

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.00 P.M. ON THURSDAY, 16 MARCH 2017

TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG

Members Present:

Councillor Clare Harrisson (Vice-Chair)
Councillor Gulam Kibria Choudhury
Councillor Andrew Cregan
Councillor Md. Maium Miah
Councillor Candida Ronald
Councillor Andrew Wood
Councillor Rajib Ahmed (Substitute for
Councillor Abdul Mukit MBE)

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – Unions Representative

Other Councillors Present:

Apologies:

Councillor Abdul Mukit MBE

Others Present:

FTSE Russell

Officers Present:

Neville Murton	(Divisional Director, Finance, Procurement & Audit)
Ngozi Adedeji	(Team Leader Housing Services, Governance)
George Bruce	(Interim Pensions Manager)
Bola Tobun	(Investments and Treasury Manager, Resources)
Raymond Haines	Independent Investment Adviser
Kevin Miles	(Chief Accountant, Resources)
Zoe Folley	(Committee Officer, Governance)

1. ELECTION OF CHAIR FOR THE PENSIONS COMMITTEE

Members expressed concern about the need to re-elect to the position of Chair of the Committee on the grounds that previous Chair of the Committee, Councillor Andrew Cregan had changed political group. They also expressed concern about the lack of communication about this.

Councillor Cregan also spoke about the achievements of the Committee over the last year. He considered that there had been a lot more positive engagement from Members and stakeholders and he hoped that this would continue.

In view of the above it was

RESOLVED:

1. That the position of Chair of the Pensions Committee be left vacant until the Annual meeting of the Council in May 2017.
2. That Councillor Claire Harrison, the Vice – Chair, chair this meeting.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Rajib Ahmed declared a personal interest in the agenda items as he was a member of the LBTH pension fund.

3. MINUTES OF THE PREVIOUS MEETING(S)

RESOLVED:

1. The minutes of the previous Pensions Committee held on 7th December 2016 was approved as a correct record, subject to the following amendments:

Inclusion of Raymond Haines (Investment Advisor to Pensions Committee) in the list of attendees.

To record apologies for absence from Councillor Andrew Wood

Minute item 10, Recommendations from Divest Tower Hamlets - the word 'can' to be replace by 'could' in the first bullet point to read:

The recommendations from Divest Tower Hamlets could be included in the 2017 policy statement.

4. PETITIONS

None received.

4.1 Presentation from FTSE Russell-John Jarrett & Jennie BarxakisBaruxakis

The Committee received a presentation from John Jarrett & Jennie Baruxakis from FTSE Russell about the Future World Fund project. They explained that

they were a longstanding global index provider specialising in sustainable development and environmental and social governance (ESG). They worked with companies to measure the transition towards a low carbon green economy and its impact on their portfolios and investment. They produced an index related performance chart, that was set out in the tabled presentation, showing performance in relation to the issues. Some the specific strategies that the organisation employed were highlighted.

In response to questions, the Committee were advised that the formulation of an ESG policy should yield position results for the fund in terms of performance. It was also noted that there had been an increase in green revenues recently in light of the Paris Agreement on climate change. This trend in company activity was expected to continue despite recent international political developments. Care had been taken not to overestimate this figure in respect of green revenue. It was also noted that a number of other schemes and Local Authorities have expressed an interest in the Fund following regulatory change.

In summary, the Committee stressed the need to fully take into consideration all the relevant information and the performance figures of funds/investments, before reaching any decisions given their duties.

The Committee thanked the representatives for their presentation.

4.2 Presentation from LAPFF Tessa Younger & Lara Blecher

The Committee received a presentation from Tessa Younger & Lara Blecher of the Local Authority Pension Fund Forum (LAPFF). They explained the mission of the LAPFF that was to protect the long term investment interest of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. They worked with a range of companies (such as BP, Sports Direct and National Express) to promote such values.

