TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 21 September 2017 at 7.00 p.m.

Committee Room 1, 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 Candida Ronald

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

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

Substitutes:
Councillor Marc Francis, Councillor Gulam Kibria Choudhury, Councillor Sabina Akhtar and Councillor Helal Uddin

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

Contact for further enquiries:
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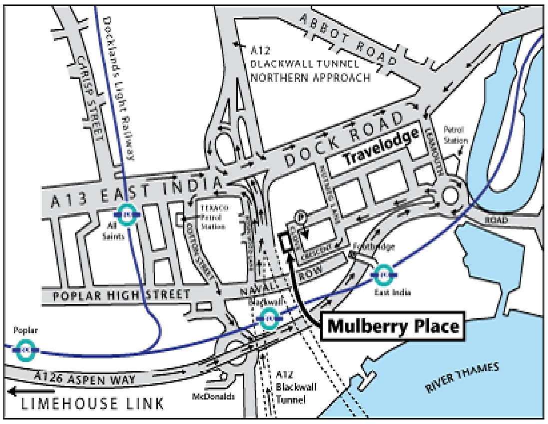

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6. TRAINING EVENTS

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

8. DATE OF FUTURE MEETINGS

To note the scheduled Pensions Committee dates.

- 29 November 2017
- 14 March 2018

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.

10. RESTRICTED MINUTES

To confirm as a correct record of the proceedings the restricted minutes of the meeting of the Committee held on 31 July 2017.

11. ANY OTHER RESTRICTED BUSINESS

Next Meeting of the Committee:
Wednesday, 29 November 2017 at 7.00 p.m. to be held in Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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.
Tel 020 7364 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	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. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	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— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
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	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (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.

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.05 P.M. ON MONDAY, 31 JULY 2017

C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Clare Harrisson (Chair)
Councillor Andrew Wood
Councillor Candida Ronald

Union and Admitted Bodies, Non-Voting Members Present:

None –

Other Councillors Present:

None

Apologies:

Councillor Andrew Cregan
Councillor Md. Maium Miah
Councillor Rabina Khan
Councillor Shiria Khatun
Kehinde Akintunde
Apologies was noted from Raymond Haines, Investment Specialist

Others Present:

Steve Turner	– Mercer
Sam Yeandle	– Mercer

Officers Present:

Neville Murton	(Divisional Director, Finance, Procurement & Audit)
Suzanne Jones	(Support to Neville Murton, Resources)
Ngozi Adedeji	(Team Leader Housing Services, Legal Services, Law Probity & Governance)
George Bruce	(Interim Pensions Manager, Resources)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Stuart Young	(Workforce Development, Resources)
Georgina Wills	(Committee Officer, Governance)

1. APPOINTMENT OF VICE-CHAIR

The Chair proposed that Councillor Candida Ronald be appointed Vice-Chair of Pensions Committee for the duration of the municipal year. The proposal was seconded by Councillor Andrew Wood and, there being no other nominations, it was

RESOLVED:

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

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

The Chair declared a personal interest in item 6.8, Pension Fund Administration Update by virtue of her being Chair of the Tower Community Housing Board. The Chair remained in the meeting and took part of the discussion whilst the item was being discussed.

3. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous Pensions Committee held on 16 March 2017 was approved as a correct record, subject to the following amendments.

Minute item 10, Election of Chair for the Pensions Committee – the word 'some' be included in the first bullet point to read:

'Some Members expressed concerns 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 groups'.

4. PETITIONS

None received.

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Suzanne Jones, Support to the Divisional Director Finance, Procurement and Audit, provided the following feedback from the Pensions Board meeting held on Monday 31 July 2017.

The Board considered reports and held discussions about the Administration of the Pensions Funds and the quality of data received.

Members also reflected on their work programme, in particular how they conduct their business and agreed that their members should attend the Pensions Committee.

The Board has a vacant post, Representative for Admitted Bodies – Employers. Admitted Bodies will be contacted about the vacancy and requested to nominate a representative.

The Chair thanked Suzanne for the feedback and agreed that members of Pensions Committee should attend the Pensions Board.

6. REPORTS FOR CONSIDERATION

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

The Clerk presented a report which set out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2017/2018. The Committee agreed that 7pm was the preferred start time for their scheduled meetings.

RESOLVED:

1. That the contents of the report be noted.

2. That all scheduled meetings start at 7pm.

6.2 Investment Strategy Review

The Committee received a presentation from Steve Turner of Mercer, on the Investment Strategy Review. The aim of the review is to consider the allocation between asset classes; risk and returns, ensure that there is a reasonable balance between the two objectives and to identify improvements to the investment strategy to help achieve these objectives.

There are a number of reasons to undertake a review and these range from funding changes, legislation change, new solutions, consolidation, Liabilities change, outlook change, change to employee and providing a clear plan.

When making investment decision the Committee will need to remain cognisant of pooling and options that are available on the current Collective Investment Vehicle (CIV) platform. The review will be the key determinant of overall investment performance. The Committee during a question and answer session: Noted:

- That there was an opportunity to reduce risk and volatility of their past deficit by £26m or more.
- That more diversification of their portfolio would potentially lead to better returns and reduce their exposure and that their Investment Policy must be aligned
- The forward looking equity market returns were unlikely to be as strong as they have been over the last 7 years and that it was a good opportunity to address the equity risk; the reduction will help the funding position.

- That Bonds accounted for 18% of their Portfolio and was divided into two distinctive types; return seeking bonds and liability hedging bonds.
- The best estimate expected return for Gilts was + 4.1% p.a. and this return surpassed the requirements of their Actuaries. There is a 73% probability of achieving Gilts +2.0%
- The Level of liability hedging was 7% and that currency hedging should be considered.
- That their Asset Portfolio should be increased; this is linked to inflation. A long term strategy would need to be agreed and should be guided by the CIV, the asset allocation would need to be determined as this will have the biggest impact on the CIV.
- That the current funding level had improved over a 5 year period and at current was at 86%, this was attributed to strong asset returns. As funding levels approach nearer to 100% this period should be used as an opportunity to decrease risks.
- The assessed Value at Risk (VaR) indicates that there is a 5% chance that the current deficit £223m could be increased by at least £329m over a 1 year period to £552m. This is based on the deficit as at March 2017.
- Equities are expected to provide 75% of the Funds excess returns and account for 56% of the Fund's risk on the VaR.
- That they consider reducing the allocation to equities by 10%, in light of strong performance, an increase in the funding level and level of risk concentration in equities.
- That an increase in allocation to both Ruffer and Baillie Gifford be considered; they are 'best in class' managers and this would achieve additional diversification and would be relatively quick and easy to achieve. Members raised questions about both managers and asked what percentage was driven by their equity. Baillie Gifford had 40% in their portfolio and Ruffer 50%. The Committee were reminded that allocations should be reduced from poor performing managers.
- That investments in high grade and long-lease properties be considered; it is anticipated that between 66% - 80% of returns will come from income and will be linked to inflation rather than capital appreciation, which at current is poor. Members questioned whether these investments would be at risk from potential government changes to housing and were advised that portfolio would comprise of 'extremely high quality commercial properties' and that the UK Fund have performed ok. The income expected will account for 60 – 80% of total return and a high portion of the income will act as a cushion. The assets are resilient to both financial and economic shocks.
- That half of Absolute Return Bonds (ARB) be allocated to Multi-Asset Credit (MAC), this will ensure returns are driven by markets and not wholly reliant on investment managers and are multi-based. The returns which have been based on the decisions of current investment managers have been poor.
- That current allocation to Index-linked gilts be continued and be increased over a period if current actuarial valuation approach is maintained.

- That a review of their current equity portfolio be undertaken and that the Fund invest more globally over a period of time. The passive global equity fund at LGIM should be utilised in the interim and the usage of the new global equity strategies available from the CIV should also be considered to achieve the above.
- That the fund has materially benefited from the fall in sterling and that consideration should be made to bank gains by hedging. Currency hedging would allow the Fund to bank a portion of these gains and move to a more neutral position of a 50% hedge. This move will slightly reduce the risk of the portfolio, relative to sterling based liabilities.
- That the Pensions Committee interest in low carbon investing was welcomed and that support would be given to incorporate this into the investment strategy. MSCI Low Carbon Target index was identified as the most appropriate index for the fund as it reduces the carbon (relative to the MSCI World) by around 70%. A 30% investment as a starting point was viewed as appropriate; other clients have used this percentage as their starting point. The long term tracking error target is 0.3%.
- That overall expected return of the portfolio would be expected to increase by 0.1% to gilts + 4.2 % p.a. following the proposed changes, predominately as a result of increased exposure to MAC.
- That there was a loss of confidence with GMO and that this matter could be reviewed with the CIV and noted recommendation on moving the passive global equity fund. This could be implemented in the new year.
- Asked about, Multi Asset Credit (MAC) and was advised that it was an unconstrained strategy which invests in a wide range of the credit markets. These include investment credits, high yield debts, bank loans and emerging market bonds. Returns are driven by market allocation plus active management from market and security selection. The target return; cash + 3 – 5% and the expected volatility; 5 – 10%. It was recommended that 12% of the Fund’s assets be split between absolute return bonds and Multi Asset Credit.
- Noted that the Pension Fund has included Multi Asset Credit for the last 4 – 5 years and that MAC was a government solution to address access to the credit market following the financial crisis and encourage diversification and mitigates risk. MAC has performed above expectation.
- Members were supportive of Multi Asset Credit and agreed that they should receive further information and training in this area.
- Members commented on the recommendation to disinvest from UK equities and the poor performance of the GMO mandate and were advised that the transition from UK Equity to Global Equity was relatively easily and was a sensible way of achieving strategies and objectives.
- Members raised questions about currency hedging and its effect on cash flows and were advised that Legal and General manages funds and that contracts to sell currencies are taken out every 3 months and rolled over. During increases the currency will be held and equities are sold when there are loses. The Committee was advised that they could

review the currency hedging as part of their 3 years strategy and that this was a good strategic policy to have in place.

- Members commented that they had received a presentation about diversity and investment and at their previous committee had agreed to consider investing 5% of the fund in a sustainable / low carbon or clean agenda fund(s) and highlighted that the recommended initial investment in this area was below this percentage. In reply, it was noted that the returns for Low Carbon Funds may vary and other clients had invested the recommended amount as part of their risk mitigation strategy. An investment in renewable energy was advised to be preferred and it was estimated that it would take between 3 to 4 years to get a full return on investment. The Committee was advised that they should reduce their funding risk and be in a stable position before considering further investment. Investments should be phased and preferably be undertaken when oil prices are low. A 15% would be considered as a good return over a 3 year period, this percentage is equal to 30% of the equity portfolio. This can be reviewed annually or part of their 3 year strategy review. At current the oil market is outperforming low carbon market.
- That it was an ideal time for the Committee to bank equity and balance their portfolio.

Members thanked Steve Turner for his presentation and agreed that the presentation be converted into a strategy and implementation plan and that preliminary discussion be held with Mercer on achieving this.

RESOLVED:

1. Following consideration of the draft Investment Strategy and in the light of the committee's decision to terminate the Global Equities mandate for GMO the Committee agrees to:

   a) Appoint LGIM to manage the GMO portfolio on a transitional basis;

   b) Increase the investment in the Council's Diversified Global Funds mandate from 10% to 20% by topping up the existing DGF fund mandates (Bailie Gifford and Ruffer) by 5% each; to be achieved through a reduction to the GMO Global Equities mandate as part of the LGIM transitional management arrangements;

   c) Reviews further all other aspects of the draft Investment Strategy at their September meeting.

2. Receive training on Multi Asset Credit.

6.3 Update on Market Outlook and Investments by the Independent Advisor

The item was deferred to the next meeting.

6.4 Draft Pension Fund Annual Report and Accounts 2016/17

Bola Tobun, Investment and Treasury Manager, presented a report which updated members on the arrangements for the preparation of the Pensions Fund Annual Report and Accounts 2016/17 in accordance with regulations and the arrangements for the separate audit engagements, opinion and certificate for the Fund.

Members were informed that assets had increased by over £200 million in the year and that funding levels had increased from 83% to 86%.

The Committee was advised that an updated version of the report will be circulated to members, prior to the report being submitted to Audit. The Pensions Fund Accounts are subject to the normal audit of accounts process; which is carried out in July and August 2017.

RESOLVED:

1. That the contents of the report be noted
2. Approve the Draft Pension Fund Accounts prior to submission for audit;
3. Agree publication and distribution to interested parties once approved; and
4. Delegate authority to the Corporate Director, Resources to make any amendments to the Pension Fund Statement of Accounts that arise as a result of the audit, in advance of the publication of the accounts.

6.5 Future Pension Administration Options

George Bruce, Interim Pensions Manager presented a report which detailed the current Pension Administration Services to the Tower Hamlets Pension Scheme, the advantages and challenges to the current arrangements and compared these with alternative arrangements.

Members sought clarification on whether the item should be considered by the Pensions Committee and was advised that initial feedback was being sought.

The current administrative service in place for Tower Hamlets Pension Scheme has been in operation since the Borough was established. At current services are delivered by the Council’s HR and Finance Departments and comprises of small teams. This in-house service enables the direct control over the quality of service, ensures there is a direct relationship with scheme managers, avoids conflicts of needs of other clients and ensures certainty of staff.

The LGPS is becoming increasingly complex due to frequent changes in regulation and best practice guidelines and is now under greater scrutiny. Maintaining awareness of and implementing new regulations is a challenge to a small team; in conjunction the size of the current Team faces inherent risks from losing key staff.

Two main alternative means of delivering pension administration services to the scheme have been identified, co-operation with other Local Authorities or appointing an external third party administrator. The former option will grant the Pension Scheme access to more resources, access to a larger and diverse pool of specialist staff, encourage standardised client reporting and reduce IT cost.

The above mentioned will enable more focus to be given to daily tasks and also be adaptive to the needs of the Scheme. The Committee noted the risks of switching from an in-house to a local authority grouping could result in the reverse of advantages that are found in retaining an in-house team.

The third option, appointing a third party administrator would be undertaken via a commercial tender. An appointment of a third part administrator will magnify both the advantages (cost and resilience) and disadvantages (compromise and loss of control) of local authority groups. Third Party administrators can be accessed through the National LGPS Framework.

Members noted all the proposals presented and the size of the administrative team and specialties of officers. The option to collaborate with other Local Authorities was discussed further and Members preferred this option to over the other options presented and agreed that further research be undertaken to ascertain what administrative systems were in place in neighbouring boroughs. Members agreed that if the option to co-operate with other Local Authorities is chosen; the other scheme participants should have a shared interest with Tower Hamlets.

Members were advised that the Pension Board had recommended that all options are fully explored and that resilience of the service remains paramount. The Committee were informed established networks would be used to gage views and experiences. Members can forward comments about the various options to Lead Officers.

RESOLVED:

That a further detailed evaluation of the options outlined in the paper, including discussion with other local authorities is undertaken and that the findings are analysed and presented at the next Committee.

6.6 Investment Performance Review for Quarter Ending 31 March 2017

Bola Tobun, Investment and Treasury Manager presented a report which informed Members of the Performance of the Fund and its investment managers for the quarter and year ending 31 March 2017.

The fund delivered a positive return of 4.4%, by outperforming its benchmark return of 3.6% by 0.8% for the reporting quarter. In addition 7 out of the 9 mandates matched or achieved returns above the benchmark in the quarter end. Ruffer and Goldman mandates lagged behind their respective benchmarks. Overall the Fund performance was ahead of its benchmark.

RESOLVED:

That the contents of the report be noted.

6.7 LGPS Latest Development and Update

Bola Tobun, Investment and Treasury Manager presented a report which provided an update on the general developments in the Local Government Pensions Scheme arena and the progress of the London CIV

Members commented and welcomed the Local Government Pension Scheme (LGPS) Scheme Advisory Board issue of the LGPS Investment Code of Transparency. The purpose of the Code is to improve the reporting and understanding of investment management charges and costs.

The Committee noted that the LCIV during the first quarter of 2017/18 was positive and that a majority of their quarterly KPI targets had been met.

RESOLVED:

That the contents of the report be noted.

6.8 Pension Fund Administration Update

George Bruce, Interim Pensions Manager, presented the report which covered current issues affecting scheme members and employers participating in the Tower Hamlets Pension Scheme.

The Committee was advised that Anant Dodia, Pensions Manager had retired In the interim, Team Leaders will be responsible for overseeing the daily operation of the Team; in addition an experienced Pensions Manager from Surrey Council will provide support to the Service and act as a Mentor. Suzanne Jones, Deputy to the Divisional Director, will continue to attend Committees and assist with employee matters and act as link to team management. The Project Team will continue to work on the Member Self-Service Project.

The following Admin data was reported:-

During the period between April - May 2017 service standards increased and improved from 78% to 86% from the previous quarter. There has been steady progress made in relation to compliance.

Internal Disputes Resolution Procedures, an outstanding appeal has gone to an external reviewer; this is due to contractual information.

The Committee were advised that at their meeting in December 2016 they had discussed and agreed the recommendation to admit Energy Kidz into Pension Scheme and that the discussion and committees resolution was not included in the minutes meeting of 7 December 2017. This recommendation has again been repeated.

Members were advised that Compass Catering had recently advised that that they had employed over a dozen staff in September 2015 and that their request for admitted body status had not been processed. The meeting was informed that deductions from employees have been made since 2015 and that Compass Catering was to be granted admitted body status.

Internal Audit are scheduled to return and will be reviewing the service as part of the 2016 /2017 agreed internal audit plan. Members were advised that the earnings of Active Members will need to be checked to ensure that benefits received are correct. The addresses of these individuals have been checked.

The Actuary has issued a report on the quality of data that was provided during the triennial actuarial valuation in March 2016. A total of 700 members were noted as not having a home address; to rectify this, a company has been commissioned to undertake searches to identify addresses. A charge of £12 will be levied for each address; this cost was viewed as justifiable and good use of budget. The Inland Revenue Service was liaised with.

At the recent Pensions Board, discussions were held about undertaking a formal review of data control and also a benchmarking exercise.

The Committee were reminded that two data matching exercises are carried out on annual basis to ensure that pensions are only paid to surviving scheme members; these include the National Fraud Initiative for UK pensioners and Life certificates for overseas pensions.

The HMRC will be writing to all persons who are entitled to a GMP (Guaranteed Minimum Pensions) to advise what amount and pension scheme will be paid. The GMP is part of the LGPS pension; the government pays the annual inflation increases on the GMP as part of the state pension and the pension funds awards pension increases on that element of the pensions that is not GMP. HMRC are giving schemes an opportunity to agree records prior to their notifications to individuals. There is consideration for the service to purchase external resources to undertake the above. The Committee was advised that the completion of the above would be a valuable exercise and was estimated to be of a value of a six figure sum.

The Committee noted that George Bruce was to leave the Service and thanked him for his work and contributions to the Pensions Committees.

Resolved:

1. That Energy Kidz Ltd. be admitted as an employer within the pension fund

2. That Compass Contract Services (UK) Ltd be admitted as an employer within the pension fund.

7. TRAINING EVENTS

None

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

None.

9. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

RESOLVED

That press and public be excluded from the remainder of the meeting in that under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public 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." which relates to information relating to a particular employee, former employee or applicant to become an employee of, or a particular officeholder, former office-holder or applicant to become an office-holder under, the authority.

9.1 Pension Fund Procurement Plans and Update 2017/18

The meeting ended at 9.00 p.m.

Chair, Councillor Clare Harrisson
Pensions Committee

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Non-Executive Report of the: **Pensions Committee** 21st September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Investment Strategy Review / Strategic Asset Allocation Review 2017/18 and Carbon & Environmental Footprints Analysis Outcome of the Fund	

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

Summary

This report presents the analysis and results of the asset liability modelling study and the strategic asset allocation review carried out by the Fund's advisers Mercer. This review follows on from the Fund's 2016 Triennial Actuarial Valuation.

The purpose of the review is to assess the ability of the current funding and investment strategy to close the deficit gap, as well as fund future benefits in an affordable and stable way.

The review encompassed an asset liability study which assesses the suitability of alternative investment strategies for the pension fund's liability profile.

The Fund's investment consultant, Mercer will expand on the points made in this paper in a presentation to the Committee.

This report also summarised the carbon and environmental footprint analysis carried out by Trucost, (Trucost is part of the S&P (Standard & Poor) Global family, operated by S&P Dow Jones Indices) for the Fund's aggregate equities portfolio with holdings data as at 31st March 2017. Morgan Stanley Composite Index (All Country World Index) MSCI ACWI was used as a benchmark for this analysis.

Recommendations:

Pensions Committee are recommended to:

1) Note the outcome of the carbon and environmental footprint analysis;
2) Note the outcome of the investment strategy review as presented by the Fund Investment Consultant, Mercer; and
3) Agree to make the following changes to the investment strategy and amend the Investment Strategy Statement (ISS) accordingly
    a) To agree to reduce Equities allocation from 60% to 50%
    b) To agree to disinvest from passive UK Equities
    c) To agree to invest into Low Carbon Passive Global Equity (15%)
    d) To agree to invest into Passive Global Equity (15%)

1. REASONS FOR THE DECISIONS

1.1 Following the outcome of the 2016 triennial revaluation of the Pension Fund, it is appropriate to consider the approach to both funding and employer contributions in order to determine whether the current investment strategy and strategic asset allocation remain appropriate for the Fund and its employers.

1.2 The role of the Pensions Committee (as quasi Trustees) means that it has to ensure that there are realistic strategies in place to meet funding goals; that strategies are affordable, prudent and provide stability for employers in the Fund. Understanding the impact of adopting different approaches to the investment strategy and the setting of employer contribution strategies enables the Committee to consider the longer term financial impact of such decisions and to take reasonable financial decisions when setting investment and contribution strategies.

2. ALTERNATIVE OPTIONS

2.1 The Committee could decide to continue with its existing strategy. It is however, considered best practice to carry out an assessment of the Fund's position following the triennial valuation, even if the conclusion is to remain with the current strategy thereafter.

3. DETAILS OF REPORT

3.1 The Fund's current investment strategy was agreed following a review in 2004. Although the strategy has been revised a number of times since it was implemented, the overall balance between growth seeking assets (82%) and lower risk matching assets (18%) has remained broadly similar to that agreed in 2004. This report summarises the views of the Investment Adviser, Mercer, as a consequence of the review of the strategy. The Adviser will be presenting at the Committee to expand on these further and deal with questions arising from the presentation.

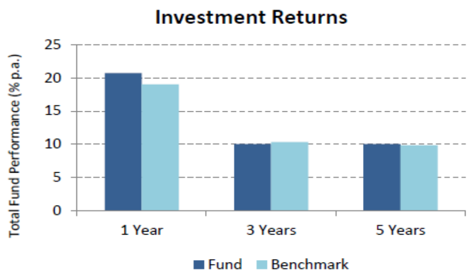
3.2 The funding level has improved significantly over the period shown, predominantly driven by strong asset returns over the past 5 years:

- Global Equity – GMO (13% p.a.), Baillie Gifford (16.1% p.a.)
- UK Equity – LGIM (9.9% p.a.)
- UK Index-Linked Gilts/Hedging portfolio – LGIM (10.0% p.a.)
- UK Property – Schroders (8.0% p.a.)

CURRENT FUNDING POSITION

	31 March 2013 (£m)	31 March 2016 (£m)	31 March 2017 (£m)
Assets	928	1,126	1,361
Liabilities	1,293	1,361	1,584
Surplus/ (Deficit)	(365)	(235)	(223)
Funding Level	**71.8%**	**82.8%**	**85.9%**

Figures taken from Fund's actuarial reports and funding updates. Source Hymans

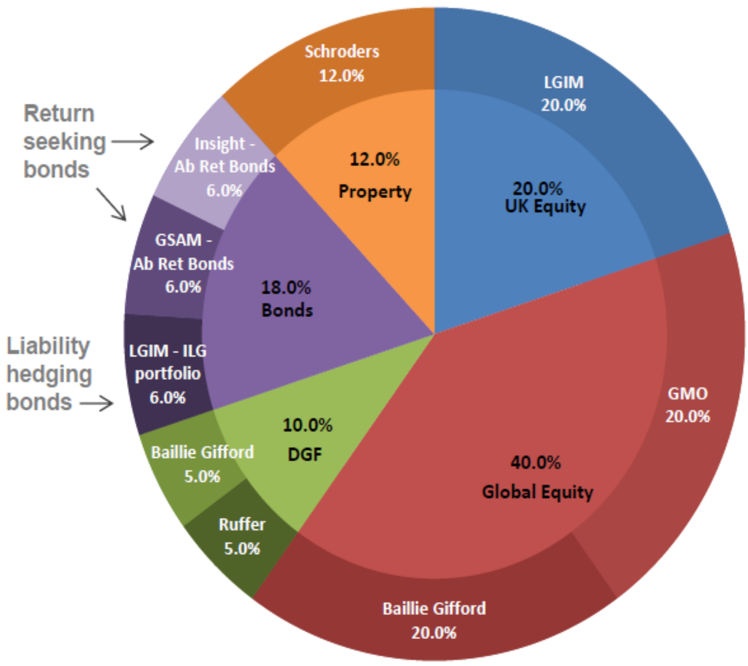


Source: State Street performance report

3.3 Liabilities have increased due to falling gilt yields over the period, but to a lesser extent than the Fund's assets. The increase in liabilities has also been offset to some extent by the performance of the index linked gilt portfolio.

3.4 The Adviser believes the current strategy has heavy reliance on equities (c. 75% of expected return) and low exposure to cashflow-generative real assets.

REVIEW OF THE CURRENT PORTFOLIO



Key features	
Best estimate expected return	Gilts + 4.1% p.a.
Probability of achieving Gilts + 2.0%*	73%
Level of liability hedging	7%
Currency hedging policy	None
Number of managers	7

** Fund's current actuarial discount rate. Hymans require a 66% chance of exceeding this figure*

3.5 Global equity markets are at or close to all-time highs, having performed well over 2016 and 2017, despite a period of high political uncertainty. Over the last27 years or so, the MSCI World has returned 8.5% p.a. It is expected to be rewarded for investing in equities, and has to tolerate the capital risk that comes with this. This risk is highlighted by a number of significant market falls observed over the last 20 years. Based on this, it may be reasonable to assume that an investor should be willing to tolerate a downside event equivalent to a 20-50% fall in equity market values, but this level of downside risk may not be desirable from a stability or affordability perspective. It may therefore be a sensible time to consider how to reduce this risk.

3.6 The investment review also provides the Committee with an update on the performance of the existing Fund Managers and the following recommendations and comments are made to the Committee;

a) The Adviser recommends reducing the allocation to equities from 60% to 50%, in light of strong performance, an increase in the funding level and the level of risk concentration in equities.

b) As the Fund has benefitted greatly from the lack of currency hedging, the Adviser believes there is an opportunity to bank some of these gains by introducing currency hedging.

c) The Adviser has high professional regards for both Ruffer and Baillie Gifford and believe them to be best in class managers therefore there is support for an increase in the allocation to both managers as it would secure additional diversification and be relatively quick and easy to achieve.

d) The Adviser has reservations around core UK property, particularly in the current climate. He believes that Long-Lease property is an attractive part of the property sector at present, and is likely to be appropriate for the Fund given it would achieve some direct inflation exposure and provide ongoing cashflows.

e) The expected returns from Absolute Return Bonds (ARB) are very dependent on the skills of individual managers which are difficult to predict and is wholly reliant on the investment managers. The Adviser believes that this could be complemented by an allocation to Multi-Asset Credit (MAC), where the returns are likely to be driven by markets rather than just manager skill.

f) The Adviser is in support of allocating more funds to index-linked gilts as these provide the only direct liability hedging in the current portfolio. Assuming that the current actuarial valuation approach is maintained, the Adviser would suggest increasing the exposure to index-linked gilts over time.

3.7 The Adviser highlights the significant overweight position of the Fund in respect of UK Equity, relative to a market cap weighted index, and hence a materially lower allocation to the US and other regions. Such a home bias is not uncommon, especially within the LGPS sector but looks increasingly outdated and difficult to justify from an investment perspective. The Adviser encourages the Fund to invest more globally over time, and as an interim measure, suggested to the Committee at its last the use of a passive global equity fund at LGIM. It was, also suggested that the Committee consider the use of new global equity strategies available from the London Collective Investment Vehicle (LCIV).

3.8 Following the consideration of the draft Investment Strategy at the last meeting and in addition to the Committee's previous decision to terminate the mandate with GMO, the Global Equities mandate, the Committee agreed to:

a. Appoint LGIM to manage the GMO portfolio on a transitional basis;
b. Increase the investment in the Council's Diversified Global Funds mandate from 10% to 20% by topping up the existing DGF fund mandates (Bailie Gifford and Ruffer) by 5% each; to be achieved through a reduction to the GMO Global Equities mandate as part of the LGIM transitional management arrangements; and
c. Reviews further all other aspects of the draft Investment Strategy at this meeting.

3.9 Arrangements were made to terminate GMO mandate, with Emerging Market redemption proceeds invested in the existing DG funds with Baillie Gifford DGF and Ruffer.

3.10 At this meeting the Committee has the opportunity to further consider the Equities position of the Fund as detailed in Mercer report and presentation. This may include a reduction of UK Equity from 60% to 50%. In the meantime Officers and the Advisor are exploring investment options around global equity, and are currently focusing on offerings that may allow the Committee to take account of their commitment to sustainable investments and lowering the Fund's carbon exposure along with currency hedging option. An update on outcomes of these meetings will be provided at the Committee meeting.

3.11 The Fund's investment advisers have been working with officers of the Fund to look at a range of further training for the Committee on the subjects of liability hedging, Multi Assets Credit and Long Lease Property.

Carbon and Environmental Footprints Outcome

3.12 The carbon and environmental footprint analysis was carried out on the Fund equity holdings with LGIM, GMO, BG (GEA), Ruffer and BG (DGF).

3.13 Carbon footprint analysis quantifies greenhouse gas emissions (GHG) embedded within the Fund presenting these as tonnes of carbon dioxide equivalents (tCO2e). This compares the total GHG emissions of each holding relative to annual revenue, gives a measure of carbon intensity that enables comparison between companies, irrespective of size or geography.

3.14 The carbon footprint of the equity holdings of the Fund is 336.94 tonnes CO2e per £1m of revenue. This is compared to the benchmark of is 468.58tonnes CO2e per £1m of revenue. The Fund is 28% more carbon efficient than the benchmark.

3.15 Each Equity mandate held by the Fund contributes to carbon efficient of the Fund as follows:

a) LGIM (Passive UK Equity) - The carbon footprint of the portfolio is 377.78 compared to the benchmark which is 376.74. The portfolio is 0.28% more carbon intensive than its benchmark, FTSE All Share.

b) GMO - The carbon footprint of this portfolio is 340.71 compared to the benchmark which is 468.68. The portfolio is 27.30% less carbon intensive than its benchmark, MSCI ACWI.

c) LCIV Baillie Gifford (Global Equity) - The carbon footprint of this portfolio is 253.15 compared to the benchmark which is 468.68. The portfolio is 45.99% less carbon intensive than its benchmark, MSCI ACWI.

d) LCIV Baillie Gifford (DGF) - The carbon footprint of this portfolio is 587.77 compared to the benchmark which is 468.68. The portfolio is 25.41% more carbon intensive than its benchmark, MSCI ACWI.

e) LCIV Ruffer (AR) - The carbon footprint of this portfolio is 284.51 compared to the benchmark which is 468.68. The portfolio is 39.30% less carbon intensive than its benchmark, MSCI ACWI

3.16 The four sectors that contribute the highest levels of carbon intensity to the Fund are Materials (1,304.46 tCO2e/GBPmn), Utilities (1,285.18 tCO2e/GBPmn), Energy (705.49 tCO2e/GBPmn), and Industrials (355.32 tCO2e/GBPmn).

3.17 The two sectors that have the greatest positive effect on carbon efficiency are Utilities and Materials, which together contribute 27.46% of the increased carbon efficiency. The two worst performing sectors in the Fund are Health Care and Industrials, which contribute to 3.03% of reduced carbon efficiency.

3.18 The environmental footprint of the Fund is 2.98% per £ million revenues, compared to the benchmark, which is 3.73%. This means that £29,800 in environmental costs is linked to every £1m generated by the holdings. The Fund is 20.19% more environmentally efficient than the benchmark.

3.19 Environmental footprints quantify the greenhouse gas (GHG) emissions; water; waste; land & water pollutants; air pollutants; and natural resource use associated with the Fund. To enable comparison between different environmental impacts, Trucost assigns an environmental cost to each resource and pollutant.

3.20 The Fund carbon and environmental footprints position will be improved if it disinvests from passive UK Equities and incorporates into the investment strategy a Low Carbon Passive Global Equity (15%) which are designed to track broad market indices but with lower carbon footprints; in some cases significantly lower. Low carbon indices can offer a relatively low cost solution to reducing exposure to carbon intensive companies.

3.21 The Investment adviser as part of its investment strategy review suggested that the most appropriate index for the fund is the MSCI Low Carbon Target index, which reduces the carbon footprint (relative to the MSCI World) by around 70%.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 There are no direct immediate financial implications arising as a consequence of this report. At the last meeting the Fund's Investment Adviser recommended a reduction of Equity weight as an approach of decreasing the level of risk in the investment strategy. The governance role of the Pensions Committee requires that they ensure that there are realistic strategies in place to meet funding goals; that strategies are affordable, prudent and provide stability for employers in the Fund.

4.2 Understanding the impact of adopting different approaches to the investment strategy and the setting of employer contribution strategies enables the Committee to consider the longer term financial impact of such decisions and to take reasonable financial decisions when setting investment and contribution strategies. The costs of obtaining the advice are minimal in comparison to the benefits that could be derived from having an appropriate strategy in place to achieve full funding.

5. LEGAL COMMENTS

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which local authorities are expected to deal with investment of pension funds. The main thrust of the Regulations is for local authorities to take a prudential approach to investment, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk. The regulations require the Administering Authority to obtain proper advice at reasonable intervals about it investments and consider that advice before making any decisions. In this regard the Council has complied with its duty by taking advice from Mercers, its appointed advisers.

5.2 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers.

5.3 The contents of this report and the recommendations are intended to ensure that the Administering Authority is compliant with the LGPS Regulations.

5.4 When reviewing the Pension Fund Investment Performance, 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). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

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 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 This report helps in addressing value for money through planning to have a rigorous and robust investment strategy in place to aid in bridging the Fund's funding gap.

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 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

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

Officer contact details for documents:

- Bola Tobun Investment &Treasury Manager x4733

Non-Executive Report of the: **Pensions Committee** 21 September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Update on Market Outlook and the Fund Investment Managers by the Independent Adviser for Quarter Ending 30th June 2017	

Originating Officer(s)	Raymond Haines, Independent Adviser Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report informs Members the views of the Independent Adviser on the performance of the markets and the Pension Fund investment managers for the first quarter of 2017/18.

Recommendations:

Members are recommended to note the contents of this report

1. **REASONS FOR THE DECISIONS**

1.1. The report informs the Pensions Committee the views of the Fund Independent Adviser on markets and the performance of the Fund pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

2. **ALTERNATIVE OPTIONS**

2.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund and to engaged the use of an expert in gaining required knowledge and advice so there is no alternative but to note the views of the Independent Adviser of the Fund to the Pension Committee on a regular basis,

3. **UPDATE FROM INDEPENDENT ADVISER – Raymond Haines**

Markets and Economics

3.1. Ahead of the last meeting I commented that markets had been remarkably well behaved. If at the start of the year you had forecast the snap election debacle, Brexit making limited progress and much discord, the economy slowing and inflation rising you could be forgiven for feeling cautious. And that is ignoring strained EU / US relations and North Korea lobbing ballistic missiles over Japan. Instead by end June the FTSE All Share was up 3.3% (c.5% total return), the S&P 500 is + 8.2% and gilt yields are below the level at the start of the year.

Why?

3.2. Fundamentally it has been about liquidity - global quantitative easing, governments creating cash by buying first government bonds then corporate debt. It has led to central bank balance sheets growing exponentially to unprecedented levels. This has driven bond yield to record lows which helped avoid an even deeper recession and fuelled a, albeit tepid recovery. The main beneficiary of the largesse has been capital markets both bond and equity as investors has searched for yields. Equity markets have enjoyed an historically long bull market.

3.3. Now however the choices are limited - government bond yield remain near historic lows and the next moves are likely to be up, sooner in the US than the UK; equities have enjoyed an eight year run and valuations are far from cheap; property is, as LBTH's manager forecasts, likely no better than gilts. Gilt prices move in the opposite direction to yields so if as expected rates rise gilt prices will fall. The extra yield property and corporate debt will provide some protection in terms of total return. Index Linked gilts have been volatile and remain expensive but, as ever in demand by institutional investors. The last issue was over-subscribed with £15bn bids for a £4.5bn issue of 2056 maturity at a real yield of minus 1.4%.

3.4. Equity markets have risen more on the basis of valuation than economic growth. Developed economies have been growing but at low single digit rates. Concerns around China wax and wane; the numbers are OK if pedestrian in an historical context. US is disappointing given the supportive employment data although profit growth has been good. There are suggestions emanating from the Fed that the next rate rise will not be September after all. However there is increasing attention on how and when central bank balance sheets will be shrunk. Interestingly improving performance in Europe has led to suggestions that ECB bond purchases (QE) might be shrunk or suspended.

3.5. The absence of demonstrable value in bonds investors has been continuing to support equity markets. Valuations are in places stretched, notably technology, but in the absence of a catalyst for change this may continue. Europe and emerging market have arguably better prospects than the US without President Trump's tax changes.

3.6. The UK equity market has a number of conflicting influences: sterling's depreciation is positive for overseas earnings and exporters but negative for domestic companies and importers; Brexit uncertainty is a negative for most quoted equities and rising inflation and falling economic growth is good for none. The effect of Sterling’s depreciation is reflected in relative share price performance – overseas earners gaining and importers suffering e.g. over the last 12 months (to 25/8) Next plc is down over 25% and Rio Tinto is up more than 55%. It is hard to be optimistic but this is not new news and to an extent reflected in performances.

3.7. If markets were “well behaved” in Q2, in Q3 they have been largely soporific moving up or down by c.1%. There are two exceptions – FX, principally the Euro and emerging markets. The Euro is benefitting from a better than expected improvement in growth rates and from disillusionment with Trump, or rather his ability to get his promised legislative programme on track.

3.8. Trying to time market movements is always easy in hind sight and near impossible in fore sight; markets often exceed expectations on both the upside and downside. Where markets move from here is dependent on exogenous influences like the Brexit negotiations and President Trump as much as fundamentals, but there are enough concerns both external and fundamental to suggest caution.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1. There are no direct immediate financial implications arising as a consequence of this report. The governance role of the Pensions Committee requires that they ensure that they take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

4.2. Understanding and being aware of the financial markets and its economics dynamics will compel the Committee to be able to consider the longer term financial impact of this parameters and make reasonable financial decisions when setting investment and contribution strategies.

4.3. The costs of obtaining the advice are minimal (£20k - £35k per annum) in comparison to the benefits that could be derived from having an appropriate expert advice and views for putting a strategy in place to achieve full funding.

5. LEGAL COMMENTS

5.1. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Council must take proper advice about its investments and must consider such advice when taking any steps in relation to its investments. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager. One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about the performance of the markets and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

5.2 When reviewing the Pension Fund Investment Performance, 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). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

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 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. This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.

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. Any form of investment inevitably involves a degree of risk.

9.2. To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

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

- [None]

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- [None]

Officer contact details for documents:

- Bola Tobun Investment &Treasury Manager x4733

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Non-Executive Report of the: **Pensions Committee** 21 September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Investment Performance Review for Quarter Ending 30th June 2017	

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

Summary

This report informs Members of the performance of the Pension Fund and its investment managers for the first quarter of 2017/18.

The Fund delivered a positive return of 1.5% for the quarter, outperforming its benchmark return of 0.9% by 0.6%. For the twelve months to June 2017, the Fund returned 17% outperforming the benchmark of 14.5%. Looking at the longer term performance, the three year return for the Fund was 9.9% which matched the benchmark return of 9.9% for that period. Over the five years, the Fund posted a return of 10.9% slightly outperforming the benchmark return of 10.5% by 0.4%.

For this quarter end, five out of the nine mandates matched or achieved returns above the benchmark. The four that did not reach the benchmarks were the mandates with LCIV Ruffer, Schroder, Insight and GSAM. Overall for this reporting quarter the Fund performance was ahead of its benchmark.

For 12 months to end of reporting quarter, the Fund is ahead of its benchmark by 2.5%. One out of the eight mandates underperformed its benchmark. This was the mandate with Schroders which posted a return that lagged behind its benchmark by 0.4%.

The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.

Recommendations:

Members are recommended to note the contents of this report

1. REASONS FOR THE DECISIONS

1.1. The report informs the Pension Committee of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

2. ALTERNATIVE OPTIONS

2.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund so there is no alternative but to report the performance of the Fund to the Pension Committee on a regular basis,

3. DETAILS OF REPORT

3.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.

3.2. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and may recommend that investment managers are invited to explain further to the Pensions Committee.

3.3. This report informs Members of the performance of the Fund and its investment managers for the quarter ended 31st June 2017.

3.4. SUMMARY OF THE PENSIONS FUND INVESTMENTS

London Common Investment Vehicle (LCIV)

The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the Local Government Pension Scheme (LGPS). The London CIV aims to be the investment vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance. The LCIV was launched in December 2015, as a fully authorised and regulated investment management company. The founding members are the London boroughs and the City of London Corporation. The LCIV has been established as a collective investment vehicle for their Local Government Pension Scheme funds. The current regulatory permission allows the London CIV to operate an Authorised Contractual Scheme Fund (the UK's version of a Tax Transparent Fund).

The London CIV currently manages three investment portfolios of LBTH fund which are listed below:

a) **The Baillie Gifford diversified growth fund (DGF)** mandate was opened in February 2011 with contract value of £40m. £6.409m was added to this portfolio in the month of June 2015. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above the UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%. This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m. The market value of assets as at 30 June 2017 was £63.255m. This portfolio is now named ***LCIV (BG) DGF.***

b) **The Baillie Gifford global equity fund** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark MSCI AC World Index gross of fees over a rolling 3-5 year period. This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m. The market value of the assets as of 30 June 2017 was £294.146m. The portfolio is now named ***LCIV (BG) GA.***

c) **Ruffer LLP** manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 2nd June 2015. The management of this portfolio was transferred to the LCIV on 20th June 2016 at market value of £54m. The value of assets under management as of 30th June 2017 was £61.557m. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above the UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%. The portfolio is now named ***LCIV Ruffer.***

GMO

GMO manages a Global Equity Mandate, the initial value of assets taken on at the commencement (29 April 2005) of the contract was £201.8m. On 25 November 2014, £20.8m was redeemed from the portfolio; a further £10.674m was redeemed from the portfolio on 29 May 2015 in order to keep the strategic asset allocation weight in line with the investment policy, another £50m was redeemed on 25th May 2017. The portfolio had a market value of £277.952m at 30 June 2017.

The performance target is to outperform a balanced global equity benchmark by 1.5% per annum net of fees over a rolling three year period; this was changed September 2014 to outperform MSCI AC World Index benchmark by 1.5% per annum net of fees over a rolling three year period.

Goldman Sachs Asset Management

On 4th April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STRAT II). The portfolio had a market value of £77.761m at 30th June 2017. The performance target is to outperform the benchmark (3 Month LIBOR) by 4.0% per annum net of fees over a rolling three year period.

Insight Investment Management

On 1st July 2016, the fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. The portfolio had a market value of £71.422m at 30th June 2017. The performance target is to outperform the benchmark (3 Month LIBOR) by 3-4% per annum net of fees over a rolling three year period.

Legal & General Investment Management

Legal & General was appointed on 2nd August 2010 to manage passively UK Equity and UK Index-Linked Mandates. At 30th June 2017, the UK Equity portfolio had a market value of £270.087m, and the UK Index linked portfolio was £72.222m.

The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 years benchmark for the UK Index-Linked Mandates.

