

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.10 P.M. ON WEDNESDAY, 9 MARCH 2016

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

Members Present:

Councillor Andrew Cregan (Chair)
Councillor Clare Harrisson (Vice-Chair)
Councillor Candida Ronald

Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – Unions Representative

Apologies:

Tony Childs (Co-optee Admitted Bodies Representative)
Councillor Abdul Mukit MBE
Councillor Suluk Ahmed
Councillor Harun Miah

Others Present:

Raymond Haines – Independent Investment Adviser

Officers Present:

Zena Cooke – Corporate Director, Resources
Bola Tobun – Investments & Treasury Manager
Ngozi Adedeji – Team Leader, Housing Services,
Legal Services
Anant Dodia – Pensions Manager
Charles Yankiah – Senior Committee Officer, Democratic
Services
Seye Aina – Committee Services Officer,
Democratic Services

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes of the Pensions Committee held on 25 November 2015 were approved as a correct record of proceedings.

3. PETITIONS

No petitions were received relating to matters which the Committee is responsible.

3.1 VARIATION TO THE ORDER OF BUSINESS

The Chair moved and it was -

RESOLVED to vary the order of business to enable the Committee to first consider the agenda according to items of importance as follows –

- Items 5.6 and 5.7 and
- Item 4 and
- Then the meeting be moved into an exempt session to consider items 7.1 and 7.2.
- Thereafter the meeting returned to an open session to consider agenda Items 5.1, 5.2, 5.3, 5.4, 5.5, 5.8 and 6 as detailed in the agenda.

4. REPORTS FOR CONSIDERATION

4.1 Market Update

Mr Haines, Investment Adviser to the Pensions Committee presented a verbal report providing a summary of market conditions. The Committee noted as follows:

- The fourth quarter of 2015 was one of recovery from an indifferent third quarter which had been adversely affected by a mini-China crisis.
- The outlook is one of continuing growth in the US and UK, improving Europe and slowing in China. Consumer and business confidence has held up reasonably well to date, but financial market turmoil, and increasing anxiety over the EU referendum vote, may hit first half economic activity. Full year forecasts for UK GDP are moving towards 2.0% from 2¼%.
- In equity markets a palpable shift has occurred over Developed Market growth and heightened fears that there are developing signs of financial market distress. In this environment and with so many uncertainties, recession probability has risen and will likely continue to do so.

- 2016 will be a challenging year for investors and asset allocators. China will remain focus of attention as its growth has fuelled global expansion. Concerns over domestic conditions there include over-indebted state owned enterprises, regional and local government. The critical thing to watch will be the flight of capital. There is a need to monitor foreign exchange reserves more closely.

Mr Haines expressed the following views:

- that the caution expressed at previous meetings was understated, however, on the central assumption of modest growth and benign inflation, but not deflation this should provide a positive outcome for equity from here, albeit with a fair risk of more volatility. The effect of the EU referendum on the markets will not be dissimilar to the Scottish referendum and there is likely to be some volatility in the run up to the vote principally in the currency markets.

RESOLVED THAT the verbal update be noted.

4.2 Pension Fund Managers Investment Performance Review for Quarter End 31 December 2015

Bola Tobun, Investment and Treasury Manager presented the report which informed Members of the performance of the Fund and its investments for the quarter ending 31 December 2015.

The Committee noted the following:

- The Fund is behind its benchmark for the last 12 months to the end of December 2015, the fund returned 2.9% and is behind the benchmark by 1.1%.
- This quarter, 5 out of the 8 mandates matched or achieved returns above the benchmark. The Fund performance lagged behind due to poor returns from GMO, Schroder and Investec.
- The Fund was still in line with its long term strategic equity asset allocation and the distribution of the Fund's asset amongst the different asset classes is broadly in line with the strategic benchmark weight.
- The Committee was advised that GMO had not performed as well as the other Fund Managers and that is why GMO are meeting with the Committee in order to provide additional information.

RESOLVED THAT:

1. The report be noted.

2. It be noted that Schroder is underperforming and Officers be instructed to consider a performance related fee arrangement with Schroder and report back at a future meeting.
3. Officers be instructed to arrange a meeting with underperforming Fund Managers and report back at a future meeting.
4. It be noted that GMO are on a performance related fee.

5. PRESENTATION FROM FUND MANAGER - GMO

ADJOURNMENT OF THE MEETING

There was an adjournment of the meeting between 7.35pm – 7.55pm to enable the Committee to discuss the presentation by GMO.

Alex Bark and Tommy Garvey of GMO presented a verbal report and provided the Committee with a presentation booklet on the London Borough of Tower Hamlets Pension Fund and Global all country allocation strategy.

The GMO Managers introduced themselves giving a background of their career and experience. Alex Bark is the lead on client relationship and business development in London and Tommy Garvey is a member of GMO's Asset Allocation team. GMO advised as follows:

- GMO had not met the benchmark and that there had been issues which affected the performance of the fund.
- The Tower Hamlets portfolio has outperformed MSCI Value, but value has underperformed growth and also the set benchmark.
- GMO continues firmly to believe that value wins over time and the best relative returns for investors have typically followed periods of underperformance. The Tower Hamlets portfolio is positioned to benefit from such mean reversion.
- GMO retain full conviction in our ability to deliver and your performance-based fee structure means that you are paying a reduced fee until we bring your performance back into positive territory.
- Last year GMO were unsuccessful with Valiant but were successful with Amazon. GMO have learnt from this experience and now do not invest in such businesses.
- Compared to other peer groups GMO has had early exposure to emerging markets. The 7 year global equity forecasts is that the

emerging markets will deliver 9 -10 % ahead of inflation. As value managers GMO prefer a predictable market.