In terms of recent work, they had played a key role in formulating shareholder resolutions promoting the use of green measures and to raise employment standards. This had achieved some positive results. They had also engaged with oil companies, such as TOTAL, to promote the use of green technology. They also issued voting alerts to their Members in respect of pay policies decisions and the like. In response, Members welcomed this work and the links between CIV and LAPFF.

The Chair of the Pensions Board, John Jones, shared the Boards views on this issues with regards to the need for more diversity on company Boards and influence over voting rights on executive pay. The Pensions Board had asked LAPFF to look into this. In response, it was noted that LAPFF were taking steps to address these particular issues. In response to further questions, they outlined their approach to investigating potential issues. They explained that they would engage with companies at all levels including management and employees. They might also inspect a company's annual

report to identify issues. It was felt that the issues identified at Sports Direct were generally not that common.

The Committee requested that the presentation was circulated to the Committee. The representatives were thanked for their presentation.

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Chair of the Pensions Board, John Jones provided the feedback from the Board's meeting held on Monday 13th March 2017. The meeting considered three major reports and received a presentation from LAPFF engagement about their approach and practices. One particular area of concern was how the Fund and the LGPS could influence share voting by managers on behalf of the fund that should be complicated by the introduction of asset pooling.

The Board also discussed the need for diversity on company boards, requested a presentation on ESG risk factors. They also considered the Pension administration report and made a series of comments on this in relation to the need for adequate resources, regular reporting of activity, the current position regarding GMP reconciliations and the complexities of cessation arrangements. The Board also commented on the draft Investment Strategy particularly the London CIV governance arrangements

The Board also considered attendance of Pensions Committee meeting and training. Mr Jones stressed the importance of Members attending the training and explained that some funds held joint training sessions involving the Pension Committees and Boards and with other Authorities. It was considered that it might make sense to adopt such an approach. The Chair supported this but was also mindful of the fact that daytime training sessions may prove difficult for Members to attend.

The update was note.

6. REPORTS FOR CONSIDERATION

6.1 Report update & Pensions Committee discussion on- Fund recommendations and update on ESG, Fossil Fuels and Low Carbon Approach

Bola Tobun (Investment & Treasury Manager) presented the update. The purpose of the report was to give an update on meetings held in December 2016 and February 2017 to facilitate discussion on the formulation of a cost effective Fund Ethical, Social and Governance Policy. The Committee were reminded that at the meeting of the Committee in December 2016, the Committee were invited to consider the following recommendations:

- A. To Commit to the UK Stewardship Code.
- B. Develop a policy statement regarding the London Borough of Tower Hamlets' approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which is the new name for the current Statement of Investment Principles.

- C. To review options for switching some of the UK passive mandate into a low carbon target index fund.
- D. To Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.
- E. To Monitor carbon risk within the London Borough of Tower Hamlets Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.
- F. To continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.
- G To maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance.

The meeting received a presentation from Divest Tower Hamlets about the merits of divesting from Fossil Fuels. They also heard from Paul Spedding of Carbon Tracker Indicative about the valuation implications of climate change and Clifford Sims of Squire Patton Boggs on fiduciary duty.

At its meeting on the 14 February 2017 the Committee heard from RBC – Nuts and Bolts of Sustainable Equity and Low Carbon Global Equities and FTSE Future World ex CW Climate Balance Factor Index.

Ms Tobun provided an update on the above recommendations. In relation to the first recommendation, Officers had drafted a code for inclusion as part of the new Investment Strategy following the receipts of documents. In relation to the third recommendation, further consideration would need to be given to this following the appointment of the investment consultant to make an informed decision. In relation to recommendation E, it was noted that information on the true costs had now been received. This should help inform the pending review. Recommendations F and G and would be completed in accordance with the relevant requirements.

In response to questions, Members recalled that at the last meeting they requested that a scoping exercise be carried out and for the options to be looked at. No decision had been taken at that meeting.

