

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.05 P.M. ON THURSDAY, 23 JULY 2015

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

Members Present:

Councillor Andrew Cregan (Chair)
Councillor Clare Harrisson
Councillor Candida Ronald
Councillor Mohammed Mufti Miah

Admitted Bodies, Non-Voting Members Present:

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Other Councillors Present:

Apologies:

Councillor Abdul Mukit MBE
Councillor Harun Miah
John Gray

Others Present:

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Officers Present:

Ngozi Adedeji	– (Team Leader Housing Services, Legal Services, Law Probity & Governance)
Anant Dodia	– (Pensions Manager)
Kevin Miles	– (Chief Accountant, Resources)
Bola Tobun	– (Investments and Treasury Manager, Resources)
Antonella Burgio	– (Democratic Services)

1. APPOINTMENT OF VICE-CHAIR

The Chair proposed that Councillor Clare Harrisson be appointed Vice-Chair of Pensions Committee for the duration of the municipal year. The proposal

was seconded by Councillor Candida Ronald and, there being no other nominations, it was

RESOLVED

That Councillor Clare Harrisson be appointed Vice-Chair of Pensions Committee for the duration of the municipal year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

3. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 24 February 2015 were approved subject to correction that the attendance of Legal Officer Ngozi Adedji be recorded.

4. PETITIONS

No requests to receive petitions relating to agenda items to be discussed were made.

5. REPORTS FOR CONSIDERATION

5.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings

The clerk introduced the report informing Members that this annual report was presented to enable the Committee to note its arrangements and, if desired, agree an alternative meeting time for the duration of the municipal year.

RESOLVED

1. That the Terms of Reference, Membership and Quorum as set out in Appendix A to the report be noted.
2. That scheduled meetings of Pensions Committee for the current municipal year will start at 7.00pm.

5.2 Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2015-16

The clerk informed the Committee that prior to the beginning of the municipal year Admitted bodies had been contacted to verify whether they wished to endorse the reappointment of John Gray as co-opted member (Admitted Bodies) of Pensions Committee. No objections to the reappointment were received and therefore the Committee was asked to note Mr Gray's endorsement and reappointment.

The recognised Council Unions were also contacted to verify whether they wished to endorse the reappointment of Frank West as a co-opted member (Unions) of the Pensions Committee and his reappointment was endorsed.

At the meeting, the Committee were informed of Mr West's recent passing. Members were sad to hear this news, noting that Mr West had been conscientious in his participation and given many years of service to the Committee. They wished their condolences to be conveyed to Mr's West's wife and family.

RESOLVED

1. That the continued endorsement of John Gray as co-opted Member (Admitted Bodies) of Pensions Committee be noted.
2. That the vacancy for the position of Co-optee (Union Representative) arising from the Passing of Mr West be noted.

5.3 WM Annual Review of the Pension Fund Performance 2014/15

Ms Coventry of WM Company made her annual presentation which provided the Committee with a summary of the performance of pension funds measured by WM. The key messages conveyed related to:

- a. performance of Funds in the context of the financial environment in the period.
 - Average returns were 32% and indicated strong performance
 - Equities (were more volatile but) had performed better than bonds (whose yields were at historic lows)
 - Alternatives had performed below equities
 - Recommended that, because of their nature, investments in property should be for strategic reasons
 - Current market trends have been to:
 - move from equities to alternatives and
 - move from UK towards overseas investments
 - move from government to corporate investments
- b. the performance of Tower Hamlets Pension Fund in the last year,
 - Fund asset allocation has been in line with the average local authority profile
 - Fund returned an over benchmark performance of 11.8% in the year
 - Over 5yrs the Fund's relative return is in line with the local authority benchmark
 - Some managers have performed above benchmark in the year, Baillie Gifford and Ruffer have added value
 - GMO had below benchmark performance in the year but has outperformed benchmark over 3 years
 - Alternatives have performed well in the 3 year category

- Underperforming managers over 3 and 5 years are Investec and Schroders
- c. performance relative to that of other local authorities' funds measured by WM in this period
 - in 2013 the Fund underperformed other local authorities by 1.2%
 - returns were below average in the 3-20 year category
 - TH Fund was in the lower median local authority range in relation to absolute risk .v. return. Fund has less volatile stock selection but this produces lower returns

In response to members' question the Committee was advised that:

- Underperformance was due to stock selection. The fund has more pooled multi asset investments short term, but in longer term investments bonds form the biggest assets
- The fund ranked lower in many of the rankings because of the governance budget; since time was required to proactively supervise investments. However the fund was now at £1Bn and was in a better position to gain exposure alternative types of portfolios. Members were asked to note that the approaching cash-negative position of the Fund would also have an effect.
- Noting that new public sector pensions legislation required that a predetermined/agreed funding level must be present and this might require the Council to adopt a less risk adverse approach, Mr Haines informed the Committee that the Council would be required to determine the balance of risk against contribution rate to ensure that its funding target was met.

