pension Fund Accounts – Summary	Paper based	Annually	Via employers for actives. Post to home address for deferred and pensioners	All
Estimated Benefit Statements	Paper based/via intranet	Annually	Post to home address/via employers for active members. To home address for deferred members.	Active and Deferred.
Factsheets	Paper based and on intranet	On request	On request	Active, deferred & pensioners
Intranet	Electronic	Continually available	Advertised on all communications	All
Road shows/ Workshops	Face to face	Annually	Advertised in newsletters, via posters and pensioners payslips	All
Face to face education sessions	Face to face	On request	On request	All
Joiner packs	Paper based	On joining	Post to home addresses	Active members
Pay advice slip/P60	Paper based	Conditional	Post to home address	Pensioners

Explanation of communications

Scheme booklet - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual/biannual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming road shows, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Estimated Benefit Statements – For active members these include the current value of benefits as well as the projected benefits as at their earliest retirement date and at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pension's increases.

Intranet – The intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Road shows/Workshops – Every year a number of staff will visit the schools/offices around the Borough, providing the opportunity to have a face to face conversation about your pension rights

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

Joiner packs – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

Pay advice slip/P60 – The Pay advice slips are sent when the address, pension or tax code changes. The P60 information is communicated using this medium on an annual basis.

Policy on promotion of the scheme to Prospective Members and their Employing Authorities

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.
- for our employers to be employers of choice.
- for public relations purposes.

As we, in the Pension Team Section, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Annually	Via employers	Existing employees
Posters	Paper based	Ongoing	Via employers	New and existing employees

Explanation of communications

Overview of the LGPS leaflet - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Educational sessions – A talk providing an overview of the benefits of joining the LGPS.

Promotional newsletters/flyers – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the Scheme and provide guidance on how to join the Scheme.

Posters – These will be designed to help those who are not in the LGPS understand the benefits of participating in the scheme and provide guidance on how to join the Scheme.

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.

- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Employers' Guide	Paper based and intranet	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and intranet	Annually or more frequent if necessary	E-mail	All contacts for all employers
Employers' focus groups	Face to face	At least quarterly/half yearly	Invitations by e-mail	Either main contacts or specific groups (e.g. HR or payroll) depending on topics
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues.

Explanation of communications

Employers' Guide - A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pensions Section and Scheme members.

Newsletters – A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions Section is run and other relevant information so as to keep employers fully up to date.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS.

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

Policy on communication with senior managers

Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues
- to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Committee papers	Paper based and electronic	In advance of Committee	Email or hard copy	All

Explanation of communications

Briefing papers – a briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings

Committee paper – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the Scheme to their members
- to ensure they are aware of the Pension Fund’s policy in relation to any decisions that need to be taken concerning the Scheme
- to engage in discussions over the future of the Scheme
- to provide opportunities to Education Union representatives on the provisions of the Scheme

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pension Committee	Meeting	Quarterly	Via invitation when appropriate	All

Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the Scheme, or to explain possible changes to policies.

Pensions Committee – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

Policy on communication with elected members/Pensions Committee

Our objectives with regard to communication with elected members/Pensions Committee are:

- to ensure they are aware of their responsibilities in relation to the Scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the Scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	When there is a new Pensions Committee and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pensions Committee as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pensions Committee
Pension Committee	Meeting	Quarterly	Members elected onto Pension Committee	All members of the Pensions Committee

Explanation of communications

Training sessions – providing a broad overview of the main provisions of the LGPS, and elected members responsibilities within it.

Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund.

Pension Committee - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

Policy on communication with pension section staff

Our objectives with regard to communication with Pension Section’s staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff
- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All
Software User Group meetings	Face to face	Quarterly	By email, paper based.	Principal Administrators
Regional Officer Group meetings	Face to face	Quarterly	By email, paper based.	Pension Manager/ Principal Administrators

Explanation of communications

Face to face training sessions – which enable new staff to understand the basics of the Scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the Scheme

Staff meetings – to discuss any matters concerning the local administration of the Scheme, including for example improvements to services or timescales

Attendance at seminars – to provide more tailored training on specific issues

Software User Group meeting – to discuss any issues concerning the computer software used to administer the scheme, including future upgrades and improvements

Regional Officer Group meetings - discussion group of principal officers from other administering authorities.

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide access to key information in relation to the management of the scheme
- to outline the management of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

Explanation of communications

Pension Fund Report and Accounts – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contributions (AVC) scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports <ul style="list-style-type: none"> • Rates and Adjustments (R&A) certificates • Revised R&A certificates • Cessation valuations 	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government Departments /HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Scheme booklet	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
Estimated Benefit Statements as at 31 March	Active members	On request	31 July each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued within 10 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within one month of notification
Transfers in	Joiners/active members	Within two months of request	Within one month of request
Issue of forms i.e. expression of wish	Active/deferred members	N/A	Within five working days
Changes to Scheme rules	Active/deferred and pensioner	Within two months of the change	Within one month of change coming

	members, as required	coming into effect	into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within ten working days

Quality

Active and deferred members	Paper based survey with annual benefit statements	All services	
All member types	Annual paper based survey on completion of specific tasks	Service received during that task	One task to be chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Their issues	Regular feedback sessions.