Overall, Members welcomed the update and specifically expressed a wish for further information in respect of fossil fuels, specific asks especially around mapping, carbon foot print issues and the financial implications of the issues. They also asked for further information on passive and active mandates. Officers confirmed that these issues would be examined in detail as part of the forthcoming review and covered in the new strategy. The timescale for the appointment of the consultants was detailed under minute item 6.8. The consultants were due to commence work on the strategy in April.

RESOLVED:

- 1 To Commit to the UK Stewardship Code.
- 2 Develop a policy statement regarding the London Borough of Tower Hamlets' approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which is the new name for the current Statement of Investment Principles.
- 3 To review options for switching some of the UK passive mandate into a low carbon target index fund.
- 4 To Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.
- 5 To Monitor carbon risk within the London Borough of Tower Hamlets Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.
- 6 To continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.
- 7 To maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance.

6.2 Verbal update on Market Outlook and Investment

Raymond Haines (Investment Advisor to Pensions Committee) reported that over the last quarter, the markets generally continued to performance well. In terms of the European economy, there had been a revision in the UK's economic forecast and it was possible that the UK's interest rate may increase. Furthermore, the recent proposals to hold a Scottish Independence referendum could affect the UK markets. The German economy had performed better than expected but still lagged behind the UK. In terms of the US, the recent interest rate rise was noted. As a result of this, the dollar had started to weakened. Furthermore, the new budget contained measures to increase defence spending and reductions in environmental spending that could impact on the markets. In relation to the FTSE market, the quarter witness rapid growth with limited volatility.

As a result, the UK and US markets had hit a record high and consideration could be given to switching funding back to sterling and the Euro.

In response to the presentation, the Committee asked questions about the merits of the Fund investing in property and it was noted that this was a complex issue and there were issues with securing a diverse portfolio due to the size of the portfolio. It was also felt that the merits of investing in infrastructure should be explored. The Committee requested to receive a presentation on this.

It was also explained that should the stock market experience a down turn in performance, (bearing in mind that it had been fuelled by the low value of sterling), the emerging markets should more than compensate for this on the back of such things as the strong performance of domestic companies.

The report was noted.

6.3 Investment Performance Review for Quarter End 31st December 2016

Bola Tobun (Investment & Treasury Manager) presented the report that informed Members of the performance of the Fund and its investment managers for the quarter ending 31 December 2016. The Committee were advised that for the quarter, although the Fund delivered a positive return of 3.1% this fell by 0.6% below the benchmark return of 3.7%.

It was also noted that for this quarter end, six out of the eight mandates matched or achieved returns above the benchmark. Overall, the Fund performance lagged behind the benchmark as a result of poor returns from LCIV (Baillie Gifford) Global Equity, Schroder and GMO. However, it should be noted that the returns from LCIV (Baillie Gifford) have historically been very good.

In relation to page 26 of the report, it was noted that the Funds overall value appreciated by £42m not £84m as stated in the report.

Bola Tobun advised the Committee that the UK Gilts & Indexed linked portfolio has grown and appreciated to the extent that the strategic benchmark weight of this asset class is almost doubled and informed the Committee that this asset is currently very expensive and about a year ago, the independent adviser Mr Haines was encouraging and advising the Committee to look into increasing the Fund position in this asset class as they are ideal matching asset for the fund liabilities. Bola Tobun advised that it is prudent to revise the strategic benchmark to accommodate the current weight of this asset class rather than selling down the position to 3% as having more of these assets in the Fund strengthens the liability hedging ratio of the Fund. The officers and the independent adviser therefore proposed to the Committee to approve 6% strategic weight for this asset class (UK Gilts & Indexed Linked) pending the outcome of the investment strategy review of the fund.

RESOLVED:

1. That the contents of the report be noted and
2. That the current Fund strategic asset allocation as set out at table 4 of section 3.22 of the report be approved.

