

PENSIONS COMMITTEE

Monday, 31 July 2017 at 7.00 p.m.

C1, 1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London,
E14 2BG

This meeting is open to the public to attend.

Members:

Chair: Councillor Clare Harrisson

Vice Chair:

Councillor Andrew Cregan, Councillor Andrew Wood, Councillor Md. Maium Miah,
Councillor Candida Ronald, Councillor Rabina Khan and Councillor Shiria Khatun

Tony Childs (Co-optee Admitted Bodies Representative) and Kehinde Akintunde
(Unions Representative)

Substitutes:

Councillor Peter Golds, Councillor Marc Francis, Councillor Gulam Kibria Choudhury,
Councillor Sabina Akhtar and Councillor Helal Uddin

[The quorum for this body is 3 voting Members].

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APOLOGIES FOR ABSENCE

1. APPOINTMENT OF VICE-CHAIR

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 - 16

To confirm as a correct record the minutes of the meeting of the Committee held on 16 March 2017

4. PETITIONS

To receive any petitions relating to matters for which the Committee is responsible.

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

6. REPORTS FOR CONSIDERATION

6 .1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings

17 - 22

All Wards

6 .2 Investment Strategy Review

The Committee to receive a verbal presentation from Mercers.

6 .3 Update on Market Outlook and Investments by the Independent Advisor

The Committee to receive a verbal report from Raymond Haines, Independent Advisor.

6 .4 Draft Pension Fund Annual Report and Accounts 2016/17

Report to follow

6 .5 Future Pension Administration Options

Report to follow

6 .6 Investment Performance Review for Quarter Ending 31 March 2017

Report to follow.

6 .7 LGPS Latest Development and Update

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All Wards

6 .8 Pension Fund Administration Update

Report to follow.

7. TRAINING EVENTS

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

9. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“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 be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

EXEMPT SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

9 .1 Pension Fund Procurement Plans and Update 2017/18

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All Wards

Next Meeting of the Committee:

Thursday, 14 September 2017 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:-

Asmat Hussain, Corporate Director for Governance and Monitoring Officer,
Telephone 0207 364 4800

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 7.00 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:

None

Apologies:

Councillor Abdul Mukit MBE

Others Present:

John Jarrett	FTSE Russell
Jennie Baruxakis	FTSE Russell
Tessa Younger	Local Authority Pension Fund Forum (LAPFF).
Lara Blecher	Local Authority Pension Fund Forum (LAPFF).
John Jones	Chair of the LBTH Pensions Board

Officers Present:

Neville Murton	(Divisional Director, Finance, Procurement & Audit)
Ngozi Adedeji	(Legal Services, Governance)
George Bruce	(Interim Pensions Manager, Resources)
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 Baruxakis

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 was 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 Haines (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

Non-Executive Report of the: Pensions Committee 31 July 2017	 TOWER HAMLETS
Report of: Matthew Mannion, Committee Services Manager	Classification: Unrestricted
Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings	

Originating Officer(s)	Georgina Wills
Wards affected	(All Wards);

Summary

[This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2017/18 for Members' information.]

Recommendations:

The Pensions Committee is recommended to:

1. Note its Terms of Reference, Membership and Quorum as set out in Appendix A to this report.
2. Determine the preferred time at which the scheduled meetings will start

1. REASONS FOR THE DECISIONS

- 1.1 The report is brought annually to assist new and returning Members by informing them of the framework of the Committee set out in the Council's Constitution.

2. ALTERNATIVE OPTIONS

- 2.1 The report asks Members solely to confirm its constitutional arrangements and therefore they are not required to consider any alternative options.

3. DETAILS OF REPORT

[Background

- 3.1 At the Annual Council Meeting on 17th May 2017, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution.
- 3.2 The terms of reference for the Pensions Committee together with the appointed Membership and Quorum thereof are set out in Appendix A.

4. Membership

- 4.1 Council on 17th May 2017 agreed that the Membership of the Committee be set at 7 Members in line with the recommendations of the Constitutional Working Party adopted by Council in April 2010 to ensure the proportionality arrangements are upheld.
- 4.2 Council also agreed that one Admitted Body and one Trade Union representative be invited to join the Committee on a non-voting basis in line with the recommendations of the Constitutional Working Party. Officers will verbally update Members on the process for appointing to these positions at the meeting.