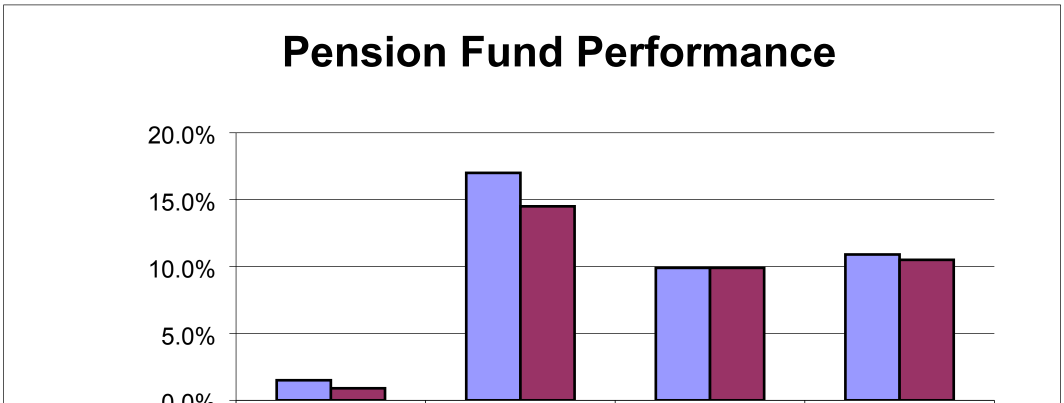
Schroder's Investment Management

Schroder manages a property mandate. The value of this mandate on 20th September 2004 was £90m. The market value of assets at 30th June 2017 was £143.229m. The performance target for this mandate is to outperform the IPD UK Pooled Property Fund Indices All Balanced Funds Median by 0.75% net of fees over a rolling three year period.

INVESTMENT PERFORMANCE

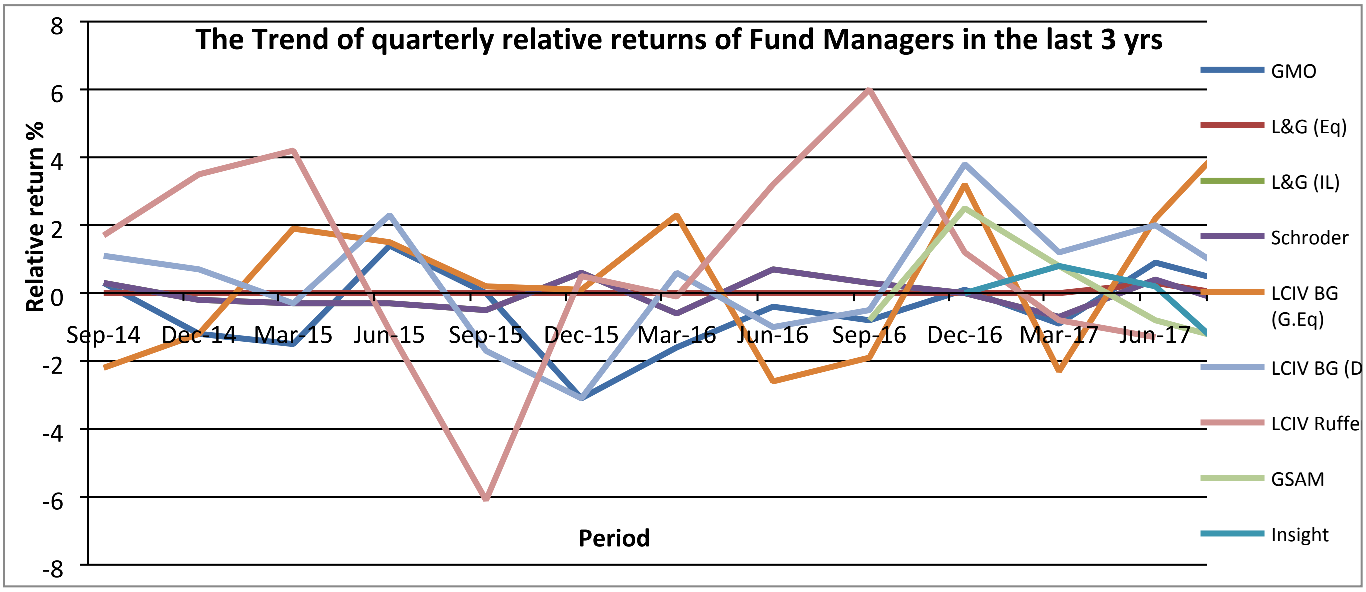
3.5. The overall value of the Fund at 30th June 2017 stood at £1,399.145m which is an increase of £19.962m from its value of £1,379.183m as at 31st March 2017.

3.6. The fund outperformed the benchmark this quarter by 0.6% with a return of 1.5% compared to its benchmark return of 0.9%. The twelve month period sees the fund ahead of its benchmark by 2.5%, as shown on the graph below.



	Current Quarter	One Year	Three Years	Five Years
Fund	1.5%	17.0%	9.9%	10.9%
Bench Mark	0.9%	14.5%	9.9%	10.5%

3.7. The graph below demonstrates the volatility and cyclical nature of financial markets relating to the fund's investment holdings. Over the three year period shown in the graph, the outcomes are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pension liabilities are up to sixty years in the future.



MANAGER PERFORMANCES

3.8. The Fund is managed on a specialist basis with GMO and LCIV (BG GE) managing the Global Equities on an active basis; UK Equities and UK Index-Linked are passively managed by LGIM; GSAM and Insight managing absolute return pooled bond funds and Schroders are the property manager.

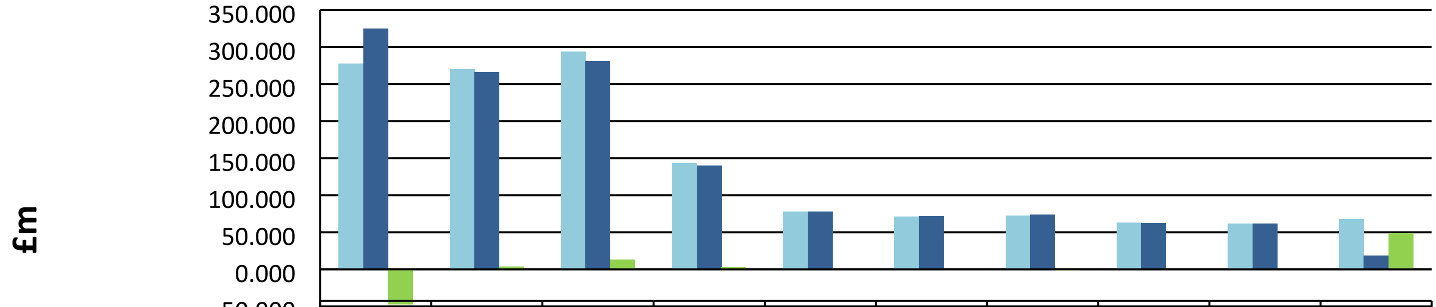
3.9. The managers, mandate and funds held under management are set out below. The Fund was valued at £1,399.145 million as at 30th June 2017. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 4.83% of the total assets value. This constitutes £50m redeemed from GMO portfolio in May 2017 and £17.5m working capital of the Fund.

Manager	Mandate	Value at 30th June 2017 £m	Strategic Weight of FM AUM*	Actual Weight of FM AUM	(Under)/ Over Weight Target	Date Appointed
GMO	Global Equity	277.952	22.00%	19.87%	-2.13%	29-Apr-05
LCIV BG (Global Equity)	Global Equity	294.146	18.00%	21.02%	3.02%	05-Jul-07 22 Apr 2016**
L & G UK Equity	UK Equity	270.087	20.00%	19.30%	-0.70%	02-Aug-10
LCIV BG (Diversified Growth)	Absolute Return	63.255	5.00%	4.52%	-0.48%	22-Feb-11 15 Feb 2016**
LCIV Ruffer (Total Return Fund)	Absolute Return	61.557	5.00%	4.40%	-0.60%	08-Mar-11 15 Jun 2016**
L & G Index Linked-Gilts	UK Index Linked	72.222	6.00%	5.16%	-0.84%	02-Aug-10
GSAM	Bonds	77.761	6.00%	5.56%	-0.44%	04-Apr-16
Insights	Bonds	71.422	6.00%	5.10%	-0.90%	01-Jul-16
Schroder	Property	143.229	12.00%	10.24%	-1.76%	30-Sep-04
Internal cash Management	Cash	67.515	0.00%	4.83%	4.83%	N/A
Total		**1,399.146**	**100.00%**	**100.00%**	**0.00%**	

* FM AUM is Fund Asset under Management with a Fund Manager
**The date asset ownership was transferred from LBTH Pension Fund to LCIV for management under the pooling arrangements.

3.10. The next graph illustrates the portfolio value movement of each mandate for this reporting quarter compared to the last quarter. It shows that all portfolios of the Fund have made gains, albeit in some cases only marginal ones.

Fund Value by Manager as at 30 June 2017 compared to 31 March 2017



	GMO	L&G (Eq)	LCIV BG (G.Eq)	Schroder	GSAM	Insight	L&G (IL)	LCIV BG (DGF)	LCIV Ruffer	LBTH (Cash)
Value at 30/06/2017	277.952	270.087	294.148	143.229	77.761	71.422	72.222	63.255	61.557	67.515
Value at 31/03/2017	325.278	266.256	281.213	140.302	77.929	71.743	74.030	62.166	61.835	18.428
Gain/(Loss) of Value	47.326	3.831	12.935	2.927	0.168	0.321	1.808	1.089	0.278	49.087

3.11. The performance, net of fees of the individual managers relative to the appropriate benchmarks over the past five years is as set out in the table below. Each manager provides a report of the performance of their respective mandate and these are summarised as set out in Appendix 1 of this report.

Managers Investment Performance relative to benchmark

		GMO Global Equity	**LCIV BG** Global Equity	**L&G** UK Equity	**Schroder** Property	**GSAM** Fixed Income	**Insight** Fixed Income	**LGIM** Index Linked	**LCIV BG** DGF	**LCIV Ruffer** DGF	**LBTH Treasury** Cash	**Total Fund**
Quarter %	Fund	0.8	4.6	1.4	2.1	(0.2)	(0.4)	(2.4)	1.8	(0.4)	0.1	1.5
	Benchmark	0.4	0.4	1.4	2.3	1.1	1.1	(2.4)	0.9	0.8	0.1	0.9
	Relative	**0.4**	**4.2**	**0.0**	**(0.2)**	**(1.3)**	**(1.5)**	**0.0**	**0.9**	**(1.2)**	**0.0**	**0.6**
12 month %	Fund	22.8	31.0	18.5	5.4	4.9	N/A	7.1	11.7	8.6	1.3	17.0
	Benchmark	22.2	22.2	18.1	6.0	4.4	N/A	7.1	3.8	3.4	0.3	14.5
	Relative	**0.6**	**8.8**	**0.4**	**(0.6)**	**0.5**	**N/A**	**0.0**	**7.9**	**5.2**	**1.0**	**2.5**
3 years (% p.a.)	Fund	11.4	18.2	7.5	9.1	N/A	N/A	13.2	5.5	6.5	1.0	9.9
	Benchmark	14.2	14.9	7.4	9.5	N/A	N/A	13.2	3.9	3.5	0.3	9.9
	Relative	**(2.8)**	**3.3**	**0.1**	**(0.4)**	**N/A**	**N/A**	**0.0**	**1.6**	**3.0**	**0.7**	**0.0**
5 years (% p.a.)	Fund	14.1	18.3	10.7	8.5	N/A	N/A	9.2	6.0	6.6	1.0	10.9
	Benchmark	15.1	14.8	10.8	8.9	N/A	N/A	9.2	3.9	3.5	0.4	10.5
	Relative	**(1.0)**	**3.5**	**(0.1)**	**(0.4)**	**N/A**	**N/A**	**0.0**	**2.1**	**3.1**	**0.6**	**0.4**

INTERNAL CASH MANAGEMENT

3.12. Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

3.13. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2017, which is delegated to the Corporate Director, Resources to manage on a day to day basis within the agreed parameters.

3.14. The cash balance as at 30th June 2017, was £67.515m and this is made up of £50m redeemed from GMO portfolio in May 2017 as part of the de-risking strategy, crystallising strong performance global equity gains and £17.5m which is the working capital of the Fund. Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security and liquidity of the Fund's cash remains the overriding priority, ahead of yield.

3.15. Following the termination of the GMO mandate, the Emerging Market pooled fund was redeemed and the proceeds of some £75m were transferred to the pension fund Natwest bank account in order to fund the diversified growth funds (DGF) with LCIV. On 23rd August 2017, a total amount of £140m was transferred to LCIV to increase the Fund allocation from 5% to 10% for each LCIV (BG) DGF portfolio and LCIV (Ruffer) TF.

ASSET ALLOCATION

3.16. The revised benchmark of asset distribution and the fund position at 30th June 2017 are set out below:

Asset Class	Benchmark	Revised Benchmark agreed 16th March 2017	Fund Position as at 30th June 2017	Variance as at 30th June 2017
UK Equities	20.0%	20.0%	19.3%	(0.7)%
Global Equities	40.0%	40.0%	41.0%	1.0%
Total Equities	**60.0%**	**60.0%**	**60.3%**	**0.3%**
Property	12.0%	12.0%	10.2%	(1.8)%
Bonds	15.0%	12.0%	10.6%	(1.2)%
UK Index Linked	3.0%	6.0%	5.2%	(0.8)%
Alternatives	10.0%	10.0%	9.0%	(1.0)%
Cash	0.0%	0.0%	4.8%	4.8%
Total Equities	**100.0%**	**100.0%**	**100.0%**	

3.17. The original allocation of investments between the different asset classes was determined in conjunction with the Council's professional advisors in 2004 and is subject to periodic review by the Pensions Committee. The latest review was carried out in January 2014 and the strategic weightings in respect of index-linked gilts and corporate bonds were revised at Pension Committee meeting on 16th March 2017.

3.18. An Investment Strategy Review is currently taking place, the draft outcome was discussed with the Committee at its last meeting, and it is envisaged that final approved outcome will affect the Fund's Strategic Asset Allocation.

3.19. Asset allocation is determined by a number of factors including:-

i) The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.

ii) The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

iii) The deficit recovery term. Most LGPS funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

3.20. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1. This report fulfils the requirement to report performance of the Pension Fund investments portfolio to the Pension Committee and recommends a change in the asset distribution of the fund to reflect the changes in the market. These changes are line with the investment strategy for the fund.

5. LEGAL COMMENTS

5.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.

5.2. The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

5.3. The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

5.4. One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

5.5. When reviewing the Pension Fund Investment Performance, 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). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

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 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. This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.

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. Any form of investment inevitably involves a degree of risk.

9.2. To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

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

- Appendix 1 – Briefing notes on Managers Performance over the Quarter
- Appendix 2 – SSGS Quarterly Performance Review

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
Investment Managers Quarterly reports: (Insight, GSAM, GMO, Schroder, LCIV (Baillie Gifford Global Equity and DGF), LGIM and LCIV (Ruffer)) and SSGS Quarterly Performance Review. (To be email if required)

Officer contact details for documents:

- Bola Tobun Investment &Treasury Manager x4733

Appendix 1
Briefing notes on Managers Performance over the Quarter

1. GMO

1.1. The portfolio posted a return of 0.8% over the reporting quarter this was ahead of the benchmark by 0.4%.

1.2. Considering MSCI ACWI, for the second quarter in a row, Energy was the only sector with a implicitly negative return (posting -4.9%), although Telecommunications also finished slightly on the wrong side of flat (-0.3%). Healthcare and Information Technology were the two best performing sectors, again similarly to the first quarter, returning 6.9% and 6.6%, respectively.

1.3. The manager positioning in emerging markets emphasizes undervalued stocks identified within attractively valued countries/sectors. In the second quarter of 2017, significant overweight positions relative to the benchmark included, for example, Information Technology in Taiwan, Telecommunication Services in Russia and China, Consumer Discretionary in Korea, and a large spread of Financials (Taiwan, Korea, Turkey, India, and China). The largest underweight position was Information Technology in China.

1.4. The positioning in Emerging markets accounted for 23.0% of the total portfolio weight, on average, during the quarter. The overweight emerging markets position resulted in a positive allocation impact as it slightly beat the MSCI All Country World Index return in the second quarter. The portfolio underperformed the MSCI Emerging Markets Index, however it was a challenging quarter for the value approach and, given that the manager has a strong bias to value within the asset class, the was encouraged to be considerably ahead of the MSCI Emerging Market Value Index.

1.5. In the financial year ending 30 June 2017 the portfolio posted a return of 22.8% slightly ahead the benchmark return of 22.2% by 0.6%. The portfolio performance returns over the longer periods are not encouraging. The portfolio return lagged behind the benchmark by -2.8% for over three years and lagged behind the benchmark by -1.0% for over five years.

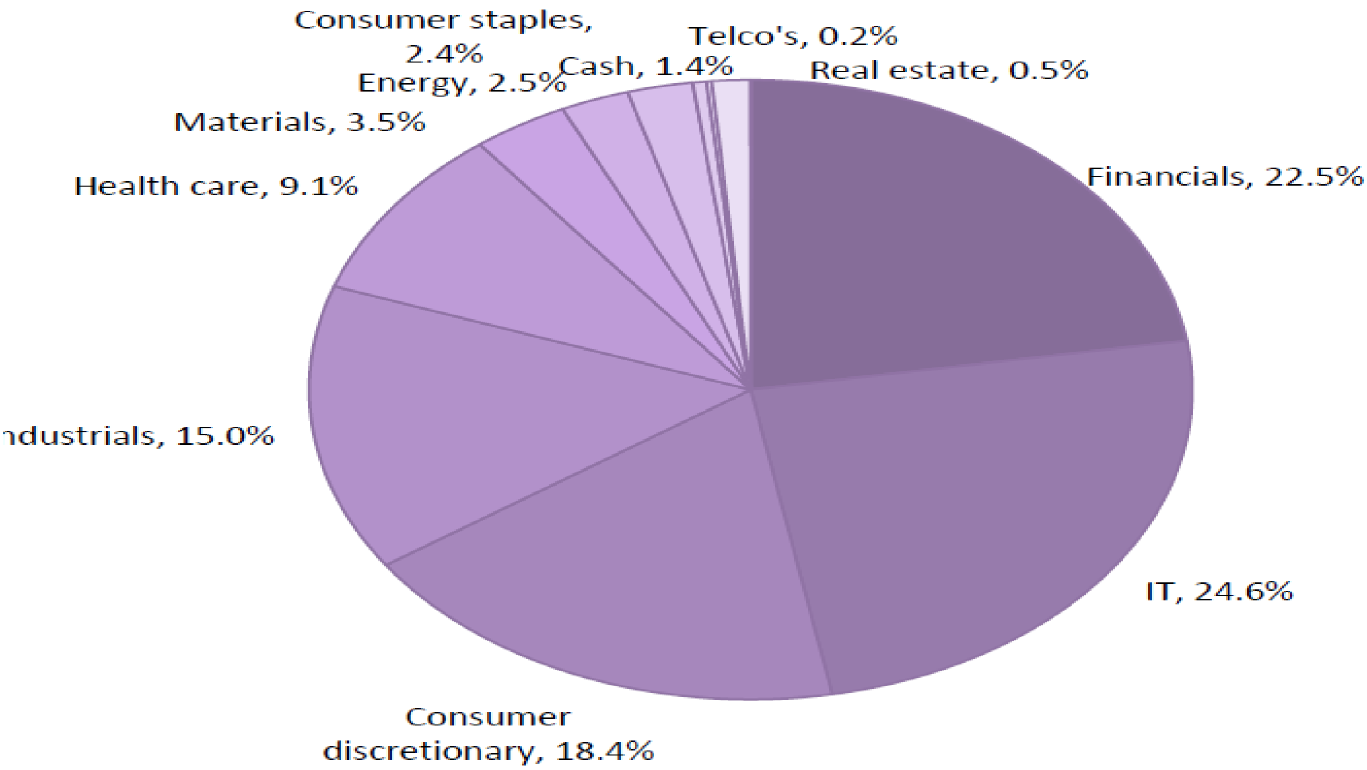
2. **LCIV (Baillie Gifford) Global Equities**

2.1. The portfolio posted a positive return of 4.60%, outperforming the benchmark by 4.2%. The equity market rose even as wider asset markets remained relatively calm, following the volatility in the previous quarter.

2.2. Strong selection effect (especially in the technology and consumer discretionary sectors) helped the fund to continue its good performance throughout the first half of the year (now 12.56% since 31/12/2016.)

2.3. After relatively few changes to the portfolio in the first quarter, the manager took the opportunity to make a number of new purchases and additions as well as taking some profit from both Amazon and First Republic Bank.

2.4. The strongest contributors to return were Ryanair (+0.4%) and Alibaba (+0.4%) which between them make up 3.5% of the total portfolio. Detractors included Seattle Genetics (-0.2%) which announced that it had decided to discontinue a late stage trial of one of its new drugs. BG retains their confidence in the expansion of the current patient base of its existing treatment however.



2.5. As shown in the chart above, the portfolio remains tilted towards IT and Financials, with neither likely to change as the two highest proportions of the portfolio in the near future.

2.6. The fund's increased holding in Alibaba now brings it into the top ten positions in the portfolio. Queries were raised with the manager about social and governance concerns that are inherent in investing in China.

2.7. The manager agreed that there are a number of issues prevalent at the moment (the treatment of minority shareholders by management at Alibaba being one of them) but that there is nothing within the culture of the company that would suggest its extremely strong fundamentals should be ignored (the manipulation and use of data in such areas as AliPay potentially opening up new avenues of revenue to the company.)

2.8. The fine levied on Alphabet by the EU Commission was raised by the LCIV CIO as an example of the increasing scrutiny and power that is being more openly wielded by authorities across the developed world and may well be most concerning when investors are looking at how companies pay their taxes.

2.9. The BG team acknowledged the potential contingent liabilities that multinationals may suffer once domicile and tax arrangements finally come to the fore, may well hurt investors and that they continue to encourage companies to look very carefully at whether they could (and should) be paying more tax in certain jurisdictions.

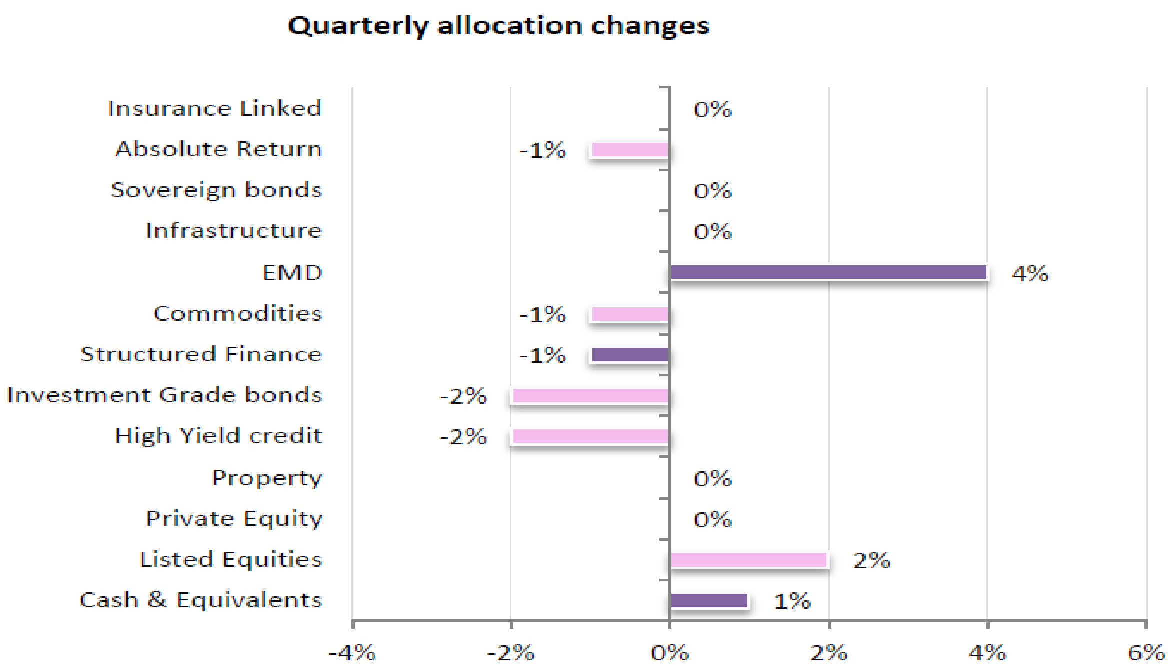
3. **LCIV (Baillie Gifford) Diversified Growth Fund**

3.1. The fund delivered a 1.8% return against a benchmark return of 0.9%. Risk assets continued to trend higher with equity markets reaching new highs. The fund also benefitted from solid returns in investment grade, high yield, emerging market and government bonds, private equity, property and hedge funds. The only loss making asset class was commodities. This was driven from a holding in platinum which has since been exited.

3.2. A strong outperformance for 12 months to June 2017 with return of 11.7% compared with benchmark return of 3.8%. The portfolio outperformed the benchmark by posting a return of 5.5% per annum over three years, which is over the benchmark return by 1.6% per annum and also ahead the benchmark return by 2.1% per annum for over five years period.

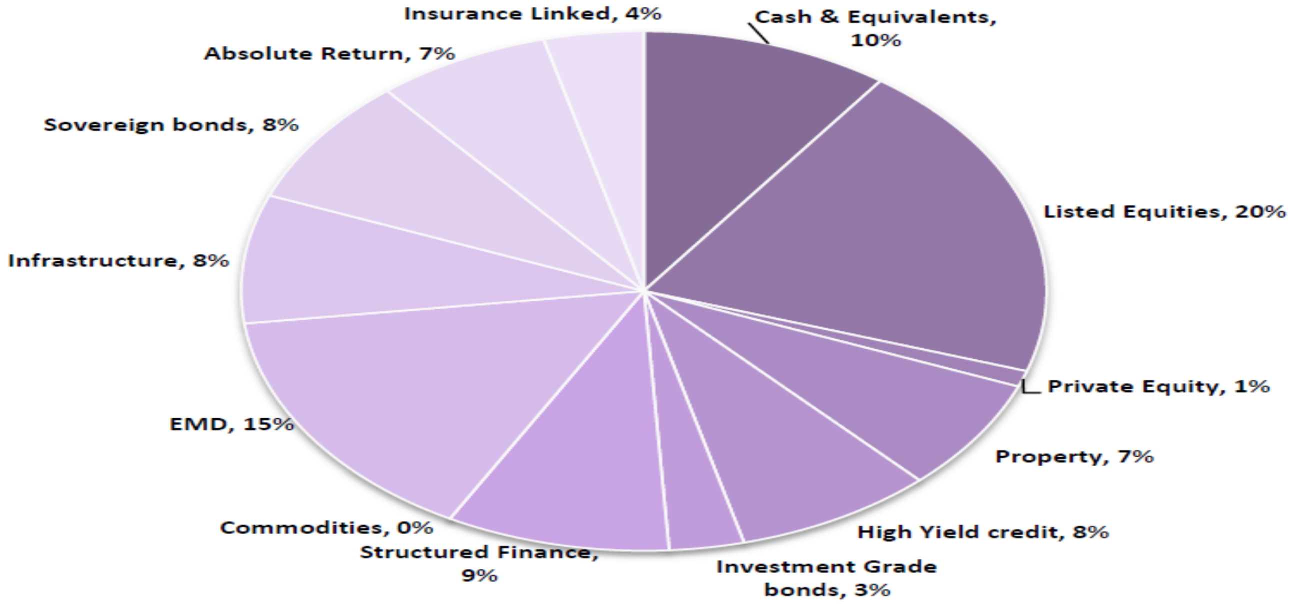
3.3. The Baillie Gifford ('BG') team have become slightly more risk-on in Q2 of 2017. The main asset allocation move is out of traditional investment grade and high yield bonds and into emerging market debt although they have also increased allocations to equity. The team retain a 10% allocation to cash which has been around their average liquid holding over the past 3 years for opportunistic investing.

3.4. As shown in below chart, BG became more optimistic during Q2 subsequently moving into more risk-on assets including emerging market bonds. The team believes that the attractive yields are supportive of a returning growth environment. Whilst LCIV agree that this is optimism is supported by the structural reforms sweeping governments and central banks in EM nations that the growth underpinning this is still vulnerable particularly in commodity driven economies. BM is particularly supportive EM debt in Argentina, India and Indonesia and has topped up allocations to these geographies above and beyond the limitations of their internally managed EM Bond Fund holding within the fund. In line with this risk-on view the BG team have also switched out of hard currency EM debt preferring the higher risk local currency debt believing that the latter offer more attractive return prospects.



3.5. **Listed equities:** The team increased equity allocations by 2% over the quarter as part of their risk-on move into growth assets. BG discussed that US equity exposure was fully hedged given their view that the US dollar was currently overvalued but they discussed that they were more optimistic on European equities after the French elections and that they believed that EU stock valuations looked reasonable.

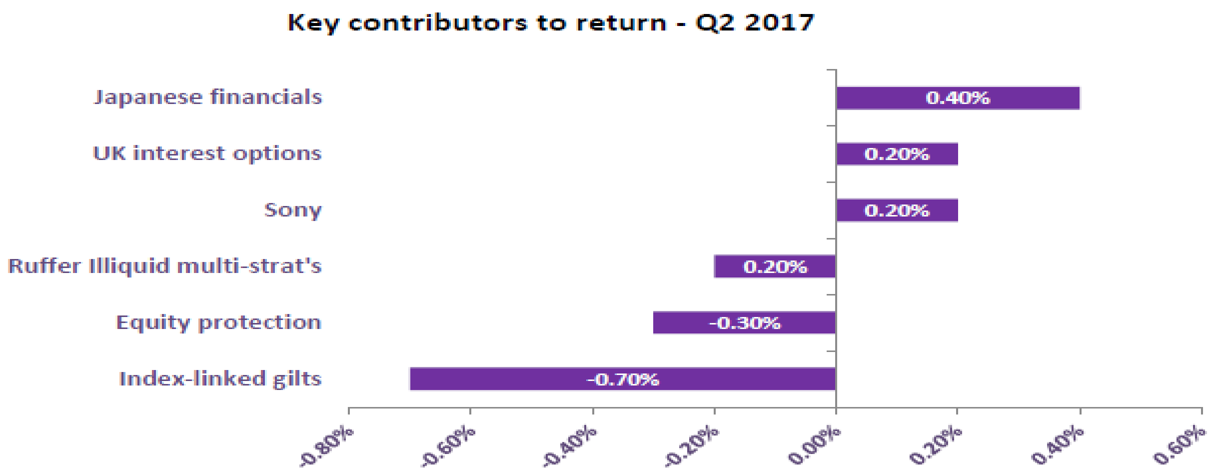
3.6. The fund invests in a diversified range of asset classes and the breakdown is shown below:



4. **Ruffer Total Return Fund (Absolute Return)**

4.1 The Absolute Return fund produced a -0.45% loss in the second quarter, following the flat performance in the first quarter of the year. Less dovish central bank rhetoric, resulting in the increasing probability of developed market monetary tightening, unsettled bond markets and hurt the inflation linked holdings in the Absolute return portfolio.

4.2 Ruffer added Vivendi to take advantage of the potential emerging power shift back towards music production at the expense of distributors. The overarching macroeconomic views of the team have not changed but a growing confidence in a new era for fiscal policy is more evident. The strategy is designed to offset a variety of risks over different time periods whilst taking advantage of opportunities as they arise.

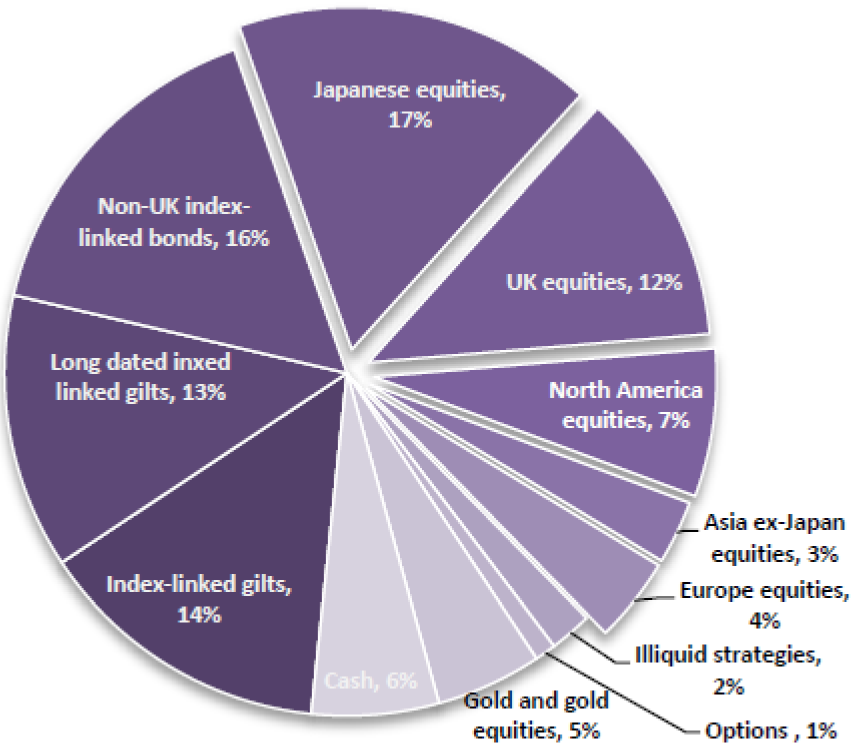


4.3 As shown in the above chart, Factors that helped performance include Japanese financials, UK interest rate options and Sony. Domestic Japanese economic strength and resilient global trade helped Japan to catch-up with western markets after lagging in Q1. Sony led the way, boosted by a growing internal appreciation of shareholder value by management, and Japanese financials also made respectable gains. Ruffer, being aware of the risk of short-term concerns over higher interest rates, purchased interest rate calls that rose in value, offsetting some of the losses from the long dated index linked (I/L) gilts.

4.4 The Index Linked gilt holdings were by the far the greatest detractor of returns at -0.7%. According to Ruffer, despite some signs of weakness in the UK economy mixed signals over the need for higher rates unsettled bond markets. With Eurozone growth picking up and another 0.25% rate rise in the U.S., global bond yields moved higher at the end of the quarter. As inflation was little changed this caused I/L gilts to give back some of last year's gains.

Portfolio positioning

4.5 Ruffer made few changes to positioning in the second quarter, but they did explicitly discuss the addition of Vivendi in LCIV officer's recent meeting. Ruffer added Vivendi, the French media group, in part due to the European recovery story, but predominantly because of its universal music business. According to Ruffer ''in 2015 the music industry saw its first increase in revenues this century; for the first time in the online age it seems the content owners, like Universal, have wrested some control back from the distributors.'' The Absolute return team holds Sony which may benefit for similar reasons, alongside its ongoing re-structuring.



4.6 With equity valuations high, and the increasing likelihood of monetary tightening, particularly in the U.S., Equities remain less than 40% of the portfolio. However, according to Ruffer, the global relation remains in place, and they continue to hold exposure to banks and other companies geared into improving economic activity.

4.7 A strong outperformance for 12 months to June 2017 with return of 8.6% compared with benchmark return of 3.4%. The portfolio outperformed the benchmark by posting a return of 6.5 % per annum over three years, which is over the benchmark return by 3% per annum and also ahead the benchmark return by 3.1% per annum for over five years period.

5. **Legal & General (LGIM)**

L & G (Passive UK Equity)

5.1 The portfolio returned 1.4% and matched the index return over the quarter. The FTSE 100 index moved to new all-time highs above 7,500 before falling back in the final month of the quarter as sterling strength provided a headwind for the index's international earners. UK mid-cap stocks delivered stronger returns, with the more domestically-orientated FTSE 250 index outperforming the FTSE 100 index over the quarter despite volatility following the news that that UK general election had resulted in a hung parliament. Mainland European stocks also delivered solid returns, as business activity and consumer confidence data readings highlighted improving confidence in the region's economy.

L & G Index Linked Gilts

5.2 The portfolio returned -2.4% lost matching the index return over the quarter. Having risen in late 2016 on the back of higher growth and inflation expectations, global government 10-year bond yields ended the second quarter of 2017 roughly where they started.

5.3 For much of the quarter, yields drifted lower as investors scaled back their expectations for fiscal stimulus, particularly in the US. However, yields rose notably in the final few days of the quarter on the back of hawkish central bank comments, particularly in the UK and mainland Europe.

5.4 A notable feature of global bond markets was the continued divergence between the trajectory of short and long-term interest rates. Short-term rates moved steadily higher throughout the quarter, particularly in the US where the Federal Reserve opted to raise rates by 0.25%, lifting the band to 1 – 1.25% However, long-dated global bond yields continued to retreat as investors discounted weaker long-term growth prospects for developed economies.

5.5 In the UK Mark Carney, Governor of the Bank of England indicated at the end of the quarter that "some removal of monetary policy stimulus is likely to become necessary", while in Europe, European Central Bank President Mario Draghi commented that "deflationary forces have been replaced by reflationary ones". Both these remarks increased market expectations of near-term UK and euro zone rate rises, causing short-term yields in particular to rise sharply as the quarter drew to a close.

6. **Goldman Sachs Asset Management (GSAM)**

6.1 The portfolio underperformed the benchmark in the reporting period by posting returns of -0.2% lost against its benchmark return of 1.1%. A marginal outperformance for 12 months to June 2017 with return of 4.9% compared with benchmark return of 4.4%.

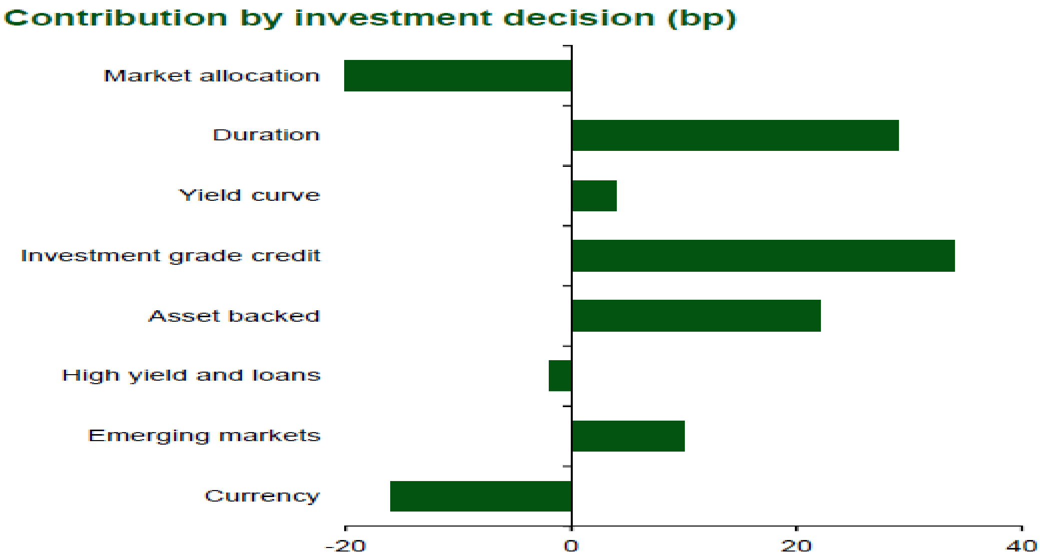
6.2 The largest contributor to performance was the manager currency strategy due to long positions in European currencies such as the Czech koruna, Polish zloty and the Swedish krona.

6.3 The manager securitized selection strategy contributed as well, with their underweight agency MBS performing positively amid spread widening.

6.4 The primary driver of underperformance was their long Canada vs short US rates position in the country strategy. Canadian rates underperformed US rates following hawkish comments from Bank of Canada (BoC) officials.

7. **Insight Investment**

7.1 The portfolio underperformed the benchmark in the reporting period by posting returns of -0.4% lost against a benchmark return of 1.1%. The following diagram demonstrates show this was achieved.



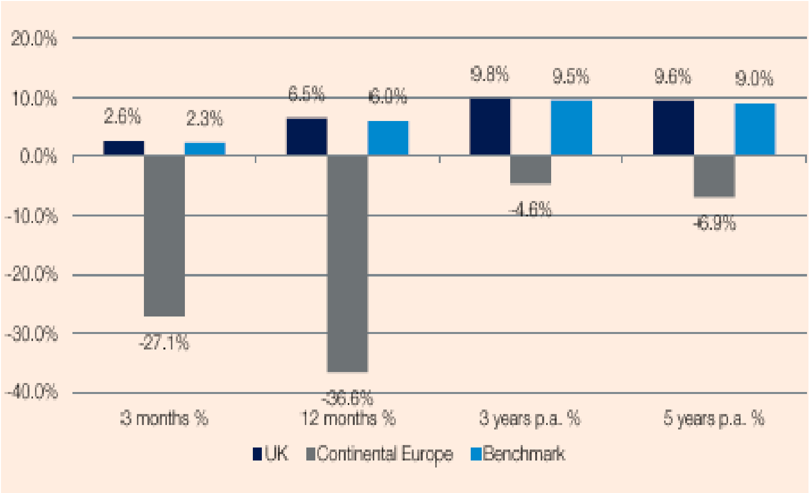
8. **Schroder (Property**)

8.1 The portfolio performance was slightly below the benchmark over the reporting quarter by 0.2% and also lagging behind for all other periods; namely one year to 30 June 2017 by -0.6%, for three years marginally by -0.4% and also by -0.4% per annum for five years.

8.2 Holdings in continental Europe have been the main detractors from returns over the longer term. The UK portfolio (currently 98% by value) has outperformed the benchmark over all time periods. Holdings in the industrial sector have been the strongest drivers of performance in this reporting quarter, with Industrial Property Investment Fund, Schroder Real Estate Real Income Fund, UK Retail Warehouse Fund and Multi-Let Industrial PUT amongst the strongest contributions to returns.

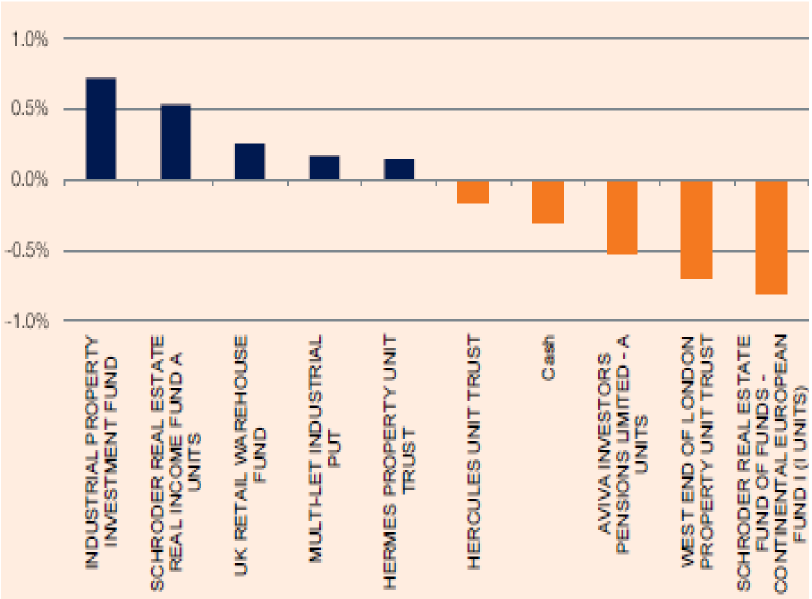
Total return by region

Periods to end 30 Jun 2017



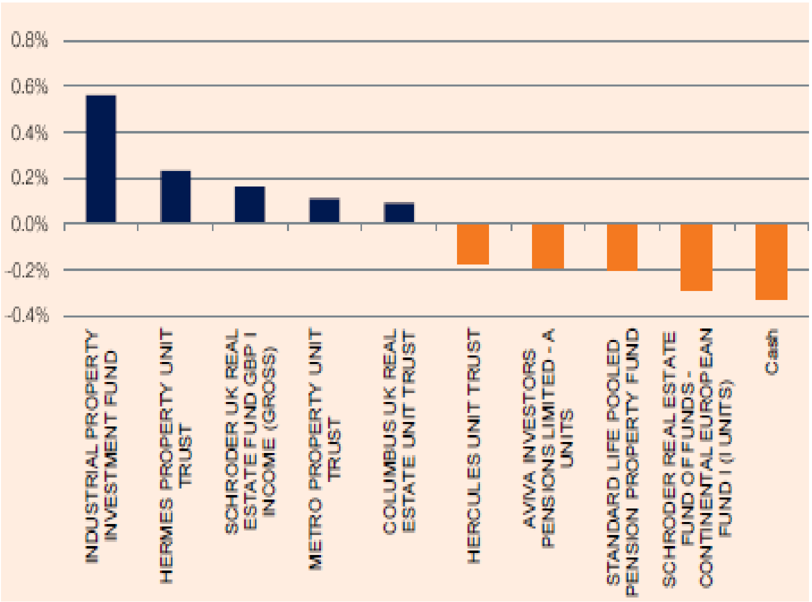
Total return attribution relative to benchmark top & bottom five contributors

12 months to 30 Jun 2017



Total return attribution relative to benchmark top & bottom five contributors

3 years to 30 Jun 2017



Quarterly Performance Service

LB OF TOWER HAMLETS - TOTAL COMBINED

QUARTERLY PERFORMANCE REVIEW

PERIODS TO END JUNE 2017

Produced 22 August 2017

Contents

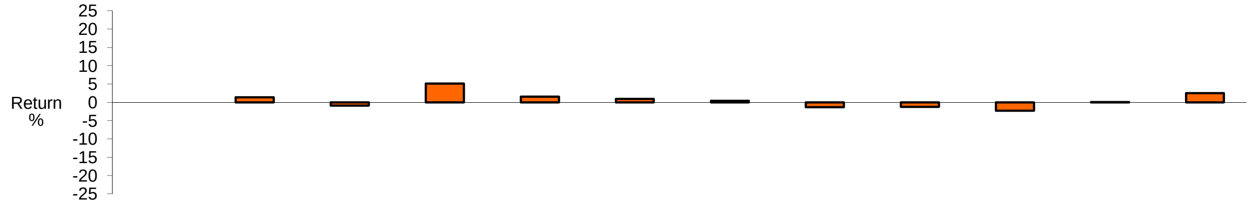
Market Background

Periods to end June 2017
Pound Sterling

This page details the performance of the major markets.