Results

Details of the performance figures are reported to the Head of Pay, Pension, & e-HR on a quarterly basis. Feedback is received from the Service Head and from various focus /discussion groups.

Review Process

We will review our Communication Policy to ensure it meets audience needs and regulatory requirements at least annually. A current version of the Policy Statement will always be available on our intranet and paper copies will be available on request.

Appendix 5- Governance Compliance Statement

1. Background

1.1 The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to produce a statement on the governance policy of the pension fund. This document sets out the Policy of the London Borough of Tower Hamlets, as an administering authority in relation to its governance responsibilities for the Tower Hamlets Local Government Pension Scheme.

2. Governance Structure

2.1 The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.

2.2 The governance structure is supported by:

- The Pensions Committee
- The Investment Panel
- Officers of the Council; and
- Professional Advisors

Pensions Committee

2.3 The terms of reference of the Pensions Committee encompass: -

- Determination of investment policy objectives
- Appointment of investment managers
- Monitoring investment performance and
- Making representations to Government on any proposed changes to the LGPS.

2.4 The Pensions Committee meets quarterly and it comprises seven Members of the Council, one trade union member and one admitted body member. Special meetings of the Committee are arranged as necessary.

2.5 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which is a sub-committee of the Pensions Committee and includes professional advisors.

3. Investment Panel

3.1 The Investment Panel comprises of all members of the Pensions Committee, an independent chair, an independent advisor, the Corporate Director, Resources (or deputy) and one observer from trade unions and one observer from admitted bodies. The terms of reference of the Investment Panel include the following:

- Review the Scheme's asset allocation
- Consider and monitor the quarterly performance reports
- Review annually each manager's performance
- Consider the need for any changes to the Scheme's investment manager arrangements
- Evaluate the credentials of new managers prior to their appointment

4. Officer Delegation

4.1 The Corporate Director, Resources has delegated authority for implementing Council policy, Pension Committee decisions in the areas of scheme administration, funding, investment, communications and risk management.

5. Professional Advisors

5.1 The Council employs external professional advisors in the form of independent chair of the Investment Panel, investment advisers, fund managers, global asset custodians and independent performance assessors

6. Overall Power

6.1 The Pensions Committee delegate specific functions on the appointment of managers on a case by case basis after consideration of reports by that Committee.

6.2 Committee retain responsibility for all policy decisions relating to the investment portfolio. Responsibility for the day to day operation of the management arrangements and administration of the portfolio is delegated to the Corporate Director, Resources.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Investment Panel is presented at the following Pensions Committee. All key recommendations of the Investment Panel are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Investment Panel are also members of the Pensions Committee.
REPRESENTATION	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-</p> <ul style="list-style-type: none"> • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis). 	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee. An independent professional observer has also been appointed to chair the Investment Panel.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Investment Panel are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Investment Panel have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The Pensions Committee/ Investment Panel does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.
MEETINGS	That an administering authority's main committee or	Compliant	Meetings of the Pensions Committee

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
(FREQUENCY/ QUORUM)	committees meet at least quarterly.		are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Investment Panel are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	That subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Investment Panel.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pensions Committee considers a range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

Membership of Pensions Committee and Investment Panel 2013/14**Attendances at Pensions Committee 2013/14**

Attendees	Voting Rights	Meetings Scheduled			
		13-Jun	19-Sep	14-Nov	25-Feb
Members					
Cllr Zenith Rahman	√	Present	Present	Present	Present
Cllr Judith Gardiner	√	Present	Present	Present	Present
Cllr Ann Jackson	√	Present	Present	Present	Present
Cllr Craig Aston	√	Present	Present		
Cllr Oliur Rahman	√				
John Gray (Non-voting)	x	Present	Present	Present	
Frank West (Non-voting)	x	Present	Present	Present	
Officers					
Chris Holme	x		Present		
Oladapo Shonola	x	Present	Present	Present	
Anant Dodia	x	Present	Present	Present	Present
Simon Kilbey	x			Present	Present
Paul Thorogood	x	Present		Present	
Lisa Stone	x	Present			Present
Ngozi Adedeji	x			Present	Present
David Galpin	x			Present	
Kevin Miles	x			Present	Present
Pearl Emovon	x				Present
Antonella Burgio	x	Present	Present	Present	Present
Raymond Haines	x	Present	Present		
Matt Woodman	x	Present	Present		Present
Lynn Coventry	x		Present		
Barry McKay	x			Present	Present

Training is provided to members of the Pensions Committee to enable them to discharge their duties in a responsible manner. A training session was offered to members of the Committee, on 20th September 2012. The session provided an introduction to the Local Government Pension Scheme and covered governance, investment strategy and actuarial valuation. The attendance at the training session is set out in the table below:

Attendance at Training Sessions 2013/14

Attendees	19-Sep	14-Nov	25-Feb
Cllr Zenith Rahman	Present	Present	Present
Cllr Judith Gardiner	Present	Present	Present
Cllr Ann Jackson	Present	Present	Present
Cllr Craig Aston	Present		

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