5. Programme of Meetings

- 5.1 The Council has agreed a programme of meetings for the municipal year. Meetings of the Pensions Committee are scheduled as follows:
- 31 July 2017
 - 14 September
 - 20 November
 - 14 March (2018)

5.2 The Constitution provides that, the meetings will take place at 7.30pm unless the Chair otherwise decides. The Chair and Pension Committee Members, in the past, have agreed the meetings will take place at 7.00pm in accordance with the programme of meetings for principal committees as this time is deemed to be more convenient for members and public. Additionally any meetings that fall during the holy month of Ramadan are scheduled to commence at 5.30pm. Members may wish to determine their own meeting time in the forthcoming municipal year and are permitted to offer their views to the Chair.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 There are no specific financial commitments arising from the recommendations within the report.

5. LEGAL COMMENTS

5.1 Appendix A sets out the terms of reference and composition of the committee as set out in Paragraph 3.3.12 of the Council's Constitution and is in line with the resolutions at Council on 17th May 2017. There are no immediate legal consequences arising from this report.

6. ONE TOWER HAMLETS CONSIDERATIONS

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 There are no specific best value implications arising from the recommendations in the report.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

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

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no specific crime and disorder reduction implications arising from the recommendations in the report.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix 1 – Terms of Reference and Membership

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE if none.

Officer contact details for documents:

- N/A

APPENDIX A

PENSIONS COMMITTEE - TERMS OF REFERENCE

Terms of Reference:

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

Membership:


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

At the Annual General Meeting of the Council held on 17 May 2017 the following appointments were made to the Pensions Committee.

PENSIONS COMMITTEE (Seven members of the Council)				
<i>Labour Group (3)</i>	<i>Independent Group (1)</i>	<i>Conservative Group (1)</i>	<i>People's Alliance of Tower Hamlets (1)</i>	<i>Ungrouped (1)</i>
<i>Cllr Clare Harrisson (Chair)</i> <i>Cllr Candida Ronald</i> <i>Cllr Shiria Khatun</i>	Cllr Md Maium Miah	Cllr Andrew Wood	<i>Cllr Rabina Khan</i>	<i>Cllr Andrew Cregan</i>
<i>Substitutes:-</i> <i>Cllr Sabina Akhtar</i> <i>Cllr Marc Francis</i> <i>Cllr Helal Uddin</i>	<i>Substitutes:-</i> Cllr Gulam Kibria Choudhury	<i>Substitutes:-</i> Cllr Peter Golds	<i>Substitutes:-</i>	<i>Substitutes (not applicable)</i>

The quorum of the Pensions Committee is three Members.

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Non-Executive Report of the: PENSIONS COMMITTEE 31 July 2017	
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
LGPS Latest Development and Update: FCA MiFID II Policy Statement on LGPS Classification, Judicial review on DCLG statutory guidance, LGPS Investment Code of Transparency and London Collective Investment Vehicle (CIV)	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Introduction

This report provides the Committee with an update on general developments in Local Government Pensions Scheme arena and also the progress of the London Collective Investment Vehicle (CIV).

The second Markets in Financial Instruments Directive (MiFID II) builds on the original MiFID and is the framework of European legislation governing investment firms providing certain investment services to clients and the organised trading of financial instruments. MiFID II takes effect on 3rd January 2018 and the proposed changes to the Financial Conduct Authority (FCA) Handbook will have significant implications for LGPS administering authorities.

On 16th May 2017, the LGPS Scheme Advisory Board issued the Local Government Pension Scheme (LGPS) Investment Code of Transparency. The background, nature of the Code and the implications of its introduction are briefly discussed in this report.

The High Court ruled on judicial review that the section on boycotting foreign nations and the UK defence industry in the DCLG statutory guidance on preparing and maintaining an investment strategy statement published in September last year is unlawful. The reason given is that the Secretary of State had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for “pension purposes” The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgement, the inference is that that part of the statutory guidance referred to in paragraph 1 of the judgement is struck out.