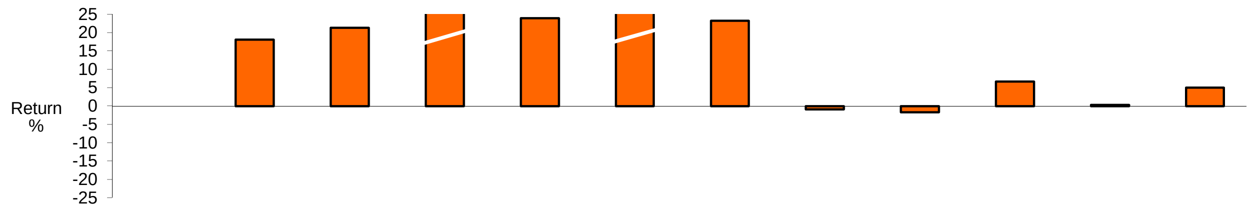
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property

Latest Quarter



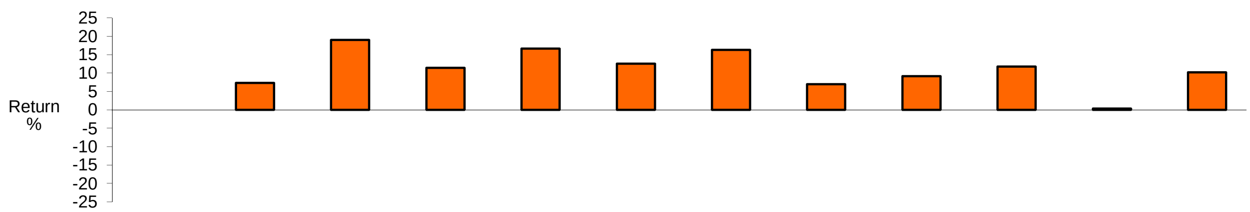
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	1.4	-0.9	5.2	1.5	0.9	0.5	-1.3	-1.2	-2.3	0.1	2.5

Last 12 Months



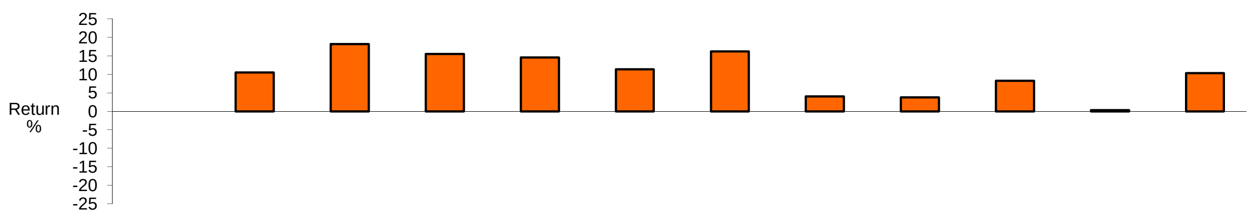
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	18.1	21.3	29.0	24.0	28.0	23.3	-0.9	-1.7	6.7	0.3	5.1

Last Three Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	7.4	19.0	11.4	16.7	12.6	16.4	7.0	9.2	11.8	0.3	10.2

Last Five Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	10.6	18.3	15.5	14.6	11.4	16.2	4.1	3.8	8.3	0.4	10.4
Index Used	FT All Share	FTSE WORLD N	FTSE WORLD E	FT Japan	FT Pac x Jap	FT Wld x UK	UK Gilts AS	JPM Glb x UK	I/L Gilts AS	7 Day LIBID	IPD Monthly

Fund Structure and Benchmarks

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Structure

The Fund is managed on a specialist basis with GMO and Baillie Gifford managing the Global Equities on an active basis. UK equities and UK Index-Linked are passively managed by L&G. GSAM and Insight manage absolute return fundS and Schroders are the property manager..Baillie Gifford also manage a Diversified Growth Funds along with Ruffer. From1/4/14 all manager returns are net of management fees.

Benchmark

The Fund's performance is analysed relative to customised benchmarks, the weighting and relevant indices are shown below.

	L&G	GMO	Baillie Gifford	Benchmark Indices
Global Equities		100	100.0	MSCI AC World NDR
UK Equities	100.0			FTSE All Share
% Allocation	20.0	23.0	18.0	

	L&G	GSAM/ Insight	Schroders	Baillie Gifford	Ruffer	Total Combined	Benchmark Indices
Global Equities						41.0	MSCI AC World NDR
UK Equities						20.0	FTSE All Share
Pooled Bonds		100.0				14.0	LIBOR 3 Month +4%
UK Index Linked	100.0					3.0	FTSE A Gov Index-Linked > 5 yrs
Property			100.0			12.00	HSBC/IPD Pooled All Balanced Funds Average
Diversified Growth				100.0	100.0	10.0	3 Month LIBOR +3%
% Allocation	3.0	14.0	12.0	5.0	5.0	100.0	

Targets

GMO: +1.5% p.a. net of fees over a rolling 3 year period.

Baillie Gifford Global Equity: + 2 - 3 % p.a. gross of fees over a rolling 3 year period.

Schroders: +0.75% p.a. net of fees over a rolling 3 year period.

Baillie Gifford Diversified Growth: 3.5% p.a. above the UK Base Rate (after fees).

GSAM/Insight: 3 Month LIBOR +4% p.a.

Ruffer: Overall objective is firstly to preserve the capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable UK bank.

SSGS - Performance Services Contact: Ann Gillies
Direct Telephone: (0131) 315 5465 E-mail: ann.gillies@statestreet.com

Performance Summary

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Value

Values (GBP)'000	Mandate	Value at 31/03/2017	Transactions	Capital Gain / loss	Income	Value at 30/06/2017	*% Fund*
BAILLIE GIFF	Eq Glbl	281,213	802	12,131	802	294,146	21
GMO	Eq Glbl	325,278	-47,349	22	2,424	277,952	20
L & G	Eq UK	266,256	0	3,830	0	270,087	19
SCHRODERS	Prop UK	140,302	1,260	1,667	1,262	143,229	10
GOLDMAN	Bd Glbl	77,929	0	-168	0	77,761	6
L & G	Bd UK I/L	74,030	0	-1,808	0	72,222	5
INSIGHT INV	Absolute	71,743	0	-322	0	71,422	5
INT MGD	Cash	18,428	49,087	0	18	67,515	5
BAILLIE GIFF	Structured	62,166	0	1,089	0	63,255	5
RUFFER	Absolute	61,835	0	-278	0	61,557	4
Total Fund		1,379,183	3,800	16,162	4,507	1,399,145	100

The table shows the value of each Portfolio at the start and end of the period.
The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of the investments.

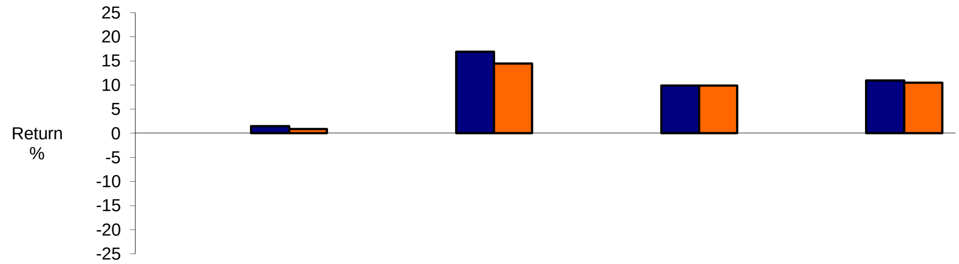
Performance Summary

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end June 2017**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.5	17.0	9.9	10.9
Benchmark	0.9	14.5	9.9	10.5
Relative Return	0.6	2.1	0.0	0.4

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

Detailed Analysis of the Latest Quarter Performance

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

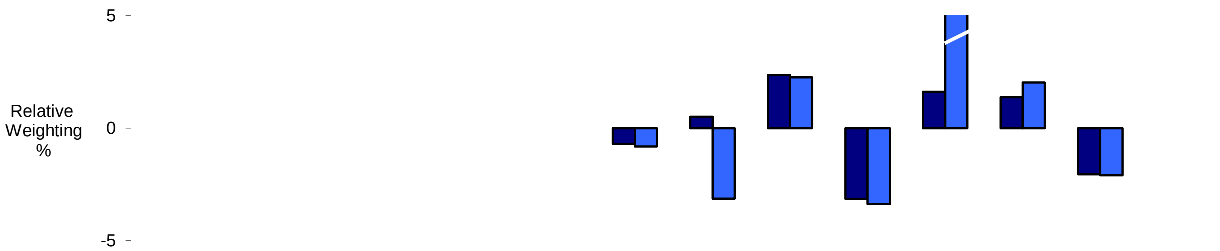
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return		1.5
Benchmark Return		0.9
Relative Performance		0.6
	attributable to:	
	Asset Allocation	-0.2
	Stock Selection	0.8

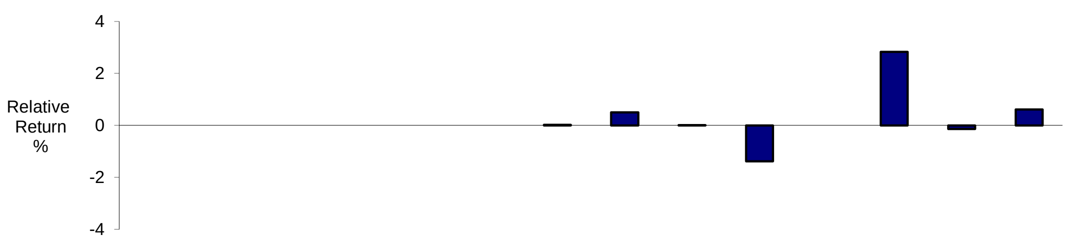
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

Asset Allocation



	UK Equities	O/S Equities	UK IL	Pooled Bonds	Cash	Alternatives	Property	Total Fund
Fund Start	19.3	23.5	5.4	10.9	1.6	29.4	10.0	100.0
Fund End	19.3	19.8	5.2	10.7	5.1	29.9	10.1	100.0
BM Start	20.0	23.0	3.0	14.0		28.0	12.0	100.0
BM End	20.1	22.9	2.9	14.0		27.9	12.2	100.0
Impact	-	-	-0.1	-	-	-	-	-0.2

Stock Selection



	UK Equities	O/S Equities	UK IL	Pooled Bonds	Cash	Alternatives	Property	Total Fund
Fund	1.4	0.9	-2.4	-0.3	-0.1	3.4	2.1	1.5
Benchmark	1.4	0.4	-2.4	1.1		0.5	2.3	0.9
Impact	-	0.1	-	-0.2		0.8	-	0.8

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

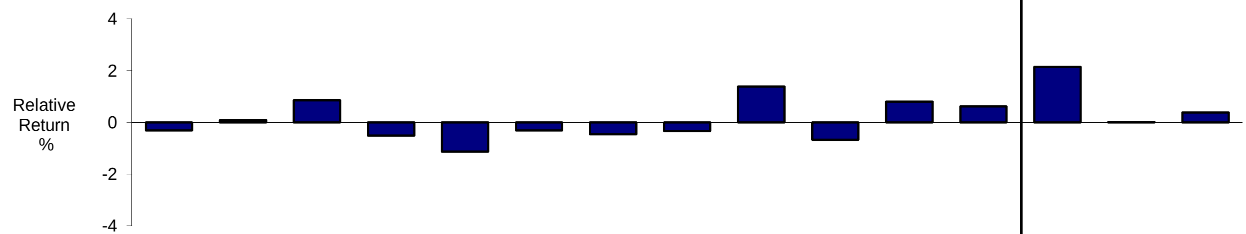
Long Term Performance Analysis

LB OF TOWER HAMLETS - TOTAL COMBINED	Periods to end June 2017
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

This page looks in more detail at the long term performance, plotting it relative to the Benchmark.

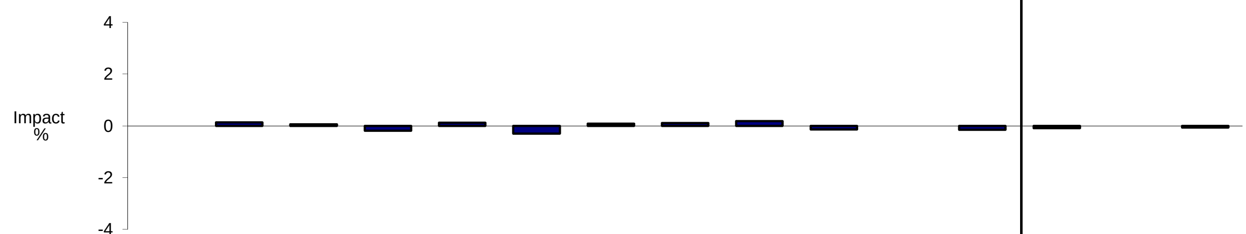
Fund Returns



	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----		1yr	3yrs	5yrs
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		% pa	% pa
Fund	1.2	2.8	5.5	-2.4	-4.0	4.2	1.2	4.8	6.9	3.1	4.5	1.5	17.0	9.9	10.9
Benchmark	1.5	2.7	4.7	-1.9	-2.9	4.5	1.6	5.1	5.5	3.8	3.7	0.9	14.5	9.9	10.5
Relative	-0.3	0.1	0.9	-0.5	-1.1	-0.3	-0.5	-0.3	1.4	-0.7	0.8	0.6	2.1	0.0	0.4

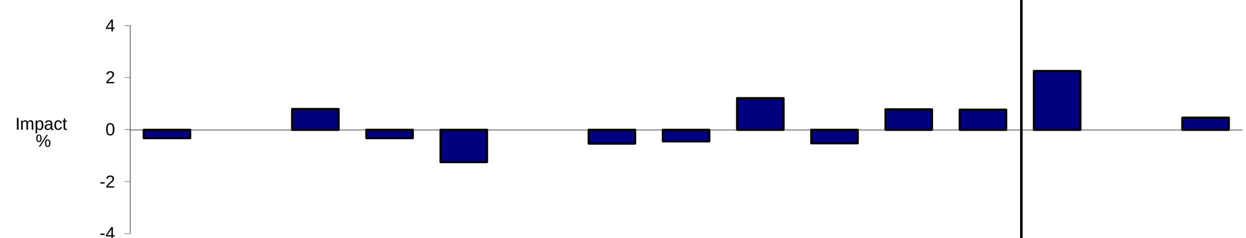
The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

Asset Allocation



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Impact	-	0.1	0.1	-0.2	0.1	-0.3	0.1	0.1	0.2	-0.1	-	-0.2	-0.1	-	-0.1

Stock Selection



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Impact	-0.3	-	0.8	-0.3	-1.2	-	-0.5	-0.5	1.2	-0.5	0.8	0.8	2.3	-	0.5

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.
Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.
Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.
The impact of both asset allocation and stock selection is weighted by the level of investment in the area.
not invested in this area for the entire period
- indicates a value less than 0.05 and greater than -0.05

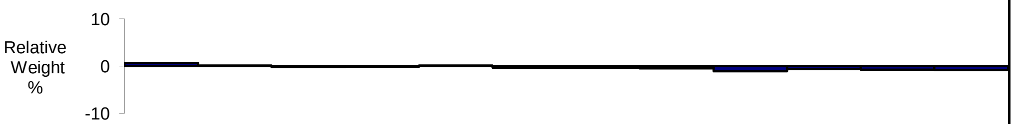
Long Term Asset Allocation

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

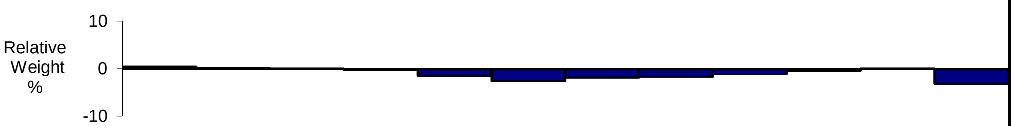
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



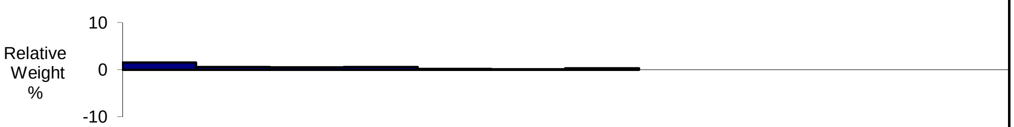
	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	22.6	20.0	19.8	20.0	19.6	19.5	19.2	19.2	19.3	19.4	19.3	19.3			
Benchmark	21.9	19.8	20.0	20.1	19.4	19.9	19.6	19.7	20.4	20.0	20.1	20.1			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES



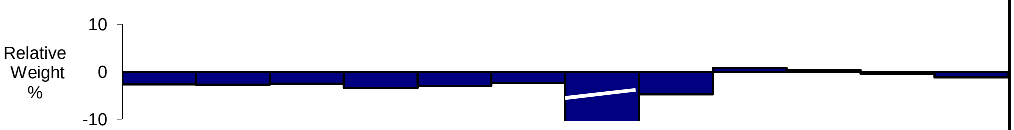
	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	23.0	23.0	23.7	22.0	20.9	21.2	21.5	22.3	22.5	23.1	23.5	19.8			
Benchmark	22.6	22.8	23.6	22.3	22.3	23.8	23.3	23.9	23.6	23.6	23.4	22.9			
Impact	-	0.1	-	-	0.1	-0.1	-	-0.1	-	-	-	-	-0.1	-	-

GLOBAL POOLED INC UK



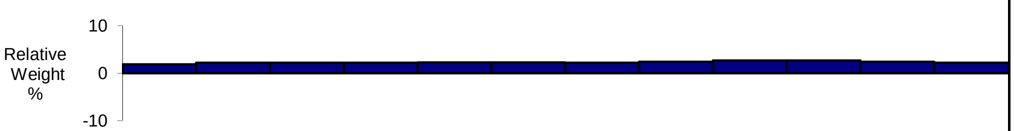
	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	17.8	18.4	19.1	18.0	17.7	18.7	18.6	0.0							
Benchmark	16.3	17.9	18.5	17.4	17.5	18.6	18.2								
Impact	-	-0.1	-	-	-	-	-	-						-	-

TOTAL BONDS PLUS INDEX-LINKED



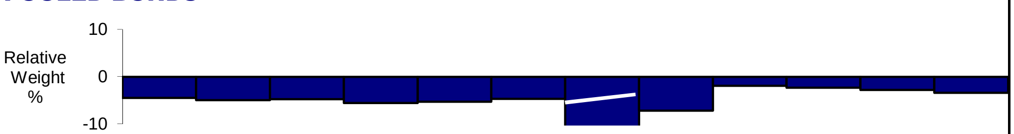
	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	14.4	14.5	13.9	14.0	14.7	13.9	5.4	11.9	17.4	16.9	16.2	15.8			
Benchmark	17.0	17.2	16.4	17.3	17.7	16.3	17.0	16.7	16.6	16.4	16.6	16.9			
Impact	0.1	0.2	0.2	-0.2	-0.1	-	0.2	0.4	0.2	-0.1	-	-0.1	0.1	0.3	0.2

U.K. INDEX - LINKED



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	5.0	5.3	5.2	5.2	5.5	5.1	5.4	5.7	5.9	5.5	5.4	5.2			
Benchmark	3.1	3.1	3.0	3.0	3.2	2.8	3.1	3.3	3.2	2.8	3.0	2.9			
Impact	0.1	0.1	-	-	0.1	-0.2	0.1	0.1	0.1	-0.2	-	-0.1	-0.2	-	-

POOLED BONDS



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	9.4	9.2	8.7	8.8	9.2	8.8	0.0	6.3	11.5	11.3	10.9	10.7			
Benchmark	13.9	14.1	13.5	14.4	14.5	13.5	13.9	13.4	13.4	13.6	13.7	14.0			
Impact	-	0.1	0.2	-0.1	-0.2	0.2	0.1	0.3	0.1	0.1	0.1	-	0.2	0.3	0.3

For each area of investment the final weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

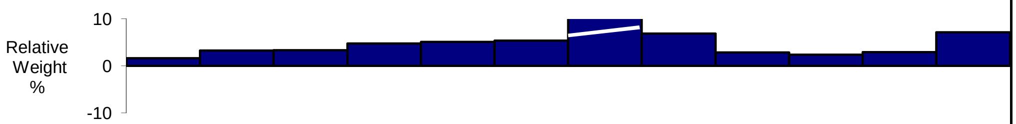
Long Term Asset Allocation

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

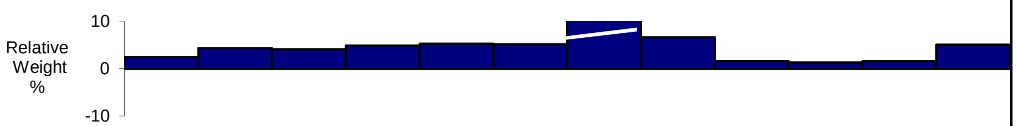
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



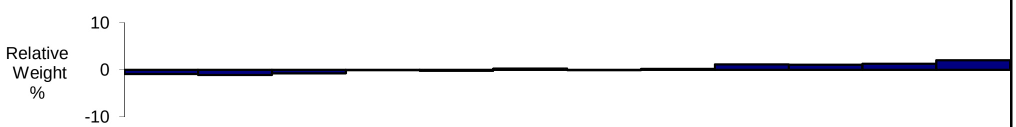
	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	11.6	13.4	13.0	15.1	15.5	15.0	23.5	35.2	30.9	30.6	31.0	35.0			
Benchmark	9.9	10.1	9.6	10.3	10.4	9.6	9.9	28.3	28.1	28.2	28.1	27.9			
Impact	-	-	-0.1	0.1	0.2	-0.2	-0.1	-0.3	-0.1	-	-	-	-0.2	-0.2	-0.2

TOTAL CASH



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	2.5	4.4	4.1	4.9	5.3	5.1	13.7	6.7	1.7	1.3	1.6	5.1			
Benchmark															
Impact	-	-0.1	-0.2	0.1	0.2	-0.2	-0.1	-0.3	-0.1	-	-	-	-0.2	-0.3	-0.2

ALTERNATIVES

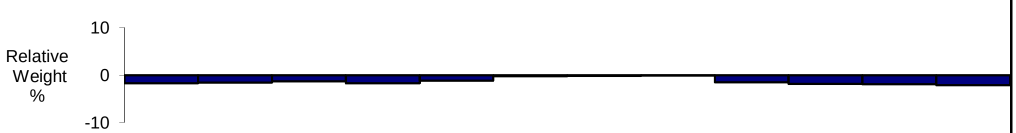


	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	9.1	9.0	8.9	10.2	10.2	9.9	9.8	28.5	29.2	29.2	29.4	29.9			
Benchmark	9.9	10.1	9.6	10.3	10.4	9.6	9.9	28.3	28.1	28.2	28.1	27.9			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CURRENCY INSTRUMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	-0.0	-0.0	0.0												
Benchmark															
Impact	-	-0.1	-											-	-

TOTAL PROPERTY



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	10.6	10.7	10.5	10.9	11.6	11.6	11.8	11.4	9.8	10.0	10.0	10.1			
Benchmark	12.3	12.3	11.8	12.6	12.7	11.8	11.9	11.4	11.3	11.8	11.8	12.2			
Impact	-	-	-	-0.1	-0.1	-	-	-	0.1	-	-	-	0.1	-	-

For each area of investment the final weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

Long Term Stock Selection

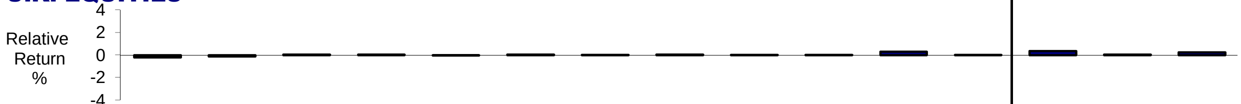
LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

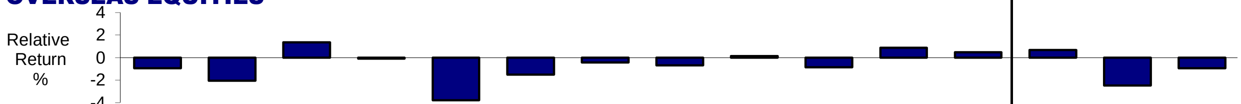
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----		1yr	3yrs	5yrs
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		% pa	% pa

U.K. EQUITIES



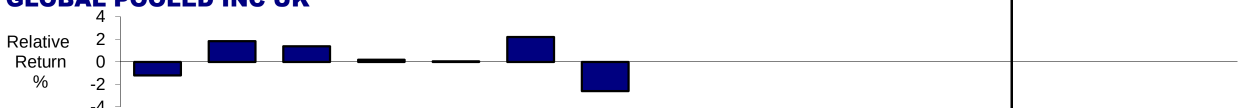
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1yr	3yrs % pa	5yrs % pa
Fund	-1.2	0.4	4.7	-1.5	-5.7	4.0	-0.4	4.7	7.8	3.9	4.3	1.4	18.5	7.4	10.8
Benchmark	-1.0	0.6	4.7	-1.6	-5.7	4.0	-0.4	4.7	7.8	3.9	4.0	1.4	18.1	7.4	10.6
Impact	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	-	0.1

OVERSEAS EQUITIES



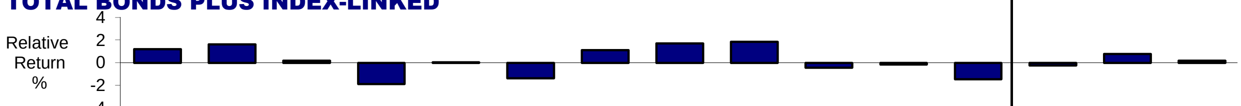
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1yr	3yrs % pa	5yrs % pa
Fund	0.9	1.7	9.1	-5.2	-9.4	6.4	2.5	8.1	8.5	5.5	6.6	0.9	23.1	11.7	14.3
Benchmark	1.8	3.8	7.6	-5.1	-5.9	8.1	2.9	8.8	8.4	6.4	5.6	0.4	22.2	14.5	15.4
Impact	-0.2	-0.5	0.3	-	-0.8	-0.3	-0.1	-0.1	-	-0.2	0.2	0.1	0.2	-0.5	-0.2

GLOBAL POOLED INC UK



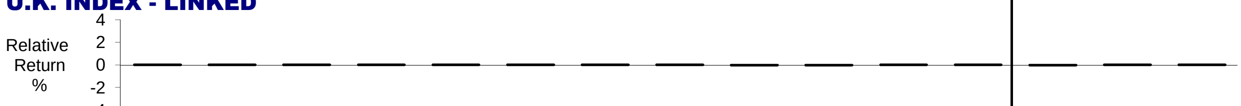
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1yr	3yrs % pa	5yrs % pa
Fund	1.9	6.4	9.1	-4.9	-5.8	10.4	0.3	2.0 #							
Benchmark	3.2	4.5	7.6	-5.1	-5.9	8.1	2.9	-0.4 #							
Impact	-0.2	0.3	0.3	-	-	0.4	-0.5	0.4						0.3	0.3

TOTAL BONDS PLUS INDEX-LINKED



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1yr	3yrs % pa	5yrs % pa
Fund	2.8	3.8	1.3	-1.9	1.0	-1.4	2.8	4.5	4.8	-0.1	1.1	-1.0	4.8	5.9	4.3
Benchmark	1.6	2.2	1.1	-0.1	0.9	-0.1	1.7	2.7	2.9	0.4	1.2	0.5	5.0	5.0	4.1
Impact	0.1	-	-	-0.2	-	-0.1	-	-0.1	0.1	-	-	-0.2	-0.1	-0.2	-0.1

U.K. INDEX - LINKED



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1yr	3yrs % pa	5yrs % pa
Fund	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0	2.0	-2.4	7.1	13.2	9.3
Benchmark	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0	2.0	-2.4	7.1	13.2	9.2
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

POOLED BONDS

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1yr	3yrs % pa	5yrs % pa
Fund	1.2	0.8	0.1	-1.1	0.2	-0.3	0.4 #	-0.8 #	1.9	1.4	0.6	-0.3	3.7		
Benchmark	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.8	1.1	1.1	1.1	1.1	4.4	3.3	3.0
Impact	0.1	-	-	-0.2	-	-0.1	-	-0.1	0.1	-	-	-0.2	-0.1	-0.2	-0.1

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

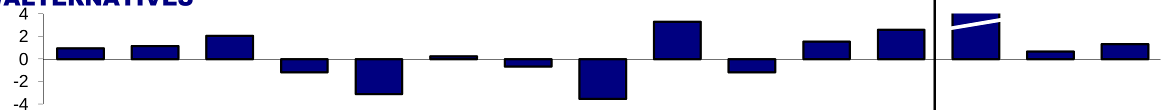
Long Term Stock Selection

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES

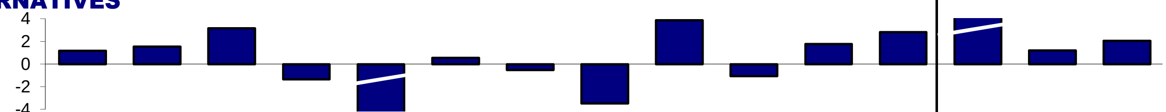


	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	1.8	2.0	2.9	-0.4	-2.3	1.1	0.2	2.6	9.2	3.2	5.5	3.2	22.7	9.8	8.1
Benchmark	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.4	5.7	4.4	3.9	0.5	15.3	9.1	6.7
Impact	0.1	0.1	0.3	-0.1	-0.5	0.1	-0.1	-0.7	1.1	-0.3	0.5	0.8	2.2	0.5	0.4

TOTAL CASH

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	0.8	0.9	0.6	0.0	0.4	0.4	0.8	0.4	1.0	1.1	0.0	-0.1	1.9	2.1	1.2
Benchmark															
Impact															

ALTERNATIVES

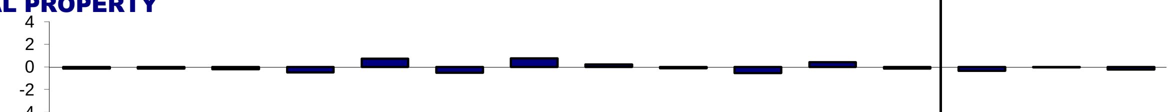


	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	2.0	2.4	4.0	-0.5	-3.8	1.4	0.3	2.7	9.8	3.3	5.8	3.4	24.0	10.4	8.9
Benchmark	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.4	5.7	4.4	3.9	0.5	15.3	9.1	6.7
Impact	0.1	0.1	0.3	-0.1	-0.5	0.1	-0.1	-0.7	1.1	-0.3	0.5	0.8	2.2	0.5	0.4

CURRENCY INSTRUMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	n/a	n/a	n/a												
Benchmark															
Impact															

TOTAL PROPERTY



	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	1yr	3yrs % pa	5yrs % pa
Fund	3.9	4.4	2.6	2.8	3.8	2.3	1.9	0.4	-0.8	1.7	2.5	2.1	5.6	9.5	8.8
Benchmark	4.0	4.6	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3	2.0	2.3	6.0	9.5	9.0
Impact	-	-	-	-0.1	0.1	-0.1	0.1	-	-	-0.1	-	-	-	-	-

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Rolling Years with Relative Risk

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end June 2017**

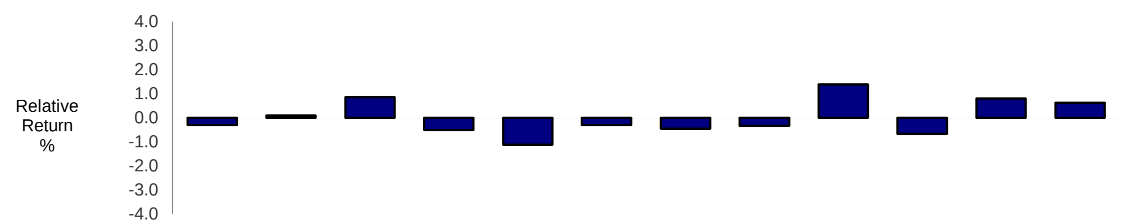
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

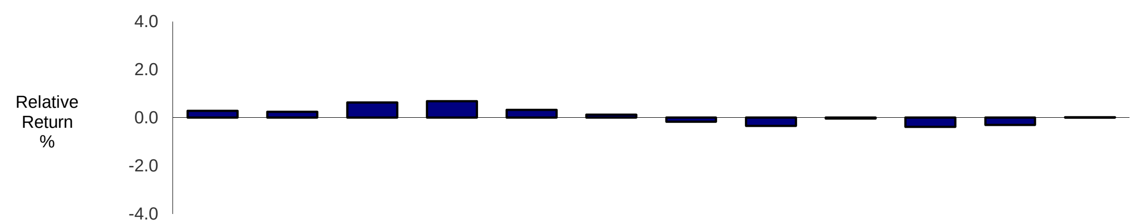
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Values (GBPm's)												
Initial	1035.1	1049.7	1081.5	1141.9	1115.6	1071.6	1117.7	1130.1	1185.6	1270.6	1312.6	1379.2
Net Investment	4.3	4.7	2.5	4.8	3.7	3.6	1.9	5.3	5.7	6.2	12.1	3.8
Capital Gain/Loss	10.3	27.0	57.9	-31.0	-47.7	42.4	10.5	50.2	79.3	35.8	54.6	16.2
Final	1049.7	1081.5	1141.9	1115.6	1071.6	1117.7	1130.1	1185.6	1270.6	1312.6	1379.2	1399.1
Income	2.3	2.9	2.0	3.2	2.5	2.5	2.4	3.6	3.1	3.9	4.4	4.5
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100
Proportions (%) In												
Total Equity	63	61	63	60	58	59	59	42	42	43	43	39
Bonds + IL	14	15	14	14	15	14	5	12	17	17	16	16
Cash/ Alts	12	13	13	15	16	15	24	35	31	31	31	35
Property	11	11	10	11	12	12	12	11	10	10	10	10

Quarterly Returns



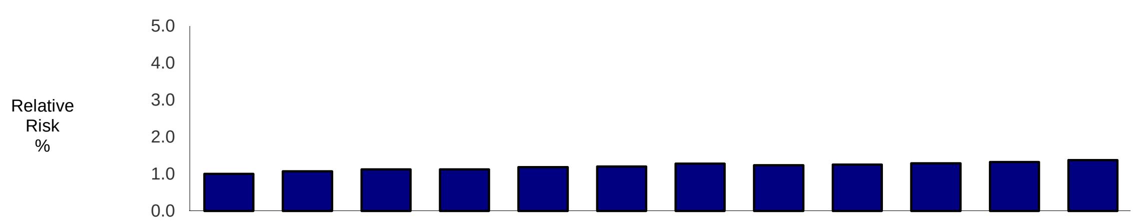
Fund	1.2	2.8	5.5	-2.4	-4.0	4.2	1.2	4.8	6.9	3.1	4.5	1.5
Benchmark	1.5	2.7	4.7	-1.9	-2.9	4.5	1.6	5.1	5.5	3.8	3.7	0.9
Relative Return	-0.3	0.1	0.9	-0.5	-1.1	-0.3	-0.5	-0.3	1.4	-0.7	0.8	0.6

Annualised Rolling 3 Year Returns



Fund	11.2	10.4	10.7	10.7	8.3	8.8	6.2	7.8	9.2	8.9	10.0	9.9
Benchmark	10.9	10.1	10.0	10.0	7.9	8.7	6.3	8.2	9.2	9.3	10.3	9.9
Relative Return	0.3	0.2	0.6	0.7	0.3	0.1	-0.2	-0.3	-0.0	-0.4	-0.3	0.0

Rolling 3 Year Risk



Relative Risk	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.2	1.3	1.3	1.3	1.4
Information Ratio	0.3	0.2	0.6	0.6	0.3	0.1	-0.1	-0.3	-0.0	-0.3	-0.2	0.0

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Summary of Manager Performance

LB OF TOWER HAMLETS - TOTAL COMBINED	**Periods to end June 2017**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	**Pound Sterling**

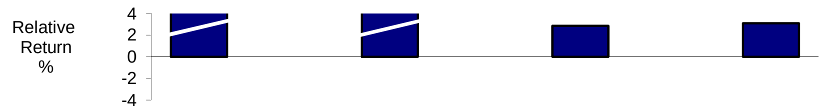
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

BAILLIE GIFFORD & CO - TOTAL ASSETS

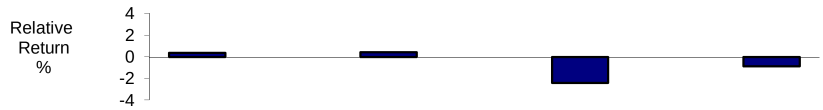
MSCI AC WORLD NDR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	4.6	31.0	18.2	18.3
Benchmark	0.4	22.2	14.9	14.8
Relative Return	4.2	7.2	2.9	3.1

GMO - TOTAL ASSETS

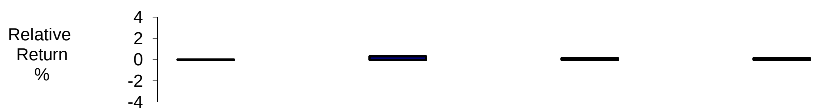
LB OF TOWER HAMLETS - GMO BM.



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.8	22.8	11.4	14.1
Benchmark	0.4	22.2	14.2	15.1
Relative Return	0.4	0.4	-2.4	-0.9

L&G - TOTAL ASSETS

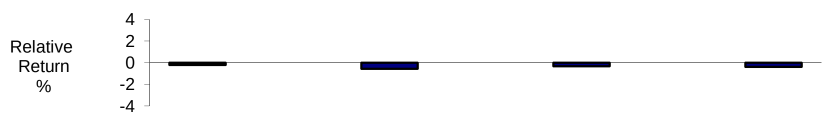
FTSE All Share TR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.4	18.5	7.5	10.7
Benchmark	1.4	18.1	7.4	10.6
Relative Return	0.0	0.3	0.1	0.1

SCHRODER INVEST. MGMT. - TOTAL ASSETS

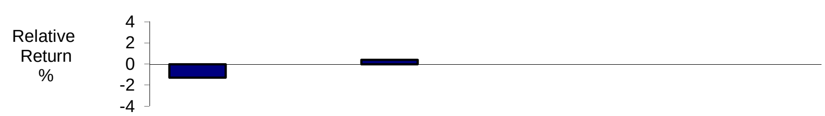
London Borough of Tower Hamlets - Schroders



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.1	5.4	9.1	8.5
Benchmark	2.3	6.0	9.5	8.9
Relative Return	-0.2	-0.6	-0.3	-0.4

GOLDMAN SACHS ASSET MGMT - TOTAL ASSETS

GBP 3 MONTH LIBOR +4%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-0.2	4.9		
Benchmark	1.1	4.4		
Relative Return	-1.3	0.4		

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Summary of Manager Performance

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end June 2017**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

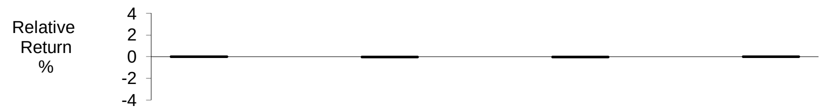
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

L&G - TOTAL ASSETS

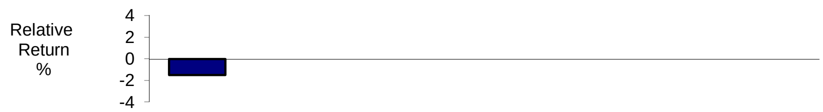
FTSE UK GILTS INDEXED > 5 YRS



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-2.4	7.1	13.2	9.2
Benchmark	-2.4	7.1	13.2	9.2
Relative Return	0.0	-0.0	-0.0	0.0

INSIGHT INVESTMENTS - TOTAL ASSETS

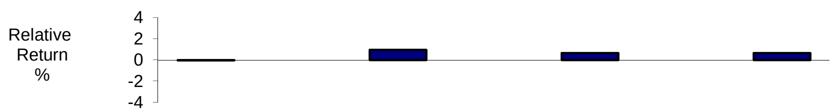
GBP 3 MONTH LIBOR +4%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-0.4			
Benchmark	1.1			
Relative Return	-1.5			

INTERNALLY MANAGED - TOTAL ASSETS

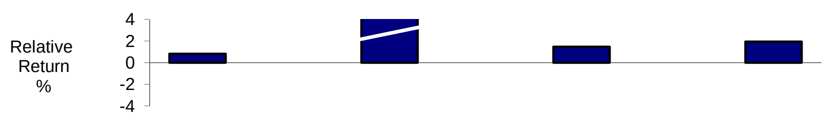
LB TOWER HAMLETS INTERNAL BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.1	1.3	1.0	1.0
Benchmark	0.1	0.3	0.3	0.4
Relative Return	-0.0	1.0	0.7	0.6

BAILLIE GIFFORD & CO - TOTAL ASSETS

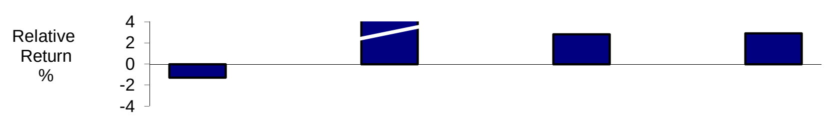
BANK OF ENGLAND BASE RATE + 3.5%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.8	11.7	5.5	6.0
Benchmark	0.9	3.8	3.9	3.9
Relative Return	0.8	7.7	1.5	2.0

RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

GBP 3 MONTH LIBOR + 3%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-0.4	8.6	6.5	6.6
Benchmark	0.8	3.4	3.5	3.5
Relative Return	-1.3	5.0	2.8	2.9

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Performance Summary - Manager Attribution

LB OF TOWER HAMLETS — **Quarter to end June 2017**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page analyses in detail the contributions to the Fund performance over the latest period.