6.4 Triennial Valuation Outcome & Funding Strategy Statement

The Committee were advised that the report brought the final actuarial valuation outcome to the Committee for adoption of rates and adjustment certificate, which set out the final primary and secondary contribution rates for all the employers of the Fund, attached as Appendix 3 to the report. For the Council the total contribution rate for the next 3 years is 33% per annum.

Also the Funding Strategy Statement (FSS) to the Committee for approval. This statement sets out how the Pension Fund aims to become fully funded over the long term.

In response to further questions, it was noted that employers, who participated in the Tower Hamlets Pension Fund, were invited to comment on the FSS and only one school (Mulberry School) responded with their comments about being classified at a higher probability (70%) of achieving full funding and the perceived implications of having a higher contribution rate compared with the Council having a 66% probability and the school was advised that this was based on perceived risk that future contributions may not be collectable from employers classified under 70% probability.

The Committee was advised also that an employer's forum was held back in January and Schools were advised of the new primary contribution rate of 19.9% of pay effective from 1 April 2017. As this represents a 4% increase on current contribution towards the cost of new benefits accruing, the Council has made the decision not to pass this increase on to Schools immediately; however a phased increase will apply at least over the next 3 years, in a form of 1.5% per annum from 2017/18. As it was also discovered that Schools have not been contributing towards the secondary rate.

The Vice - Chair outlined the key issues, drawing attention to the proposed primary and secondary rate employer contribution rates. She also gave an overview of the current position in respect of academy schools and the local government pension fund. In response to questions about Academy schools, it was noted that they should be in a stronger position as a result of the changes to the deficit payment recovery period.

It was also noted that there was a slight overspend on the estimated budget for completing the actuarial work due to the costs of carrying out further work for reassurance purposes.

RESOLVED:

1. That the 31st March 2016 actuarial valuation report be adopted as set out in Appendix 1;
2. That the Funding Strategy Statement as set out in Appendix 2 be approved;
3. That the draft rates and adjustments schedule/certificate prepared by the Fund Actuary listing all employers' in the Tower Hamlets Pension Fund, primary and secondary contributions payable from April 2017 to March 2020 be adopted as set out in Appendix 3;

4. That the sign off of the Rates and Adjustments Certificate and the implementation of the Funding Strategy Statement be approved

6.5 Investment Strategy Statement

Reason For Urgency / Lateness

As legislation requires the Council Pension Fund to have an up-to-date approved Investment Strategy Statement (ISS) in place from 1st April 2017, it is necessary for this report to be considered at the March 2017 meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Bola Tobun (Investment & Treasury Manager) presented the report. She explained the need for the Committee to approve this strategy now, prior to completing the pending Investment Strategy review to comply with the LG Pension Scheme regulations requiring that a new ISS be approved by 1st April 2017.

She explained the main changes to the plans from the old document in relation to the approach to collaborative investment and the setting of a maximum investment limit for a particular asset. There was also a requirement that the statement must comply with the new Secretary of State Guidance.

She also advised that the main reason for circulating an updated version at the meeting is to include a draft statement on the UK Stewardship Code for the Fund in response to FRC acknowledgement to our request.

She also drew attention to the main sections of the attached strategy statement regarding the long terms view, investments objectives, strategy review and strategic benchmark, the restrictions on investment, risk, the pooling of investments and the governance of the LCIV pool.

RESOLVED:

1. That the new Investment Strategy Statement as shown in Appendix 1 be approved.

6.6 Pension Administration Update including Performance Indicators

George Bruce (Interim Pensions Manager) provided the update drawing attention to the key issues in the report. The purpose of the report was to provide assurance that processes were in place to ensure a high quality administration service is provided to Pension Scheme Members and Employers. It was reported that recent staffing changes have impacted on performance. However, the underlying performance issues had now been addressed so the next report to the Committee in 12 months should show much better results in terms performance.