Recommendations:

Members of the Pensions Committee are asked to:

1. note the contents of the report which covers the following matters.
 - a) FCA MiFID II Policy Statement on LGPS Classification;
 - b) Judicial review on DCLG statutory guidance;
 - c) LGPS Investment Code of Transparency and
 - d) London Collective Investment Vehicle (CIV).
2. approve that officers undertake the opting up to elective professional status process as stipulated by FCA policy statement.
3. agree that officers write to all the Fund asset managers who invest in listed assets on behalf of the Fund seeking information as to whether and when they intend signing up to the LGPS Investment Code of Transparency.

1. REASONS FOR THE DECISIONS

- 1.1 For effective and efficient management of the Fund.

2. ALTERNATIVE OPTIONS

- 2.1 No alternative.

3. DETAILS OF REPORT

The FCA on Markets in Financial Instruments Directive Implementation - Policy Statement II

- 3.1 Under MiFID II, UK local authorities will be re-classified as "retail" clients as opposed to their current classification of "professional per se" clients. If the local authority retains the retail client classification, it will be restricted in the investment managers it can use and the investments it can make as there are fewer investment managers permitted to deal with retail clients and certain investments are not deemed suitable for retail clients.
- 3.2 The UK regulator has introduced a workaround for the country's local government pension scheme (LGPS) to avoid European rules that could have forced some funds into a potential urgent sale of assets. The Financial Conduct Authority (FCA) published a 1,068-page policy document regarding the implementation of the Markets in Financial Instruments Directive (MiFID II). In it, the watchdog added wording to the rules making it easier for LGPS schemes to be "opted up" to professional investor status.
- 3.3 MiFID II requires all local authorities to be treated as retail clients by their asset managers, which would severely restrict their ability to invest in illiquid asset classes. While it was introduced to protect the treasury management

functions of local governments across Europe, it raised concerns within the LGPS that it would hamper efforts to pool assets and boost infrastructure spending.

- 3.4 There is an option for local authorities to opt up to “elective professional” client status with individual asset managers in order to continue ‘complex’ investments. This procedure will include both a qualitative and quantitative test to be assessed by the asset manager. It is proposed that the opt up criteria will be applied separately for local authorities depending on the capacity in which they are acting (i.e. either as treasury managers or as pension fund administrators).
- 3.5 After lobbying from the LGPS Scheme Advisory Board, the Local Government Association (LGA) and the Investment Association, the FCA made changes to the “quantitative” and “qualitative” tests for clients to be classified as professional.

Opt Up to Elective Professional Status

- 3.6 The Financial Conduct Authority’s (FCA) policy objective is to provide a clear and straightforward path to opt-up which enables LGPS administering authorities to attain “elective professional” status. This will be achieved via two tests: qualitative and quantitative.

Qualitative Test

- 3.7 ***The qualitative test states that:*** Firms must undertake an adequate assessment of the expertise, experience and knowledge of the client to give reasonable assurance in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (COBS 3.5.3R(1)) .
- 3.8 ***The existing COBS 3.5.4 states that:*** If the client is an entity, the qualitative test should be performed in relation to the person authorised to carry out transactions on its behalf.
- 3.9 Asset managers must also assess the “expertise, experience, and knowledge” of their clients in order to opt them up to professional status. MiFID II refers to an individual person, but the FCA’s policy statement made it clear that “firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions”.
- 3.10 The regulator added: “Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm’s assessment.”

- 3.11 The qualitative test will reference the key officer individual but will make clear that this can include the legal entity rather than just individual persons, i.e., the collective decision making structure can be taken into account (officers, consultants and the decision making committee).

Quantitative Test

- 3.12 The quantitative test (based on COBS 3.5.3R (2)) requires that the criteria in paragraph (a) and one of the criteria in paragraphs (b), (c) or (d) must be satisfied:
- a) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £10m
 - b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters.
 - c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.
 - d) the client is an administering authority of the LGPS.
- 3.13 It is expected that asset managers will take the opt up questionnaire information at the outset, approve the document if satisfactory, and periodically review the information, probably annually.