Summary

Fund Return		1.5
Benchmark Return		0.9
Relative Performance		0.6
	attributable to:	
	Strategic Allocation	-0.1
	Manager Contribution	0.7
	Residual	-

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

Detail

Strategic Allocation				Manager Contribution		
Distribution		Policy	Investment	Weighted	% Return	
Portfolio	Benchmark	Contribution	Manager	Contribution	Portfolio	Benchmark
23.6	23.0	-	GMO	0.1	0.8	0.4
20.4	18.0	-	BAILLIE GIFFORD & CO	0.8	4.6	0.4
19.3	20.0	-	L&G	-	1.4	1.4
10.2	12.0	-	SCHRODER INVEST. MGMT.	-	2.1	2.3
5.6	7.0	-	GOLDMAN SACHS ASSET MGMT	-0.1	-0.2	1.1
5.4	3.0	-0.1	L&G	-	-2.4	-2.4
5.2	7.0	-	INSIGHT INVESTMENTS	-0.1	-0.4	1.1
4.5	5.0	-	BAILLIE GIFFORD & CO	-	1.8	0.9
4.5	5.0	-	RUFFER INVESTMENT MGMT LTD	-0.1	-0.4	0.8
1.3	0.0	-	INTERNALLY MANAGED	-	0.1	0.1
		-0.1		0.7		

The Strategic Allocation quantifies the impact of the fund being invested differently from the Strategic Benchmark set.
The Manager Contribution comes about from the out / underperformance of each manager relative to their benchmarks weighted by the value of assets held.
= not invested in this area for the entire period

Appendices

Asset Mix and Returns

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end June 2017**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	31/03/2017				Gain/		30/06/2017			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	590,516	43	31,052	78,877	3,876	2,443	546,567	39	1.0	0.9
U.K. EQUITIES	266,256	19			3,830		270,087	19	1.4	1.4
OVERSEAS EQUITIES	324,260	24	31,052	78,877	46	2,443	276,480	20	0.9	0.4
NORTH AMERICA	116,486	8	14,518	29,170	-1,338	675	100,496	7	-0.5	
TOTAL USA	109,144	8	12,524	26,464	-1,103	627	94,101	7	-0.3	
CONTINENTAL EUROPE	60,988	4	8,630	13,308	748	1,329	57,057	4	3.3	
EUROLAND TOTAL	49,524	4	5,823	10,465	563	989	45,445	3	3.0	
NON EUROLAND TOTAL	11,464	1	2,807	2,844	185	340	11,612	1	4.6	
JAPAN	31,922	2	5,286	10,140	44	40	27,112	2	0.6	
TOTAL PACIFIC (EX.JAPAN)	15,080	1	1,715	6,327	-306	123	10,162	1	-0.6	
OTHER INTL EQUITIES	77,335	6		13,826	673	3	64,181	5	1.1	0.4
EMERGING MARKETS	1,422	0		1,103	49	3	368	0	7.4	
OTHER OVERSEAS	22,449	2	903	6,105	225	273	17,471	1	2.0	
UK GLOBAL	22,449	2	903	6,105	225	273	17,471	1	2.0	
GMO EMERGING MARKETS EQUITY	75,912	6		12,723	624		63,813	5	1.0	
TOTAL BONDS PLUS INDEX-LINKED	223,703	16			-2,299		221,404	16	-1.0	0.5
U.K. INDEX - LINKED	74,030	5			-1,808		72,222	5	-2.4	-2.4
POOLED BONDS	149,673	11			-490		149,182	11	-0.3	1.1
CASH/ALTERNATIVES	427,683	31	217,721	168,165	12,910	820	490,149	35	3.2	0.5
TOTAL CASH	22,468	2	216,919	168,165	-31	18	71,191	5	-0.1	
ALTERNATIVES	405,215	29	802		12,941	802	418,958	30	3.4	0.5
LGPS CIV Diversified Growth Fund (Class A	62,166	5			1,089		63,255	5	1.8	
LGPS CIV Global Equity Alpha Fund (Class A	281,213	20	802		12,131	802	294,146	21	4.6	
LCIV RF ABSOLUTE RETURN FUND	61,835	4			-278		61,557	4	-0.4	
TOTAL PROPERTY	137,281	10	7,187	5,118	1,674	1,262	141,024	10	2.1	2.3
TOTAL ASSETS	***1,379,183***	***100***	***255,961***	***252,161***	***16,162***	***4,507***	***1,399,145***	***100***	***1.5***	***0.9***

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

not invested in this area for the entire period

Summary of Long Term Returns

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end June 2017**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page summarises the long term returns at asset class level

	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----		1yr	3yrs	5yrs
Return %	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		% pa	% pa
UK Equities	*-1.2*	*0.4*	*4.7*	*-1.5*	*-5.7*	*4.0*	*-0.4*	*4.7*	*7.8*	*3.9*	*4.3*	*1.4*	*18.5*	*7.4*	*10.8*
N. America	*7.0*	*8.6*	*7.4*	*-5.4*	*-7.0*	*4.3*	*2.4*	*8.9*	*6.8*	*8.8*	*4.9*	*-0.5*	*21.4*	*15.8*	*14.6*
Europe ex UK	*-5.6*	*-2.7*	*10.4*	*-5.8*	*-9.2*	*10.8*	*0.5*	*3.1*	*9.4*	*8.5*	*5.0*	*3.3*	*28.9*	*8.7*	*15.8*
Pacific	*0.1*	*3.0*	*11.1*	*-4.9*	*-16.1*	*6.4*	*0.6*	*9.7*	*12.2*	*-0.4*	*8.7*	*-0.6*	*20.8*	*9.0*	*12.1*
Japan	*0.9*	*-4.0*	*18.5*	*-0.1*	*-8.5*	*14.6*	*-3.9*	*9.7*	*9.6*	*7.7*	*2.7*	*0.6*	*21.9*	*15.6*	*14.2*
Global Eq	*1.9*	*6.4*	*9.1*	*-4.9*	*-5.8*	*10.4*	*0.3*	*2.0 #*							
UK IL	*5.9*	*9.4*	*3.3*	*-3.3*	*2.3*	*-3.3*	*6.5*	*11.1*	*11.0*	*-3.0*	*2.0*	*-2.4*	*7.1*	*13.2*	*9.3*
Pooled Bonds	*1.2*	*0.8*	*0.1*	*-1.1*	*0.2*	*-0.3*	*0.4 #*	*-0.8 #*	*1.9*	*1.4*	*0.6*	*-0.3*	*3.7*		
Cash	*0.8*	*0.9*	*0.6*	*0.0*	*0.4*	*0.4*	*0.8*	*0.4*	*1.0*	*1.1*	*0.0*	*-0.1*	*1.9*	*2.1*	*1.2*
Alternatives	*2.0*	*2.4*	*4.0*	*-0.5*	*-3.8*	*1.4*	*0.3*	*2.7*	*9.8*	*3.3*	*5.8*	*3.4*	*24.0*	*10.4*	*8.9*
Curr Instr	*n/a*	*n/a*	*n/a*												
Property	*3.9*	*4.4*	*2.6*	*2.8*	*3.8*	*2.3*	*1.9*	*0.4*	*-0.8*	*1.7*	*2.5*	*2.1*	*5.6*	*9.5*	*8.8*
Total Assets	1.2	2.8	5.5	-2.4	-4.0	4.2	1.2	4.8	6.9	3.1	4.5	1.5	17.0	9.9	10.9

not invested in this area for the entire period

Rolling Years with Relative Risk - GMO World Equity

LONDON BOROUGH OF TOWER HAMLETS - GMO | **Periods to end June 2017**

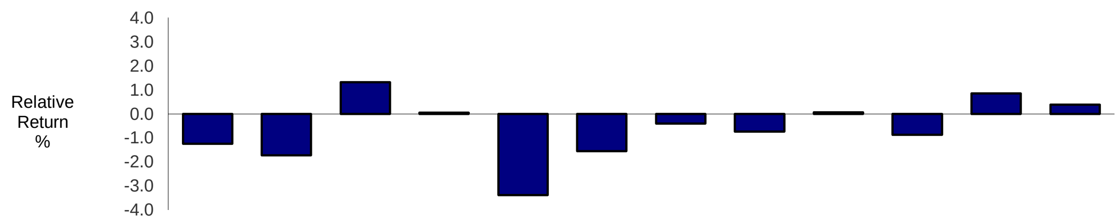
Benchmark - LB OF TOWER HAMLETS - GMO BM. | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

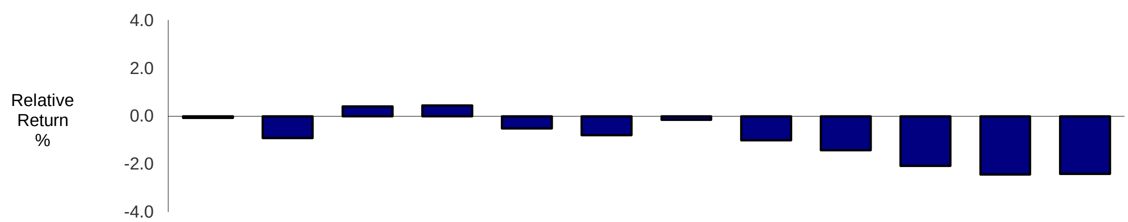
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Values (GBPm's)												
Initial	267.0	267.8	250.7	273.4	249.2	226.6	241.4	247.3	267.2	289.7	305.9	325.3
Net Investment	1.2	-18.8	1.0	-8.6	1.5	1.8	0.9	2.5	1.7	2.9	1.3	-47.3
Capital Gain/Loss	-0.4	1.7	21.6	-15.6	-24.1	13.0	5.0	17.4	20.8	13.4	18.1	0.0
Final	267.8	250.7	273.4	249.2	226.6	241.4	247.3	267.2	289.7	305.9	325.3	278.0
Income	1.3	1.9	1.0	2.1	1.5	1.5	1.2	2.4	1.8	2.4	2.0	2.4
Proportion Of Total Fund (%)	26	23	24	22	21	22	22	23	23	23	24	20

Quarterly Returns



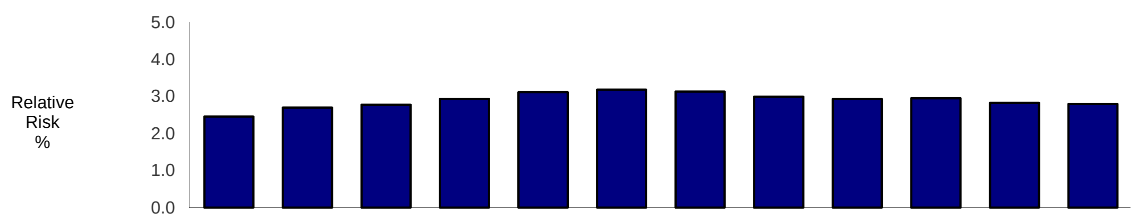
Fund	0.3	1.3	9.0	-5.1	-9.0	6.4	2.5	8.0	8.4	5.5	6.5	0.8
Benchmark	1.6	3.1	7.6	-5.1	-5.9	8.1	2.9	8.8	8.4	6.4	5.6	0.4
Relative Return	-1.2	-1.7	1.3	0.1	-3.4	-1.6	-0.4	-0.7	0.1	-0.9	0.9	0.4

Annualised Rolling 3 Year Returns



Fund	14.8	13.0	14.1	13.8	9.1	10.2	7.1	9.1	10.6	10.6	12.0	11.4
Benchmark	14.9	14.0	13.6	13.3	9.7	11.0	7.3	10.2	12.2	12.9	14.8	14.2
Relative Return	-0.1	-0.9	0.4	0.4	-0.5	-0.8	-0.1	-1.0	-1.4	-2.1	-2.4	-2.4

Rolling 3 Year Risk



Relative Risk	2.5	2.7	2.8	2.9	3.1	3.2	3.1	3.0	2.9	2.9	2.8	2.8
Information Ratio	-0.0	-0.3	0.1	0.2	-0.2	-0.3	-0.0	-0.3	-0.5	-0.7	-0.9	-0.9

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Equity Uk

LB OF TOWER HAMLETS - L&G | **Periods to end June 2017**

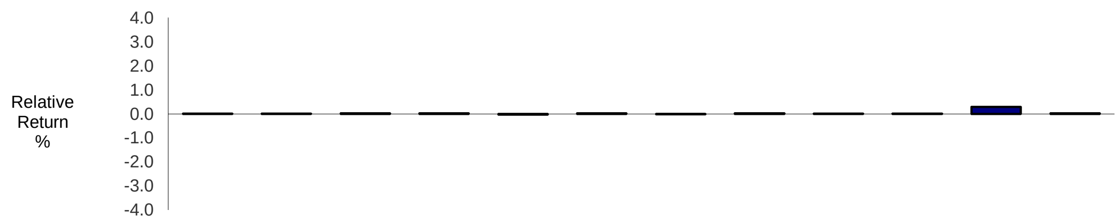
Benchmark - FTSE All Share TR | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

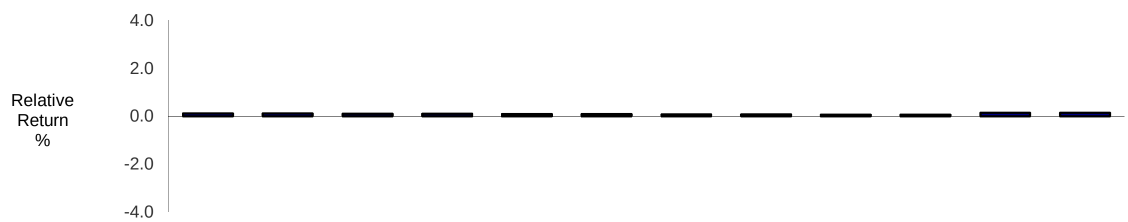
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Values (GBPm's)												
Initial	216.9	214.8	216.1	226.3	222.8	210.1	218.4	217.5	227.8	245.6	255.2	266.3
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-2.1	1.3	10.2	-3.5	-12.7	8.4	-0.9	10.3	17.8	9.6	11.0	3.8
Final	214.8	216.1	226.3	222.8	210.1	218.4	217.5	227.8	245.6	255.2	266.3	270.1
Income	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0
Proportion Of Total Fund (%)	20	20	20	20	20	20	19	19	19	19	19	19

Quarterly Returns



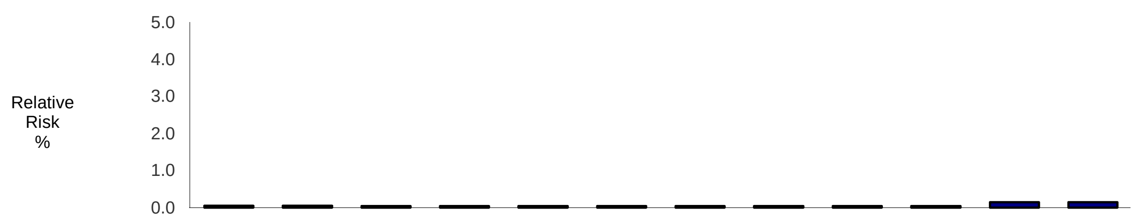
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund	-1.0	0.6	4.7	-1.5	-5.7	4.0	-0.4	4.7	7.8	3.9	4.3	1.4
Benchmark	-1.0	0.6	4.7	-1.6	-5.7	4.0	-0.4	4.7	7.8	3.9	4.0	1.4
Relative Return	0.0	0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	0.0	0.0	0.3	0.0

Annualised Rolling 3 Year Returns



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund	14.1	11.2	10.7	11.1	7.3	7.4	3.7	5.9	6.6	6.1	7.8	7.5
Benchmark	13.9	11.1	10.6	11.0	7.2	7.3	3.7	5.8	6.6	6.1	7.7	7.4
Relative Return	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Rolling 3 Year Risk



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Relative Risk	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Information Ratio	2.2	2.3	2.3	2.2	2.1	2.4	1.8	1.6	1.4	1.3	0.9	1.0

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford World Equity

LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO — **Periods to end June 2017**

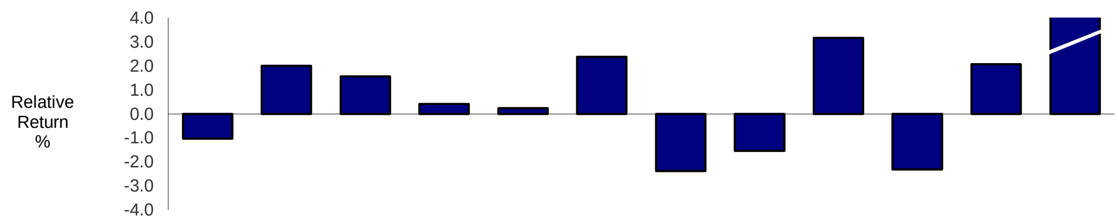
Benchmark - MSCI AC WORLD NDR — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

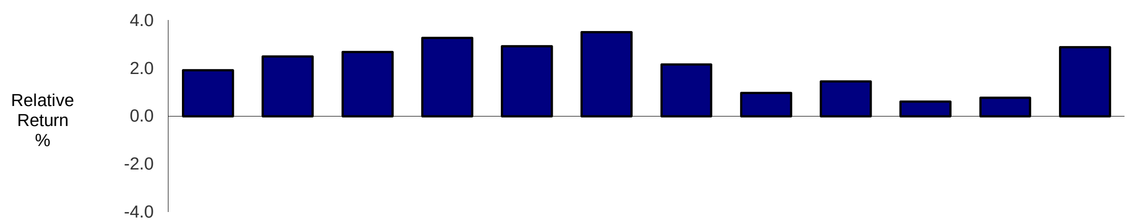
	----- 2014 -----		-------------- 2015 --------------				-------------- 2016 --------------				----- 2017 -----	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Values (GBPm's)												
Initial	183.6	187.3	199.4	217.7	200.8	189.3	209.2	209.9	224.4	251.5	261.4	281.2
Net Investment	0.1	0.1	0.1	-6.3	0.1	0.1	0.1	0.0	0.6	0.5	0.2	0.8
Capital Gain/Loss	3.5	12.1	18.1	-10.5	-11.7	19.8	0.6	14.5	26.5	9.4	19.7	12.1
Final	187.3	199.4	217.7	200.8	189.3	209.2	209.9	224.4	251.5	261.4	281.2	294.1
Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.5	0.8	0.8
Proportion Of Total Fund (%)	18	18	19	18	18	19	19	19	20	20	20	21

Quarterly Returns



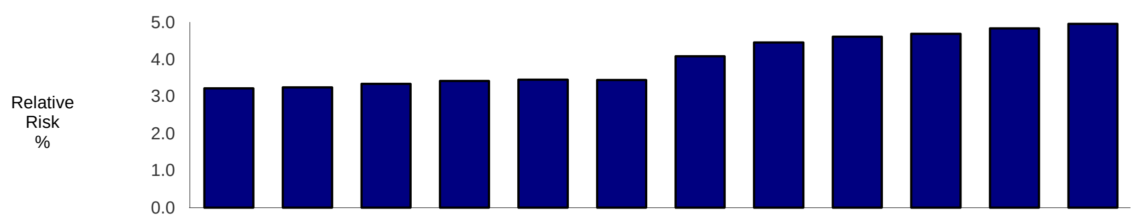
Fund	2.0	6.5	9.1	-4.9	-5.8	10.5	0.3	6.9	11.8	3.9	7.8	4.6
Benchmark	3.0	4.4	7.5	-5.3	-6.0	7.9	2.8	8.6	8.4	6.4	5.6	0.4
Relative Return	-1.0	2.0	1.6	0.4	0.2	2.4	-2.4	-1.5	3.2	-2.3	2.1	4.2

Annualised Rolling 3 Year Returns



Fund	17.3	16.8	16.5	16.6	12.4	15.2	9.8	11.6	14.8	14.4	16.5	18.2
Benchmark	15.1	13.9	13.5	12.9	9.2	11.3	7.5	10.6	13.2	13.7	15.6	14.9
Relative Return	1.9	2.5	2.7	3.3	2.9	3.5	2.2	1.0	1.4	0.6	0.8	2.9

Rolling 3 Year Risk



Relative Risk	3.2	3.2	3.3	3.4	3.4	3.4	4.1	4.5	4.6	4.7	4.8	5.0
Information Ratio	0.6	0.8	0.8	1.0	0.8	1.0	0.5	0.2	0.3	0.1	0.2	0.6

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Schroders UK Property

LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT. — **Periods to end June 2017**

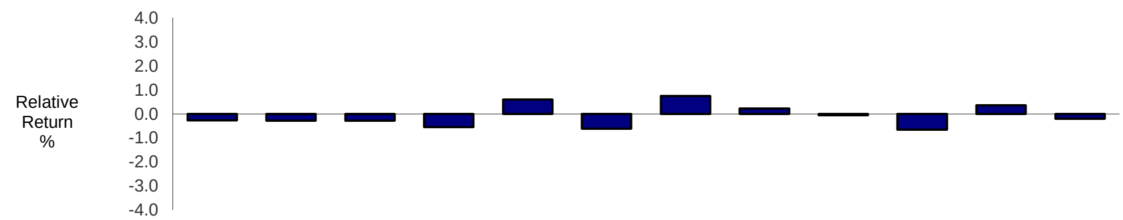
Benchmark - London Borough of Tower Hamlets - Schroders — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

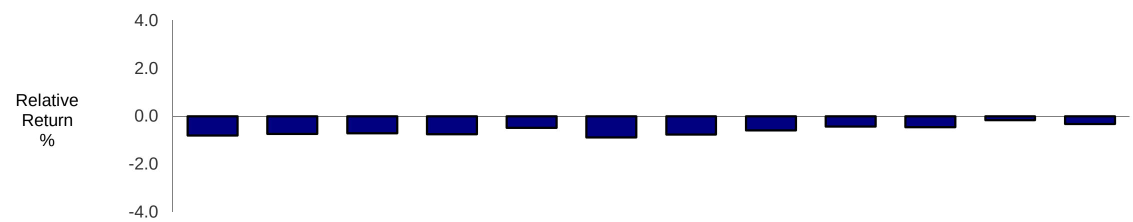
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Values (GBPm's)												
Initial	110.1	114.3	119.2	122.2	125.6	130.1	133.0	135.4	135.9	134.9	137.0	140.3
Net Investment	1.0	1.0	0.9	0.9	0.9	0.9	0.9	1.0	1.2	1.0	1.1	1.3
Capital Gain/Loss	3.2	3.9	2.1	2.4	3.6	2.0	1.5	-0.5	-2.2	1.1	2.2	1.7
Final	114.3	119.2	122.2	125.6	130.1	133.0	135.4	135.9	134.9	137.0	140.3	143.2
Income	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.2	1.0	1.1	1.3
Proportion Of Total Fund (%)	11	11	11	11	12	12	12	11	11	10	10	10

Quarterly Returns



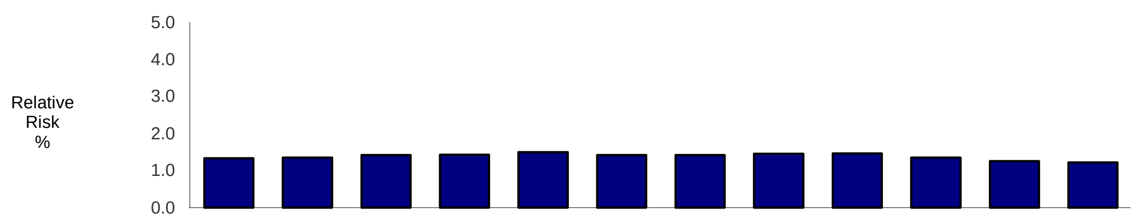
Fund	3.7	4.3	2.5	2.8	3.6	2.2	1.8	0.4	-0.7	1.6	2.4	2.1
Benchmark	4.0	4.6	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3	2.0	2.3
Relative Return	-0.3	-0.3	-0.3	-0.5	0.6	-0.6	0.7	0.2	-0.1	-0.7	0.4	-0.2

Annualised Rolling 3 Year Returns



Fund	6.6	7.8	8.6	9.7	11.1	11.9	12.1	11.8	10.9	10.1	10.0	9.1
Benchmark	7.4	8.6	9.4	10.6	11.7	12.9	13.0	12.5	11.4	10.7	10.2	9.5
Relative Return	-0.8	-0.7	-0.7	-0.7	-0.5	-0.9	-0.8	-0.6	-0.4	-0.5	-0.2	-0.3

Rolling 3 Year Risk



Relative Risk	1.3	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.5	1.3	1.3	1.2
Information Ratio	-0.6	-0.5	-0.5	-0.5	-0.3	-0.6	-0.5	-0.4	-0.3	-0.3	-0.1	-0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Index Linked

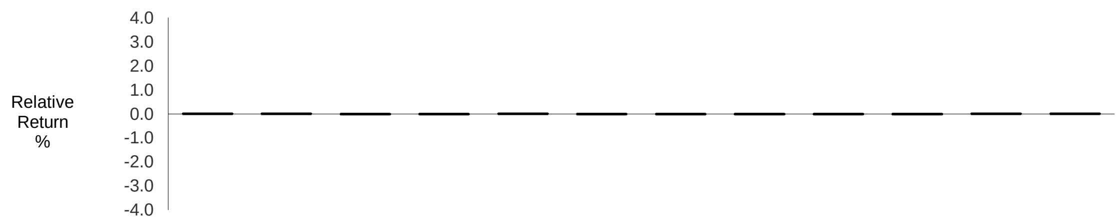
LB OF TOWER HAMLETS - L&G	Periods to end June 2017
Benchmark - FTSE UK GILTS INDEXED > 5 YRS	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

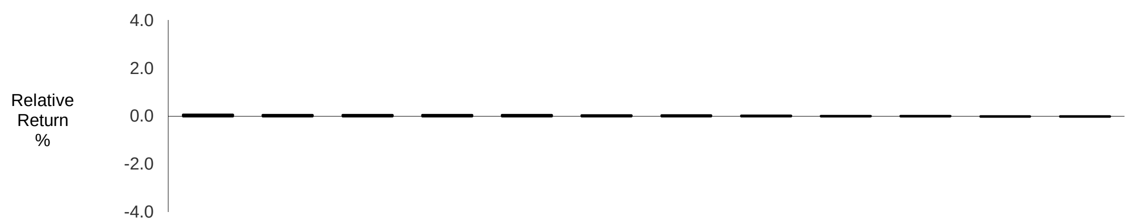
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Values (GBPm's)												
Initial	49.7	52.7	57.7	59.5	57.6	58.9	57.0	60.7	67.4	74.8	72.6	74.0
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	3.0	5.0	1.9	-2.0	1.3	-1.9	3.7	6.7	7.4	-2.2	1.4	-1.8
Final	52.7	57.7	59.5	57.6	58.9	57.0	60.7	67.4	74.8	72.6	74.0	72.2
Income	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0
Proportion Of Total Fund (%)	5	5	5	5	5	5	5	6	6	6	5	5

Quarterly Returns



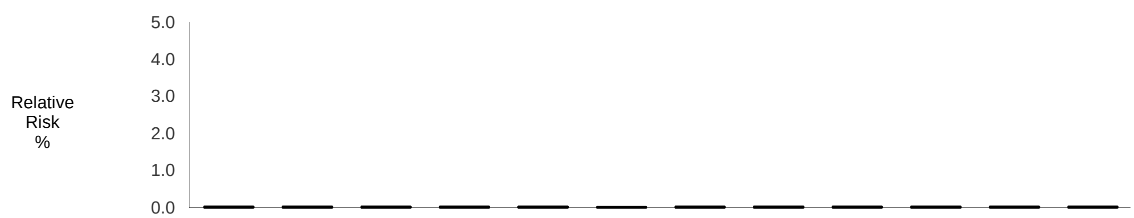
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	10.9	-3.0	2.0	-2.4
Benchmark	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0	2.0	-2.4
Relative Return	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0

Annualised Rolling 3 Year Returns



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund	7.2	7.1	9.0	7.5	9.4	6.5	5.6	12.2	16.0	15.2	14.6	13.2
Benchmark	7.1	7.0	8.9	7.4	9.4	6.4	5.6	12.2	15.9	15.2	14.6	13.2
Relative Return	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0

Rolling 3 Year Risk



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Relative Risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Information Ratio	2.8	2.7	2.7	2.2	2.3	1.9	1.3	1.1	0.5	0.2	-0.1	-0.1

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford Divers Growth

LB OF TOWER HAMLETS - BAILLIE GIFFORD & CO — **Periods to end June 2017**

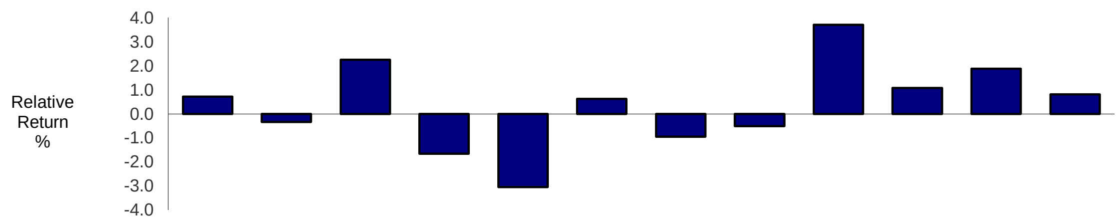
Benchmark - BANK OF ENGLAND BASE RATE + 3.5% — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

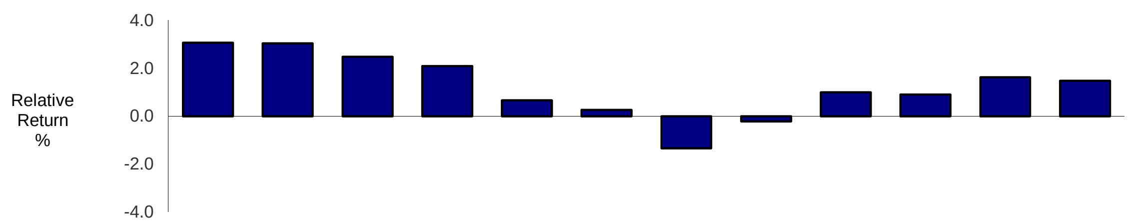
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Values (GBPm's)												
Initial	47.9	48.8	49.1	50.7	56.7	55.5	56.4	56.3	56.6	59.3	60.5	62.2
Net Investment	0.0	0.0	0.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Capital Gain/Loss	0.8	0.3	1.6	-0.5	-1.2	0.9	-0.1	0.3	2.7	1.2	1.4	1.1
Final	48.8	49.1	50.7	56.7	55.5	56.4	56.3	56.6	59.3	60.5	62.2	63.3
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.3	0.0
Proportion Of Total Fund (%)	5	5	4	5	5	5	5	5	5	5	5	5

Quarterly Returns



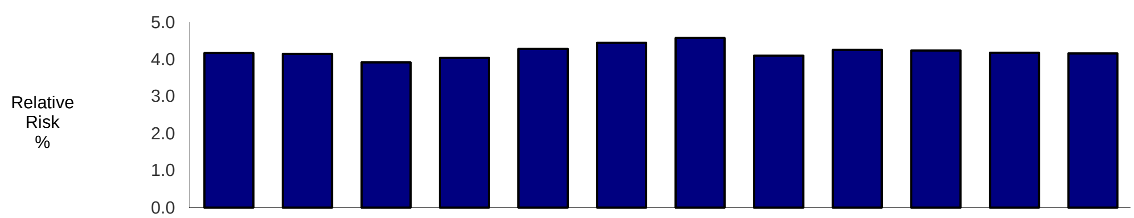
Fund	1.7	0.6	3.3	-0.7	-2.1	1.6	0.0	0.5	4.7	2.0	2.8	1.8
Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Relative Return	0.7	-0.3	2.3	-1.7	-3.0	0.6	-1.0	-0.5	3.7	1.1	1.9	0.8

Annualised Rolling 3 Year Returns



Fund	7.2	7.2	6.6	6.2	4.7	4.3	2.6	3.8	5.0	4.9	5.6	5.5
Benchmark	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9	3.9
Relative Return	3.1	3.0	2.5	2.1	0.7	0.3	-1.3	-0.2	1.0	0.9	1.6	1.5

Rolling 3 Year Risk



Relative Risk	4.2	4.1	3.9	4.0	4.3	4.4	4.6	4.1	4.3	4.2	4.2	4.2
Information Ratio	0.7	0.7	0.6	0.5	0.2	0.1	-0.3	-0.1	0.2	0.2	0.4	0.4

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Ruffer

LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD — Periods to end June 2017

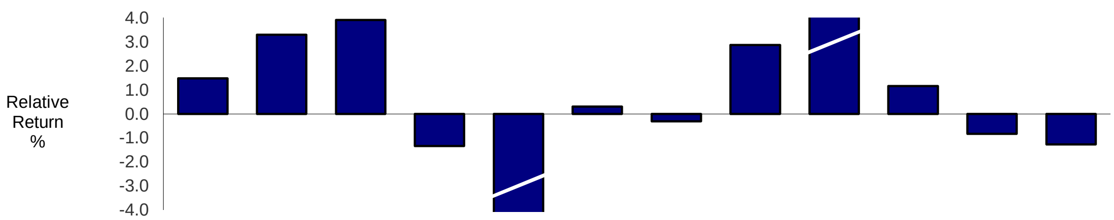
Benchmark - GBP 3 MONTH LIBOR + 3% — Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

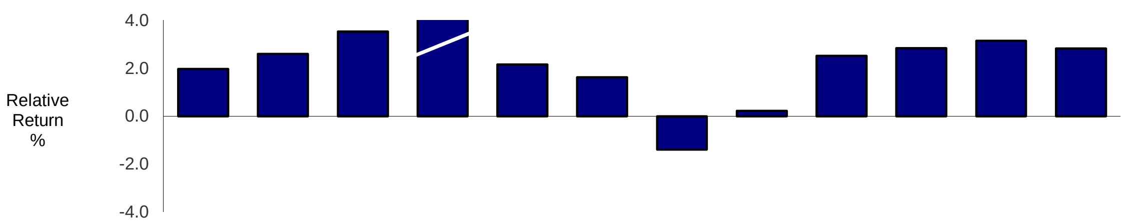
	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Values (GBPm's)												
Initial	45.3	46.3	48.3	50.6	56.8	53.7	54.3	54.6	56.7	60.6	61.8	61.8
Net Investment	0.0	0.0	0.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Capital Gain/Loss	1.1	1.9	2.3	-0.3	-3.1	0.6	0.3	2.1	3.9	1.2	-0.2	-0.3
Final	46.3	48.3	50.6	56.8	53.7	54.3	54.6	56.7	60.6	61.8	61.8	61.6
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Proportion Of Total Fund (%)	4	4	4	5	5	5	5	5	5	5	4	4

Quarterly Returns



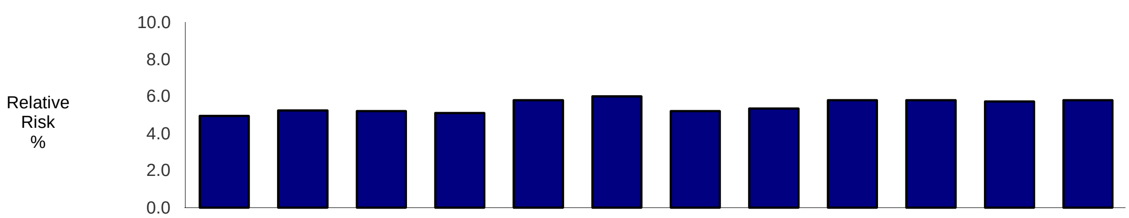
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund	2.4	4.2	4.8	-0.5	-5.5	1.2	0.6	3.8	6.9	2.0	0.0	-0.4
Benchmark	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Relative Return	1.5	3.3	3.9	-1.3	-6.3	0.3	-0.3	2.9	6.0	1.2	-0.8	-1.3

Annualised Rolling 3 Year Returns



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund	5.7	6.3	7.2	8.2	5.8	5.2	2.1	3.8	6.2	6.5	6.8	6.5
Benchmark	3.7	3.6	3.6	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.5	3.5
Relative Return	2.0	2.6	3.5	4.5	2.2	1.6	-1.4	0.2	2.5	2.8	3.1	2.8

Rolling 3 Year Risk



	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Relative Risk	4.9	5.2	5.2	5.1	5.8	6.0	5.2	5.3	5.8	5.8	5.7	5.8
Information Ratio	0.4	0.5	0.7	0.9	0.4	0.3	-0.3	0.0	0.4	0.5	0.5	0.5

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk

LONDON BOROUGH OF TOWER HAMLETS - GOLDMAN SACHS ASSET MGMT | **Periods to end June 2017**
Benchmark - GBP 3 MONTH LIBOR +4% | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Values (GBPm's)												
Initial								0.0	74.2	76.5	77.6	77.9
Net Investment								74.8	0.0	0.0	0.0	0.0
Capital Gain/Loss								-0.6	2.3	1.1	0.4	-0.2
Final								74.2	76.5	77.6	77.9	77.8
Income								0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)								6	6	6	6	6

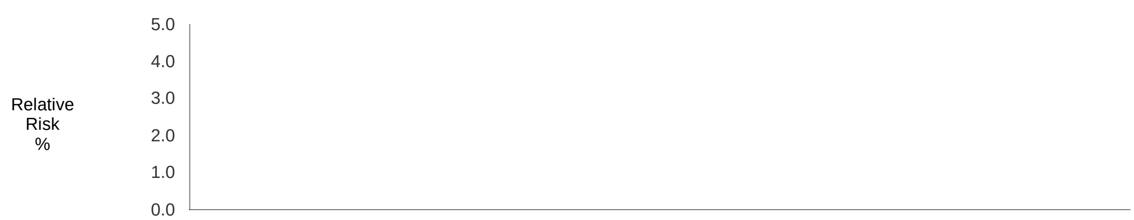
Quarterly Returns

	Q3 2014	Q4	Q1 2015	Q2	Q3	Q4	Q1 2016	Q2	Q3	Q4	Q1 2017	Q2
Fund									3.1	1.4	0.5	-0.2
Benchmark									1.1	1.1	1.1	1.1
Relative Return									2.0	0.3	-0.6	-1.3

Annualised Rolling 3 Year Returns

Fund
Benchmark
Relative Return

Rolling 3 Year Risk



Relative Risk
Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk

LB OF TOWER HAMLETS - INSIGHT INVESTMENTS — **Periods to end June 2017**

Benchmark - GBP 3 MONTH LIBOR +4% — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	----- 2014 -----		--------------- 2015 ---------------				--------------- 2016 ---------------				----- 2017 -----	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Values (GBPm's)												
Initial									0.0	70.2	71.2	71.7
Net Investment									70.0	0.0	0.0	0.0
Capital Gain/Loss									0.2	1.0	0.6	-0.3
Final									70.2	71.2	71.7	71.4
Income									0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)									6	5	5	5

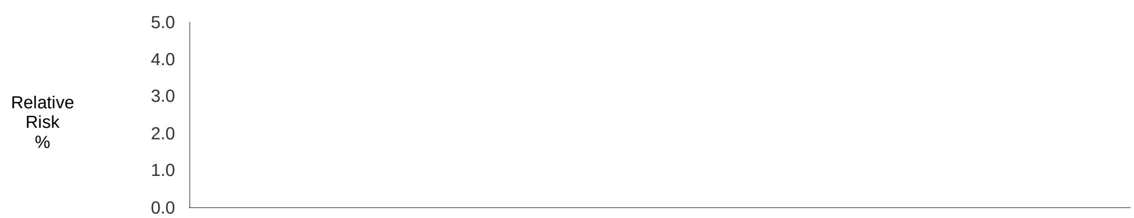
Quarterly Returns

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fund										1.4	0.8	-0.4
Benchmark										1.1	1.1	1.1
Relative Return										0.3	-0.3	-1.5

Annualised Rolling 3 Year Returns

Fund
Benchmark
Relative Return

Rolling 3 Year Risk



Relative Risk
Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Non-Executive Report of the: **Pensions Committee** 21st September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted

Risk Register, Risk Management & Internal Controls Policy

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

Summary

This report and the appendix set out the Risk Management Policy for the London Borough of Tower Hamlets Pension Fund. It also includes the Risk Register and approach to internal controls in respect of the Pension Fund. The Committee is required to review and approve both of these on an annual basis.

Recommendations

The Pensions Committee is recommended:

- to adopt the Risk Register; and
- to approve the Risk Management Policy and note the key internal controls.

1. REASONS FOR THE DECISION

1.1 The terms of reference for the Pension Committee set out a broad range of functions relating to the administration of the Pension Fund, including the function of acting as trustee of the Pension Fund within the terms of the statutory scheme.

1.2 The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed on this area in accordance with both the CIPFA guidance and recognises the increased role of the Pensions Regulator following the Public Service Pensions Act 2013.

1.3 The Policy coming before Pensions Committee for approval helps to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.

2. ALTERNATIVE OPTIONS

2.1 Not setting a policy in respect of risk management for the Pension Fund potentially exposes the Fund and the Council to action by The Pensions Regulator.

3. DETAILS OF REPORT

3.1 The Risk Policy set out in an appendix to this report details the risk management strategy of the Pension Fund. It covers the approach to risk management and the procedures that are adopted in respect of risk management.

3.2 The Policy sets out the aims and objectives for the management of risk. It, also recognises that risks cannot be entirely removed from the management of the Pension Fund because of the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks, where appropriate, and the monitoring of risk on an ongoing basis.

3.3 The appendix also sets out key internal controls identified. It is not an exhaustive list; however it forms the basis of some of the internal controls in place to manage the Fund on a day to day basis. The Public Service Pensions Act 2013 has added provisions from the Pensions Act for Public Service Schemes 2004 which require that internal control procedures are in place to ensure that the scheme is administered in accordance with regulations and scheme rules. In addition TPR's Code of Practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. TPR also has powers to issue improvement notices where it is considered that the requirements relating to internal controls are not being adhered to.

3.4 The Pensions Committee act as quasi Trustees to the London Borough of Tower Hamlets Pension Fund and therefore have the responsibility for the strategic management of the assets of the Fund and the administration of benefits. As quasi trustees their overriding duty is to ensure the best possible outcomes for the Pension Fund, its participating employers and scheme members. Within their Governance role, it is therefore important for Committee Members to understand the risks involved in the management of the Pension Fund and the actions put in place to mitigate those risks where possible.

3.5 Risk management of the Pension Fund needs to ensure the identification, analysis and economic control of opportunities and risks that challenge the assets, reputation or objectives of the Fund. Effective risk management enables the Pensions Committee to manage strategic decisions to safeguard the wellbeing of all stakeholders in the Pension Fund and increase the likelihood of achieving the Fund's objectives.

3.6 The effective management of risk is also an area which is covered within the CIPFA Knowledge and Skills framework recognising the importance that those charged with governance have an understanding of the risks that could impact on the Pension Fund and the steps that can be taken to mitigate such risks.

3.7 The new Pension Fund Risk Register, included in Appendix 2 to this report, highlights the key risks that face the Pension Fund and the measures that can and have been put in place to control those risks. There are some risks, such as increased longevity that are difficult to assess and potentially control but that does not mean that they should be ignored.

3.8 Risk can be classified as having two dimensions that need to be assessed to determine the magnitude of the risk;

- Likelihood – the possibility that a risk will occur; and
- Impact – the consequences if the risk were to occur.

3.9 Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund in improved financial performance, better delivery of services, improved Fund governance and compliance. Reviewing the risk register on an annual basis, as a minimum, ensures that the Committee is able to fulfil its governance of the Pension Fund.

3.10 There are four general approaches to the treatment of risk: avoid by not engaging in an activity; reduce by the use of appropriate controls; transfer to an external party such as through the use of insurance or acceptance of risk by acknowledging that such risks cannot be avoided.

3.11 Broadly the types of risk that the Fund is exposed to fall into the following broad categories:

1) Financial – These relate to insufficient funding to meet liabilities, loss of money, poor financial monitoring with the consequence being the requirement for additional funding from the Council and other employers.

2) Strategic – Failure to meet strategic objectives, such as performance targets, Funding Strategy Statement objectives.
3) Regulatory – Regulatory changes, failure to comply with legislation, to meet statutory deadlines.
4) Reputational – Poor service damaging the reputation of the Fund.
5) Operational – Data maintenance, service delivery targets.
6) Contractual – Service providers, failure to deliver, effective management of contracts.
7) Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

3.12 The risks in respect of the Pension Fund form part of the Council's broader risk register. The risk register is designed to be a tool to effectively identify, prioritise, manage and monitor risks for the Fund. The register allows each risk to be given a value depending on the likelihood of occurrence and the impact that it may have.

3.13 The Risk Register for the Pension Fund set out in the Appendix 1 of this report. It shows the Committee the nature of the individual risks for the Fund, with matrix showing whether the risk fall into:

- High risk (red) – need for early action / serious concern / intervention where feasible;
- Medium risk (amber) – action is required in the near future / significant concern;
- Moderate risk (yellow) – risk to be kept under regular monitoring / consequences of risk are of some concern; or
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

3.14 Where a risk has been categorised as high, controls have been put in place with the hope of mitigating the risk. In a number of cases, there are high risks over which the Fund can have little control or put sufficient mechanisms in place to negate such risks.