- GMO is unable to give a timescale for a turn-around but believe in the long run value investment works. GMO will deliver in future and believe as a partnership their interests are aligned with Tower Hamlets portfolio.

RESOLVED THAT:

1. The presentation and booklet be noted.
2. It be noted that GMO will continue to keep officers updated on performance.

6. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was -

RESOLVED THAT:

The press and public be excluded from this section of the meeting in that under the provisions of section 100A of the Local Government Act 1972 as amended by the Local Government (Access to Information) Act 1985, the press and public should be excluded from this part of the meeting for the consideration of Section Two business on the grounds that it contains information defined as exempt in Part 1, of Schedule 12A of the Local Government Act 1972, which relates to information which is commercially, legally or personally sensitive and should not be divulged to third parties.

6.1 Restricted Pensions Committee Minutes 25 November 2015

The exempt minutes of the Pensions Committee held on 25 November 2015 was considered in a closed session since the matters were considered as commercially, legally or personally sensitive.

6.2 Update - Fixed Income Investment

This report was considered in closed session since the matters discussed were considered as commercially, legally or personally sensitive.

7. MOTION TO RETURN TO PUBLIC SESSION

The Chair moved and it was -

RESOLVED THAT on the conclusion of discussions concerning the exempt minutes and the update on fixed income investment, the session return to an open meeting.

7.1 Quarterly Report - Key Pension Administration Performance Indicators: October 2015 to December 2015

Anant Dodia, Pensions Manager, presented the report which provided the Committee with the quarterly monitoring information on the performance of the Pensions administration service relating to key performance indicators in the period October to December 2015.

The Officers were asked to review the format of the report in order to present a clearer analysis of the key performance indicators and enable the Committee to assess the impact on members of the pension scheme.

RESOLVED THAT:

1. The report be noted.
2. Officers will continue to keep the Committee updated and provide a quarterly report.

7.2 The Pensions Regulator Code of Practice for Public Sector Pensions Compliance Checklist for Tower Hamlets Pension Fund

Bola Tobun, Investment and Treasury Manager presented the report informing the Committee of the policy issued by the Pension Regulator concerning compliance and enforcement of its code of practice for the management of the public sector pension schemes. The report also provided a checklist of Tower Hamlet's performance against areas of compliance expected.

RESOLVED THAT:

1. The report be noted.
2. A working group be set up to consider the areas of compliance.
3. Subject to the risk register being set up, the "Pensions Regulator Code of Practice for Public Sector Pensions Compliance Checklist" be a standing item on the agenda.
4. A dedicated website be explored to resolve some of the non-compliance issues and where necessary, instructed officers can consider alternative IT options.

7.3 Training and Development Policy and CIPFA Guidance For Members

Bola Tobun, Investment and Treasury Manager presented the report informing the Committee on the updated training and development policy for the London Borough of Tower Hamlets Pension Fund, which now includes the new CIPFA guidance.

RESOLVED THAT:

1. The report be noted.
2. The updated training and development policy be approved.
3. The need for Members training be acknowledged with the instruction to officers to give sufficient notice of the training dates and consider other meeting commitments.

7.4 Pensions Committee Work Plan for 2016/17

Bola Tobun, Investment and Treasury Manager presented the report outlining the work plan of the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

RESOLVED THAT:

1. The report be noted.
2. The work plan for 2016/17 be approved.
3. Discussions at the meeting, on matters such as risk registers and compliance be incorporated into the work plan for 2016/17 as standing items.

7.5 The Council Responses to the Government Investment Reform Criteria & Guidance and the Consultation on the Reformation of Investment Regulations

Bola Tobun, Investment and Treasury Manager presented the report with information on the Government reform for investments, pooling investments and the criteria and guidance in relation to these. Tower Hamlets has been involved in the establishment of the London Collective Investment Vehicle (CIV) and is already participating in a pooled vehicle scheme. Detailed proposals for pooling are required by 15 July 2016 and plans are being made to prepare a submission by this date.

RESOLVED THAT:

1. The report be noted.
2. The Investment Reform Criteria and Guidance, the consultation and response to the proposals submitted on 19 February 2016 be noted.

7.6 Collaboration Work Update -National LGPS Procurement Framework and London Collective Investment Vehicle (CIV)

Bola Tobun, Investment and Treasury Manager presented the report with an update on the progress of the Collective Investment Vehicle and the National Local Government Pension Scheme (LGPS).

RESOLVED THAT:

1. The report be noted.
2. The Fund participation in the re-letting of the National LGPS Procurement Framework be agreed.
3. The progress of the National LGPS Procurement Framework for Actuaries and Benefits Consultancy Services, the Investment Consultancy Services and the implementation and fund launch of the CIV be noted.
4. Officers be instructed to arrange a presentation with the CIV fund management section.

8. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

The following unrestricted business was considered, that:

1. Officers be instructed to provide information or analysis on the likely impact of the European Referendum and also any available information on the action plans of other Local Authorities.
2. The decisions of the Pension Committee be circulated to the Pension Board.

The meeting ended at 10.00 p.m.

Chair, Councillor Andrew Cregan
Pensions Committee