LGPS Investment Code of Transparency

- 3.14 On 16th May 2017, the LGPS Advisory Board issued the Local Government Pension Scheme (LGPS) Investment Code of Transparency.
- 3.15 The quoted fee paid to an external asset manager does not represent the full cost incurred by an LGPS Fund when it engages the services of an external investment (asset) manager. There have long been concerns regarding investment management fees. Therefore, the Scheme Advisory Board in consultation with LGPS stakeholders including the Investment Association which is the investment managers trade body, has developed the LGPS Investment Code of Transparency. This is a voluntary Code but it is anticipated that most asset managers, to whom the Code applies will, in due course, sign up to it.
- 3.16 The purpose of the Code is to improve the reporting and understanding of investment management charges and costs. Investment managers who sign up to the Code will report their fees costs and income using standard Templates.
- 3.17 Potentially, the information provided by participating managers has a number of benefits for the Tower Hamlets Pension Fund including a greater ability to

challenge investment managers' fees and costs, improved reporting in the Annual Pension Fund Accounts and a greater ability to assure stakeholders that the Fund understands its asset management fees and costs and is in a position to undertake meaningful discussions with its investment managers in relation to this issue.

- 3.18 At present the Code only covers listed assets such as Listed Equities and Bonds. Listed assets however form the majority of the assets of the Tower Hamlets Pension Fund. The Scheme Advisory Board intends, in due course, to extend the Code to cover unlisted assets. It will however be considerably more challenging to develop Templates for alternative asset classes where fees/cost structures are more complex.
- 3.19 As noted in the independent advisors note the Scheme Advisory Board is considering whether to seek to establish/utilise a third party body to collate and check the data on behalf of LGPS Funds. This would be an independent not for profit body which would enable individual LGPS Funds to receive the asset managers' data in a format they can readily use rather than having to analyse it themselves and recruit/train staff to undertake this task.
- 3.20 However, the capacity to undertake this work should be well within the capacity of individual pools working with individual funds and there is no guarantee that the advisory board has the expertise to commission such work.

The Government rules on Local Government Pension Scheme (LGPS) investments were deemed unlawful.

- 3.21 The investment guidance, issued last September, requires LGPS funds to have policies on environmental, social and governance (ESG) issues but also added they could not pursue policies contrary to central government foreign and defence policy.
- 3.22 The guidance said "pension policies to pursue boycotts, divestment and sanctions [BDS] against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the government" and funds could not "pursue policies that are contrary to UK foreign policy or UK defence policy".
- 3.23 The policy was particularly contentious as LGPS funds and campaigners said this limited their ability to take up ethical investment, particularly BDS action against companies operating in Israeli settlements in Palestine.
- 3.24 A bid was launched in the courts by the Palestine Solidarity Campaign (PSC) to overturn the regulations via a judicial review, where it argued the government had acted outside of its powers, and it was "lacking in certainty".
- 3.25 It also cited Article 18.4 of the EU's directive on the Activities and Supervision of Institutions for Occupational Pension Provision (IORP), which states

"member states shall not subject the investment decisions of an institution... to any kind of prior approval or systematic notification requirements".

- 3.26 However, the judgment, issued by judge Sir Ross Cranston only agreed with the first argument, stating the Minister for the Department for Communities and Local Government (DCLG) Sajid Javid had "acted for an unauthorised purpose and therefore unlawfully".
- 3.27 His reasoning was the "guidance has singled out certain types of non-financial factors, concerned with foreign/defence... and stated that administering authorities cannot base investment decisions upon them. In doing this, I cannot see how the secretary of state has acted for a pensions' purpose".
- 3.28 He stated specifically that this guidance could preclude LGPS funds taking ESG factors into account even if there no "significant risk" of financial detriment or "no good reason" to believe members would object.
- 3.29 Cranston therefore granted a judicial review, meaning the government may have to rethink its approach to the rules if it wishes them to take effect.
- 3.30 DCLG made a statement that the government would consider whether to appeal: "It is an important principle that foreign policy matters are for the UK Government to decide. We will consider the judgement and next steps."
- 3.31 This will mean that the LGPS funds must invest in the best interests of scheme members, as all other pension schemes in the UK must do. The best interests of scheme members are aligned with all sponsoring employers in seeing that their pensions are delivered in the most efficient manner.
- 3.32 The High Court was also asked to judge whether (a) the guidance lacked clarity and certainty and (b) whether Article 18(4) of the 2003 IORP Directive applied to prevent the Secretary of State from imposing a form of approval before investment decisions are made. On both matters, the judge ruled in favour of the Secretary of State.