3.15 Looking at the high risk areas for the Pension Fund and for the Council as an employer, the key high pension risks are:

a. Increasing longevity – People living longer and therefore drawing pension benefits for longer than was anticipated at the time the Scheme was set up. This impacts on the costs of managing the Scheme and whilst this is clearly a risk the Fund is unable to control, by monitoring the longevity profile of the Fund, it is able to anticipate and plan for future cost increases. Increasing longevity is one of the factors which is being addressed to a certain extent in the Scheme by a linking the Scheme retirement age to rise in line with the State Pension Age. This will see retirement ages rise to 66 in 2020 and 68 by the mid 2030's with further rises over time to match rising longevity. In addition, new measures to introduce a cost cap for employers' contributions will be introduced and as such there is likely to be a mechanism for future increased longevity to be covered under the cost cap. However, this risk remains high as this will only cover scheme members who have not yet reached retirement age and does not affect those whose pensions are already in payment, although it is recognised that over time this risk may gradually decrease as steps are put in place at a national level to offset some of this risk.

b. Asset/Liability Mismatch – Assets could fail to keep pace with a growth in the liabilities of the Pension Fund resulting in additional costs for employers participating in the Fund. Whilst the actuarial valuation 2016 saw strong asset growth by almost £200m since the 2013 valuation, liabilities also grew.

c. Investment Performance – Poor performance from either the Fund's investment managers or from the asset classes the Fund invests could result in investment returns being below expectations. Performance monitoring should assist in providing warning signals to take action where necessary to terminate a manager or exit an asset class. A number of the Fund's managers continue to have good performance in 2016/17 and markets remained volatile.

d. Poor membership data – This has a high risk rating due to the introduction of the 2014 career average revalued earnings (CARE) scheme means that it is crucial to have accurate contributions data for employees on an annual basis. Previously pension benefits were calculated on a final salary basis, but from April 2014, benefits are now based on a person's annual pensionable pay and revalued each year in line with increases in the CPI. Consequently a scheme members pay data needs to be highly accurate in order to avoid over or under benefit accrual. Some of these changes have proved very difficult for both employers and payroll providers and the administrators are heavily reliant on receiving accurate data from employers. In addition, the Pensions Regulator play a bigger role in monitoring the LGPS and the Fund will be required to submit information about the quality of its data to the Regulator and could face sanctions for poor data.

e. Regulatory – This risk is highly rated, within this risk there are two types of regulatory risk i.e. failure to comply with regulations and regulatory changes introducing new types of risk. Whilst the new Scheme has been introduced, the Fund continues to face a significant period of regulatory changes with the introduction of the Scheme Advisory Board, Local Pension Boards, MiFID II, a greater role for the Pensions Regulator. It is clear that the LGPS is facing a period of considerable challenge and change and these are likely to have a major impact on the way the LGPS operates.

f. Failure to manage costs – This is another risk which has seen its rating increase following a review. This is also interwoven with the regulatory risks. As government consultations indicate that they believe that cost savings from investment management and a move to passive alone could achieve savings. This along with ongoing austerity measures in local government mean that LGPS will face considerable pressure to deliver cost savings over the next few years. It is also clear that greater transparency amongst LGPS will also force Funds to look more closely at value for money options.

g. Pension Funding Risk – This remains a risk for the Fund over the medium/longer term given the need to close the funding gap. Whilst the funding position improved at the 2016 valuation and the latest funding update (March 2017) indicates a further improvement since then, there remain significant issues to closing the funding gap. The Committee has put in place a de-risking strategy to ensure that should opportunities arise to reduce risk at pre-defined levels, it is in a position to take action. However, additional pressures in the form of the outcomes from austerity measures resulting in reduced workforce in the LGPS are likely to add to this risk.

h. Wider Pension Reforms – whilst these also form part of the regulatory risks, it is worth bringing this in as a separate high risk category for the Pension Fund given forthcoming changes both in the shape of 'Freedom & Choice' and also the moves to the single tier state pension and the ending of contracting out of the second state pension. Whilst the new freedoms around the choice of accessing pension benefits from 55 apply to defined contribution (DC) schemes, there is the potential for scheme members to transfer their LGPS benefits to a DC arrangement and access benefits early and also take larger proportion of their pension pot as cash. Depending on numbers accessing this option, the Fund could see significant cash transferred out to DC arrangements. Whilst the liabilities would also reduce, it could also increase the maturity of the Fund and ultimately impact on the asset allocation decisions for the Fund. In addition the move to the single tier pension and the ending of contracting-out means that both employees and employers could see their costs increase as a result.

i. Accounts deadline – This is a wider financial services risk, due to the need to bring forward the accounts closedown timetable by one month to the end of May. As the Pension Fund Accounts form part of the Council's main accounts, this will also require the Pension Fund accounts to meet the earlier deadline for closedown, with the Fund heavily reliant on external providers to provide a considerable amount of the information necessary for the accounts.

3.16 All risks are regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible. An annual review of the Risk Register has been included within the business plan for the Pension Fund and this report will therefore continue to be a regular feature so that the Committee understands the risks involved in managing the Pension Fund and is able to therefore to make informed decisions.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 There are no direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Committee. Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund or of the Council.

4.2 There are clearly some risks which would be difficult to transfer or manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on other aspects of the decision making process to lower risks elsewhere.

5. LEGAL COMMENTS

5.1 Section 249B of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed:-
(a) in accordance with the scheme rules, and
(b) in accordance with the requirements of the law
Internal controls are defined in the Act as:-
(a) arrangements and procedures to be followed in the administration and management of the scheme,
(b) systems and arrangements for monitoring that administration and management, and
(c) arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.
The Pensions Regulator is required to issue a code of practice for this under section 90A of the Pensions Act 2004. The Pensions Regulator has issued such a code. In accordance with the Code, identified risks should be recorded in a risk register and should be reviewed regularly. Paragraph 105 of the Code states that:-
"Scheme managers must establish and operate internal controls. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary". The Risk Register, Risk Management & Internal Controls Policy which is the subject of this report is designed to ensure compliance with the Council's statutory duties with regard to managing risks related to the administration and management of the Pension Fund.

5.2 In fulfilling its duties as administrator of the LB Tower Hamlets Pension Fund, 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 Any costs associated with meeting the policy and related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.

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 costs of not adhering to either the legislation or indeed applying best practice could be significantly higher and pose risks to the financial management of the Pension 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 Lack of robust governance inevitably involves a degree of risk.

9.2 Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

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
- Appendix Y – Risk Management Policy and Internal Controls
- Appendix Y1 – Risk Register

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
- The Pensions Act 2004
- The Pensions Regulator's Code of Practice
- The CIPFA Guidance

Officer contact details for documents:
- Bola Tobun Investment &Treasury Manager x4733

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LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

Appendix Y

RISK MANAGEMENT POLICY

July 2017

RISK POLICY

Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets ("we") recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the London Borough of Tower Hamlets Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants;
- around 20 employers; and
- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Tower Hamlets Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;
- minimise loss and damage to the Tower Hamlets Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and the Pensions Regulator Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> *"**249B Requirement for internal controls: public service pension schemes***
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
> *(a) in accordance with the scheme rules, and*
> *(b) in accordance with the requirements of the law.*
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*

(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme;
- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Tower Hamlets Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

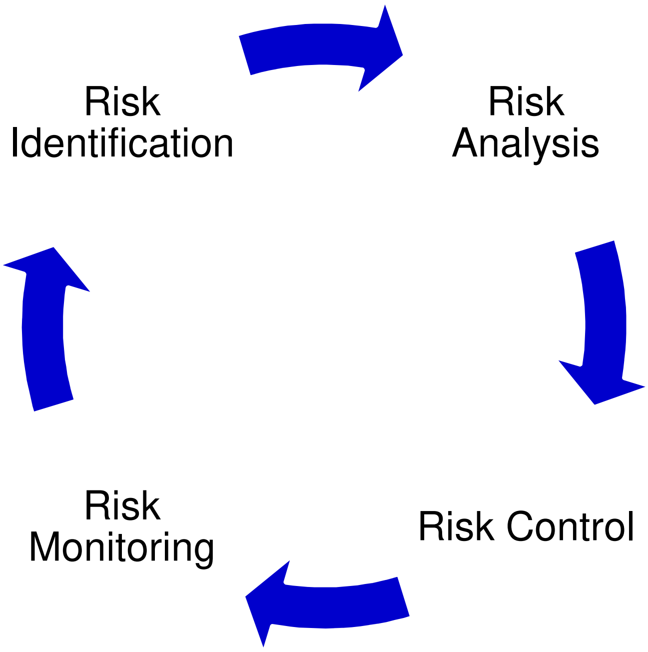
Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification

Our risk identification process is a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Tower Hamlets Pension Fund Officers and Advisers Panel;
- performance measurement against agreed objectives;
- monitoring against the Fund's business plan;

- findings of internal and external audit and other adviser reports;
- feedback from the local Pension Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Potential impact if risk occurred						
	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Tower Hamlets Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix);
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report;
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion; and
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, with the assistance of the Tower Hamlets Pension Fund Officers and Advisers Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All training costs related to this Risk Policy are met directly by Tower Hamlets Pension Fund

Approval, Review and Consultation

This Risk Policy tabled at the September 2017 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Bola Tobun – Investment & Treasury Manager,
London Borough of Tower Hamlets
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Telephone – 020 7364 4733

Appendix A – Key Internal Control Measures

Measures	Control Objective	Description of Control Procedures
Authorising and processing transactions	Benefits payable are calculated in accordance with the Regulations and are paid on a timely basis	▪ Fully tested and regularly audited administration system for automated calculations. Checking of calculations and other processes is carried out. ▪ Procedures to ensure appropriate authority in place prior to processing payments.
Maintaining financial and other records	Member records are up-to-date and accurate	▪ Annual and monthly reconciliation of information supplied by employers and administration records. Reconciliation of member movements ▪ Pensioner existence checks carried out every 2 to 3 years ▪ Members provided with annual benefit statements and asked to confirm if any details are incorrect
	All cash flows and transactions are recorded in the correct period	▪ Accounting journals are automatically created as part of the workflow system. ▪ Regular bank reconciliations and cash flow forecasting are carried out ▪ The administration records and treasury/accounting records are regularly reconciled
Safeguarding assets	Member, employer and Fund information is appropriately stored to ensure security and protection from unauthorised access.	▪ Password security in place and enforced ▪ Access to member and Fund data restricted to authorised personnel ▪ Member correspondence scanned and stored in secure systems
	Cash is safeguarded and payments are suitably authorised and controlled	▪ Separate bank account maintained for the Fund ▪ Access controlled and authentication required. Cash movements recorded daily ▪ Regular bank reconciliations carried out and pensioner payroll reconciled each pay period

		▪ Pensioner existence checks are carried out every 2 to 3 years, annually if overseas and all pensioners paid only by BACs.
	Investment purchases and sales are correctly recorded and valuations are correct	▪ Regular reconciliation of information provided by fund managers and custodian and Fund's records ▪ Assets held separately from LB Tower Hamlets by Custodian. ▪ Only authorised individuals, within specified signing limits can instruct / disinvest funds. ▪ All investment/disinvestment instructions are drafted by investment managers and advice taken from Fund's investment advisers prior to authorisation and action
Monitoring compliance	Contributions are received in accordance with the Regulations and rate and adjustments certificate	▪ Payment dates monitored against expected / due dates and late payments notified ▪ Employer contributions reconciled annually against Rates and Adjustments Certificate ▪ Member contributions regularly reconciled against pay data received ▪ Take up of the 50/50 option monitored and compared to contributions received ▪ Rates and Adjustments Certificate updated as required when exit valuations carried out
	Outsourced activities are properly managed and monitored	▪ Monthly report provided by pension administration team or third party administrator, including a report on performance against the SLA. ▪ Monthly meetings between pension administration team, or third party administrator and Tower Hamlets Council officers and quarterly reporting to Pensions Committee. ▪ All suppliers subject to regular review as part of tender and appointment process. ▪ Annual monitoring of suppliers at Pensions Committee.
Reporting to stakeholders	Reports to members and employers are accurate,	▪ Detailed planning of annual benefit statement exercise and testing carried out in advance

	complete and within required timescales Annual reports and accounts are prepared in accordance with regulations and guidance Regulatory reports are made if needed	▪ Timetable agreed for production of annual report and accounts, in consultation with auditors. Analytical reviews carried out regularly during the year. ▪ Policies in place to ensure all staff aware of regulatory requirements relating to whistleblowing, money laundering and bribery ▪ Reports to regulatory authorities such as SAB and DCLG provided in a timely manner.
Information technology	Access is restricted to authorised individuals and tightly controlled	▪ Access to Council offices and IT systems restricted to authorised individuals. ▪ Password security protocols in place and enforced ▪ Any changes to user details or access rights require authorisation
	Appropriate measures are implemented to counter the threat from malicious electronic attach	▪ Antivirus software used and updated regularly and firewalls in place ▪ IT security reviews carried out regularly by external experts ▪ Filters in place to manage email spam and viruses. Protocols in place to block certain emails (size or content)
	IT processing is authorised appropriately and exceptions identified and resolved in a timely manner	▪ All IT processes documented and monitored ▪ Changes to systems can only be made by authorised staff
	Data transmission is complete, accurate, timely and secure	▪ Secure file transfer protocols available for transmitting data externally ▪ Sensitive date transmitted via encrypted or password protected email ▪ All staff trained on data security protocols
	Measures are in place to ensure continuity Measures are in place to ensure continuity	▪ Data and systems backed up regularly, retained off-site and regularly tested for recoverability ▪ Business continuity arrangements in place and regularly tested
	Physical IT equipment maintained in a controlled environment	▪ IT infrastructure rooms protected against fire, power failure and unauthorised access ▪ Offset data centre has appropriate security measures in place ▪ IT asset register maintained

		▪ Laptops and mobile devices encrypted or password protected
Maintaining and developing systems hardware and software	Development and implementation of new systems, applications and software or changes to existing systems are authorised, tested and approved	▪ Project controls in place prior to agreeing system update ▪ Test administration system environment used for developing system updates ▪ Appropriate authorisation required before updates are made live after functionality and user acceptance testing
	Data migration or modification tested and reconciled back to data source	▪ Change management procedures in pace for any data migration or modification ▪ Scheme data reconciliations carried out as part of process
Recovery from processing interruptions	Data and systems are regularly backed up, retained offsite and regularly tested for recoverability	▪ Servers are replicated to an offsite datacentre or backed up to tapes daily and taken to an offsite data storage facility. ▪ Recoverability testing is undertaken on a regular basis
	IT hardware and software issues monitored and resolved in a timely manner	▪ Group IT Service Desk facility to log all incidents with prioritisation ▪ Service is monitored against Service Level Agreements
Appropriate governance	The Fund is managed with appropriate direction and oversight by the Pensions Committee	▪ Business plan in place and updates provided to each Pensions Committee ▪ All key strategies and policies in place and regularly reviewed by Pensions Committee ▪ Update reports to each Pensions Committee highlighting progress against key objectives ▪ Risk management policy in place and regular updates to Pensions Committee ▪ Local Pension Board in place and providing assistance with compliance

Colour	Risk Level
	Low
	Moderate
	High
	Very High

Tower Hamlets Pension Fund Risk Register

Potential impact if risk occurred

5 Catastrophic	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Insignificant	1	2	3	4	5
	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

Risk Level	Impact	Probability
Level 1	Insignificant	Rare
Level 2	Minor	Unlikely
Level 3	Moderate	Moderate
Level 4	Major	Likely
Level 5	Catastrophic	Almost Certain

Risk Owners	
ITM	Investment & Treasury Manager
PAM	Pensions Administration Manager
PC/PB	Pensions Committee/Pensions Board
DDoFPA	Divisional Director Finance, Procurement & Audit
CC	Committee Clerk

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
		GOVERNANCE	
1	GOV1	Pension Fund Objectives are not defined and agreed leading to lack of focus of strategy to facilitate the aims of the LGPS.	3
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	16
3	GOV3	Members have insufficient knowledge of regulations, guidance and best practice to make good decisions.	12
4	GOV4	Member non-attendance at training events.	8
5	GOV5	Officers lack the knowledge and skills required to effectively advise elected members and/or carry out administrative duties.	4
6	GOV6	Committee members have undisclosed conflicts of interest.	3
7	GOV7	The Committee's decision making process is too rigid to allow for the making of expedient decisions leading to an inability to respond to problems and/or to exploit opportunities.	4
8	GOV8	Known risks not monitored leading to adverse financial, reputational or resource impact.	4
9	GOV9	Failure to recognise new Risks and/or opportunities.	4
10	GOV10	Weak procurement process leads to legal challenge or failure to secure the best value for the value when procuring new services.	5
11	GOV11	Failure to review existing contracts means that opportunities are not exploited.	8

Risk No	Cat Ref	Risk	Risk Ranking
		INVESTMENTS	
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	10
40	INV2	That Fund liabilities are not correctly understood and as a consequence assets are not allocated appropriately.	5
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	10
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	5
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	10
44	INV6	Investment Manager Risk - this includes both the risk that the wrong manager is appointed and /or that the manager doesn't follow the investment approach set out in the Investment Management agreement.	10
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	4
46	INV8	The risks associated with the Fund’s assets are not understood resulting in the Fund taking either too much or too little risk to achieve its funding objective.	10
47	INV9	Actual asset allocations move away from strategic benchmark.	12
48	INV10	No modelling of liabilities and cash flow is undertaken.	5
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	25

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
GOVERNANCE			
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	3
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	6
14	GOV14	Failure to comply with legislation and regulations leads to illegal actions/decisions resulting in financial loss and / or reputational damage	5
15	GOV15	Failure to comply with guidance issued by The Pensions Regulator (TPR) and Scheme Advisory Board (SAB) resulting in reputational damage.	10
16	GOV16	Pension fund asset pooling restricts Tower Hamlets Pension Fund's ability to fully implement a desired mandate	10
17	GOV17	The Fund adopts and follows ill-suited investment strategy.	15

Risk No	Cat Ref	Risk	Risk Ranking
LEGISLATION			
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	10
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	5
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	8

Risk No	Cat Ref	Risk	Risk Ranking
COMMUNICATION			
50	COM1	Members don't make an informed decision when exercising their pension options whilst employers cannot make informed decisions when exercising their discretions leading to possible complaints and appeals against the Fund	8
51	COM2	Communication is overcomplicated and technical leading to a lack of engagement and understanding by the user (including members and employers).	6
52	COM3	Employer doesn't understand or carry out their legal responsibilities under relevant legislation.	8
53	COM4	Apathy from members and employers if communication is irrelevant or lacks impact leading to uninformed users.	9
54	COM5	Employers don't meet their statutory requirements leading to possible reporting of breaches to the Pension Regulator.	8
55	COM6	Lack of information from Employers impacts on the administration of the Fund, places strain on the partnership between Fund and Employer.	4

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
ACCOUNTING			
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	10
22	ACC2	Internal controls are not in place to protect against fraud/ mismanagement.	8
23	ACC3	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	8
24	ACC4	Market value of assets recorded in the Statement of Accounts is incorrect leading to a material misstatement and potentially a qualified audit opinion.	10
25	ACC5	Inadequate monitoring of income (contributions) leading to cash flow problems.	4
26	ACC6	Rate of contributions from employers' in the Fund is not in line with what is specified in actuarial ratings and adjustment certificate potentially leading to an increased funding deficit or surplus.	5
27	ACC7	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	8
28	ACC8	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	12

Risk No	Cat Ref	Risk	Risk Ranking
FUNDING/LIABILITY			
56	FLI1	Funding Strategy and Investment considered in isolation by Officers, Committee and their separate actuarial and investment advisors	10
57	FLI2	Inappropriate Funding Strategy set at Fund and employer level despite being considered in conjunction with Investment Strategy.	10
58	FLI3	Inappropriate Investment and Funding Strategy set that increases risk of future contribution rate increases.	10
59	FLI4	Processes not in place to capture or failure to correctly understand changes to risk characteristics of employers and adapting investment/funding strategies.	10
60	FLI5	Processes not in place to capture or review when an employer may be leaving the LGPS.	5
61	FLI6	Processes not in place to capture or review funding levels as employer approaches exiting the LGPS.	10
62	FLI7	Investment strategy is static, inflexible and does not meet employers and the Fund's objectives.	5
63	FLI8	Process not in place to ensure new employers admitted to the scheme have appropriate guarantor or bond in place.	5
64	FLI9	Level of bond not reviewed in light of change in employers pension liabilities.	8
65	FLI10	Processes not in place to capture or review covenant of individual employers.	8
66	FLI11	Processes not in place to capture and understand changes in key issues that drive changes to pension liabilities.	5

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Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
ADMINISTRATION			
29	ADM1	Failure to act within the appropriate legislative and policy framework could lead to illegal actions by the Fund and also complaints against the Fund.	10
30	ADM2	Pension structure is undergoing review with a view to deliver a first class service	15
31	ADM3	Insufficiently trained or experienced staff leading to knowledge gaps	12
32	ADM4	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	5
33	ADM5	Failure to pay pension benefits accurately leading to under or over payments.	8
34	ADM6	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	8
35	ADM7	Not dealing properly with complaints leading to escalation that ends ultimately with the ombudsman	8
36	ADM8	Data protection procedures non-existent or insufficient leading to poor security for member data	10
37	ADM9	Loss of funds through fraud or misappropriation by officers leading to negative impact on reputation of the Fund as well as financial loss.	5
38	ADM10	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	10

Risk No	Cat Ref	Risk	Risk Ranking

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
1	GOV1	Pension Fund Objectives are not defined and agreed leading to lack of focus of strategy to facilitate the aims of the LGPS.	Objectives defined in the Funding Strategy Statement and approved by the Pensions Committee. The Committee has approved a mission statement which summarises the overarching objectives of the Fund.	3	1	3	PC	Mar-18
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	The nature of Council appointees to the Fund means that there is likely to be annual turnover of appointments to the Pensions Committee. However, Full Council through Democratic Services has been made aware of the consequences of constant turnover of Pensions Committee members. A comprehensive training programme that is in line with CIPFA guideine/The Pension Regulator has been developed and is continously reviewed/updated. Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted accordingly New members required to complete The Pensions Regulators public service toolkit modules as a minimum requirement. All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.	4	4	16	PC; ITM; DDoFPA	Mar-18

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
3	GOV3	Members have insufficient knowledge of regulations, guidance and best practice to make good decisions.	Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted as required. New members are required to complete The Pensions Regulators public service toolkit modules as a minimum requirement. All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund. Officers and advisers (statutory, independent, actuarial) are always present at meetings to provide guidance and assist Members through decision making process.	4	3	12	ITM	Mar-18
4	GOV4	Member non-attendance at training events.	A record of training events attended is a standing agenda item. The importance of attending training events is highlighted to all members at the annual introductory training event. The Committee also runs a series of internal training events which preceed or are included on the Committee meeting agenda. Member training is reported as part of the Annual Fund report.	4	2	8	PC	Quarterly

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
5	GOV5	Officers lack the knowledge and skills required to effectively advise elected members and/or carry out administrative duties.	Job descriptions are used at recruitment to appoint officers with relevant skills and experience. The recruitment process would have identified key knowledge/skills that the successful applicant would need to demonstrate that they possess before being offered a role. Training and improvement plans are in place for all officers as part of the Council's performance appraisal programme.	4	1	4	DDoFPA	Dec-17
6	GOV6	Committee members have undisclosed conflicts of interest.	Declaration of conflict of interest is a standing item on the agenda. All members of the Committee are required to complete an annual declaration of interest form.	3	1	3	PC; CC	Quarterly
7	GOV7	The Committee's decision making process is too rigid to allow for the making of expedient decisions leading to an inability to respond to problems and/or to exploit opportunities.	There are four Committee/Board meetings scheduled for 2017/18 municipal year. Where urgent decisions are required this can be done either by organising an additional meeting outside the scheduled meetings or canvassing opinions and votes electronically following dissemination of relevant information to Members.	4	1	4	PC	Annually
8	GOV8	Known risks not monitored leading to adverse financial, reputational or resource impact.	The Committee to agree to have the risk register on the agenda for at leasdt two meetings in a municipal year to include a review of all high risk items and a periodic review of risks by category of risk.	4	1	4	PC	Quarterly

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
9	GOV9	Failure to recognise new Risks and/or opportunities.	Quarterly Committee/management meeting to identify new risks/opportunities. Attendance at regional and national forums to keep abreast of current issues and their potential impact on the Fund.	4	1	4	ITM; PC	Quarterly
10	GOV10	Weak procurement process leads to legal challenge or failure to secure the best value for the value when procuring new services.	All procurement carried out in line with the Council's procurement rules and guidance. Expert legal and procurement advice sought where appropriate.	5	1	5	ITM	Periodically
11	GOV11	Failure to review existing contracts means that opportunities are not exploited.	The Pension Fund reviews contracts annually to ensure that the Fund receive good value. This include soft market testing where applicable to access opportunities that may benefit the Fund.	4	2	8	ITM; PAM	Annually
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	All Committee/Board minutes to be published within 10 days. Publication of pension fund annual report on the Council's and Fund websites.	3	1	3	CC	Quarterly
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	The Communications Strategy sets out how the Fund will engage with all stakeholders. Employees and employers are represented on the Pension's Committee and Board.	3	2	6	PAM	Annually

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Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
14	GOV14	Failure to comply with legislation and regulations leads to illegal actions/decisions resulting in financial loss and / or reputational damage	Officers maintain knowledge of legal framework for routine decisions. The Council's legal team is involved in reviewing Committee papers and other legal documents. The Fund has engaged a team of experts (Independent Advisor, Actuary, Investment Consultant) that have highly degree of experience and knowledge about the LGPS and pension fund investments.	5	1	5	ITM; DDoFPA; PC	Quarterly
15	GOV15	Failure to comply with guidance issued by The Pensions Regulator (TPR) and Scheme Advisory Board (SAB) resulting in reputational damage.	Guidance (included updates) issued by TPR and SAB is reported to the Committee with gaps identified and clear timetables to address weaknesses agreed.	5	2	10	ITM	Dec-17

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GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
16	GOV16	Pension fund asset pooling restricts Tower Hamlets Pension Fund’s ability to fully implement a desired mandate	The London CIV is planning to have as wide a range of mandates as possible and also that there will be a choice of manager for each mandate/asset class. The London CIV is planning to appoint investment managers to all asset classes that the Fund is currently invested in. The Fund will be able to retain mandates not currently appointed to by the London CIV and may invest in other pools if they have a desired mandate. The Fund has a seat on the Investment and Advisory Committee of the London CIV. One of the functions of this body is to recommend implementation of mandates. The Secretary of State has stated that where transfer of assets would result in significant loss to a Fund, then the assets should be retained under existing arrangements - this may provide an opportunity for the Fund to pursue a strategy that is dissimilar to the London CIV.	5	2	10	ITM	Mar-18

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
17	GOV17	The Fund adopts and follows ill-suited investment strategy.	The Investment Strategy is in accordance with LGPS investment regulations and it takes into consideration the Funds liabilities and funding levels among other things. The Investment Strategy is documented, reviewed and approved by the Pensions Committee.	5	3	15	ITM	Mar-18

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LEGISLATION: RISK MANAGEMENT FRAMEWORK									
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	Officers maintain knowledge of the LGPS legal framework for routine decisions. Use of tools available on the TPR website including the Public Service Toolkit and Scheme Advisory Board Model. The Council's legal team is involved in reviewing Committee papers and other legal documents. The Fund has engaged a team of experts (Independent Advisor, Actuary, Investment Consultant) that are highly degree of experience and knowledge about the LGPS and pension fund investments.	5	2	10	ITM: PAM; PC	Quarterly
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	Access to LGA material, use of specialist advisors, membership on national and regional forums and attending training presentation on impact and implementation of new legislation. Collaborative working with other Funds to assess requirement and impact of new legislation.	5	1	5	ITM; PAM	Quarterly

Risk Register - Tower Hamlets Pension Fund

LEGISLATION: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	The Pension Administration Team is being restructured to ensure appropriately skilled staff are recruited and maintained.	4	2	8	DDoFPA; ITM; PAM	Dec-17

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Risk Register - Tower Hamlets Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	Qualified Accountant to produce the accounts using the most up to date Statement of Recognised Practice, Accounting Code of Practice, Disclosure Checklist and other relevant CIPFA training materials/publications. Attendance at Pensions Officers Group Meetings, Based on latest Code of Practice, robust in year (quarterly) monitoring / reconciliation processes. Draft Statement of Accounts and working papers reviewed by the Investment & Treasury Manager and the Chief Accountant.	5	2	10	ITM; DDoFPA	Dec-17

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ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
22	ACC2	Internal controls are not in place to protect against fruad/ mismanagement.	The Internal Audit plan includes dedicated hours for pensions to the review of internal controls in relation to the management and accounting of the Pension Fund. The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits. Pensions feed into the process by identifying areas where improvements are required. Recommendations from internal audits of processes and controls are implemented in a timely manner to reduce or remove identified risks.	4	2	8	ITM; PAM	Mar-18
23	ACC3	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained to ensure that all tasks are completed in a timely manner. All reconciliaitons are independently reviewed and signed off by a second officer. Full reconciliation and interim accountants are prepared on a quarterly basis.	4	2	8	ITM;	Dec-17

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ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
24	ACC4	Market value of assets recorded in the Statement of Accounts is incorrect leading to a material misstatement and potentially a qualified audit opinion.	Reconciliation undertaken between the book cost and market values to the custodians book of records recieved quarterly. Further reconciliation undertaken between the custodian and investment managers' records. All adjustments (including unrealised profits) will be posted into the general ledger so that accounts can be reported created directly from AGGRESSO.	5	2	10	ITM	Jun-17

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
25	ACC5	Inadequate monitoring of income (contributions) leading to cash flow problems.	Approximately 70% of total income to the Fund comes from contributions by the Council. Payment of contributions from employers is monitored on a monthly basis; including a full reconciliation between amount expected receipt and actual receipt. Late payers are identified and reported to the PC as part of quarterly pensions administration report. Late payers tend to be small employers in the scheme and such amounts will not have a significant impact on Fund's cashflow. Where non-payment relates to a large employer swift action is taken to chase payment.	4	1	4	PAM; ITM	Dec-17

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
26	ACC6	Rate of contributions from employers' in the Fund is not in line with what is specified in actuarial ratings and adjustment certificate potentially leading to an increased funding deficit or surplus.	Employers are sent employers contribution form at the start of each year and confirm the correct rates to be paid. Payment is monitored against expected payment quarterly. Where there are discrepancies, the employer is expected to make immediate payment to make up the shortfall - overpayments cannot be refunded. Employers making late payment are reported to the PC on a quarterly basis.	5	1	5	PAM; ITM	Dec-17
27	ACC7	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	All expenditure incurred by the fund on behalf of employers is recharged. Invoices are itemised and all recoverable items are identified and charged back to the relevant employer. All income recoverable, including witholding taxes on investments are itemised in the custodian reports. We will monitor the recovery and timing of this to ensure the maximum amount is recovered in a timely manner.	4	2	8	ITM;	Dec-17

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
28	ACC8	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	Monitor numbers and values of transfers out being processed and report to PC on annual basis. Periodically promote the benefits of the LGPS and the flexibility now offered following the revisions to the LGPS in 2014.	4	3	12	PAM; ITM	Mar-18

ADMINISTRATION								
Risk No	Cat Ref	Risk	Current Controls	Impact	Likeli-hood	Proba-bility	Respon-sibility	Timescale
29	ADM1	Failure to act within the appropriate legislative and policy framework could lead to illegal actions by the Fund and also complaints against the Fund.	Ensure staff are adequately trained. Appropriate checking processes. Professional advice. Close working with other Funds. Policies kept up to date and discussed at PC.	5	2	10	DDoFPA; ITM; PAM	Ongoing
30	ADM2	Pension structure is undergoing review with a view to deliver a first class service	This risk will be reassessed once the restructuring of the pensions team has been completed and some time has passed for the structure to be embedded.	5	3	15	DDoFPA	Apr-18
31	ADM3	Insufficiently trained or experienced staff leading to knowledge gaps	Training programme for staff including CIPD qualification in some places. Regular briefings and updates on LGPS changes from CIPFA and other training providers. This risk will be reasses once the restructuring of the pensions team has been completed.	4	3	12	DDoFPA; ITM	Mar-18

ADMINISTRATION								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Likeli-hood**	**Proba-bility**	**Respon-sibility**	**Timescale**
32	ADM4	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	Pensinos administration system Altair is subject to daily software backups and off-site duplication of records. The business recovery plan once implemented allows the pension administration system to be run from an alternative site.	5	1	5	PAM	Mar-18
33	ADM5	Failure to pay pension benefits accurately leading to under or over payments.	The pension administration system, Altair, allows for all pensioner benefits to be automatically calculated by the administration system. Pension benefits payments are double checked by another team member before payments released.	4	2	8	PAM	Mar-18
34	ADM6	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	Pensionepayroll system is subject to daily software backups and off-site duplication of records. The business recovery plan once implemented allows the pension administration system to be run from an alternative site.	4	2	8	PAM	Mar-18

ADMINISTRATION								
Risk No	Cat Ref	Risk	Current Controls	Impact	Likeli-hood	Proba-bility	Respon-sibility	Timescale
35	ADM7	Not dealing properly with complaints leading to escalation that ends ultimately with the ombudsman	The Fund has an Internal Dispute Resolution Policy (IDRP) which has been approved by the Committee. In attempting to resolve any complaints by members, the IDRP will guide officers to ensure that due process is applied through out the process.	4	2	8	PC; DDoFPA; ITM; PAM	Mar-18
36	ADM8	Data protection procedures non-existent or insufficient leading to poor security for member data	The Council's data protection policy is issued to and signed by all staff. The Council has in place a system that ensures pension fund data is sufficiently protected. Staff trained in data protection and regularly reminded of its importance.	5	2	10	ITM; PAM	Mar-18
37	ADM9	Loss of funds through fraud or misappropriation by officers leading to negative impact on reputation of the Fund as well as financial loss.	Robust accounting checks and adherence with best practice including undertaking regular reconciliation of payments undertaken or received into the Fund.	5	1	5	DDoFPA; ITM	Mar-18

ADMINISTRATION								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Likeli-hood**	**Proba-bility**	**Respon-sibility**	**Timescale**
38	ADM10	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	The selection process for recruiting officers is rigorous and focussed on the requirements of the role. Also detailed job descriptions/person specification are used to wittle down and appoint officers with the right level of skills, knowledge and experience. Training/Personal DeveloPAMent plans are put in place for each staff member following annual performance appraisal.	5	2	10	DDoFPA; ITM; PAM	Dec-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK									
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	The Investment and Fund Strategies are reviewed and discussed at Pensions Committee. These Strategies are presented to Pensions Committee annually as part of the process of approving the Fund Annual Report. Close liaison between the Fund's actuary and strategic investment adviser.	5	2	10	ITM	Mar-18
40	INV2	That Fund liabilities are not correctly understood and as a consequence assets are not allocated appropriately.	Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose.	5	1	5	ITM	Mar-18
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose. A strength of covenant analysis is undertaken by the Fund along with employer profiling to assist the Fund to understand all employers in the Scheme. The actuary uses this information when contribution rates are being set triennially.	5	2	10	ITM	Mar-18

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	The Fund currently utilises the services of Mercer as Strategic Investment consultant to the Fund. Furthermore, the Fund employs the services of an independent adviser to assist with decisions around investments and investment strategy.	5	1	5	ITM; PC	Mar-18
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	The Fund employs the services of an Strategic Investment consultant, Mercers, but has also engaged an independent adviser to challenge/confirm investment/investment strategy decisions. This model ensures that Investment advice is subject to peer review to ensure that it is fit for purpose.	5	2	10	ITM; PC	Mar-18

INVESTMENTS: RISK MANAGEMENT FRAMEWORK									
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
44	INV6	Investment Manager Risk - this includes both the risk that the wrong manager is appointed and /or that the manager doesn't follow the investment approach set out in the Investment Management agreement.	Rigorous selection process in place to ensure that Fund appoints only the best investment managers based on available information during tendering of a new mandate. Expert professional advice provided by Strategic Investment consultant/Independent adviser supporting manager selection exercise. It is a requirement of the Fund that all Investment Managers are FSA registered. Where necessary specialist search managers will be engaged to assist investment manager selection. The Funds Custodian provides a manager performance monitoring service. The performance of all investment managers is also formally monitored and reported on a quarterly basis to the Committee.	5	2	10	ITM; PC	Dec-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK									
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	The Pensions Committee receives formal quarterly reports on both the overall performance of the Fund and individual investment managers. Where appropriate members may be asked to utilise electronic decision making, such as, email to allow the Committee to make timely/urgent decisions relating to investment of fund assets.	4	1	4	ITM; CC	Mar-18
46	INV8	The risks associated with the Fund's assets are not understood resulting in the Fund taking either too much or too little risk to achieve its funding objective.	Full Investment Strategy review undertaken by Investment Consultant on triennial basis after triennial valuation with Annual/Ad-hoc Strategy reviews undertaken in intervening years to ensure the Strategy is still appropriate to achieve long term funding objectives.	5	2	10	ITM; PC	Mar-18
47	INV9	Actual asset allocations move away from strategic benchmark.	Asset Allocations formally reviewed as part of quarterly report to Pensions Committee and necessary action will be taken to correct inbalance that is over and above the tolerance threshold .	4	3	12	ITM	Mar-18

INVESTMENTS: RISK MANAGEMENT FRAMEWORK									
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
48	INV10	No modelling of liabilities and cash flow is undertaken.	Annual cash flow monitoring at Fund level undertaken by Investment & Treasury Manager and utilised to inform Investment Strategy to ensure that the Fund is always able to meet its liabilities as they fall due.	5	1	5	ITM	Mar-18
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV. Specifically, the Fund has representation at the Investment Advisory Committee and Officer's business meetings where strategies and fund manager appointments that align with the Fund's investment strategy are promoted. However, because the CIV has to reach consensus among its 32 members, there is a risk that the full complement of mandates in the Fund may not be replicated by London CIV.	5	5	25	ITM	Dec-17

COMMUNICATIONS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
50	COM1	Members don't make an informed decision when exercising their pension options whilst employers cannot make informed decisions when exercising their discretions leading to possible complaints and appeals against the Fund	Communication Strategy in place that outlines the most appropriate mode of communication and how the Fund will communicate with all stakeholders including its members and employers. Member provided with explanatory notes and guidance to enable them to make informed decision and given access to further pension support.	4	2	8	PAM; ITM	Dec-17
51	COM2	Communication is overcomplicated and technical leading to a lack of engagement and understanding by the user (including members and employers).	Members and Employers are provided with explanatory notes, factsheets, access to a pension help desk and a dedicated Communications Team. In addition the Fund's website provides a one stop sITM for information about the Scheme and benefits.	3	2	6	PAM; ITM	Dec-17
52	COM3	Employer doesn't understand or carry out their legal responsibilities under relevant legislation.	Ensure information communicated to Employers is clear and relevant by using simple understandable wording. Where available use standard template/information from the LGPS employers association.	4	2	8	PAM; ITM	Dec-17

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COMMUNICATIONS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
53	COM4	Apathy from members and employers if communication is irrelevant or lacks impact leading to uninformed users.	Ensure all communication and literature is up to date and relevant and reflects the latest position within the pensions environment including LGPS regulations and other relevant overriding legislation.	3	3	9	PAM; ITM	Dec-17
54	COM5	Employers don't meet their statutory requirements leading to possible reporting of breaches to the Pension Regulator.	Provide training to employers that is specific to their roles and responsibilities in the LGPS. Employer access to a portal with regular updates in line with legislation.	4	2	8	PAM; ITM	Mar-18
55	COM6	Lack of information from Employers impacts on the administration of the Fund, places strain on the partnership between Fund and Employer.	All forms available on our website and Employer has access to specialist support from Fund Officers.	4	1	4	PAM; ITM	Mar-18

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
56	FLI1	Funding Strategy and Investment considered in isolation by Officers, Committee and their separate actuarial and investment advisors	Funding Strategy statement has explicit links to the investment strategy. Both the scheme actuary and the investment consultant advise Officers and the Committee and work in partnership to ensure that the two strategies are compatible. The Funding Strategy once ready is presented to Committee for final review and approval.	5	2	10	ITM	Mar-18
57	FLI2	Inappropriate Funding Strategy set at Fund and employer level despite being considered in conjunction with Investment Strategy.	Fund commissions stochastic modelling from the fund's actuary to test the likelihood of success of achieving desired returns to deliver the Fund long term objectives of being able to pay retirement benefits as they fall due. The actuary sets a high probability bar for future service return and also a deficit recovery plan that recovers funding shortfall in the most efficient manner.	5	2	10	ITM	Mar-18

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
58	FLI3	Inappropriate Investment and Funding Strategy set that increases risk of future contribution rate increases.	The Investment and Funding Strategies are considered in tandem to each. The Actuary as part of the triennial valuation reviews the Funding Strategy to take account of outcomes from the triennial valuation and sets appropriate contribution rate for each employer in the Fund. Similarly, a comprehensive review of the Investment Strategy is undertaken following a triennial valuation to ensure that the Strategy is still fit for purpose - annual and ad-hoc reviews are also undertaken where opportunities present itself.	5	2	10	ITM	Mar-18
59	FLI4	Processes not in place to capture or failure to correctly understand changes to risk characteristics of employers and adapting investment/funding strategies.	Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities. Regular profiling of employers' characteristics to ensure that assumptions are still relevant and the Funding Strategy is fit for purpose.	5	2	10	ITM; PAM	Mar-18

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FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
60	FLI5	Processes not in place to capture or review when an employer may be leaving the LGPS.	Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities and status within the Fund. Contract dates for admitted bodies are monitored, so that officers are aware and able to identify employers that are due to leave the Scheme.	5	1	5	PAM; ITM	Dec-17
61	FLI6	Processes not in place to capture or review funding levels as employer approaches exiting the LGPS.	Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities and status within the Fund. Contract dates for admitted bodies are monitored, so that officers are aware and able to identify employers that are due to leave the Scheme. Where an employer is admitted on a closed basis, this usually aligns with when the last active member on the employers payroll either retires or leaves the service of the employer. The Fund's actuary is notified of the need to calculate a cessation valuation 3 months before an employer is due to leave the Fund.	5	2	10	PAM; ITM	Dec-17

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
62	FLI7	Investment strategy is static, inflexible and does not meet employers and the Fund's objectives.	The investment strategy is constantly under review and updated to ensure that the Fund is able to meets its objectives. The Investment Consultant / Independent Adviser along with officers have regular meetings to review the investment strategy and present options to the Committee for approval.	5	1	5	ITM	Mar-18
63	FLI8	Process not in place to ensure new employers admitted to the scheme have appropriate guarantor or bond in place.	The Fund's admission agreement policy require potential admitted bodies to have a guarantor/bond in place. Where an admitted body is unable to secure a bond, such an employer would be required to provide a guarantor to indemnify the pension fund against any risk from the employer becoming insolvent.	5	1	5	PAM; ITM	ongoing

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK									
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
64	FLI9	Level of bond not reviewed in light of change in employers pension liabilities.	All new admissions into the Fund are required to have a bond taken out in the name of the Fund or provide a guarantor. The Fund Actuary undertakes a periodic review of employer profiles to assess the level of risk posed by individual employers to the Fund. The results of the employer profiling exercise is a factor in determining contribution rates for each employer in the Fund, so that the level of risk posed by an employer is commensurate with the rate of recovery of funding deficit.	4	2	8	PAM; ITM	ongoing
65	FLI10	Processes not in place to capture or review covenant of individual employers.	The strength of covenant of individual employers is assessed before they are admitteed into the Fund. The strength of covenant is a significant factor when determining the terms of admission for a new admitted body to the Fund. Along with employer profiling the employer profiling, strength of covenant of each individual employer is assessed periodically by the actuary and Head of Pensions.	4	2	8	ITM	Mar-18

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
66	FLI11	Processes not in place to capture and understand changes in key issues that drive changes to pension liabilities.	The Tower Hamlets Pension Fund subscribes to a number of organisations that assists officers of the Scheme to keep abreast of develoPAMent and changes to the Fund (including government legislation). Updates are received Local Authority Pension Fund Forum; CIPFA Pensions Network; London Pension Fund Forum. These forums/networks provide regular updates on all things local government pension and facilitates awareness of proposed or imminent changes to the LGPS or Investment regulations.	5	1	5	PAM; ITM	ongoing

Non-Executive Report of the: **PENSIONS COMMITTEE** **21 September 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:**
Review of Tower Hamlets Pension Fund Governance Policy and Compliance Statement	

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

Introduction

This report outlines the changes to and regulations guiding the Pension Fund Governance Policy and Compliance Statement. The Governance Policy and Compliance Statement have been prepared in accordance with the Local Government Pension Scheme Regulations. It sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State.

Recommendations:

Members of the Pensions Committee are recommended to:

- Approve the draft Pension Fund Governance Policy and Compliance Statement, and agree that officers may now proceed with the consultation with the Fund's employers and Tower Hamlets Council union officials; and
- Approve the Scheme of Delegation which is included as appendix A of the attached draft Statement

1. REASONS FOR THE DECISIONS

1.1 Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Tower Hamlets Council, as the administering authority for the Tower Hamlets Pension Fund, to prepare a written statement setting out details of the authority's delegation of functions under the LGPS Regulations. The statement sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State. This document presents an update to the existing statement as part of the review programme set out in the Pension Fund Business Plan.

2. ALTERNATIVE OPTIONS

2.1 This is a legislative requirement so there is no alternative option to consider.

3. DETAILS OF REPORT

3.1 Since 1st April 2006, administering authorities have been required to publish and maintain a pension fund governance statement setting out the governance arrangements for their Fund including details of membership, how often they meet and the decision making process. This requirement has been maintained in the LGPS Regulations 2013, with Regulation 55 requiring funds to prepare and maintain a governance compliance statement.

3.2 Regulation 55 requires that:

(1) An administering authority must prepare a written statement setting out

- (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- (b) if the authority does so-
  - (i) the terms, structure and operational procedures of the delegation,
  - (ii) the frequency of any committee or sub-committee meetings,
  - (iii)whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards establishment).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.

3.3 This document therefore presents an update to the Governance Policy and Compliance Statement, under the programme of regular policy review set out in the Fund's business plan. It is recommended that the Committee approve the policy and statement for consultation with key stakeholders, including employers and other interested parties. It is intended that the final version be brought to the November Pensions Committee for final approval.

3.4 The key amendments that have been made are:

- Updating the Policy and Statement to reflect new regulations (including the LGPS (Management and Investment of Funds) Regulations 2016)
- Updating officer delegations to reflect staff changes within the Pension Fund
- Updating delegations to reflect changes to roles as a result of asset pooling

3.5 Appendix B of the document includes the Fund's Statement of Compliance against best practice as laid down in statutory guidance issued by the Secretary of State. It is pleasing to note that the Fund continues to be fully compliant in all areas

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that there are no direct financial implications arising as a consequence of the revised Policy and Statement. The cost of compliance with the necessary regulations with regards to governance is minimal in comparison to the value of the fund, and the risks arising through failure to do so.