REOLVED

That the update be noted.

5.4 Market and Economic Update

Mr Haines, Independent Investment Advisor to the Pensions Committee gave a verbal update highlighting the following matters:

- The markets were in exceptional circumstances, due to the degrees of quantitative easing (QE) undertaken by governments. Therefore Interest rates were at levels not seen in 400 years.
- Monies created by QE have gone into financial products and property.
- There was no precedent that would indicate where markets would behave going forward.
- The Fund must consider the circumstances from the perspective of its assets and liabilities and therefore to ensure that its asset allocation is the best it can be.
- The Fund performed well in 2014/15 but its position has not improved because its liabilities have also increased. Therefore it was important to consider assets and liabilities in tandem.

- The economy was in the third stage of a deflationary cycle and Members were asked to note the approach taken by Ruffer in this regard.

Mr Haines recommended a cautionary approach going forward for the following reasons:

- Slowdown in China economic growth
- The levels of government, corporate and individual debt globally
- Interest rate normalisation

Responding to Members' questions, the Committee was informed that:

- The effects of the expected reduction in staff in the forthcoming five year period would be addressed through the triennial evaluation and accompanying review of the investment strategy
- The councils position was common to all local authorities which faced reduced staffing and there were other global models that public sector bodies could investigate.

RESOLVED

That the market and economic update be noted

5.5 Investment in London LGPS Collective Investment Vehicle (CIV)

This item was considered in closed session.

5.6 Pension Fund Investment Performance Review for Quarter End 31 March 2015

Bola Tobun, Investment and Treasury Manager presented the report which informed Members of the performance of the Fund in the preceding quarter. The following matters were noted:

- Six of the eight Fund mandates had outperformed in the quarter.
- Investec had underperformed for some time and the Investment Advisors to the Fund had recommended that trustees should consider whether they wished to sell this mandate. (Any mandate sale must be approved by the Committee as trustees of the fund.)

In order to undertake the sale of a mandate the Committee was asked to delegate authority to the Chief Financial (S151) Officer and the Fund Investment Advisor to undertake necessary decisions as directed by Members relating to fixed/bond portfolio investments. Members supported this proposal and agreed to delegate this authority.

RESOLVED

1. That the contents of the report be noted
2. That the Chief Financial (S151) Officer and the Fund Investment Advisor be authorised to undertake necessary decisions as directed by Members relating to the disposal of fixed/bond portfolio investments.

5.7 Pensions Board Update July 2015

Bola Tobun, Investment and Treasury Manager presented the report which outlined the progress of the establishment of the new pensions Board under the Public Service Pensions Act 2013. Members noted the following:

- The appointment of an employee (active Fund member) representative had been delayed because of a procedural error in recruitment. This had been rectified and the appointment had been referred to the Council's recognised unions to determine.
- There had been no nomination for an admitted bodies (employee) representative. Members suggested that in the absence of an applicant for the position, alternative scenarios be explored to ensure that the positions on the Board are filled.

Members considered the update and, since some appointments remained to be determined, agreed that the Terms of Reference be deferred until membership matters had been settled. The legal advisor agreed to investigate the matter.

RESOLVED

That the contents of the report be noted.

5.8 LGPS Governance Training

The Chair and Members, noting that a number of apologies had been received agreed that training be deferred to a later meeting to enable a greater number to participate.

RESOLVED

That the scheduled governance training be deferred

5.9 Pension Fund Business Plan and Budget for 2015/16

Bola Tobun, Investment and Treasury Manager presented the report which outlined the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund. It was noted that the plan had been approved at the meeting held on 24 February 2015.

RESOLVED

1. That the agreed work plan attached as Appendix 1 to the report be noted.

2. That the agreed revenue budget for 2015/16 attached as Appendix 2 to the report be noted.

5.10 2014/15 Local Government Pension Fund Annual Report

Kevin Miles, Chief Accountant presented the report which contained the amended draft Annual Pension Fund Report and Statement of Accounts which had been prepared under International Financial Reporting Standards. The report and statement of accounts would be audited by the Council's external auditors and returned for approval at the next meeting. The accounts showed that the Fund's investments had increased during the period 2014/2015.

RESOLVED

1. That the Pension Fund Annual Report be noted;
2. That the draft Pension Fund Statement of Accounts be noted;
3. That the Funding Strategy Statement be noted;
4. That the Statement of Investment Principles be noted;
5. That the Governance Compliance Statement be noted.

6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 9.50 p.m.

Chair, Councillor Andrew Cregan
Pensions Committee