London CIV Update

- 3.33 The first quarter of 2017/18 has been positive and LCIV has achieved the majority of their quarterly KPI targets. They launched two additional funds, taking AUM just short of £5bn, by having an additional LLA invested directly in one of the sub-fund. (Bexley through the LCIV NW Global Equity Fund,

managed on a delegated basis by Newton Investment Management Ltd.).
Q1 2017 Sub-Fund AuM Status

Q1 2017 AuM Status (£Mn)			
FUNDS	30 June Value	MTFS Plan	Variance
London LGPS CIV Global Equity Alpha (Allianz)	691	602	89
London LGPS CIV Global Alpha Growth Fund (Baillie Gifford)	1,674	1,455	219
Lodnon LGPS CIV Diversified Growth Fund (Baillie Gifford)	362	336	26
LCIV PY Gloval Total Return Fund (Pyrford)	225	199	26
LCIV RF Absolute Return Fund (Ruffer)	473	330	143
LCIV NW Real Return Fund (Newton)	346	330	16
LCIV NW Global Equity Fund (Newton 22 May launch)	659	500	159
LCIV MJ UK Equity Fund (Majedie 18 May Launch)	510	530	-20
Longview (to launch in July)	0	450	-450
	4,941	4,732	209

- 3.34 Also reported to be on target to launch are four further funds in the second quarter of 217 with two funds opening in July and two in September.
- 3.35 LCIV reported that costs are lower than planned at this stage, mainly due to lower staff and facilities costs. They have appointed four additional members of staff and are in discussion with a number of very good candidates and are optimistic that further staff will soon be joining the team; details of the appointments are below.
- 3.36 To date in 2017/18 LCIV has hired the following:
- Chief Risk Officer; this role will cover both risk and performance reporting and LCIV are, therefore, reviewing the role requirement for the AD Investment Oversight & Performance.
 - Head of Fixed Income & Alternatives; brought forward into Q2 as this asset class has taken a higher degree of urgency and prioritisation.
 - Client Relations Executive.
 - Corporate Development Director (New role / 1 year fixed term contract); new role added to structure, but contained within budget envelope, to bring support to the Executive team in delivering key organisational development projects, for example supporting the governance review, client reporting and operating model development.
- 3.37 LCIV is currently reviewing the roles and requirements of the Q2 planned hires and will revise plans as required. The table below provides a summary status against the Business Plan.

MTFS Plan Hire Dates	Resource	Job Posted	Interviews Initiated	Offer Made	Hire On-Boarded
Q1	Head of Global Equities ¹	✓	✓		
	AD Investment Oversight/Performance ²				
	Client Relationship Assistant (retitled Client Relations Executive)	✓	✓	✓	✓
	Fund Accountant	✓	✓	✓	September
	Systems/Data Manager ³	✓			
Q2	Head of Fixed Income/Alternatives	✓	✓	✓	✓
	Management Accountant				
	Operations Assistant ⁴				
	Project Manager ⁴				
Q3	Head of Real Estate/Infrastructure ⁵				
	Risk Officer (retitled Chief Risk Officer)	✓	✓	✓	✓
Q4	Client Relationship Assistant (retitled Client Relations Executive)				
	Administrative Assistant				

1. Engagement delayed as offer made to initial candidate was eventually turned down
2. Role and requirements under review due to integrating performance reporting into Chief Risk Officer role
3. Role on hold pending wider IT infrastructure and system decisions
4. Role and requirements under review
5. Role being brought forward in plans in light of client demand for products in this areas

3.38 The process for recruiting two additional Non-Executive Directors (NEDs) has been completed and LCIV are going through the process to sign contracts and on-board the two successful candidates, Linda Selman and Paul Niven, for a three year term. Both candidates will bring extensive knowledge and experience of investment and fund management and will add additional strength to the Board.

3.39 A full Invitation to Tender was released to three potential providers for a Governance review. The purpose of the review is to consider the governance structures associated with the Pooling arrangements for the London LGPS funds as currently undertaken through LCIV and recommend potential improvements to ensure that all stakeholders have the necessary and appropriate level of engagement and influence, and that decision making is correctly positioned and defined. This would take into account the fiduciary, regulatory and statutory responsibilities of LCIV, its directors and officer and the investing LGPS funds.