5. LEGAL COMMENTS

5.1 Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Tower Hamlets Council, as the administering authority for the Tower Hamlets Pension Fund, to prepare a written statement setting out details of the authority's delegation of functions under the LGPS Regulations. The statement sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State. This document presents an update to the existing statement as part of the review programme set out in the Pension Fund Business Plan.

5.2 It is a matter for the Pensions Committee to agree all Fund policies and strategies as well as recommending changes to the Terms of Reference. It is therefore appropriate for the Committee to formally approve this Governance

Policy and Statement of Compliance. However, prior to any such approval there is a requirement to consult with appropriate stakeholders.

5.3 When exercising its functions in relation to the Pension Fund, 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). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

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 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
APPENDIX 1 – LBTH Governance Policy and Compliance Statement

Officer contact details for documents:

- Bola Tobun - Investment &Treasury Manager 0207 364 4733
- Mulberry House, 5 Clove Crescent E14 2BG

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Appendix 1

The London Borough of Tower Hamlets Pension Fund

Governance Policy and Compliance Statement

August 2017

Governance Policy and Compliance Statement

The London Borough of Tower Hamlets Council is the Administering Authority of the London Borough of Tower Hamlets Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Policy and Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives
Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

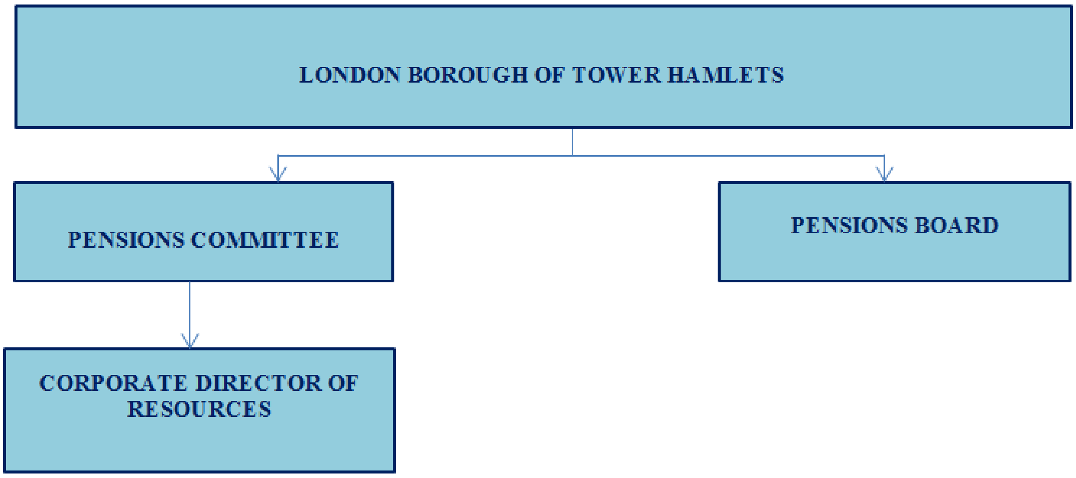
In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure
The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people.

The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and

duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
The Constitution sets out the framework under which the Pension Fund is to be administered as depicted in the diagram below.



Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it.

The following are the terms of reference for the Pensions Committee:

1) To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pensions' legislation.
2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3) To formulate and publish an Investment Strategy Statement.
4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.

8) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9) To receive and approve an Annual Report on the activities of the Fund prior to publication.
10) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11) To keep the terms of reference under review.
12) To determine all matters relating to admission body issues.
13) To focus on strategic and investment related matters at two Pensions Committee meetings.
14) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan
15) To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 7 elected Members from Tower Hamlets Council on a politically proportionate basis and the Pensions Committee will elect a Chair and Vice Chair. All Tower Hamlets Council elected Members have voting rights on the Committee and three voting members of the Committee are required to be able to deem the meeting quorate.

In addition there are two co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee, they have access to all Committee Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process.

Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees as the Pension Fund with all the legal responsibilities that this entails, it was not felt appropriate to apply the same legal definition to the lay members of the Committee and hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee to include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Tower Hamlets Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website: http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

<u>Other Delegations of Powers</u>

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee has a clear fiduciary duty in the performance of their functions, they have to ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix A outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Corporate Director, Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Corporate Director, Resources will delegate aspects of the role to other officers of the Council including the Investment & Treasury Manager and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Tower Hamlets Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Tower Hamlets Pension Board established by Tower Hamlets Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers.

Membership of the Pension Board

The Pension Board consists of 7 members as follows:

- Three Employer Representatives
- Three Scheme Member Representatives
- One Independent Member (non-voting) to act as chair of the Pension Board

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the six Employer and Scheme Member Representatives are present, and where the Board has an Independent Member they must also be present.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Cabinet Member for Resources
- the Corporate Director, Resources
- the Divisional Director Finance, Procurement and Audit
- the Corporate Director, Governance

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. The Pension Board will be treated in the same way as a Committee of Tower Hamlets Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website:
http://www.towerhamletspensionfund.org/

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund’s actuary and after consultation with the Fund’s employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund’s approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement

The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its

investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be tabled at the November Pensions Committee meeting for approval.

Governance Policy Compliance Statement
This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix B and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy
Tower Hamlets Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.
To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least on annual basis.

Annual Report and Accounts
As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are

distributed to employers in the Fund and other interested parties and a copy placed on the websites:
http://www.towerhamletspensionfund.org/
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

Communication Policy
This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website:
http://www.towerhamletspensionfund.org/

Discretions Policies
Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Tower Hamlets' Employing Authority Discretions can be found on the website: http://www.towerhamletspensionfund.org/

Pension Administration Strategy and Employer Guide
In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: http://www.towerhamletspensionfund.org/

This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation
This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on 23 July 2015 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration. In August 2017, this document has been reviewed and updated for Pensions Committee consideration and approval at its meeting of 21st September 2017.

Contact Information
Further information on the London Borough of Tower Hamlets Pension Fund can be found as shown below:

London Borough of Tower Hamlets Pension Fund
Mulberry Place
5 Clove Crescent
London
E14 2BG

Email: pensions@towerhamlets.gov.uk
Website: http://www.towerhamletspensionfund.org/

Appendix A

Delegation of Functions to Officers by Tower Hamlets Pensions Committee

Key:
PC – Pensions Committee OAP-Officers & Advisers Panel ITM – Investment & Treasury Manager
CDR – Corporate Director, Resources & Officers DDoFPA -Divisional Director Finance, Procurement & Audit
IC – Investment Consultant FA – Fund Actuary IA – Independent Adviser

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation including use of ranges To formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee	CDR, DDoFPA & ITM (having regard to ongoing advice of the IC, IA, FA and OAP)	High level monitoring at PC with more detailed monitoring by OAP and or ITM

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	New mandates / emerging opportunities To consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.	CDR, DDoFPA and ITM (having regard to ongoing advice of the IC & IA)	High level monitoring at PC with more detailed monitoring by OAP & ITM
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment	Ongoing monitoring of Fund Managers	CDR, DDoFPA and ITM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC	High level monitoring at PC with more detailed monitoring by OAP & ITM

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Selection, appointment, addition, replacement and dismissal of Fund Managers To evaluate the credentials of potential managers and make recommendations to the Pensions Committee To review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.	OAP, CDR and ITM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC	Notified to PC via ratification process.
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDR, DDoFPA and ITM, subject to agreement with Chairman and Vice Chairman (or either, if only one available in timescale)	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	CDR & DDoFPA	Regular reports provided to PC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDR, DDoFPA and ITM subject to agreement with Chairman and Vice Chairman (or either, if only one is available in timescale)	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

[1] **CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.**

Appendix B

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Pensions Committee is presented at the following Pensions Committee. All key recommendations of the Pensions Committee are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Pensions Committee are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).		
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Pensions Committee are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Pensions Committee have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Members of the Pensions Committee/ Pensions Committee does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	members involved in the decision-making process.		such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.
MEETINGS (FREQUENCY/ QUORUM)	That an administering authority's main committee or committees meet at least quarterly.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	Subject to any rules in the Council's Constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Pensions Committee.
SCOPE	That administering authorities have taken steps to	Compliant	Pensions Committee considers are range

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	bring wider scheme issues within the scope of their governance arrangements.		of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

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Non-Executive Report of the: **Pensions Committee** 21 September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Pension Fund Annual Report with ISA 260 Report and Review of Fund Managers Internal Control Reports	

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

Summary
This report presents the final Pension Fund Annual Report for 2016/17 to Members. The draft version of the accounts was presented to the Committee in July 2017 together with the 2016/17 Audit Report of the Pension Fund (ISA 260 Report) following the audit by KPMG. The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and is now presented for consideration by the Pensions Committee.

This report also presents the finding of the review of the adequacy of internal control measures put in place by the fund managers that hold the Fund's assets. Officers and Advisers have reviewed the SAS70 and SSAE16 (which signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm).

The reviews of fund managers, internal control reports, have identified no significant changes in the internal control environment from last year.
The Fund managers' internal control reports have been audited and approved by external auditors and six out of the seven fund managers received unqualified opinion from their managers with the exception of Schroder. This means the auditors are satisfied that adequate controls are in place for managing and reporting of the Fund's assets.

Recommendations:

The Pensions Committee is recommended to:

- Note the contents of this report;
- Note the draft ISA 260 (Annex 2);
- Approve the Pension Fund Statement of Accounts (Appendix 5 of Annex 1);
- Approve the Pension Fund Annual Report and to give delegated authority to s151 to finalise and publish this in order to meet the

statutory publication deadline of 1 December 2017 (Annex 1); and

- Approve publication and distribution to interested parties.

1. **REASONS FOR THE DECISIONS**

1.1 The Local Government Pension Scheme Regulations 2013, Regulation 53(2) states that 'An administering authority is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations' and the internal audit report covered the area of how the Fund was being administered.

1.2 The Committee acts as quasi-trustee to the Pension Fund and as such acts in the capacity of the Administering Authority of the Pension Fund. The Committee's terms of reference require it to receive and approve an Annual Report and Accounts on the activities of the Fund prior to publication. The Local Government Pension Scheme Regulations 2013, Regulation 57 require the Pension Fund to publish this by 1st December following the financial year end and for the Report to contain a number of standard items.

1.3 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets.

1.4 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is concerned because it is a legislative requirement. The review of fund managers' SAS 70 and SSAE 16 reports should provide assurance to the Pension Fund (Members and Trustees) that fund managers have adequate controls and safeguards in place for managing the Fund's assets. It is appropriate for the Committee and Fund members to be kept abreast of any risks identified through this process and the likely impact of such risks to the Fund.

2. **ALTERNATIVE OPTION**

2.1 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is concerned because it is a legislative requirement.

3. **DETAILS OF REPORT**

3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).

3.3 The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets' Pension Fund and the Pensions Committee act as trustees of the Pension Fund which includes overseeing the accounting and financial management of the Pension Fund.

3.4 KPMG is required to issue an ISA 260 report and opinion on the Council's accounts and this includes an opinion on the Pension Fund. This report sets out their opinions and any issues which they believe the Committee should be aware of.

3.5 At the time of writing this report, work on the audit of the Pension Fund accounts is substantially complete, subject to the completion of the auditor's final review and completion procedures. The auditor expects to issue an unqualified audit opinion on the Pension Fund and their comments are included within the attached draft ISA 260.

3.6 In summary the Annual Report comprises:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels; and
- the current version of the funding strategy statement, the statement of investment principles and communications policy and any other information the authority considers appropriate.

3.7 THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

3.7.1 The Accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the funds revenue account; and
- The Net Assets Statement which can be considered as the funds balance sheet.

3.7.2 The return on investment section of the accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:

- The financial transactions relating to the administration of the fund; and
- The transactions relating to its role as an investor.

3.7.3 Overall, fund assets had improved by £241.55m in the financial year. The improvement was due to the performance of the financial markets in which the Fund held its investments and a net gain between fund income and expenditure.

3.7.4 The net asset statement represents the net worth (£1,367m) of the Fund as at the 31st March 2017. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.

3.7.5 The annual report also includes three key statements (Funding Strategy Statement, Investment Strategy Statement that replaced Statement of Investment Principles since April 2017 and Governance Policy and Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.

3.7.6 The Funding Strategy Statement (FSS) undergoes a detailed review and was updated after the triennial valuation. The 2016 triennial valuation outcome was reported, discussed and approved at the Pensions Committee meeting on 16th March 2017. The purpose of the Funding Strategy statement is threefold:

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

3.7.7 The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

3.7.8 This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document was discussed and approved at the Committee meeting of 16th March 2017 and is now due for another review as the Fund is currently undergoing a change of investment strategy.

3.7.9 The Governance Policy and Compliance Statement sets out the council's policy as the administering authority in relation to its governance responsibilities for the Fund. This policy has recently been reviewed for Committee discussion and approval at this meeting.

3.7.10 A new policy has been added to the annual report this year. This is The Risk Policy which sets out the risk management strategy of the Pension Fund covering its approach to risk, how it is managed and the procedures that are adopted as part of the risk management process.

3.7.11 The Policy sets out the aims and objectives for the management of risk, but also recognises that risk cannot be removed entirely from the management of the

Pension Fund, by the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks where appropriate and the monitoring of risk on an ongoing basis.

3.7.12 The policy also sets out key internal controls identified and whilst this is not an exhaustive list, it forms the basis at a high level of some of the internal controls in place to manage the Fund on a day to day basis. The Public Service Pensions Act 2013 has added provisions from the 2004 Pensions Act for Public Service Schemes which means that it is essential to have internal control procedures for the purpose of ensuring that the scheme is administered in accordance with regulations and scheme rules. In addition The Pension Regulator (TPR's) Code of Practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. TPR also has powers to issue improvement notices where it is considered that the requirements relating to internal controls are not being adhered to.

3.8 Review of Fund Managers Internal Control Reports

3.8.1 These have been prepared under International Standards for Assurance Engagements (ISAE) 3402 issued by the International Auditing and Assurance Standards Board (IAASB) and the Audit and Assurance Faculty (AAF) 01/06 on assurance reports on the internal controls of service organisations made available to third parties, issued by the Institute of Chartered Accountants in England and Wales (ICAEW) or US equivalent. These reports are produced by the managers for clients and their auditors. An independent service auditor tests and opines of the control environment and its effectiveness is sample tested.

3.8.2 The control report sets out and describes the structure of each manager and its governance structure. It describes the control regimes including the responsibilities of the various committees and groups within them. The description is prepared to meet the needs of a broad range of clients and their independent auditors and may not therefore include every aspect of the process that an individual client and its auditors may consider important in its particular environment.

3.8.3 The independent service auditor role is to look at the "control environment", whether the controls meet the objective set by the manager and is what the auditor considers appropriate. It considers and tests to see if they have been applied consistently and effectively. Each service auditor observes that the managers are dependent on third party's (which they have not audited) control environments being adequate.

3.8.4 This authoritative guidance allows pension fund managers to disclose their control activities and processes in a universally recognised reporting format, which is updated annually.

3.8.5 The Fund has always required that fund managers prepare and provide their internal control reports as part of their reporting requirement to the Fund. These reports provide some assurance to the Fund that fund managers' internal controls and safeguarding measures are adequate. These reports are subject to annual audits, and consequently officers and advisers also review the updated reports annually to ensure that any changes are acceptable to the Council and will not expose the Fund's assets to undue risk.

3.8.6 This financial year, the internal controls reports for the following fund managers have been received and reviewed:

Manager	Service auditor	Opinion
GSAM	PWC	Unqualified
Baillie Gifford	PWC	Unqualified
Schroder	PWC	Qualified (see below)
LGIM	PWC	Unqualified
GMO	PWC	Unqualified
Insight	KPMG	Unqualified
Ruffer	E & Y	Unqualified

3.8.7 The exceptions noted in the auditors' reports for these organisations have been considered for potential impact on the Pension Fund. Where there have been changes to procedures, officers and adviser have followed these up with the relevant managers to clarify impact on Fund assets. This process has not identified any significant change in risk to the Fund.

3.8.8 Each manager, with the exception of Schroder had an unqualified report which implies the control regime is both appropriate and working. It does not imply that each control test was passed and exceptions and the management's responses are set out below:

Schroder's internal control report was qualified because it "did not consistently provide evidence to demonstrate the independent review performed by authorised personnel of client reports for accuracy, completeness and compliance with client and portfolio requirements prior to dispatch." In other words the management could not prove to the service auditors that reports had been appropriately signed off, this is significant because clients rely on reports as a fair view of the fund's position hence performance etcetera. Schroder's response was "Management has performed a review to confirm that no errors were made in those client reports where the review was not evidenced. A process review was undertaken in January 2017 to identify the control enhancements required. An automated timestamp and enhanced audit trails were implemented so that the date on which the review was performed."

3.8.9 In addition to the provision of their internal control reports, two of the managers have provided audits of their UK Governance code. Both were unqualified. Please see exceptions noted as Annex 3 of this report.

3.9 Members are asked to delegate authority to the Corporate Director, Resource, following consultation with the Chair and Deputy Chair of the Pensions

Committee, to finalise and sign off the report. Members of the Committee will be sent a full copy of the report before publishing.

4. **COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2017 and as such acts as the basis for understanding the financial wellbeing of the Pension Fund. It also enables Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions.

4.2 The performance of the separate audit has placed additional responsibilities on both the Fund and the Auditors and will help to ensure full compliance of the Administration Regulations.

4.3 The Pension Fund audit is being undertaken by KPMG and the audit fee has been maintained at £21,000.

5. LEGAL COMMENTS

5.1 The Council is an Administering Authority, as defined in Regulation 53 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). As such, it must maintain at least one fund for the Local Government Pension Scheme.

5.2 In accordance with Regulation 55 of the Regulations, a governance compliance statement must be produced, and published, and kept under review.

5.3 In accordance with Regulation 57 of the Regulations, a document known as the "pension fund annual report" must be produced each year. It must be published no later than 1 December following the Scheme year end.

5.4 In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State. The report should deal with the following matters:

a) management and financial performance during the year of the pension funds maintained by the authority;
b) an explanation of the investment policy for the fund and a review of performance;
c) a report on arrangements made during the year for administration of the fund;
d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
e) a Governance Compliance Statement;
f) a Fund Account and Net Asset Statement with supporting notes and disclosures;
g) an Annual Report dealing with levels of performance set out in a pension admiinstration strategy and any other appropriate matters arising from the strategy;
h) the Funding Strategy Statement;
i) the Investment Strategy Statement;

j) statements of policy concerning communications with members and employing authorities; and

k) any other material which the authority considers appropriate.

5.5 When performing its functions as administrator of the LBTH pension fund, 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. <u>ONE TOWER HAMLETS CONSIDERATIONS</u>

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

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

7. <u>BEST VALUE (BV) IMPLICATIONS</u>

7.1 The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2017 and as such acts as the basis for understanding the financial wellbeing of the Pension Fund. It also enables Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions

7.2 The review arrangement of fund managers’ internal control provides some assurance to the Committee that assets are being managed in a way that is congruent with the Fund Strategy and therefore more likely to yield returns/outcomes that reflect Fund objectives.

8. <u>SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT</u>

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

9. <u>RISK MANAGEMENT IMPLICATION</u>

9.1 Accounts provide an effective mechanism to safeguard the Council’s assets and assess the risks associated with its activities.

9.2 The review of the SAS70/SSAE16 internal control reports of third parties that manage Pension Fund assets ensures that fund managers are able to demonstrate that they are properly managing pension fund assets as stewards of the Fund and are following procedures that do not expose fund assets to any undue risks.

9.3 Pension Fund assets could be exposed to undue risk where SAS70/SSAE16 reports are not in place or adequate internal controls and safeguard measures are lacking in the management of Fund assets.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Annex 1 - 2016/17 Pension Fund Annual Report
- Annex 2 - 2016/17 KPMG Audit Report (ISA 260 Report)
- Annex 3 – Exceptions noted from FM Internal control review

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
Fund Managers Internal Control Reports - (To be email if required)

- Schroders
- GMO
- Legal & General
- Goldman Sachs
- Insight
- Ruffer
- Baillie Gifford

Officer contact details for documents:
Bola Tobun(Investment & Treasury Manager) x4733

Annex C

Exceptions Noted from Fund managers Internal control Reports

1. GSAM – Exceptions noted

Control	Exception	Response
11d. Individuals whose roles and responsibilities to infrastructure have changed as a result of a transfer event have their access privileges reviewed in a timely manner by appropriate personnel. Access is reapproved or revoked for individuals who no longer require access based on their new job functions.	For a sample of twenty-five (25) entitlements identified for removal as a result of a transfer event, one (1) entitlement was not removed. For the six hundred and forty-eight (648) entitlements identified as transfer events during the period October 1, 2015 to September 30, 2016: One (1) entitlement was not removed. □ Seven (7) entitlements were not removed in a timely manner.	During the period October 1, 2015 to September 30, 2016, eight (8) firm wide infrastructure access entitlements in total for one engineer in Technology Infrastructure were not removed in a timely fashion upon transfer to another role. The specific period that was impacted was between December 2015 and May 2016. The user's access to seven (7) firm wide infrastructure access entitlements was removed on March 5, 2016 and the remaining one (1) access entitlement was removed on May 16, 2016. In addition, management's review of aggregate performance of the control demonstrated over 98% performance effectiveness during the period October 1, 2015 to September 30, 2016. Additional measures are being implemented to prevent re-occurrence, including improving automatic fulfillment of privilege removal.
Infrastructure access privileges are re-	Exception noted in the revocation of access.	During the Q1 2016 recertification, one (1) access

certified on a periodic basis to ensure access is commensurate with the individual's current job role. Access is re-approved or revoked in a timely manner.	For a sample of sixteen (16) entitlements identified for removal as a result of the recertification, one (1) entitlement was not removed. For five hundred and seventy-two (572) entitlements identified for removal as a result of the recertification, one (1) entitlement was not removed.	entitlement for the same engineer in Technology Infrastructure as noted in control 11d was not removed in a timely fashion before the recertification completion date. The user's access to the one (1) access entitlement was removed on May 16, 2016. Additional measures are being implemented to prevent re-occurrence, including improving automatic fulfillment of privilege removal.
Backups to tape are monitored and failures are managed through to remediation.	For the period October 1, 2015 to December 31, 2015, the following exceptions were noted related to the population of backups to tape: 50 month-end server backups across 35 unique servers were not written to tape media. For the 50 month-end server backups, a successful disk backup was performed.	The exception resulted from the misconfiguration of a new backup-to-disk system to provide faster backups and recovery. During the period October 1, 2015 to December 31, 2015, 50 month-end backups across 35 production servers were not copied to tape and as a result, a control incident was generated. The underlying technology issue that caused the control failure – misconfiguration of the disk to tape tier – was addressed in February 2016. For all servers across all months, at least one backup method (tape or disk to disk) succeeded; no data was at risk. Additional measures were implemented to prevent re-occurrence, including continuous monitoring of the disk-to- tape copy process; disabling automatic expiry of backups on disk; and verifying that disk-to-tape copies

		complete before on-disk backups are deleted.

2. Schroder – Exceptions noted

Apart from the qualification covered above no exceptions were noted.

3. Baillie Gifford – Exceptions noted (None)

4. LGIM – Exceptions noted

Control	Exception	Management response
Investment strategy is set and implemented in a timely manner A Fund Objectives and Guidelines document (FOG) is created for each fund that summarises all of the investment guidelines and restrictions as part of the agreement. Each new FOG is reviewed and signed off by the Fund Manager, Client Account Manager and Portfolio Monitoring team	For a sample of 2 out of 26 new funds, the FOG document was not signed by a member of the Portfolio Monitoring team.	The control framework has been strengthened so that senior managers in the team now confirm that all FOGs documents are signed. This is evidenced in our Risk Management System
Investment strategy is set and implemented in a timely manner The majority of investment restrictions and guidelines are monitored through MIG21. These are input by a member of the Portfolio Monitoring	For a sample of 2 out of 26 new funds, the investment restrictions and guidelines were not released on MIG21 before the funds went live.	The control framework has been strengthened so that senior managers in the team now confirm that all FOGs documents are signed. This is evidenced in our Risk Management System

team and reviewed and released by a second person in the team before the fund goes live.		
Commission levels and transaction costs are monitored On a monthly basis, the heads of asset classes review a report of commission levels and turnover rates with the Head of Dealing. The final monthly report is prepared and shared with the Board and reviewed by the Board annually.	Due to software issues the monthly report was not ran for 3 months of the year. As such no meeting was held to discuss commission levels and turnover rates.	Steps have been taken to improve reliability of report generation and a subsequent review of the period in question showed that commission levels and turnover were within acceptable boundaries.
Logical access to computer systems programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques. User access to IT network, infrastructure and applications is disabled on staff departure date and deleted after three months.	For 6 out of 162 leavers access was not appropriately disabled after they left LGIM.	To date, the process by which HR and IT are notified of leavers has been manual and relied on line managers notifying HR promptly. We are introducing a new control whereby the line manager will use Service Now to log leavers within LGIM will send automated report to HR and IT, which will then remove or disable systems access as well as making the individual a leaver. This will remove the manual element and the reliance on line managers which has cause the control to fail in the past. We expect this to be in place by end of Q2. No inappropriate access was achieved or attempted by the leavers.

5. GMO– Exceptions noted

Control	Exception	Response
For pooled products, the US or UK Operations team reviews a request to update existing account information and verifies it is instructed by an authorized signatory. Once reviewed, changes are made to GMO's client service database(s) (GPRS and/or Pivotal) by an appropriate Client Operations team representative in a timely manner. Updates to existing account information are compared and agreed by another Client Operations team representative against the request document.	US and UK Operational Controls Exception: For 1 of 40 client account update requests selected for testing, the client's request was not processed timely. PwC selected 24 additional client account update requests, and noted no additional exception	Management acknowledges the finding. Management has reinforced the importance of timely communication of client account changes to the Client Operations team for processing and performed additional training.

6. Ruffer – Exceptions noted

Control	Exception	Management response
Prices are regularly screened to a third party	In one instance of 25 no tolerance report could	We are confident that due procedure was followed and

source and any result outside tolerance levels highlighted and reviewed	be obtained. In 2 instances, there was no evidence that the tolerance check had been investigated	that the failure was completed report evidencing… had not been saved correctly…. We are comfortable that the team completed… the control and this is an administrative error.
Any changes to user permissions (IT) are approved by internal authorized personnel	Noted that access to the Pulse system for one leaver (of 91) was not revoked after termination date.	We identified the leaver had been issued a second account due problems with application functionality. The second account was missed during the leaver process. The leaver process and review process has been reiterated to the relevant team.

7. Insight – Exceptions noted

Control	Exception	Management response
Insight receives weekly status reports on timeliness and completeness of Client reporting from NT. The weekly status reports are monitored in the Client Administration FSM logged in the FSM action log. The monthly MI is reviewed at next Client administration FSM and outstanding issues escalated to the SMC	For 4 out of 5 weeks no Client FSMs were held	The Client Administration FSM was not held for 6 months during the Head of Client Reporting's maternity leave. The acting Head of Client Reporting had daily interaction with NT in order to provide oversight of client reporting and resolution of issues. NT continued to produce MI which were circulated to relevant governance committees.

TOWER HAMLETS

London Borough of Tower Hamlets Pension Fund Draft Annual Report and Accounts 2016/17

Contents

Foreword by Chair, Pensions Committee

It is my privilege as the Chair of the Pensions Committee to introduce the annual report and accounts. I took the Chair in May 2017 from Councillor Andrew Cregan whom I thank for his work and diligence in chairing the Committee for the two previous years. The principle role of the Pensions Committee is to steer the main policies of the Pension Fund in order to provide good governance and stewardship of the Local Government Pension Scheme.

The Pensions Committee has the responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information. The Committee carries a considerable responsibility to ensure that the Pension Fund, which was valued at £1,367m at 31 March 2017 and has over 20,000 scheme members, is managed in an efficient and effective way.

During the financial year 2016/17, the Fund received the result of the triennial valuation of the Fund. This indicated that as at 31st March 2017 there was recognised an estimated deficit of £234.5m which had reduced from £365m as at the previous valuation date of 31st March 2014. The valuation also determined that the funding level had increased from 71.9% to 82.8% over the same time period.

This favourable change was largely as a result of asset performance being better than expected. Equities are at all-time highs, bond yields are low potentially raising the valuation of the Fund's liabilities. It is also worth noting that the Fund is a long term investor and has a relatively secure long term income stream. The Fund is therefore able to alter its strategy to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

The Fund's net cash flow position remains positive with contributions and transfers in outstripping benefits paid and transfers out by £8.6m plus a further net inflow from investment income of £17.7m. The Pensions Committee monitor this aspect of the Fund closely as they recognise the need for the Fund to be able to pay its liabilities as they fall due and the ongoing austerity programme affecting public services.

Key areas of focus for the Committee during the year revolved around ensuring that the Fund is able to meet the challenges posed by Central Government around investment reform. To this end the Committee has been very supportive of the establishment of the London Collective Investment Vehicle (CIV). The Fund has transferred some 31% of the fund assets onto the LCIV platform. This involved the transfer of three existing fund managers into the Commonality of mandate, Quantum of assets under manager, Conviction, (CQC) with the LCIV demonstrating that both the Fund and the relevant managers are committed to those existing mandates.

The Pensions Committee has also focused heavily on how it manages the potential impacts of climate change within its investments. A discussion was held at the December 2016 meeting of the Committee and a further special strategy meeting took place in February 2017 to allow for a full discussion of the issues.

This has resulted in the development of a series of tasks, with work beginning in Quarter 4 of 2016/17 and being taken into 2017/18 municipal year. These tasks are as follows:

a) To develop a policy statement regarding the London Borough of Tower Hamlet's approach to fossil fuel investment for inclusion within the new Investment Strategy Statement;

b) Undertake annual monitoring of carbon risk within the London Borough of Tower Hamlets Pension Fund that will be carried out by a specialist contractor conducting a carbon footprint of the Fund;

c) Consider switching options for the Pension Fund's passive UK equity mandate into low carbon global equity mandate;

d) Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and promote consideration of the climate changes issues with managers when making investment decisions;

e) Maintain an active engagement approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance; and

f) Consider options for an initial active investment of approximately 5% of the Fund in a sustainable, low carbon or clean energy fund(s).

The Fund has also supported collaborative working more generally, playing a key role in the development the National LGPS Procurement Framework by being a member for the Scheme Actuary Framework, Administration and Benefits Consultancy Framework and most recently Investment Consultant Framework.

The biggest event during the period covered by the Annual Report was undoubtedly the United Kingdom European Union membership referendum on 23rd June 2016 – with 51.9% voting in favour of 'Brexit'. Subsequent to the 'leave' vote, Sterling has endured a fairly torrid time and this weakness in the pound was a significant driver of the strong equity returns for GBP investors.

In the face of the storms that have rolled across the landscape of investments, the Fund has seen significant positive movement in the year benefiting from continued recovery in the financial markets, especially equities. The overall value of the portfolio of assets grew by £241m (21.5%) in 2016/17 from £1,126m to £1,367m. Whatever the short-term fluctuations of the markets the Pension Fund takes a long term view appropriate to its long-term liabilities.

Being very much aware of the distortion of asset values by Central Bank action and the Fund's overweight position in equities, the Pensions Committee are currently reviewing the Fund's Investment Strategy with a view to reducing some risk by reallocating asset weights and re-balancing the Fund's portfolios.

The Pensions Committee has also benefited from the scrutiny and strengthening of governance from the setting up a Local Pensions Board and you can find a report of their work included in this annual report.

Councillor Clare Harrisson

Chair, Pensions Committee

Governance of the Pension Scheme

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

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

MANAGEMENT AND ADVISERS TO THE PENSION FUND as at 31st March 2017

The Pensions Committee during 2016/17 was made up of seven Councillor Members, an Employer Representative and a Scheme Member representative.

Pensions Committee:

Councillors:	Councillor Andrew Cregan (Chair) Councillor Clare Harrisson (Vice Chair) Councillor Gulam Kibria Choudhury Councillor Mohammed Mufti Miah Councillor Abdul Mukit MBE Councillor Candida Ronald Councillor Andrew Wood
Trade Union Representative (non-voting):	Kehinde Akintunde (GMB)
Admitted Bodies Representative (non-voting):	Tony Childs (Tower Hamlets Homes)

Contact details for the Pensions Committee:-

Pensions Committee
London Borough of Tower Hamlets
Town Hall,
Mulberry Place
5 Clove Crescent
London, E14 2BG

Staff, Advisers & Investment Managers

The management and administration of the pension Fund is delegated to the Corporate Director of Resources, having responsibility for the day to day management of the Fund.

London Borough of Tower Hamlets Responsible Officers:

Bola Tobun – Investment & Treasury Manager

Neville Murton – Divisional Director Finance, Procurement & Audit

Zena Cooke – Corporate Director, Resources

Advisers:

Consulting Actuary - Hymans Robertson LLP
Barry McKay - Actuarial Consultant/Adviser

Investment Consultant - Hymans Robertson LLP
Matt Woodman – Senior Investment Consultant

Independent Investment Adviser
Raymond Haines

Custodial Services - State Street Bank

Performance Measurement Services - State Street

Legal Advisers - Legal Services
London Borough of Tower Hamlets, Town hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Auditor - KPMG LLP (UK)

Investment Managers:

GMO UK Limited
1 London Bridge, London, SE1 9BG

Goldman Sachs Asset Management (GSAM)
River Court, 120 Fleet Street, London, EC4A 2BE

Insight Investment
160 Queen Victoria Street, London EC4V 4LA

Legal & General Investment Management Limited
One Coleman Street, London, EC2R 5AA

London LGPS CIV Ltd
70 Great Bridgewater Street, Manchester, M1 5ES.

Ruffer LLP
80 Victoria Street, London SW1E 5JL

Schroder Investment Management Limited
31 Gresham Street, London EC2V 7QA.

Governance and Oversight Review

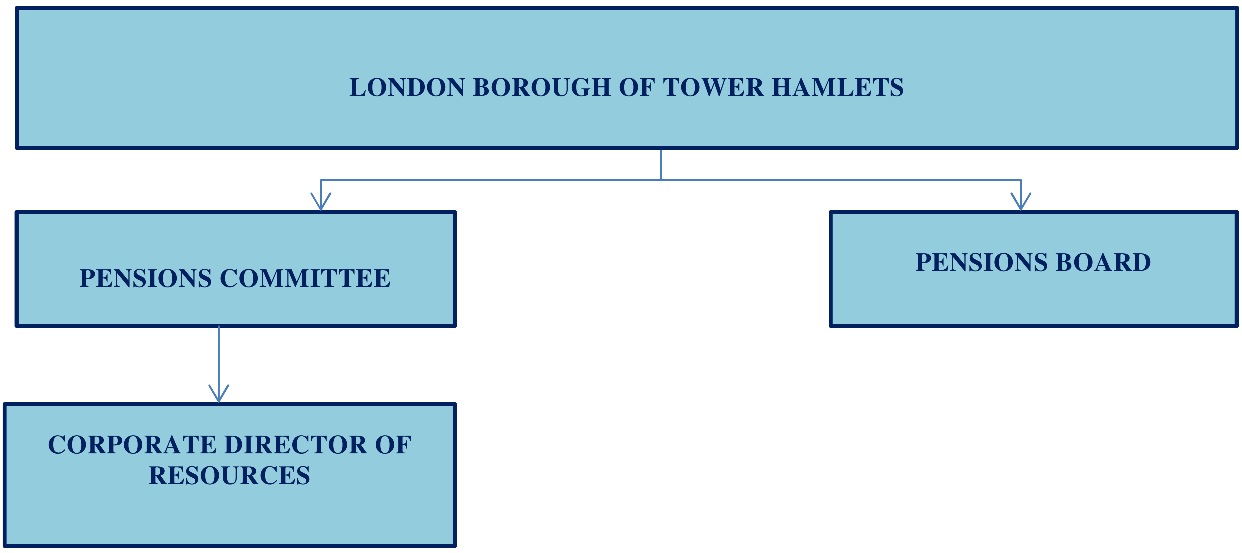
The Pension Fund Regulations require a new additional governance arrangement (Pensions Board) to be in place from 1 April 2015.

London Borough of Tower Hamlets is the Administering Authority of the pension Fund, the delegated responsibility for the management of the pension fund is with the Pensions Committee and the new regulatory requirement is for a Pensions Board to assist the Authority in monitoring compliance with regulations by overseeing the Pensions Committee work in how the Fund is administered.

Full Council approved the establishment of the Pensions Board at its meeting in September 2015 with delegation authority for the composition of it and terms of reference to the Pensions Committee. Pensions Committee agreed the composition of the board comprising three Employer Representatives, three Employee Representatives and an Independent Chairman.

Please see below chart illustrating the new governance arrangement.

<u>From Financial Year 2015/16</u>



At the onset of Committee meetings, Committee members are required to make declarations of interest both in relation to membership of the Local Government Pension Scheme and relationship to any employer bodies within the Pension Fund. Further declarations are required as and when agenda items arise where a member may have a conflict of interest. The Governance Officer maintains a record of the Conflicts of Interest which covers Pensions Committee and Pensions Board Members as well as officers closely connected with the Fund.

A legal officer is present at the Committee meetings to provide guidance on legal matters and is also required to comment on other items where there could be conflicts of interest.

Pensions Committee Attendance 2016/17

Attendee	Voting Rights	30-Jun	22-Sep	07-Dec	16-Mar
Member					
Cllr Andrew Cregan	√	Present	Present	Present	Present
Cllr Clare Harrisson	√	Absent	Present	Present	Present
Cllr Gulam Kibria Choudhury	√	Absent	Present	Absent	Present
Cllr Harun Miah	√				
Cllr M'med Maium Miah	√	Present	Absent	Absent	Present
Cllr Abdul Mukit MBE	√	Present	Present	Absent	Absent
Cllr Candida Ronald	√	Present	Present	Present	Present
Cllr Andrew Wood	√	Present	Present	Present	Present
Substitute					
Cllr Rajib Ahmed	√	Absent	Absent	Absent	Present
Non-voting Member					
Tony Childs	x	Absent	Absent	Absent	Absent
Kehinde Akintunde	x	Present	Absent	Absent	Present
Public					
Raymond Haines (Adviser)	x	Absent	Present	Present	Present
Officers					
Bola Tobun	x	Present	Present	Present	Present
Kevin Miles	x	Present	Present	Present	Present
George Bruce/Anant Dodia	x	Present	Absent	Absent	Present
Neville Murton	x	Present	Absent	Absent	Present
Ngozi Adedeji	x	Absent	Present	Present	Present
Zoe Folley	x				Present
Nishaat Ismail	x	Present	Present	Present	Absent

Training was provided to the Committee on 9th June 2016 and with a time slot at the Committee meetings of 22nd September 2016, 7th December 2016 and 16th March 2017. The topics covered in the training programme for the Committee in 2016/17 were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them.

Topics covered during the financial year were:

- Overview of Local Government Pension Scheme (LGPS)
- LGPS 2014 – Benefit Structure
- New LGPS Governance Structure
- The Pensions Regulator (tPR)
- Roles and Responsibilities of Service Providers, Pensions Board & Committee
- Statutory Documents
- An overview of Investment Strategy and Asset Allocation
- Fiduciary Management and Engaging for a low carbon transition
- Valuations, funding strategy and inter-valuation monitoring

Knowledge and Skills Policy Statement

CIPFA Code of Practice on Public Sector Pensions – Finance Knowledge and Skills

The adoption of the CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.
London Borough of Tower Hamlets Pension Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

London Borough of Tower Hamlets recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

London Borough of Tower Hamlets will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

London Borough of Tower Hamlets will report on an annual basis how these policies have been put into practice throughout the financial year.

London Borough of Tower Hamlets has delegated responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Corporate Director of Resources, who will act in accordance with the organisation's policy statement, and where they are a CIPFA member with CIPFA Standards of Professional Practice.

London Borough of Tower Hamlets recognises the importance of ensuring that it has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

London Borough of Tower Hamlets therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

Core technical areas and areas of knowledge

Legislative and governance framework
- General pensions framework
- Scheme-specific legislation for LGPS
- Pensions regulators and advisors
- Constitutional framework for pension fund committees within administering authorities
- Pension scheme governance

Accounting and auditing standards
- Accounts and Audit regulations
- Role of internal and external audit

Procurement of financial services and relationship management
- Procurement requirements of UK and EU legislation
- Supplier risk management

Investment performance and risk management
- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Committee
- Performance of support services

Financial markets and investment products
- Investment strategy
- Financial markets
- Regulatory requirements regarding investment products

Actuarial methods, standards and practices
- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

Risk Management

Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund; improved financial performance, better delivery of services, and improved Fund governance and compliance.

There are four general approaches to treating risk: avoid, reduce, transfer or accept.

- Avoidance of risk – not undertaking the activity that is likely to trigger the risk
- Reducing the risk – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

The types of risk that the Fund is exposed to fall into the following broad categories:

- Financial – These relate to investment related risks including market, currency, credit and interest rate risks – these are outlined in detail in the Statement of Accounts.
- Strategic – Failure to meet strategic objectives such as performance targets, Funding Strategy Statement objectives, etc.
- Regulatory – Regulatory changes impacting on the Fund, or failure to comply with legislation or meet statutory deadlines.
- Reputational – Poor service damaging the reputation of the Fund.
- Operational – Data maintenance, service delivery targets.
- Contractual – 3rd party providers, failure to deliver, effective management of contracts.
- Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

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

The Fund's investment managers and custodian are audited separately and at different times. The Council receives audited assurance reports AAF01/06, SSAE16 and ISAE3402 from their independent auditors. Any exceptions highlighted by their auditors are evaluated by officers.

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

Market and Investment Performance Review

Over the last twelve months the average Local Authority pension fund has returned 21.4%. This return is well ahead of the 30 year average of 8.7% p.a. and well ahead of actuarial assumptions which are currently estimating around 5% p.a. With the full LGPS currently valued at around £200bn this year's return represents a net gain of some £40bn for the public sector schemes.

Local authority funds have retained a high commitment to equities which, this year, has been extremely favourable. The strong overall returns have been driven by the excellent performance from equity markets in the last twelve months.

UK equities performed well despite the large fall in the value of Sterling. Whilst initially counterintuitive, this reflects the importance of large overseas earnings of many of the UK quoted companies. The UK returned 21.4% for the year with large companies, as represented by the FTSE100, outperforming their smaller peers (within the FTSE250 and Small Cap indices) for the first time in eight years.

Overseas returns were better still, boosted for those funds who did not hedge their assets, by the marked decline in Sterling following the surprise decision to leave the EU. Local authority funds saw returns of around 35% across their US, Japanese and Pacific Rim investments with a marginally lower 33% from Emerging Markets and 27% from Europe. Most funds invest on an unhedged basis –funds that were fully hedged would have produced returns around 15% lower on their overseas assets.

Despite the increased political instability and resulting volatility, bond markets produced positive results. Funds achieved an average return from UK government bonds of 10.1% with corporates rather better at 11.7%. Index Linked gilts returned 18.2%

Diversified Growth funds, with an average return of 7.2%, outperformed their benchmarks but produced returns well below most other investments.

Property produced a return of 6.2%.

LCIV (BG) Diversified Growth Fund - In the year to 31st March 2017, the fund delivered a net return of 10.35% a reasonable performance compared to base rate +3.5% (+3.8%), which is an objective of the underlying direct fund manager. Listed equities remained the largest asset class during the year representing with an average exposure of 19.7% in the portfolio during the period with emerging market bonds (9.8% average) and high yield credit (13.9% average) representing the next largest asset classes for the fund during the year.

Listed equities, following strong performance from the global equity funds held within the portfolio contributed 4% to the performance of the fund. Also performing well were high yield bonds (+1.8%) and active currency (+1.1%) where the long US dollar position was particularly helpful. Infrastructure and emerging market debt also contributed around 1% each. The majority of asset classes delivered a positive contribution, with the exception of a small negative contribution from absolute return (-0.1%).

LCIV Ruffer Absolute Return - The LCIV took over the management of the Fund portfolio from 21st June 2016 with assets transitioned across. Since inception with LCIV, the fund has delivered 11.5%, with all of the performance coming in the period between June and December, with the final quarter being flat. The fund adopts a single discretionary investment approach, namely absolute return with a long only, asset allocation and stock selection focus with exposure across all conventional asset classes. The focus is on capital preservation with the aim not to lose money on a twelve month basis with the potential to grow funds at a higher rate than cash deposits.

Performance has been driven by the fund's exposure to index linked bonds which performed particularly well following the Brexit decision and the associated fall in sterling.