It was also reported that a number of academy schools have recently indicated an intention to join the scheme. It was also expected that a number of Admitted Bodies would join the scheme. A number of employers had recently ceased to participate in the fund. Details of these changes were noted.

It was also noted that there was also a request (as set out in the budget) for additional funding for a Members Self Service System. In response to a question, it was noted that this should improve the efficiency of the service.

RESOLVED:

1. To note the five academies that will join the Pension Fund as new employers and that it be agreed to the participation of Enterprise Limited, provided that the latter signs an acceptable admission agreement and also a satisfactory bond / guarantor (see paragraph 3.20 to 3.25)
2. That the admission of the seven companies appointed to provide home care services be approved provided that they meet the conditions of admission (sign Council's admission agreement, agree to pay contribution calculated by the Scheme Actuary and provide a satisfactory bond or guarantee)
3. That it be noted that the breach of Regulations in connection with the issue of annual benefit statements has been reported to the Pensions Regulator (see paragraph 3.33 to 3.34)
4. That the additional annual costs of £21,000 associated with Member Self-Service and i-Connect (paragraphs 3.59 & 3.66) be approved.
5. That the additional Actuarial costs of £4,000 incurred re GMP reconciliations (paragraph 3.73) be noted
6. To circulate the draft Administration Strategy Statement to employers and delegate authority to the Chair of the Committee to agree any minor amendments prior to publication (paragraphs 3.78 to 3.83).
7. That the extension of the time limit to transfer in service from other pension schemes (paragraph 3.90) be noted.

6.7 Pension Fund Budget Estimate for 2017/18 & Work Plan for 2017/18 - To follow

Reason for Urgency / Lateness

Good practice requires that the Council's Pension Fund considers its budget prior to the start of the financial year; therefore this Committee is requested to consider this report at tonight's meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Bola Tobun (Investment & Treasury Manager) presented the report that outlined the Work Plan and budget forecasts. It was noted that the total budgeted expenditure (benefits payable) for 2016/17 was £59.0m. Actual expenditure as at the 31st December 2016 was £51.4m and the forecast for 2016/17 was expected to exceed the budgeted figure.

The budget for 2017/18 was proposed at £70.6m. This was partly due to an increase in pension payments and transfer values out and the costs of new projects such as the pending Investment Strategy review.

Bola Tobun also highlighted that due to the investment strategy review for the Fund that will be carried out in 2017/18 which can cost anything up to £30k. For this reason Investment Consultant Fees for 2017/18, has a budget of £80k.

In response, the Chair requested that the savings gained through participation in CIV should be circulated to the Committee.

RESOLVED:

- That the work plan attached as Appendix 1 to this report be agreed
- That the revenue account budget estimate for 2017/18 attached as Appendix 2 to this report be agreed.

6.8 Verbal update on Investment Strategy Review, Review & Procurement of Services

Neville Murton, (Service Head of Finance and Procurement) provided the update on the procurement process to recruit a consultant to assist with the Investment Strategy review. It was scheduled that the interviews with the shortlisted companies would be held on Thursday 23 March at 4pm. The Committee were welcomed to attend this or submit any issues/comments for consideration to himself or Bola Tobun. From early April onwards the successful candidate would be tasked with undertaking the review. The Chair emphasised the need for the Members to be involved in the process. The details of interview would be circulated to the Members.

7. DATE OF FUTURE MEETINGS

The calendar of meetings for the new year would be agreed at the Council meeting on 22 March 2017.

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

None.

9. RESTRICTED MINUTES

1. The restricted minutes of the Pensions Committee held on 7th December 2016 was approved as a correct record subject to the following amendments:

Inclusion of the following in the list of attendees:

- Inclusion of Raymond Haynes (Investment Advisor to Pensions Committee)
- Neville Murton, (Service Head of Finance and Procurement)

To record Apologies from Councillor Andrew Wood

The meeting ended at 9.50 p.m.

Vice Chair,
Pensions Committee