3.40 Responses have been received from two of the three, the third dropped out due to resource constraints and other commitments. Having reviewed the submissions the process for engaging with an independent provider to carry out the review is nearing completion. A Project Steering Committee has been set up to review the submissions and, if content, award the contract at its meeting on 12 July.

3.41 The Steering Committee has been established to scope, resource, and oversee the delivery of the London CIV Governance Review project and

ensure the project is aligned with stakeholder needs and meets the overall objectives of the review. The Steering Committee will also be the leadership group reviewing the draft final report and recommendations and providing any necessary clarifications to finalise the report.

3.42 The Project Steering Committee is responsible for:

- a) Ensuring the project is aligned with all stakeholder needs;
- b) Establishing the project scope, deliverables and timelines;
- c) Agreeing the approach for selecting the service provider to complete the governance review;
- d) Overseeing delivery of the project;
- e) Resolving any strategic issues or potential scope, timeline or budget changes to the project;
- f) Reviewing and approving final project deliverables;
- g) Reviewing recommendations and making proposals for action to the Board, the Pensions CIV Joint Committee and London Councils Leaders' Committee;
- h) Establishing an effective plan to communicate findings, recommendations and action points to broader stakeholder groups.

3.43 The Project Steering Committee comprised of:

- Mark Boleat (City of London) (Chair of the Committee)
- Lord Kerslake (Vice Chair of the Committee)
- Eric Mackay (LCIV NED)
- Cllrs Johnson (Ealing) and Heaster(Wandsworth)(PSJC Party Group Chairs)
- Ian Williams (Hackney) and Gerald Almeroth (Sutton) (SLT representatives)

3.44 It is planned that research will happen through July and August. The draft report and recommendations will be considered by the Steering Committee, this Joint Committee, and the Board, before being presented to London Councils' Leaders' Committee as a final report for adoption at its meeting of 10 October.

3.45 LCIV had submitted a statement of compliance with the Stewardship Code to the FRC. This has been accepted by FRC as meeting the requirements of a Tier One Asset Owner for the purpose of assessment against the Code i.e. the highest tier for an asset owner. A copy of the Statement can be found on the FRC website: <https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf>

3.46 For asset managers there are 3 levels of compliance with the Code against which asset managers are assessed. In terms of LCIV's external managers, both current and those scheduled for sub-fund launch over the coming months, the table below sets out the levels of compliance with the Code:

External Manager	Stewardship Code Compliance Tier	Asset Class	Additional Comments
Allianz	1	Global Equity	
Baillie Gifford	1	Global Equity DGF	
EPOCH	TBA	Global Equity Income	Statement of Compliance submitted to FRC for evaluation
Henderson	1	Emerging Markets	
Longview	1	Global Equity	
Majedie	1	UK Equity	
Newton	1	Global Equity Real Return	
Pyrford	2	Total Return	Manager seeking to upgrade to Tier 1
RBC	1	Sustainable Global Equity	
Ruffer	1	Absolute Return	
Passive Manager			
LGIM	1	Passive Life Funds	External to LCIV platform
BlackRock	1	Passive Life Funds	External to LCIV platform

3.47 Members of the Pensions Sectoral Joint Committee has agreed a voting policy which recognises the importance of collaborative working and to use as a basis for voting, the alerts issued by LAPFF in connection with voting. The alerts issued by LAPFF are forwarded to LCIV's external managers and asked to vote in accordance with the alert and for clear explanations to be provided where for wider investment or company reasons they have not followed the alert.

3.48 Over the quarter to 30th June 2017, LCIV received 11 voting alerts from LAPFF which were passed across to the LCIV delegated and direct managers for action. The table below sets out the voting alerts received and the manager response. Where they did not vote in line with the alerts, fuller explanations have been sought.