The equity portion of the portfolio has aided performance and in particular the fund's exposure to Japanese equities. The fund has remained defensively positioned throughout the period with less than 40% of the fund exposed to equity markets looking to take advantage of unloved stocks and the remainder of the portfolio in defensive positions such as index linked, gold and gold securities and short term cash instruments.

GMO - The benchmark return for the 12 month period to 31 March 2017 was 32.2%, and the assets invested with GMO were broadly in line with this with a return of 31.4% (net of fees). Looking at returns by region over the period, the U.S. and emerging markets led the way with Europe being the laggard. The significant underweight to the U.S. and smaller overweight to Europe thus proved a headwind to performance, but they were offset by the meaningful overweight to strongly performing emerging markets.
Stock selection was largely to blame for the modest underperformance, and this was most evident in the U.S. when viewed from a country perspective. Being underweight Financials in the US detracted as these got a significant boost following the election on speculation that the Trump administration would introduce a more benign regulatory environment – indeed, the zero holding in Bank of America was the single biggest detractor from relative performance. Two of the stocks that the portfolio was overweight in, Valero Energy and Chipotle Mexican Grill were the next biggest detractors. There are some successes in the U.S. and the holding in Amazon was the biggest single contributor to relative performance.

Baillie Gifford Global Alpha - LCIV Global Alpha Growth Fund was launched in early April 2016, with the fund outperforming the benchmark over the year to end March 2017 by 2.41% (net) delivering against the performance objective on annual basis. However, this disguises some volatile quarters over the period (both for the market and fund) where the fund underperformed against benchmark over quarters one and three, but recovering that underperformance and adding value over quarters two and four against the benchmark, reflecting market moves into and out value stocks, most notably in the third quarter following the Trump rally, where the fund has little exposure. The fund is focused on bottom up stock-picking with a quality bias with a diversified portfolio (typically 90-110 stocks).
The fund's sector positioning, overweight in information technology, financials and consumer discretionary and underweight positions in energy and telecoms helped performance as technology and financials performed strongly over the period. Over the year, the biggest individual contributors to performance were holdings exposed to US growth, technology and Asian consumption, notably Amazon (+0.8%), NVIDIA (+0.8%), First Republic Bank (+0.5%), Samsung Electronics (+0.4%). Stocks that detracted from performance over the year included Myriad Genetics, Novo Nordisk, Stericycle, Ryanair and Brambles.

Schroder (Property) – Returns are in-line with the benchmark over one year, although the portfolio has underperformed the benchmark over three years (-0.7% per annum), five years (-0.8% per annum) and since inception (-0.6% per annum). Holdings in Continental Europe have been the main detractors from returns over the longer term, with the UK (98% of the portfolio by value) outperforming the benchmark over three and five years. At a sector level, alternatives (i.e. not retail, office and industrial) and industrials have typically performed well, whilst central London offices have generally detracted from returns.
There were circa £35.7 million of transactions in the year to end Q1 2017, representing a turnover of circa 25% by value of the portfolio. This transactional activity has repositioned the fund away from Central London offices and weaker balanced funds and towards preferred sectors including industrials, regional offices and alternatives.

There were circa £19.5 million of purchases in the year to end Q1 2017 and circa £16.2 million of sales / returns of capital. Acquisitions were in-line with the House View, increasing exposure to multi-let industrials, regional offices, convenience retail and alternative property sectors. Sales were made to reduce exposure to weaker performing balanced funds and central London offices, the market segment we expect to be most negatively impacted by the fallout from the EU referendum vote.

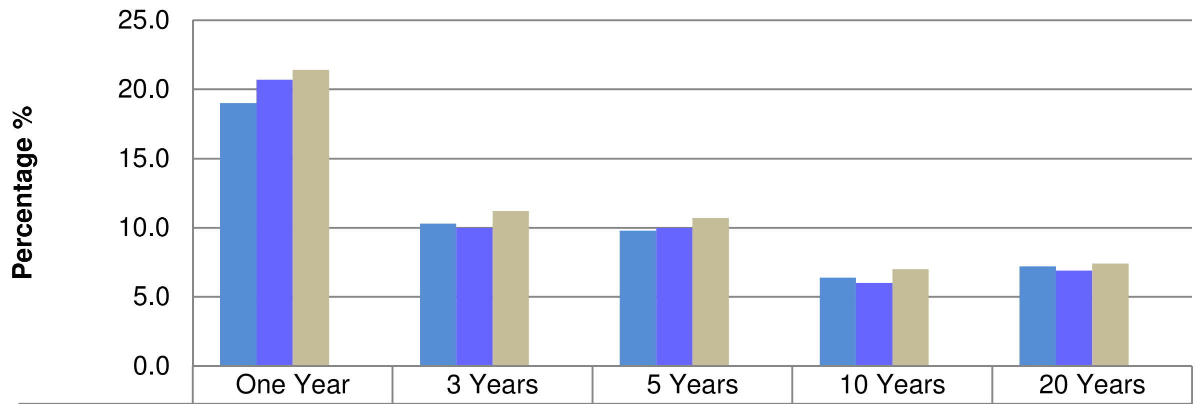
Goldman Sachs - The portfolio outperformed the benchmark over the review period, predominantly driven by the Country strategy and the Government/swap selection strategy, while the Duration strategy underperformed over the period.
The Country strategy was the largest contributor towards positive excess returns over the period mainly driven by the relative value trades such as the long positioning in Canada versus short positioning in US rates, their long positioning in Europe versus short positioning in Japan and US rates along with their long positioning in Australia versus short positioning in UK. The Government/swap selection strategy also contributed towards positive excess returns mainly driven by the European and US curve steepened trades. Additionally the overweight to US TIPS along with the specific selection of Japanese government securities aided the positive performance.
The Duration strategy, however, underperformed over the period mainly due to the underweight US rates in June 2016 as rates rallied in response to surprise UK referendum results on Brexit. The manager maintained adjusted tactical positions in US rates over the period and are currently underweight US rates and expect one further Fed rate hike this year due to positive economic data releases, particularly with regards to the labour market. At its March meeting, the Fed's Summary of Economic Projections showed upward revisions to core inflation and GDP growth forecasts.

Investment Performance of the Fund

The Fund's Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document will be reviewed following the completion of the Fund investment strategy review and updated approved revised version will be published shortly after the Committee meeting of September 2017.

The fund performance improved over the latest year, with the fund recording an absolute return of 20.7%, 1.7% ahead its benchmark and 0.7% below the local authority (LA) average return as shown below. The three year return also marginally lagged behind the Fund benchmark return of 10.3% pa and also LA average return of 11.2% pa with the fund returning 10% per annum. The return for 5 year, 10 year and 20 year continued to lag the LA average by 0.7%, 1% and 1.5% respectively.

Fund Performance (One, Three, Five Ten and 20 Years)



	One Year	3 Years	5 Years	10 Years	20 Years
Benchmark	19.0	10.3	9.8	6.4	7.2
Fund	20.7	10.0	10.0	6.0	6.9
LA Average	21.4	11.2	10.7	7.0	7.4
Rank	51	71	71	79	65

Fund Management Activity

The London Borough of Tower Hamlets Pension Fund has been actively managed on a specialist basis by: Global Equities being managed by London Collective Investment Vehicle (CIV) and GMO, Goldman Sachs Asset Management (GSAM) pooled fund and Insights Investment pooled fund replaced Investec Asset Management (Corporate Bonds), Schroders Property Capital Partners (Property), the DGF mandates are being managed by LCIV and the passive management of UK Equities and UK Gilt & Index Linked are being managed by Legal & General Investment Management (LGIM).

In February 2016, the Baillie Gifford DGF mandate, June 2016 Baillie Gifford Global Equity and Ruffer Absolute Return portfolios were transferred to the London CIV platform with the same benchmark target. On 22nd March 2016, the Fund redeemed out of Investec mandate of corporate pooled bonds and in April 2016 invested in Goldman Sachs Asset

Management (GSAM), Strategic Absolute Return Bond II Pooled Investment Fund and in July 2017 invested in BNY Mellon Absolute Return Bond Fund with Insights Investment.

The volatility in the equity markets and strong returns from the fund's global equity managers and absolute return funds was a major contributor to the outperformance.
The underperformance from GMO, Ruffer and Baillie Gifford Diversified Growth was unfavourable.
.
The main driver of GMO underperformance over the period stems from being underweight the U.S. and overweight Emerging Markets, although individual stock selection was also a detractor over the period, with Amazon's outperformance being outweighed by underperformance from Valeant Pharmaceuticals. The manager advised that they retain conviction in their U.S. vs Emerging view but have reduced the concentration of single stock positions, so would not expect single names to dominate performance attribution in future periods.

The fund continues to participate in the Collective Investment Vehicle (CIV) and at the time of writing this report, Baillie Gifford (Global Equity) mandate and Ruffer LLP mandate have been transferred to LCIV platform.

The fund received a positive cash flow from dealings with members of £4.37m and the 2016/17 cash flow forecast predicts that it will continue to be positive.

Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 31 March 2017 as set out below. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

Analysis of Asset Allocation

Asset Class	Benchmark	Fund Position	Variance
UK Equities	23.0%	19.3%	-3.7%
Global Equities	37.0%	44.0%	7.0%
UK Index Linked	6.0%	5.4%	-0.6%
Pooled Bonds	12.0%	10.8%	-1.2%
Property	12.0%	10.2%	-1.8%
Alternatives	10.0%	9.0%	-1.0%
Cash	0.0%	1.3%	1.3%

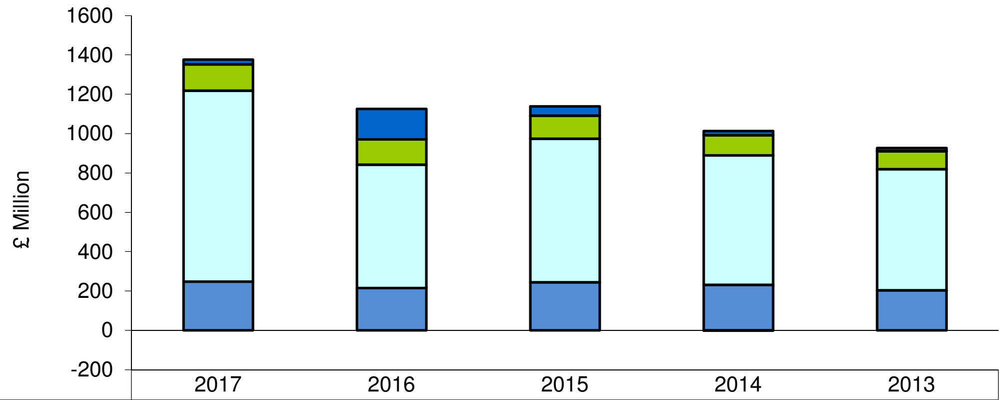
The Fund remains close to its strategic allocation, the global equity mandate was trimed by redeeming £50m from the Fund portfolio with GMO waiting to be invested in alternatives, pooled bonds and property.

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

Financial Accounts

During the financial year 2016/17 the value of the Fund improves significantly by £253m from £1,126m to £1379m, an increase of 22.5%. This is mainly attributable to the outperformance of the Fund global equity managers.

ANALYSIS OF ASSET CLASS



	2017	2016	2015	2014	2013
Cash	23.9	154.6	47.2	21.6	15.1
Derivatives	0	0	0	-0.4	0.5
Property Units	133.6	129.9	116.9	102.1	92.1
Unit Trusts	971.6	626.9	730	658.7	615.2
Equities	247.5	214.6	244.3	231.0	203.9

Fund Income

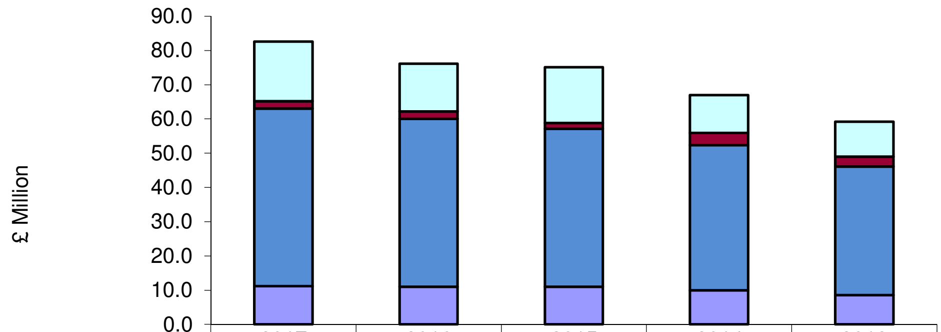
There was an overall improvement of £6.5m in the amount of income received by the Fund in 2016/17 compared to 2015/16.

Fund Income Variance Analysis

Type of Income	2017 £m	2016 £m	Variance %
Employees Contributions	11.2	11.0	1.8%
Council Related Contributions	51.8	49.0	5.7%
Transfer Values	2.2	2.2	0.0%
Investment Income	17.4	13.9	25.2%
Total Fund Income	**82.6**	**76.1**	**8.5%**

Investment income increased over the year by £3.5m, mainly due to great improvement of global equity market hence a significant improvement in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) remained stable. It is not possible to predict the value of transfer value payments as they are dependent on individual's length of service and salary and as such may vary significantly. Employee contributions increased slightly. Employer contributions went up by £2.8m (5.7%) this is substantially due to an increase in the employer's deficit funding payment of £2m.

Fund Income Analysis

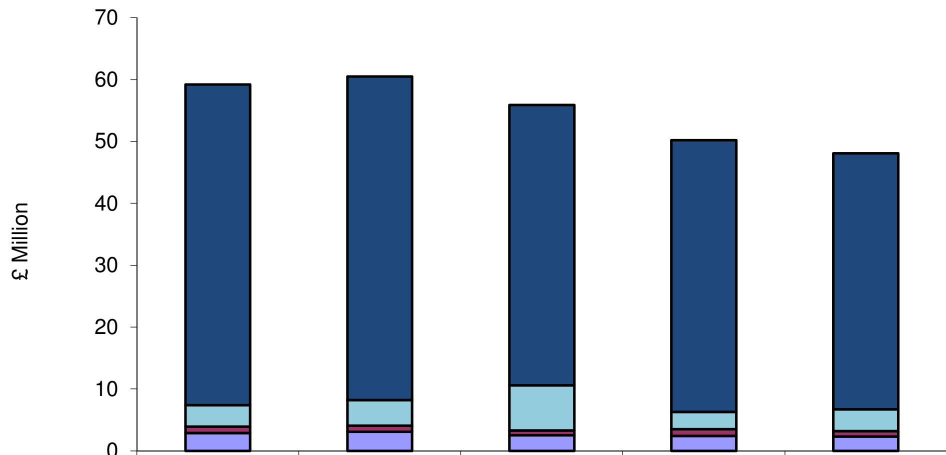


	2017	2016	2015	2014	2013
Investment Income	17.4	13.9	16.3	11.1	10.2
Transfer Values	2.2	2.2	1.7	3.5	2.9
Council Related Contributions	51.8	49.0	46.1	42.4	37.5
Employees Contributions	11.2	11.0	11.0	10.0	8.6

Fund Expenditure

In 2016/17 the overall Fund expenditure decreased by £1.3m (2.1%). The major contributor to this reduction was the fall in transfer out, fell by 14.6%, 600k in money terms and slight reduction in Benefits payable fell by £500k. There was also a modest fall in investment management costs

Fund Expenditure Analysis



	2017	2016	2015	2014	2013
Benefits Payable	51.8	52.3	45.3	43.9	41.4
Transfer Values	3.5	4.1	7.3	2.8	3.5
Administration	1.0	1.0	0.8	1.1	0.9
Investment Management	2.9	3.1	2.5	2.4	2.3

The reduction in transfers out was a reflection of the value of transfer out payments being made, it could be combination of different things the number of staff leaving had reduced and or lower salary paid leavers. The investment management fees have fallen in line with the new pooling arrangements in place for currently 30% of the Fund assets.

Fund Expenditure Variance Analysis

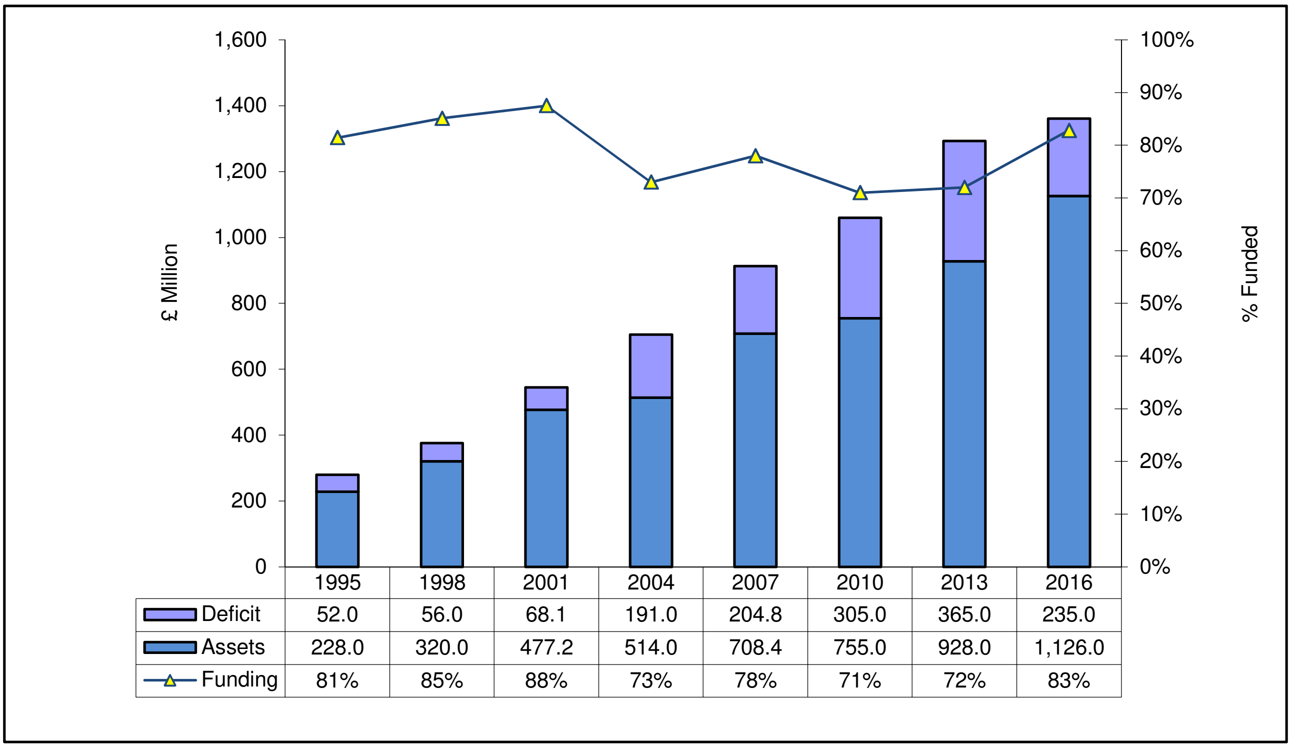
Type of Expenditure	2017	2016	Variance £m	Variance %
Investment Management	2.9	3.1	-0.2	-6.5%
Administration	1.0	1.0	0	0.0%
Transfer Values	3.5	4.1	-0.6	-14.6%
Benefits Payable	51.8	52.3	-0.5	-1.0%
Total Fund Expenditure	59.2	60.5	-1.3	-2.1%

Funding Level

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

The fund was valued by the scheme actuary Hymans Robertson LLP as at the 31st March 2016. The Actuary calculated that the Pension Fund is 82.8% funded and has a deficit of £235m.

Movement in Funding Level



The funding level has improved from 71.8% in 2013 to 82.8% in 2016. Additionally, the funding deficit has decreased by £130m. The main reasons for the change in the funding level over the period were better than anticipated investment returns, receipt of deficit repair contributions, and positive membership experience.

The liabilities have also increased due to a reduction in the future expected investment return, although this has been offset by lower than expected pay and benefit growth.

On the recommendation of the Actuary, the Council adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £15m per annum from 2017/18 to 2019/20 into the pension fund specifically to recover the deficit.

Although there is a reduction in lump sum payment towards deficit recovery (secondary rate) from £22m for 2016/17 to £15m for 2017/18 but the primary rate contribution has increased from 15.8% of employee pay for 2013 valuation outcome to 19.9% of employee pay for 2016 valuation result.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force, hence a contribution rate that is directly comparable to the 2016 valuation rates cannot be provided.

The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance. Changes to employer contributions targeted to ensure full funding have been variable across employers.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases. The 2016 valuation exercise has shown the fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

The Scheme Details

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds.

The London Borough of Tower Hamlets is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations made it clear that the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such, are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme as applying during the financial year 2016/17 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

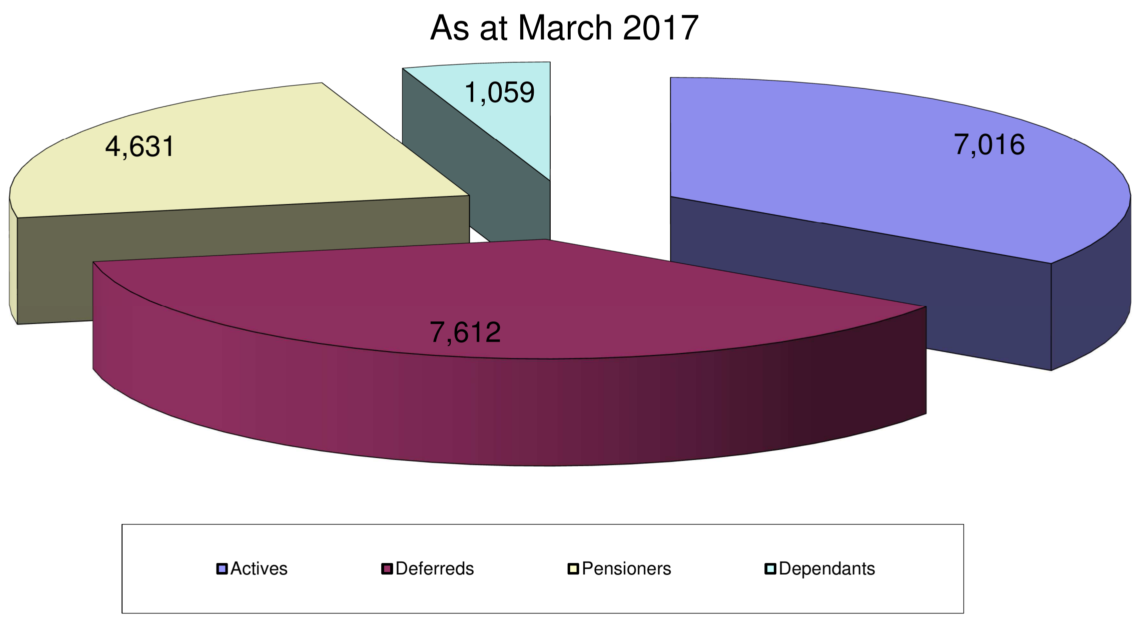
- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living.

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014, although it should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for spouses/civil and co-habiting partners and children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the CPI.

Scheme Membership
The Fund currently has a membership of 20,318 comprising the following categories as set out in the below chart. Membership to the scheme is automatic for full and part-time employee unless they opt out.



The total pension fund membership has increased by 2.6% between 2015/16 and 2016/17. The number of actives members (those currently contributing to the fund) has reduced by 6 members (0.1%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 467 (6.5%) and pensioner members by 32 (0.7%). The dependants' category saw an increase of 15 (1.4%).

The table below sets out the movement in membership number between the different categories in 2015/16 and 2016/17.

Movement in Fund Membership

Membership Type	31-Mar-17	31-Mar-16	Variance No.	Variance %
Actives	7,016	7,022	-6	-0.1%
Deferreds	7,612	7,145	467	6.5%
Pensioners	4,631	4,599	32	0.7%
Dependants	1,059	1,044	15	1.4%
Total	20,318	19,810	508	2.6%

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

Membership Type	31-Mar-17	31-Mar-16	31-Mar-15	31-Mar-14	31-Mar-13
Actives	7,016	7,022	6,860	6,792	5,298
Deferreds	7,612	7,145	6,786	6,664	6,292
Pensioners	4,631	4,599	4,352	4,246	4,148
Dependants	1,059	1,044	1,011	975	979
Total	20,318	19,810	19,009	18,677	16,717

Fund Employers

London Borough of Tower Hamlets is the administering authority for the fund. The scheme is open to all council employees and scheduled bodies. Admitted bodies require the agreement of the administering authority to participate in the fund. The admitted bodies and scheduled participating in the fund are set out below.

Admitted Bodies

- Agilisys
- City Gateway
- East End Homes
- Gateway Housing Association
- Greenwich Leisure Ltd
- One Housing Group
- Swan Housing Association
- Tower Hamlets Community Housing
- Vibrance (formerly Redbridge Community Housing Ltd)

* Circle Anglia Ltd ceased to be an admitted body of the fund in September 2016

Scheduled Bodies

- Bethnal Green Academy
- Canary Wharf College
- Culloden Primary School
- London Enterprise Academy
- Old Ford Primary School
- Sir William Burrough School
- Solebay Academy
- St Pauls Way Community School
- Tower Hamlets Homes Ltd
- Wapping High School

Contributions to the Fund

Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 12.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 15.9% to 41.4% of pensionable pay.

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

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets	6,390	9,835,318	22,654,555
Agilisys	29	90,824	214,565
Canary Wharf College	10	15,970	40,303
Circle Anglia Ltd	1	2,259	46,377
City Gateway	36	35,539	94,795
Culloden Academy	15	17,676	92,445
East End Homes	32	85,539	393,895
Gateway Housing Association	1	1,183	33,223
Greensprings Academy	33	67,422	345,649
Greenwich Leisure Limited	6	18,284	42,808
London Enterprise Academy	5	6,823	17,683
Old Ford Academy	30	21,559	120,674
One Housing Group	8	13,457	85,770
Sir William Burrough School	10	14,819	56,439
Solebay Academy	5	4,314	24,171
St.Pauls Way Trust	61	93,879	275,973
Swan Housing Association	1	1,922	17,749
Tower Hamlets Community Housing	8	30,821	139,582
Tower Hamlets Homes Limited	323	778,666	2,560,618
Vibrance	2	3,699	10,072
Wapping High School	10	11,093	33,971
Total	7,016	11,151,066	27,301,317

* The Council contributed an additional £22m in respect of deficit funding

The full accounts are as set out in Appendix 1.

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

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

The above listed policy documents can also be found by clicking below link:
http://www.towerhamletspensionfund.org/governance-documents

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

Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2016 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 82.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £235m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £15m (2017/18) rising to £15m (2018/19) and £15m (2019/20).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2017 to 31 March 2020 is 29.4% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2017 to 31 March 2020 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

		Minimum Contribution for the year ending				
Employer Name as per 31 March 2017	Year ending 31 March 2018	Additional Monetary Deficit Payment £	Year ending 31 March 2019	Additional Monetary Deficit Payment £	Year ending 31 March 2020	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	19.9%	15m	19.9%	15m	19.9%	15m
Tower Hamlets Community Housing Limited	37.6%		37.6%		37.6%	
Paridigm Trust	30.9%		26.1%		21.3%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	29.4%		29.4%		29.4%	
Greenwich Leisure Limited	20.0%	13k	20.0%	14k	20.0%	14k
Swan Housing Association Limited	30.5%	11k	30.5%	11k	30.5%	11k
Gateway Housing Association (Bethnal Green & Victoria Park)	30.0%	28k	30.0%	28k	30.0%	28k
One Housing Group (Toynbee Island Homes)	41.4%		41.4%		41.4%	
Tower Hamlets Homes	18.4%		18.4%		18.4%	
Bethnal Green Academy	24.5%		24.5%		24.5%	
Sir William Burrough School	16.4%		16.4%		16.4%	
St Pauls Way Community School	18.9%		18.9%		18.9%	
Canary Wharf College	15.9%		15.9%		15.9%	
Agilisys	16.8%		16.8%		16.8%	
London Enterprise Academy	17.6%		17.6%		17.6%	
Wapping High School	16.1%		16.1%		16.1%	

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

The results of the triennial valuation depend on the actuarial assumptions made about the future of the Fund. The effect on the valuation of the Fund of changes to the main assumptions are set out in the table below.

Sensitivity of valuation results to changes in asumptions

		Impact	
Assumption	Change	Deficit (£m)	Future service rate (% of pay)
Discount rate	Increases by 0.5%	Falls by £112m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £31m	Rises by 2%
Price inflation/pension increases	Increases by 0.5%	Rises by £92m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £39m	Rises by 1%

This is not an exhaustive list of assumptions but those that are likely to have the biggest impact. The effect of changes are shown in isolation and it is possible that the Fund could experience changes to more than one assumption simultaneously.

The next triennial valuation of the Fund is due as at 31 March 2019. The contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Statement of Responsibilities

The London Borough of Tower Hamlets as Administering Authority of the London Borough of Tower Hamlets Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this council, that officer is the Corporate Director, Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts

Responsibilities of the Corporate Director, Resources

The Corporate Director, Resources is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Corporate Director, Resources has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice, except where otherwise stated.

The Corporate Director, Resources has;

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 31 to 46 have been prepared in accordance with proper practices and that they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31st March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017.

Zena Cooke
Corporate Director, Resources

Independent auditor's report to the members of the London Borough of Tower Hamlets on the pension fund financial statements published with the Pension Fund Annual Report and Accounts

Andrew Sayers
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
25 August 2017

The London Borough of Tower Hamlets Pension Fund

Appendix 1

Draft Statement of Accounts 2016/17

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2015/16 £'000	2016/17 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers			
Normal	3	26,812	28,524
Augmentation	3	1,697	1,288
Deficit funding	3	20,500	22,000
From members	3	10,951	11,151
Transfers in			
Transfers in from other pension funds	4	2,166	2,195
Benefits			
Pensions	4	(39,103)	(39,485)
Lump sum benefits	4	(13,158)	(12,341)
Payments to and on account of leavers			
Refunds of contributions		(169)	(259)
State scheme premiums		(196)	(29)
Transfers out to other pension funds		(4,092)	(3,517)
Administrative expenses	13	(1,038)	(972)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		**4,370**	**8,555**

RETURN ON INVESTMENTS	Note	2015/16 £'000	2016/17 £'000
Investment income	11	14,349	17,776
Taxes on Income		(409)	(363)
Change in market value of investments			
Realised		1,321	415,494
Unrealised	10	(28,625)	(197,035)
Investment management expenses	13	(3,076)	(2,879)
NET RETURN ON INVESTMENTS		**(16,440)**	**232,993**
Net increase in the Fund during the year		(12,070)	241,548
Add: Opening net assets of the scheme		1,138,199	1,126,129
CLOSING NET ASSETS OF THE SCHEME		**1,126,129**	**1,367,677**

NET ASSETS STATEMENT AS AT 31ST MARCH	Note	2016 £'000	2017 £'000
Investments Assets			
Equities		214,617	247,485
Pooled Investment Vehicles			
Unit Trusts		572,275	971,562
Property		129,933	133,609
Other		54,607	0
		971,432	1,352,656
Cash deposits	6	5,647	4,096
Other investment balances	5	1,973	1,673
Investments Liabilities			
Other investment balances	5	(35)	(45)
Current Assets	5	149,054	19,847
Current Liabilities	5	(1,942)	(10,550)
TOTAL NET ASSETS		**1,126,129**	**1,367,677**

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

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

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

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

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

2. ACCOUNTING POLICIES

(a) **Accounts**

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

The Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended), the Local Government Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(b) **Basis of preparation**

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

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2017. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund Account - Revenue Recognition

Contribution Income

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

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

(d) **Investments**

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

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2017.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2017.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2017.

(iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.

(v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2017. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

(vi) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) **Investment Income**

(i) Interest income is recognised in the Fund account as it accrues.

(ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.

(iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

NOTES TO THE PENSION FUND ACCOUNTS

2 ACCOUNTING POLICIES Cont...

Fund account - expense items

(f) **Management Expenses**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance on accounting for LGPS management costs.

Administrative Expenses

Staff costs of the pensions of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight & Governance Costs

Staff costs relating to oversight and governance are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment Management Expenses

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

(g) **Benefits Payable**

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

Net assets statement

Financial Assets

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

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

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

(ii) Fixed interest securities

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

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There is just one item in the pension fund account notes (specifically note 12 - Actuarial Position) for which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 2016/17, the Council's actuaries advised that the net pensions liability had increased by £107.4 million to £612.4 million as a result of falling bond yields.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2017 range from 15.8% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £22.0m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2015/16 £'000	2016/17 £'000
Members normal contributions		
Council	9,673	9,835
Admitted bodies	184	157
Scheduled body	1,094	1,159
Total members	**10,951**	**11,151**
Employers normal contributions		
Council	22,105	22,655
Admitted bodies	887	1,992
Scheduled body	3,820	3,877
Deficit funding contributions		
Council	20,500	22,000
Other contributions		
Council	1,697	1,288
Total employers	**49,009**	**51,812**
Total contributions	**59,960**	**62,963**

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2016/17 employees made contributions of £12,699.25 (£10,870.28 in 2015/16) into the AVC Scheme operated by Aviva (Norwich Union) and £6,542.88 to Equitable Life (£6,434.33 in 2015/16). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

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

	2015/16				2016/17			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(37,467)	(585)	(1,051)	(39,103)	(37,650)	(679)	(1,156)	(39,485)
Lump sum retirement benefits	(10,828)	(441)	(425)	(11,694)	(9,688)	(300)	(839)	(10,827)
Lump sum death benefits	(1,080)	(175)	(208)	(1,463)	(1,514)	0	0	(1,514)
Total Pensions and Benefits	**(49,375)**	**(1,201)**	**(1,684)**	**(52,260)**	**(48,852)**	**(979)**	**(1,995)**	**(51,826)**
Transfer Values Received (Individual)	2,166	0	0	2,166	2,195	0	0	2,195
Transfer Values Paid (Individual)	(4,092)	0	0	(4,092)	(3,517)	0	0	(3,517)
Total	**(51,301)**	**(1,201)**	**(1,684)**	**(54,186)**	**(50,174)**	**(979)**	**(1,995)**	**(53,148)**

5. DEBTORS AND CREDITORS

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

	2015/16 £'000	2016/17 £'000
Debtors		
Other Investment Balances		
Investment sales	805	0
Dividends receivable	649	961
Tax recoverable	519	712
	1,973	1,673
Current Assets		
Contributions due from admitted bodies	237	241
London Borough of Tower Hamlets Pension Fund	457	1,176
	694	1,417
Total Debtors	**2,667**	**3,090**
Creditors		
Other Investment Balances		
Investment purchases	35	45
Current Liabilities		
Unpaid benefits	1,271	1,664
Administrative expenses	671	747
London Borough of Tower Hamlets Pension Fund	0	3,940
HMRC Creditor Income Tax Deducted	0	4,199
	1,942	10,550
Total Creditors	1,977	10,595
Net Debtors	**690**	**(7,505)**

6. CASH

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

	2015/16 £'000	2016/17 £'000
Aberdeen: Private Equity Portfolio	10	0
GMO	3,702	1,075
Schroders: Multi Asset Portfolio	0	0
Schroders: Property Portfolio	1,934	3,021
London Borough of Tower Hamlets Pension Fund	148,359	18,428
TOTAL CASH	**154,005**	**22,524**

7. TAXATION

UK Income Tax

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

Value Added Tax

As Tower Hamlets Council is the Administering Authority for the Fund, VAT input tax is recoverable on all Fund activities.

Overseas Tax

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

8. INVESTMENT STRATEGY STATEMENT

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish the Investment Strategy Statement (ISS), this replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

9. MEMBERSHIP OF THE FUND

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

	2016	2017
London Borough of Tower Hamlets		
Active Members	6,365	6,497
Pensioners	4,352	4,536
Deferred Pensioners	6,770	7,076
Dependants	1,018	1,030
	18,505	**19,139**
Admitted & Scheduled Bodies		
Active Members	657	651
Pensioners	247	275
Deferred Pensioners	375	406
Dependants	26	29
	1,305	**1,361**

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilysis
City Gateway
East End Homes
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
Greenwich Leisure Limited
One Housing Group (formerly Island Homes)
Swan Housing Association
Tower Hamlets Community Housing
Vibrance (formerly Redbridge Community Housing Limited)

Scheduled Bodies

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

10. INVESTMENTS

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

Manager	Mandate
GMO UK Ltd.	Global Equity
Goldman Sachs Asset Management	Absolute Return Bond Fund
Insight Investment Management (Global) Ltd	Absolute Return Bond Fund
Legal & General Investment Management	UK Equity / Index Linked Gilts
London LGPS CIV	Pooled
Schroders Asset Management Property Fund	Property

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

	2016		2017	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Equities	209.9	21.4	0.0	-
GMO UK Ltd.	248.4	25.4	326.9	24.1
Goldman Sachs Asset Management Property Fund	0.0	-	77.9	5.7
Insight Investment Management (Global) Ltd	0.0	-	71.7	5.3
Legal & General Investment Management - Equities	217.3	22.2	265.9	19.6
Legal & General Investment Management	60.6	6.2	74.0	5.4
Ruffer LLP	54.6	5.6	0.0	-
Schroders Asset Management Property Fund	131.9	13.5	136.7	10.1
London CIV	56.3	5.8	405.2	29.8

10. INVESTMENTS (continued)

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

	Market Value as at 1 Apr 2016 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2017 £'000
Equities	214,616	222,584	(183,549)	42,463	296,114
Pooled Investments	626,883	804,730	(273,727)	(234,954)	922,932
Pooled Property Investments	129,933	19,897	(11,675)	(4,545)	133,610
	971,432	1,047,211	(468,951)	(197,036)	1,352,656
Other Investment Balances					
Cash Deposits	5,647	0	0	0	4,096
Amounts receivable for sales of investments					
Investment income due	1,973	0	0	0	1,673
Amounts payable for purchases of investments	(35)	0	0	0	(45)
Net Investment Assets	7,585				5,724

	Market Value as at 1 Apr 2015 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2016 £'000
Bonds	99,631	0	(98,701)	(930)	0
Equities	270,637	244,815	(256,368)	(16,288)	242,796
Pooled Investments	604,114	67,622	(50,020)	(23,014)	598,702
Pooled Property Investments	116,945	10,359	(8,978)	11,607	129,933
	1,091,327	322,796	(414,067)	(28,625)	971,431
Other Investment Balances					
Cash Deposits	5,414	0	0	0	5,647
Investment income due	978	0	0	0	1,973
Amounts payable for purchases of investments	(223)	0	0	0	(35)
Net Investment Assets	6,169				7,585

10. INVESTMENTS (continued)

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2016 £'000	Market Value as at 31 Mar 2017 £'000
Equities		
UK		
Quoted	16,023	21,564
Overseas		
Quoted	198,593	225,922
	214,616	247,486
Pooled Funds - Additional Analysis		
UK		
Fixed Income Unit Trust	60,630	73,978
Unit Trusts	538,072	820,774
Overseas		
Unit Trusts	28,181	76,809
	626,883	971,561
Pooled Property Investments	129,934	133,609
	129,934	133,609
Cash Deposits	5,647	4,096
Investment Income Due	1,973	1,673
	7,620	5,769
Total Investment Assets	979,053	1,358,425
Investment Liabilities		
Amounts Payable for Purchases	(35)	(45)
Total Investment Liabilities	(35)	(45)
Net Investment Assets	979,018	1,358,380

The market value per investment manager is as follows:

	Market Value 31 Mar 2016		Market Value 31 Mar 2017	
	£'000	%	£'000	%
Baillie Gifford	209,888	21.6%	0	0.0%
GMO UK Ltd	242,796	25.0%	324,295	24.0%
Insight Investment Management (Global) Ltd	0	0.0%	71,743	5.3%
Legal & General	277,864	28.6%	339,665	25.1%
London LGPS CIV	56,344	5.8%	405,215	30.0%
Goldman Sachs Asset Management		0.0%	77,929	5.8%
Ruffer	54,606	5.6%	0	0.0%
Schroders Asset Management Property Fund	129,934	13.4%	133,609	9.9%
	971,432	100.0%	1,352,656	100.0%

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2015/16 £'000	2016/17 £'000
Dividends from overseas equities	8,660	11,917
Dividends from UK equities	0	89
Net rents from properties	4,733	5,002
Interest on cash deposits	387	130
Foreign tax	160	275
TOTAL	**13,940**	**17,413**

TAXES ON INVESTMENT INCOME

	2015/16 £'000	2016/17 £'000
Withholding tax - equities	360	286
Withholding tax - pooled	49	77
TOTAL	**409**	**363**

12 ACTUARIAL POSITION

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

The 2016 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £235 million and the funding level to be 82.8%. This compares to a deficit at the previous revaluation in 2013 of £365 million and a corresponding funding level of 71.8%.

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

	£m
2017/18	15.00
2018/19	15.00
2019/20	15.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2016 determined that this would require a contribution (additional to the future contribution rate) of 9.1% of members' pensionable pay equivalent to £15.0 million per annum.

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

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

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

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2016/17 was 19.9%.

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

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

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2016. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal
Price inflation (CPI)	2.1%
Pay increases	2.0%
Funding basis discount rate	4.2%

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.1	24.1
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	23.9	25.8

Actuarial Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,983 million (£1,659 million in 2015/16). This includes both vested and non-vested benefits.

Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at 31 March 2016 using financial assumptions that comply with IAS 19

Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2016

Average future life expectancies at age 65 years	Males	Females
Current pensioners	22.1	24.1
Future pensioners	23.9	25.8

Financial assumptions

Year ended	31st March 2016	31st March 2017
Pension increase rate	2.2%	2.4%
Salary increase rate	3.7%	2.2%
Discount rate	3.5%	2.5%

13. MANAGEMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Administration costs	677	789
Investment management expenses	3,076	2,879
Oversight & governance	86	183
	3,839	3,851

14. INVESTMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Management fees	2,901	2,722
Custody fees	29	35
Transaction Costs	146	122
	3,076	2,879

The investment management expenses above includes transaction costs of £160,000 (£74,000 in 2015/16). Costs are also incurred through the bid offer spread on investment sales and purchases and these are reflected in the costs of purhcases and proceeds from sales of investments.

14b. EXTERNAL AUDIT FEE

	2015/16 £'000	2016/17 £'000
Audit Fee	21	21
	21	21

15. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

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

Credit risk

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

The Council only invests money with institutions with a minimum Fitch credit rating of A+ or higher.

Liquidity risk

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

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

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

Market risk

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

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2016 and 31st March 2017 is set out below.

Interest Rate Risk Asset Type	As At 31st March 2016 £'000	As At 31st March 2017 £'000
Cash and cash equivalents	5,647	4,096
Cash balances	149,053	19,846
Fixed interest securities	60,630	73,978
Total	215,330	97,920

Interest Rate Risk - Sensitivity Analysis Asset Type	Carrying Amount As At 31st March 2017	Change in year in net assets available +100 BPS £'000	 -100 BPS £'000
Cash and cash equivalents	4,096	41	(41)
Cash balances	19,846	198	(198)
Fixed interest securities	73,978	(740)	740
Total change in net assets available	97,920	(500)	500

Interest Rate Risk - Sensitivity Analysis Asset Type	Carrying Amount As At 31st March 2016	Change in year in net assets available to pay benefits +100 BPS £'000	 -100 BPS £'000
Cash and cash equivalents	5,647	56	(56)
Cash balances	149,053	1,491	(1,491)
Fixed interest securities	60,630	(606)	606
Total change in net assets available	215,330	941	(941)

Interest rate risk - sensitivity analysis

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

15. RISK MANAGEMENT (continued)

Currency risk

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

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 8.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end.