LAPFF Voting Alerts		Equities				DGF/ TRF				Passive LGM
Voting Alert	Date	Allianz	BG GAG	Majedie UK	Newton GE	BG DGF	Pyrford	Ruffer	Newton TR	
Fund Inception Date		02/12/2015	11/04/2016	18/05/2017	22/07/2017	15/02/2016	17/06/2016	21/06/2016	16/12/2016	
Smith & Nephew - Oppose Remuneration Policy	03/04/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted for policy post consideration of issues
GlaxoSmithKline - Oppose pay policy	21/04/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Vote in line with alert	Nil holdings	Voted for management	Voted for policy post consideration of issues
Wells Fargo - Vote for reviewing business standards	21/04/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
PPL - Vote for providing 2 degree analysis	02/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
BP - Vote for pay policy	02/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Voted in line with alert	Vote in line with alert	Nil holdings	Vote in line with alert
EnQuest - Oppose re-election of Chair of nomination committee	08/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
Shell - Vote for pay policy	09/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Vote in line with alert	Nil holdings	TBA	Voted in line with alert
Exxon - Climate Change Policy Impact Reporting	17/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Vote in line with alert	Nil holdings	Voted in line with alert
Chevron - Produce a report on its low carbon transition efforts	17/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
WPP - Oppose Pay Policy	19/05/2017	Voted for policy post consideration of issues	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted for policy post consideration of issues
Babcock - Oppose Pay Policy	29/06/2017	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	TBA

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Corporate Director, Resources is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed MiFID II process offers a clear structure to opting up to elective professional status.

5. LEGAL COMMENTS

5.1 This report provides an update on a number of general developments affecting the Local Government Pensions Scheme.

5.2 Policy statement from the Financial Conduct Authority in respect of the Markets in Financial Instruments Directive II (MiFID II). The statement sets out the final rules for implementation of MiFID II. MiFID II is due for implementation on 3rd January 2018. Local government pensions schemes will be particularly affected by the reclassification of local authorities as “retail” clients rather than their current classification of “professional per se” clients. This reclassification will affect the investment managers they can use and the investments they can make as there are fewer investment managers permitted to deal with retail clients and certain investments are not deemed to be suitable for retail clients. This restriction is at odds with the provisions of the Local Government Pension

Scheme (Management and Investment of Funds) Regulations 2016 which dispensed with the explicit limits on specified types of investments and which instead charged administering authorities with determining the appropriate mix of investments for their funds and the requirement to pool their funds.

- 5.3 The FCA has recognised that the reclassification of local authorities as retail clients will not be in the best interests of their pension funds and has given them an option to opt up to “elective professional” client status subject to satisfying certain criteria. The FCA expects the criteria to appropriately balance the ability of local authorities to access the financial services they require whilst securing an appropriate degree of investor protection. It is incumbent upon the local authority as administrators to obtain the best possible investments for the fund and as such it should take up the option to opt up to “elective professional” client status following the process set out in the FCA policy statement.
- 5.4 LGPS Investment Code of Transparency. On the 16th May 2017, the Local Government Pension Scheme Advisory Board (“the Board”) issued the Local Government Pension Scheme Investment Code of Transparency (“the Code”). The Code is a voluntary code which covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities. Investment Managers who sign up to the Code are required to report their information on a template provided by the Board. Investment Managers must sign up to the Code in writing in the form prescribed by the Board. The information provided by the Investment Managers will assist the Committee to meet its statutory obligations in respect of the administration and management of the pension fund.
- 5.5 Government guidance on LGPS Investments. In the case of R on the application of (1) Palestine Solidarity Campaign Ltd (2) Jacqueline Lewis v Secretary of State for Communities and Local Government, the High Court has ruled that, that part of the Secretary of State’s guidance relating to pensions policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries (paragraph 3 of regulation 7(2)(e) is unlawful as the S of S had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy which were not policies for “pension purposes”. The S of S was ruled to have acted for an unauthorised purpose which made the guidance unlawful. The inference is that this part of the guidance is struck down although this was not made explicit in the judgment. The committee is recommended to review the Investment Statement Strategy in light of this judgment, in particular section 9 of the ISS which deals with environmental, social and governance issues.
- 5.6 When considering the information and issues raised in this report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer’s contribution is a significant element of the Council’s budget and consequently any improvement in investment management and performance

will reduce the contribution and increase the funds available for other corporate priorities.

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

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The effective and efficient management of Fund assets and achievement of performance targets are key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The overall objective of MiFID II is to reduce the risk of mis-selling by the investment industry. By classifying local authority clients as "retail" clients by default, thus requiring the elective professional opt up process, asset managers are required to assess the knowledge of the collective decision making group before taking them on as clients.

- 9.2 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

- NONE

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By virtue of paragraph(s) 1, 2, 3, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

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