Currency Exposure - Asset Type Asset Type	As At 31st March 2016 £'000	As At 31st March 2017 £'000
Overseas quoted securities	230,423	306,252
Overseas unit trusts	3,574	0
Cash	0	0
Total overseas assets	**233,997**	**306,252**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2017	Change in year in net assets available to pay benefits	
		+8.8%	-8.8%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	306,252	333,202	279,302
Overseas unit trusts	0	0	0
Cash	0	0	0
Total change in net assets available	**306,252**	**333,202**	**279,302**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2016	Change in year in net assets available to pay benefits	
		+6.8%	-6.8%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	230,423	246,092	214,754
Overseas unit trusts	3,574	3,817	3,331
Cash	0	0	0
Total change in net assets available	**233,997**	**249,909**	**218,085**

Other Price risk

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

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

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

Other price risk - sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis Asset Type	Potential Market Movements (+/-)
UK equities	7.9%
Global equity	11.0%
Total fixed interest	4.9%
Alternatives	6.0%
Cash	0.0%
Pooled Property Investments	2.1%

15. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2017 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	22,524	0.0%	22,524	22,524
Investment portfolio assets				
UK equities	265,886	7.9%	286,997	244,775
Global equity	324,294	11.0%	360,064	288,524
Total fixed interest	73,978	4.9%	77,588	70,368
Alternatives	554,887	6.0%	588,402	521,372
Pooled Property Investments	133,611	2.1%	136,457	130,765
Net derivative assets	0	0.0%	0	0
Investment income due	1,673	0.0%	1,673	1,673
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	(45)	0.0%	(45)	(45)
Total assets available to pay benefits	**1,376,808**	**0%**	**1,473,660**	**1,279,956**

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

Asset Type	Value as at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	154,005	0.0%	154,005	154,005
Investment portfolio assets				
UK equities	217,234	10.6%	240,261	194,207
Global equity	452,685	11.3%	503,838	401,532
Total fixed interest	60,630	3.8%	62,934	58,326
Alternatives	110,950	4.6%	116,054	105,846
Pooled Property Investments	129,934	2.2%	132,793	127,075
Net derivative assets	0	0.0%	0	0
Investment income due	1,973	0.0%	1,973	1,973
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	(35)	0.0%	(35)	(35)
Total assets available to pay benefits	**1,127,376**		**1,211,822**	**1,042,930**

Refinancing risk

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

16. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	247,485	0	0	247,485
Pooled Funds				
Unit Trusts	971,562	0	0	971,562
Property Unit Trust	133,609	0	0	133,609
Other	0	0	0	0
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	23,701	0	0	23,701
Current Assets	1,914	0	0	1,914
Current Liabilities	(10,595)	0	0	(10,595)
	1,367,676	**0**	**0**	**1,367,676**

During the year ended 31st March 2017 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2016 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	214,617	0	0	214,617
Pooled Funds				
Unit Trusts	572,275	0	0	572,275
Property Unit Trust	129,933	0	0	129,933
Other	54,607	0	0	54,607
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	154,464	0	0	154,464
Current Assets	2,210	0	0	2,210
Current Liabilities	(1,977)	0	0	(1,977)
	1,126,129	**0**	**0**	**1,126,129**

16. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial istruments

	Long-term 2015/16 £'000	2016/17 £'000
Financial Assets		
Loans and receivables	398	148
Financial assets at fair value through profit or loss	(27,304)	218,459
Total Financial Assets	**(26,906)**	**218,607**
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	0	0
Total Financial Liabilities	**0**	**0**

17. CURRENT ASSETS

	2015/16 £'000	2016/17 £'000
Contributions due - employees		
Contributions due - employers	236	241
Sundry debtors	458	1,177
Cash balances	148,359	18,428
	149,053	19,846

Analysis of debtors	2015/16 £'000	2016/17 £'000
Other entities and individuals	149,053	19,846
	149,053	19,846

18. CURRENT LIABILITIES

	2015/16 £'000	2016/17 £'000
Sundry creditors	671	4,687
HMRC creditor		4,199
Benefits payable	1,271	1,664
	1,942	10,550

Analysis of creditors	2015/16 £'000	2016/17 £'000
Other entities and individuals	1,942	10,550
	1,942	10,550

19. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £669k (£669k 2015/16) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £22.0m (£20.5m 2015/16) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2017, the Fund held an average investment of £26.1m (£48.1m 31st March 2016), earning interest of £148k (£398k in 2015/16).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.4m 2015/16) from this company.

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

Fund Administration Expenses	2015/16 £'000	2016/17 £'000
Payroll / HR Support	494	494
Corporate Finance	175	175
	669	669

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2017 include:
Chief Accountant
The financial value of their relationship with the fund is as set out below

	2015/16 £'000	2016/17 £'000
Short term benefits	19	30
Long term/post retirement benefits	4	13

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2016/17 there were no Members of the Pension Fund Committee who had involvement with other organisations.

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

20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31/03/2017.

21. CONTINGENT ASSETS

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

22. IMPAIRMENT LOSSES

During 2016/17 impairment losses were nil (impairment losses in 2015/16 were also nil).

The London Borough of Tower Hamlets Pension Fund

Appendix 2

Investment Strategy Statement

1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the Tower Hamlets Pension Fund ("the Fund"), which is administered by Tower Hamlets Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.2 The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS, which was approved by the Committee on 16th March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate – for example, pensions board, independent adviser, local authority employers such as admitted bodies and scheduled bodies.

1.3 The Committee will invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund.

1.4 The Pensions Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review. Asset allocation decisions are taken in the best long term interest of Fund employers and member beneficiaries.

1.5 The ISS should be read in conjunction with the Fund's Funding Strategy Statement, which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

2.0 Long-term view of investments

2.1 The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

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

2.3 The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

2.4 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers. Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Although, it is more important to avoid being a forced seller in short term market setbacks.

2.5 Participation in economic growth is a major source of long term equity return. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash. Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

2.6 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. (See section 5.6) This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

2.7 The fund carried out an Asset Outperformance Assumption modelling exercise in conjunction with the 2016 actuarial valuation. The Committee set a target range of 66%-75% chance of achieving their long term funding target – returning to a fully funded position within the next 20 years. (The probability required for each employer to reach its funding target within its time horizon. In general, higher probabilities of success are achieved by paying higher contributions and relying less on volatile investment returns. The probability required for each employer is largely based on each employer's assessed covenant. For instance, a lower probability of success (e.g. 66%) may be required for a secure body as they may be considered to be able to pay higher contributions (or current rates for longer) should they not reach their funding target over their time horizon.

2.8 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.9 In line with the above overall objective the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required total Fund returns, and the resulting diversity across the whole Fund. Prior to any such decisions being made the Fund will take appropriate external independent advice.

2.10 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Fund will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations within guidelines from the agreed strategy will be reported to the Pensions Committee, the Pensions Board and the Section 151 Officer so that appropriate corrective actions can be undertaken.

3. The investment objectives of the Fund

a) The long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of 20 years from April 2016. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

b) The outcome of the last valuation carried out as at 31st March 2016:

- The funding level has improved from 71.8% to 82.7%.
- In monetary terms the deficit has reduced by £130m from £365m (at March 2013) to £235m (March 2016). This was based on the Fund having assets of £1,126m and liabilities of £1,361m.

c) The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 2% over the long term, a nominal return of 4.2% assuming inflation (CPI) to be 2.2%.

d) In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, State Street, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

e) The Fund will target an outperformance of this over 10 years, within a diversified portfolio to stabilise returns and reduce volatility throughout the period.

f) The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

4. Strategy Review and Strategic Benchmark

4.1 A full Strategic Investment Review will be undertaken by the Fund every three to six years by specialist professional advisors. The investment strategy (including the core investment objectives and asset allocations) will be capable of sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

4.2 The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund.

4.3 As is appropriate all asset classes and products will be kept under continual review. In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by the Pensions Committee, professional advice will be sought. If there are any instances where advice received is not to be acted upon reporting to both the Committee and the Pensions Board will ensue.

Asset classes

4.4 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

4.5 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

4.6 The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

4.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation, s151 officer and her officers have the delegated authority to rebalance the Fund to its strategic assets allocation.

Asset class	Targeted Strategic Asset Allocation %	Investments Range (%)
UK equities	*20%*	*(15% - 25%)*
Global equities	*40%*	*(35% - 45%)*
Total equities	**60%**	**(50% - 70%)**
Property	12%	(10% - 15%)
Diversified Growth Funds	10%	(8% - 15%)
Gilts	3%	(2% - 7%)
Corporate bonds	15%	(10% - 20%)
Total	**100%**	**100%**

5. Restrictions on investment

5.1 The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

5.2 The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

5.3 The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

5.4 The Pensions Committee reviews the suitability of the asset allocation of the Fund on a yearly basis, following advice from the officers, investment consultant and independent advisor.

5.5 It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

5.6 The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
Equities	
UK Equities	FTSE All Share
Global Equities	MSCI All Countries World Index
Bonds and Cash	
UK Gilts Over 5 Years	FTSE UK Gilts Index-Linked Over 5 Years Index
Absolute Return Bonds	3 Months LIBOR plus 3-4%
Cash	LIBID 7 Day
Alternatives	
Property Unit Trusts	UK IPD Monthly Index Property
Diversified Growth Fund	3 Months LIBOR plus 3%

6.0 Managers

6.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

6.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

6.3 The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

6.4 The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices as set out in section 5.6.

6.5 The Fund's current structure and performance targets are set out in the table below.

Current Managers and Mandates				
Manager	**Mandate**	**Benchmark Allocation**	**Investment Ranges**	**Performance Target**
LCIV (Baillie Gifford)	Global Equities (Active & Growth) Diversified Growth	18% 5%	15%-20% 4%-7.5%	Outperform benchmark by 2-3% over a rolling 3 year period 3 Months LIBOR +3% per annum
GMO	Global Equities (Active & Value)	23%	20%-25%	Outperform benchmark by 1.5% over a rolling 3 year period
Insight	Pooled Bonds (Absolute Return)	6%	4%-8%	3 Months LIBOR +4% per annum
Goldman Sachs	Pooled Bonds (Absolute Return)	6%	4%-8%	3 Months LIBOR +4% per annum
Legal & General	UK Equities (Passive) UK Index Linked (Passive)	20% 5%	15%-25% 2%-7%	FTSE All share FTSE A Gov Index Linked >5yrs
LCIV (Ruffer)	Diversified Growth	5%	4%-7.5%	3 Months LIBOR +3% per annum
Schroders	Property	12%	10%-15%	Outperform benchmark by 0.75% over a rolling 3 year period

7.0 *The Approach to Risk*

7.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

7.2 The principal risks affecting the Fund and the Fund's approach to managing these risks and the contingency plans that are in place are set below:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. (The impacts is reducing the value of investments/assets and requiring increased employer's contributions).

7.3 The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

7.4 The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

7.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

7.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

7.7 Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

7.8 The Committee measure and manage asset risks as follows:

a) The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has delegated rebalancing arrangements to s151 officer and her officers to ensure the Fund's "actual allocation" does not deviate from its maximum limits. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property; the Committee has recognised the need for access to liquidity in the short term.

b) The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Detail of the Fund's approach to managing ESG risks is set out later in this document.

c) The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

7.9 Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

7.10 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7.11 A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in the Fund's risk register and policy documents.

8. Pooling of investments

8.1 The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool. The proposed structure and basis on which the LCIV Pool will operate was set out in the July 2016 submission to Government.

8.2 The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

8.3 The Fund has already transitioned assets into the London CIV with a value of assets under management (AUM) of £382.5m or 30% of the LBTH pension fund assets as at 31st December 2016 and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

8.4 The Fund holds 25% or £327.4m of AUM as at 31st December 2016 in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being.

8.5 The Fund is monitoring developments and the opening of investment strategy funds on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy/ asset allocation requirements.

8.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

Structure and governance of the LCIV Pool

8.7 The July 2016 submission to Government of the LCIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

8.8 The below diagrams sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities.

8.9 As an AIFM, London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

8.10 The Pensions Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.

8.11 Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.

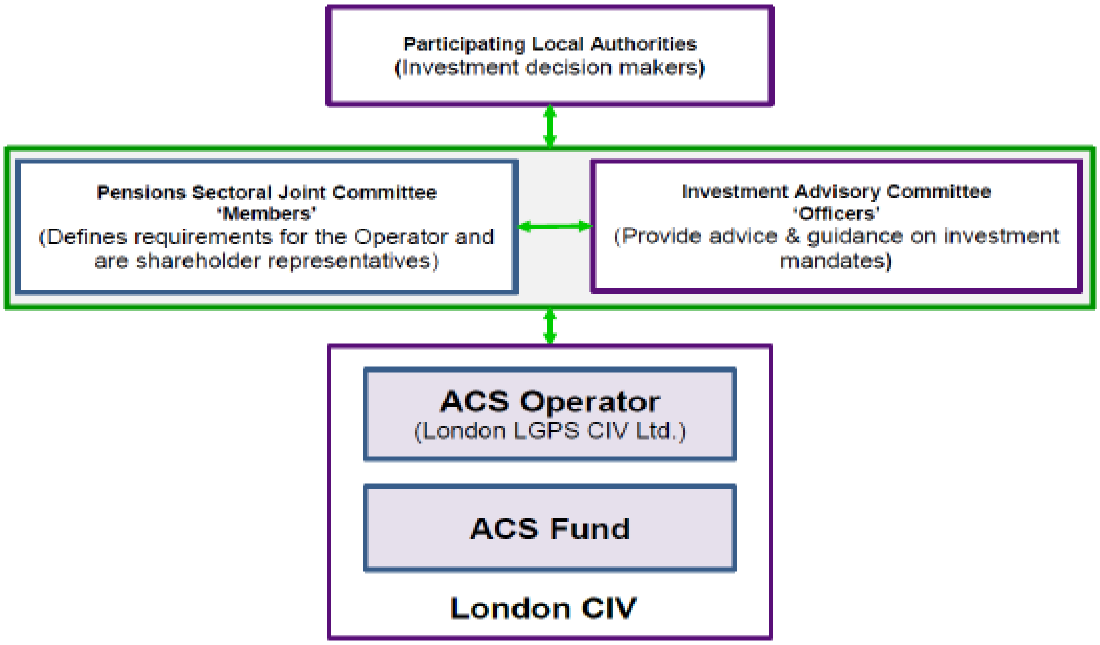
8.12 The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:

- To support the Joint Committee in the investment decision making process
- To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

8.13 Membership of the IAC was renewed in July 2016 with London Treasurers being asked to nominate themselves and or their officers, 24 nominations were received. Whilst this was greater than allowed for under the Terms of Reference, after consideration, it was agreed that the full complement of nominations should be included in the Committee.

8.14 This was to ensure at a time of rapid development for the London CIV, as many Pension Funds could be engaged fully in the process and that this would also enable a wide range of pension managers to work closely alongside officers of the CIV. The new Committee comprised 9 London Treasurers and 15 Pension Managers.

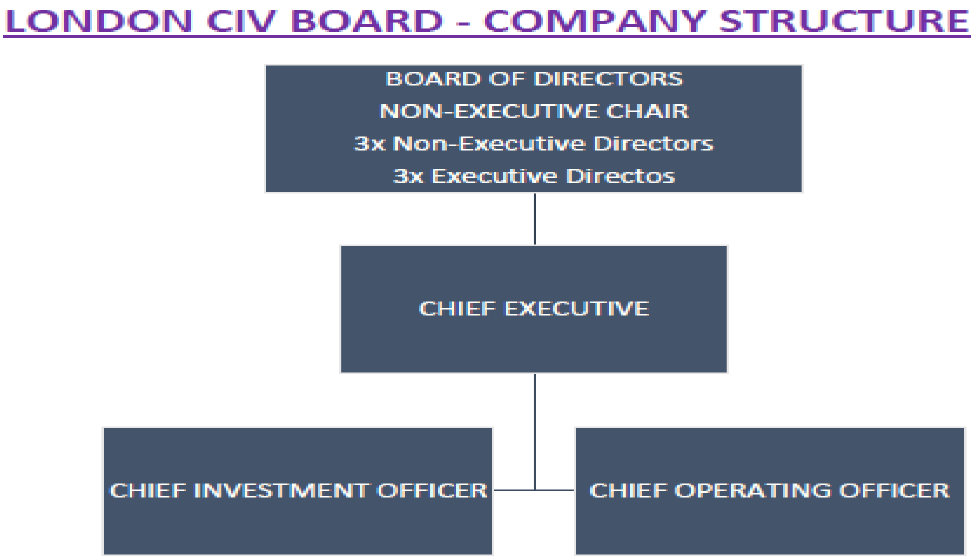
LONDON CIV GOVERNANCE STRUCTURE



8.14 At the company level for London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers. The Board of the CIV has ultimate responsibility for all aspects of management of the Company. The board will at all times retain and exercise overall control. As a result the board composition seeks to achieve a balance of skills, competencies and expertise to govern on behalf of the shareholders.

8.15 The board will challenge the business, has a strong focus on oversight of both the organisation and third parties, and understands its duties as a regulated Company. The board have a mix of relevant investment, operational and financial experience having held senior roles at regulated entities combined with a strong understanding of local government and the requirements of its shareholders. The governance practices will be commensurate with the business and nature of the investment funds it manages.

8.16 The board is comprised of seven members both executive and non-executive with a range of skills. The non-executive directors are independent third parties with experience gained from either local government or careers in financial services and each have in-depth understanding of their respective fields. The executive team are responsible for the day-to-day operations of the business and setting the strategic direction of the Company. The non-executive directors will provide independent judgment and challenge to the board based on their respective experience.



Performance measurement

8.17 Fund performance is measured at a number of different levels. The objective of the Fund is to outperform the actuarial discount rate. The policy portfolio is selected by the Committee, with advice from the Fund Investment Advisers and Officers, and investment managers including LCIV, is expected to generate returns above the discount rate.

8.18 The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. Performance for LCIV is measured against the policy portfolio. LCIV seeks to outperform the policy portfolio on a risk adjusted basis, via active sub-funds creation/selection and or selecting the best managers for each of the sub-funds and by implementing investments in a low cost manner. Performance for the investment sub-funds is measured against widely used and transparent benchmarks.

8.19 Where performance falls short of expectations the Committee, Officers and the Investment Advisers for the Fund will identify the cause of this underperformance and will respond appropriately either to alter its policy portfolio (where asset allocation is the underlying cause) or to require changes to the management of the sub fund vehicles (where management skill within LCIV is the underlying cause).

9. Social, environmental or corporate governance

9.1 It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- *Sustainable investment / ESG factors* – considering the financial impact of environmental, social and governance (ESG) factors on its investments.

- *Stewardship and governance* – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

Sustainable investment / ESG

9.2 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training on and information sessions on matters of social, environmental and corporate governance.

9.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

9.4 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

9.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

9.6 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

9.7 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Voting rights

9.8 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

9.9 The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

9.10 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee has elected to monitor the voting decisions made by all its investment managers on a regular basis.

9.11 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

9.12 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council / Pension Fund website.

Stewardship

9.13 The Fund complies with the UK Stewardship Code ('the Code') and is preparing a formal statement of commitment with the Code for assessment. The current draft is set out in Appendix A.

9.14 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

9.15 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

9.16 The Committee recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes.
The Fund:

(a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;

(b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;

(c) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest; and

(d) joins wider lobbying activities where appropriate opportunities arise.

Myners principles for investment decision making

9.17 The old regulation requiring administering authorities to state the extent to which they comply with Myners principles for investment decision making no longer applies. However, they should still have regard to the guidance. This section has been kept in this document as Appendix B for Tower Hamlets Funds, with some small amendments to keep the responses current.

Full compliance

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website.

Quarterly reports to the Pensions Committee and Pensions Board on the management of the Fund's investments are publicly available on the council's website. http://democracy.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392

Prepared by: - Bola Tobun (Investment & Treasury Manager)
(For and on behalf of LBTH Pensions Committee)

Appendices

Appendix A – Draft Statement of Commitment with the UK Stewardship code
Appendix B – Myners Investment Principles – Compliance Statement

Appendix A ***- Draft Statement of Commitment with the UK Stewardship Code***

Principle 1: ***Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.***

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights as detailed in the Fund's Investment Strategy Statement.

The Fund invests via pooled funds and therefore expects its underlying investment managers to exercise voting and engagement rights on its behalf. The Fund encourages its underlying investment managers to comply with the UK Stewardship Code.

The Fund is subject to the ESG and voting policies of its underlying investment managers. The Pensions Committee ('the Committee') considers these policies when appointing a new manager and when monitoring investment managers, the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.

In considering its stewardship activities, the Fund monitors the activities of its investment managers with regard to the following:

- The exercise of voting rights
- The integration and management of Environmental, Social and Corporate Governance (ESG) issues
- Engagement activities and progress

The Fund is a long-term investor and is committed to being an active owner. It wishes to promote a policy of dialogue on responsible investment issues, through its investment managers, with company management.

The Committee has identified the following ESG issues as a focus for engagement:

- Environmental issues: including conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources
- Human rights: including child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes
- Employment standards: including equal opportunities, health and safety, trade union recognition and employee participation

The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes and is a member of the Local Authority Pension Fund Forum (LAPFF), which aims to promote best practice on corporate governance and RI issues through co-operative action with other local authority funds.

The Fund regularly reviews its approach to responsible investment and the exercise of its stewardship activities.

Principle 2: ***Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.***

The Fund expects its investment managers to have effective policies addressing potential conflicts of interest related to stewardship.

In respect of potential conflicts of interest within the Fund, the Committee members are required to make declarations of interest prior to panel meetings.

All declarations are captured in the minutes of the meeting, which are publicly available, potential conflicts, based on declarations, are managed accordingly by the Chair of the Committee.

Principle 3: ***Institutional investors should monitor their investee companies.***

While the day-to-day responsibility for managing the Fund's equity holdings is delegated to the Fund's appointed investment managers, the Fund recognises that it cannot delegate its stewardship obligations. The Fund's Committee and Officers monitor the Fund's investment managers on a regular and ongoing basis, including with respect to stewardship activities.

As such the Fund expects its investment managers to monitor investee companies, intervene where necessary, and report back regularly on activity undertaken. This may be via written reports, phone calls, or meetings with the Officers and the Committee.

In addition, the Committee receives an annual report from the Fund's investment consultant on the ESG credentials, including active ownership, of its investment managers.

Principle 4: ***Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.***

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary.

The Fund's Officers and Committee monitor the escalation activities undertaken by the Fund's investment managers through the regular reporting provided by the Fund's managers.
On occasion, the Fund may itself choose to escalate activity; this will typically be through its membership of LAPFF or via one of the underlying investment managers.

Escalation activities undertaken by LAPFF may include writing a letter to the board or additional meetings with company management.

Principle 5: ***Institutional investors should be willing to act collectively with other investors where appropriate.***

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies.

The Fund undertakes collective engagement activities through its membership of LAPFF as well as through initiatives proposed by the Fund's investment managers or advisors.

In addition, the fund has formally agreed to join the London Collective Investment Vehicle (CIV) and regularly collaborates with other members of the CIV with respect to ESG and stewardship issues.

Principle 6: ***Institutional investors should have a clear policy on voting and disclosure of voting activity.***

The Fund invests via pooled funds and is therefore subject to the underlying investment managers' policies. The Fund expects its investment managers to exercise all votes associated with the Fund's equity holdings where practicable. The Fund encourages its investment managers to publicly disclose their voting records.

Generally, the Fund expects its investment managers to support resolutions that are consistent with the UK Corporate Governance Code and represent best practice. In overseas markets, the Committee expects the managers to take account of local best practice principles.

Where resolutions or issues fall short of the expected standards, the Committee expects managers will either abstain or vote against, depending on the individual circumstances of the company and the issues presented. The Committee expects the investment managers to report on their voting activities on a regular basis and the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.
The policy is reviewed at least annually in order to take account of regulatory developments and timely or controversial issues may be discussed at Committee meetings.

Principle 7: ***Institutional investors should report periodically on their stewardship and voting activities.***

The Fund expects its underlying investment managers to report regularly to both the Officers and the Committee with respect to voting and engagement activities, including examples of company engagement, progress on engagement over time and collaborative activities. The Fund encourages its investment managers to publicly report on their stewardship activities.

The Fund will report on its stewardship activity to the Committee on an annual basis. In addition, quarterly reports of voting actions are posted as part of the funds reporting to Committee and are available on the Council's website: http://democracy.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392
The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements, which will be made available publicly.

This statement has been approved by the Committee on 16 March 2017.

Compliance and monitoring
The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

If you have any questions on this statement or the Fund's approach to stewardship, please contact Bola Tobun, Investments and Treasury Manager by e-mail at the following address Bola.Tobun@towerhamlets.gov.uk

Appendix B - Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Full compliance

The Pensions Committee and Pensions Board are supported in their decision making/assisting roles by the Corporate Director, Resources and the Investment and Treasury Manager.

Members of the both Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full compliance

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles/Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full compliance

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Tower Hamlets Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Full compliance

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles/Investment Strategy Statement. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

Full compliance

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern.

The Council requires the Fund Managers to take into account the implications of substantial “extra financial” considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund’s managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

TOWER HAMLETS

The London Borough of Tower Hamlets Pension Fund

Appendix 3

Funding Strategy Statement

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2017.

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

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are determined in accordance with the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and with no certainty. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

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

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

- Long term solvency of the Fund,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

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

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

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

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Pensions Manager email: pensionsLBTH@towerhamlets.gov.uk or call telephone number 020 7364 4251.

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8..

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund will seek to moderate short term increases in contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

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

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

Section 3.4 onwards deals with various other funding issues which apply to all employers.

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3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Council**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	70%	70%	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies to London Borough of Tower Hamlets Council as a tax raising body:

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

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

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

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

Note (h) (New Admission Bodies)

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

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

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

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee. The approach to calculating the cessation payment will be as per the Admission Body's Admission Agreement.

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

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

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

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

- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

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

3.5 Additional flexibility in return for added security

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

Such flexibility includes a reduced probability of achieving funding target, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

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

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

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

3.6 Non ill health early retirement costs

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

The payment will be paid immediately, unless otherwise agreed with the Administering Authority.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

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

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

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

3.9 Employers with no remaining active members

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

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers 13th February 2017 for comment;

b) Comments were requested within 21 days;

c) Following the end of the consultation period the FSS was updated where required and then published, on 31st March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at April 2017;
- A copy sent by /e-mail to each participating employer in the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at www.towerhamletspensionfund.org.

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

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

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another

Risk	Summary of Control Mechanisms
	scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

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

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

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

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

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

The Administering Authority, after taking advice from the Fund's actuary, may choose to calculate Primary and Secondary contribution rates differently if particular circumstances apply to an employer.

D4 What affects a given employer's valuation results?
The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?
The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

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

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

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

- the actual timing of employer contributions within any financial year;

- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.0% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth
Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.7% p.a. below the retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of Consumer Price Index (CPI) less 0.1% (equivalent to RPI less 1.2%) per annum. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases
Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.4 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective

measure of solvency.

Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal

Certificate	**valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

The London Borough of Tower Hamlets Pension Fund

Appendix 4

Communications Strategy Statement

CONTENTS

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

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

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

Telephone: 020 7364 4251
Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

Regulatory Framework
This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) Regulations 1997. The provision requires us to:
"….prepare, maintain and publish a written statement setting out their policy concerning communications with:
(a) members.
(b) representatives of members.
(c) prospective members.
(d) employing authorities."

In addition it specifies that the Statement must include information relating to:
"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employing authorities."

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

The draft Code of Practice[1] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

Responsibilities and Resources
Within the Pension Section, the responsibility for communication material is performed by our Pensions Manager with the assistance of two Principal Pensions Officers.
Although, the team write all communications within the section, all design work is carried out by the Council's Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this Statement.
All printing is carried out by an external supplier, which is usually decided upon by the Council's Creative & Technical team.

Communication with key audience groups
Our audience

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

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

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

How we communicate
General communication

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

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

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

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

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

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

Policy on Communication with Active, Deferred and Pensioner Members
Our objectives with regard to communication with members are:

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

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

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

Explanation of communications

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

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

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

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

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

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

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

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

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

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

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

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

Our objectives with regard to communication with prospective members are:

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

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

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

Explanation of communications

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

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

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

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

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

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

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

Policy on communication with senior managers

Our objectives with regard to communication with senior managers are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

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

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

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

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

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

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

Our objectives will be met by providing the following communications:

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

Explanation of communications
Training sessions – to provide a broad overview of the main provisions of the LGPS to elected members and their responsibilities within it.

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

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

Policy on communication with pension section staff
Our objectives with regard to communication with Pension Section's staff are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

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

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

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

Policy on communication with other stakeholders/interested parties

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

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

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports • Rates and Adjustments (R&A) certificates • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government Departments /HMRC/the Pensions Regulator

Explanation of communications

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

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

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

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

Performance Measurement

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

Timeliness

We will measure against the following target delivery timescales:

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

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

Quality

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

Results

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

Review Process

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

The London Borough of Tower Hamlets Pension Fund

Appendix 5

Governance Compliance Statement

Governance and Compliance Statement

The London Borough of Tower Hamlets Council is the Administering Authority of the London Borough of Tower Hamlets Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Policy and Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives
Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

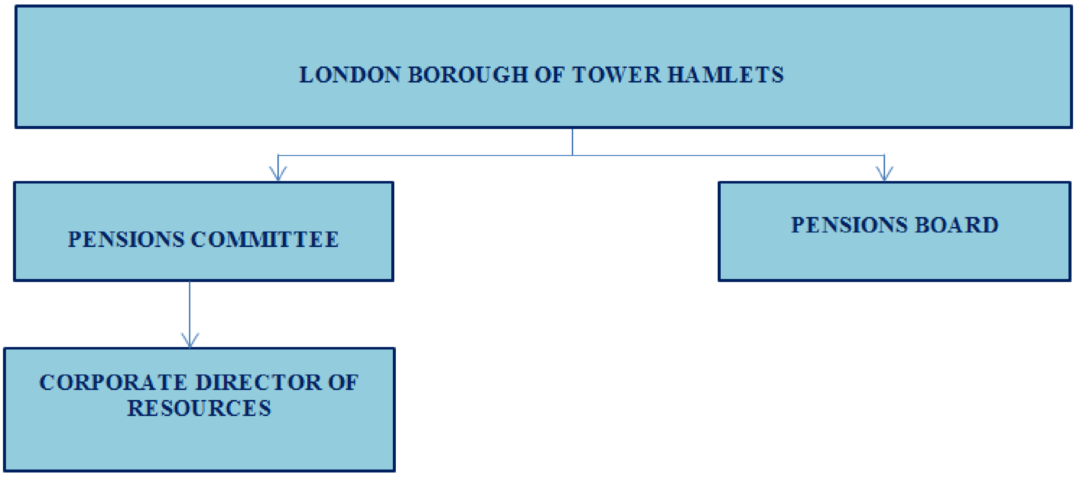
- around 20,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure
The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people.

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



Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it.

The following are the terms of reference for the Pensions Committee:

1) To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pensions' legislation.
2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3) To formulate and publish an Investment Strategy Statement.
4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9) To receive and approve an Annual Report on the activities of the Fund prior to publication.
10) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11) To keep the terms of reference under review.
12) To determine all matters relating to admission body issues.

13) To focus on strategic and investment related matters at two Pensions Committee meetings.

14) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan

15) To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 7 elected Members from Tower Hamlets Council on a politically proportionate basis and the Pensions Committee will elect a Chair and Vice Chair. All Tower Hamlets Council elected Members have voting rights on the Committee and three voting members of the Committee are required to be able to deem the meeting quorate.

In addition there are two co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee, they have access to all Committee Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process.

Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees as the Pension Fund with all the legal responsibilities that this entails, it was not felt appropriate to apply the same legal definition to the lay members of the Committee and hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee to include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Tower Hamlets Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website:
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

Other Delegations of Powers

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee has a clear fiduciary duty in the performance of their functions, they have to ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix A outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Corporate Director, Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Corporate Director, Resources will delegate aspects of the role to other officers of the Council including the Investment & Treasury Manager and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Tower Hamlets Council does not apply to the Pension Board unless it is expressly referred to in the

Board's terms of reference. The Tower Hamlets Pension Board established by Tower Hamlets Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers.

Membership of the Pension Board

The Pension Board consists of 7 members as follows:

- Three Employer Representatives
- Three Scheme Member Representatives
- One Independent Member (non-voting) to act as chair of the Pension Board

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the six Employer and Scheme Member Representatives are present, and where the Board has an Independent Member they must also be present.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Cabinet Member for Resources
- the Corporate Director, Resources
- the Divisional Director Finance, Procurement and Audit
- the Corporate Director, Governance

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. The Pension Board will be treated in the same way as a Committee of Tower Hamlets Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

Policy Documents
In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website:
http://www.towerhamletspensionfund.org/

Funding Strategy Statement
The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement
The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be tabled at the November Pensions Committee meeting for approval.

Governance Policy Compliance Statement
This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix B and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy
Tower Hamlets Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.
To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least on annual basis.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the websites:
http://www.towerhamletspensionfund.org/
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website:
http://www.towerhamletspensionfund.org/

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Tower Hamlets' Employing Authority Discretions can be found on the website: http://www.towerhamletspensionfund.org/

Pension Administration Strategy and Employer Guide

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: http://www.towerhamletspensionfund.org/

This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on 23 July 2015 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration. In August 2017, this document has been reviewed and updated for Pensions Committee consideration and approval at its meeting of 21st September 2017.

Contact Information
Further information on the London Borough of Tower Hamlets Pension Fund can be found as shown below:

London Borough of Tower Hamlets Pension Fund
Mulberry Place
5 Clove Crescent
London
E14 2BG

Email: pensions@towerhamlets.gov.uk
Website: http://www.towerhamletspensionfund.org/

Appendix A

Delegation of Functions to Officers by Tower Hamlets Pensions Committee

Key:

PC – Pensions Committee
OAP-Officers & Advisers Panel
ITM – Investment & Treasury Manager
CDR – Corporate Director, Resources & Officers
DDoFPA -Divisional Director Finance, Procurement & Audit
IC – Investment Consultant
FA – Fund Actuary
IA – Independent Adviser

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation including use of ranges To formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee	CDR, DDoFPA & ITM (having regard to ongoing advice of the IC, IA, FA and OAP)	High level monitoring at PC with more detailed monitoring by OAP and or ITM

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	New mandates / emerging opportunities To consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.	CDR, DDoFPA and ITM (having regard to ongoing advice of the IC & IA)	High level monitoring at PC with more detailed monitoring by OAP & ITM
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDR, DDoFPA and ITM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC	High level monitoring at PC with more detailed monitoring by OAP & ITM
	Selection, appointment, addition, replacement and dismissal of Fund Managers To evaluate the credentials of potential managers and make recommendations to the Pensions Committee To review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.	OAP, CDR and ITM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC	Notified to PC via ratification process.

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDR, DDoFPA and ITM, subject to agreement with Chairman and Vice Chairman (or either, if only one available in timescale)	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Agreeing the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[2]	CDR & DDoFPA	Regular reports provided to PC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDR, DDoFPA and ITM subject to agreement with Chairman and Vice Chairman (or either, if only one is available in timescale)	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

[2] **CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.**

Appendix B

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Pensions Committee is presented at the following Pensions Committee. All key recommendations of the Pensions Committee are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Pensions Committee are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers,	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee.

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

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

London Borough of Tower Hamlets Pension Fund Appendix 6 Training & Development Policy

Introduction

This is the Training & Development Policy of the London Borough of Tower Hamlets Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Tower Hamlets Council. The Policy details the training strategy for members of the Pensions Committee and Pension Board, and senior officers responsible for the management of the Fund.

This Training & Development Policy is established to assist Pensions Committee and Pensions Board members and senior officers in developing their knowledge and capabilities in their individual roles, with the ultimate aim of ensuring that the London Borough of Tower Hamlets Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.
Tower Hamlets Council has delegated responsibility for the implementation of this Training & Development Policy to the Corporate Director, Resources.

Aims and Objectives

Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- over 20,000 current and former members of the Fund, and their dependants
- about 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

In relation to the governance of the Fund, the objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

This Policy has been put in place to assist the Fund in achieving these objectives and all Pensions Committee Members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

This Training & Development Policy applies to all Members of the Pensions Committee, Pensions Board, including scheme member and employer representatives. It also applies to all managers in the Tower Hamlets Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pension Fund Manager and Investment & Treasury Manager and his/her team.
The advisers to the Fund that provides the day to day and strategic advice to the London Borough of Tower Hamlets Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other officers of employers participating in the London Borough of Tower Hamlets Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Tower Hamlets Council will provide appropriate training for them.
This is considered separately in the London Borough of Tower Hamlets Pension Fund Administration Strategy.

CIPFA and TPR Knowledge and Skills Requirements - *(CIPFA Knowledge and Skills Framework and Code of Practice)*

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which include all those covered in the existing Committee and nonexecutives' framework):

- i) Pensions legislation
- ii) Public sector pensions governance
- iii) Pension accounting and auditing standards
- iv) Pensions administration
- v) Financial services procurement and relationship management
- vi) Investment performance and risk management
- vii) Financial markets and products knowledge
- viii) Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pensions Act 2004 and the Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

Application to the London Borough of Tower Hamlets Pension Fund

Tower Hamlets Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Tower Hamlets Council adopts the principles contained in these publications in relation to the London Borough of Tower Hamlets Pension Fund, and this Training and Development Policy highlights how the Council will strive to achieve those principles through use of a Training Plan together with regular monitoring and reporting.

The London Borough of Tower Hamlets Pension Fund Training and Development Plan

Tower Hamlets Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee members, Pension Board members and senior officers, and that training is a key element of this process. Tower Hamlets Council will develop a rolling Training Plan based on the following key elements:

1) **Individual Training Needs**: A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

2) **Hot Topic Training**: The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a

high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.

3) **General Awareness**: Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Tower Hamlets Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee member, a Pension Board member or the specific role of the officer.
The Pensions Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Tower Hamlets Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Tower Hamlets Pension Fund website where useful London Borough of Tower Hamlets Pension Fund specific material is available.

In addition London Borough of Tower Hamlets Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Tower Hamlets Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Tower Hamlets Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement

    - The Statement of Investment Principles including the London Borough of Tower Hamlets Pension Fund's statement of compliance with the LGPS Myners Principles
    - The Communications Policy
    - The Administration Strategy
- The administering authority's Discretionary Policies
- The Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills

To identify if Pensions Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:

i. Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
ii. Hot Topic Training – attendance by at least 80% of the required Pensions Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.
iii. General Awareness – each Pensions Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
iv. Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

The key risks to the delivery of this Policy are outlined below:

i. Changes in Pensions Committee and/or Pension Board membership and/or senior officers' potentially diminishing knowledge and understanding.
ii. Poor attendance and/or a lack of engagement at training and/or formal meetings by Pensions Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
iii. Insufficient resources being available to deliver or arrange the required training.
iv. The quality of advice or training provided not being to an acceptable standard.

The Pensions Committee members, with the assistance of London Borough of Tower Hamlets senior officers and Pension Board members will monitor these and other key risks and consider how to respond to them.

Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

i. The training provided / attended in the previous year at an individual level
ii. Attendance at Pensions Committee and Pension Board meetings
iii. The results of the measurements identified above.

This information will also be included in the London Borough of Tower Hamlets Pension Fund's Annual Report and Accounts.
At each Pensions Committee and Pensions Board meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

All training costs related to this Training and Development Policy are met directly by the London Borough of Tower Hamlets Pension Fund.

Approval, Review and Consultation

This Training and Development Policy was originally approved at the London Borough of Tower Hamlets Pensions Committee meeting of September 2015 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework would be approved on 9th March 2016. This Training and Development Policy was also adopted by the London Borough of Tower Hamlets Pension Board at its first meeting. It will be formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it worth re-evaluation.

Further Information

If you require further information about anything in or related to this Training and Development Policy, please contact:
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London Borough of Tower Hamlets Pension Fund
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Telephone 020 7364 4733

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

Appendix 7

Procedure for Recording
and Reporting Breaches of the Law

1. Introduction

1.1 This document sets out the procedures to be followed by certain persons involved with the Tower Hamlets Pension Fund, the Local Government Pension Scheme managed and administered by Tower Hamlets Council, in relation to reporting breaches of the law to the Pensions Regulator.

1.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

1.3 This Procedure document applies, in the main, to:

- all members of the Tower Hamlets Pensions Committee and Board;
- all officers involved in the management of the Pension Fund ;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Tower Hamlets Pension Fund who are responsible for pension matters.

2. Requirements

2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

2.2 ***Pensions Act 2004***

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

  (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

  (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

2.3 *The Pension Regulator's Code of Practice*

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

2.4 *Application to the Tower Hamlets Pension Fund*

This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Tower Hamlets Pension Fund and this document sets out how the Board will strive to achieve best practice through use of a formal reporting breaches procedure.

3 The Tower Hamlets Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Tower Hamlets Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

3.1 *Clarification of the law*

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
  www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
  www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
  www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)

- The Pensions Regulator's Code of Practice: http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Council Monitoring Officer and the Corporate Director, Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

3.2 ***Clarification when a breach is suspected***

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate to check with the Council Monitoring Officer and the Corporate Director, Resources, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3.3 ***Determining whether the breach is likely to be of material significance***

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

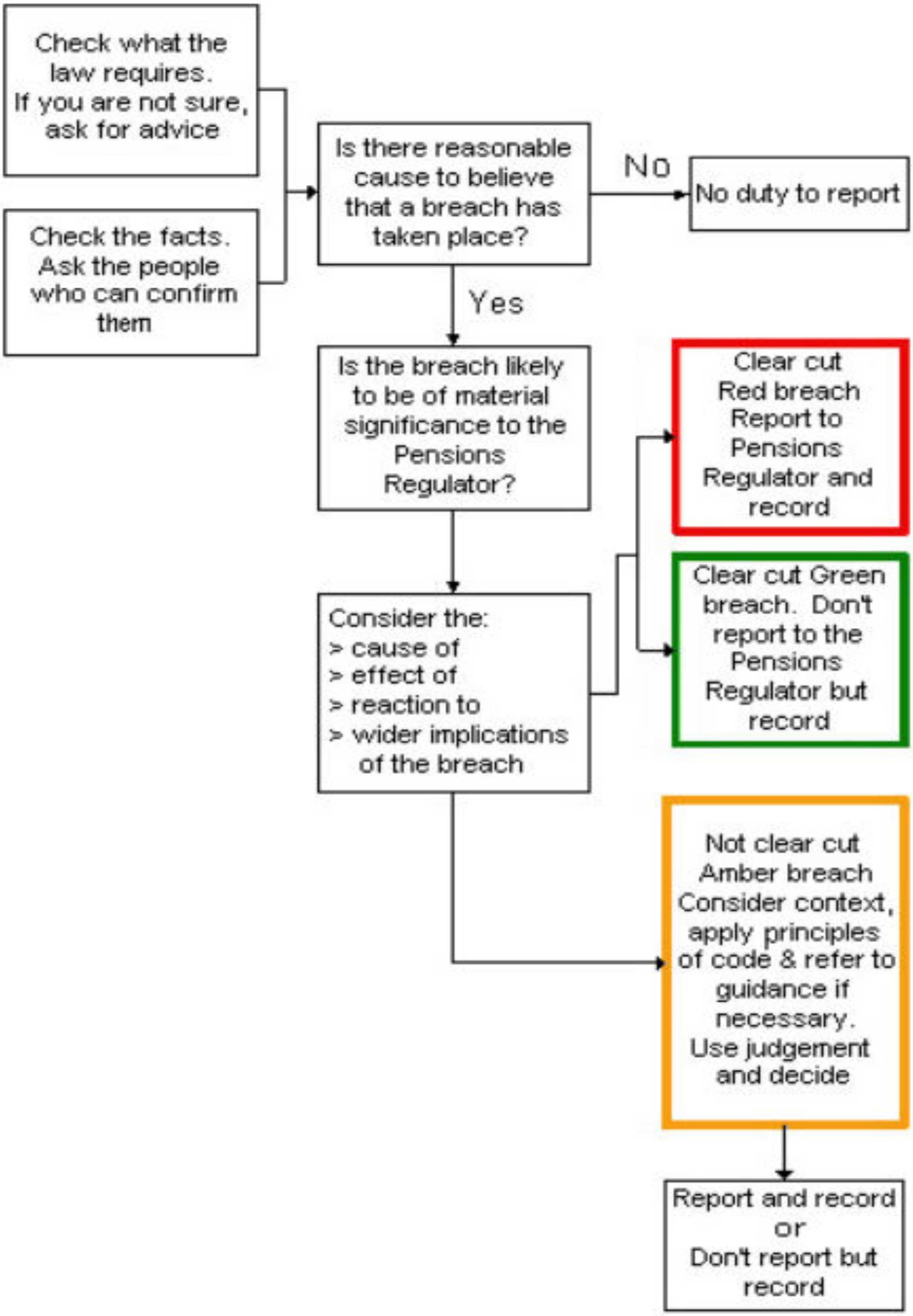
- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

3.4 A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

Decision-tree: deciding whether to report



3.5 ***Referral to a level of seniority for a decision to be made on whether to report***

Tower Hamlets Council has a designated Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Council Service Head of Finance & Procurement and the Corporate Director, Resources, at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

3.6 ***Dealing with complex cases***

The Council Service Head of Finance & Procurement and the Corporate Director, Resources, may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

3.7. ***Timescales for reporting***

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

3.8 ***Early identification of very serious breaches***

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

3.9 ***Recording all breaches even if they are not reported***

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Tower Hamlets Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Council Monitoring Officer and the Corporate Director, Resources. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

3.10 ***Reporting a breach***

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Tower Hamlets Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Tower Hamlets Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 00330180RT); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

3.11 ***Confidentiality***

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

3.12 ***Reporting to Pensions Committee and Pensions Board***

A report will be presented to the Pensions Committee and the Pensions Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

3.13 ***Review***

This Reporting Breaches Procedure was originally developed in June 2016. It will be kept under review and updated as considered appropriate by the Corporate Director, Resources. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

Further Information

If you require further information about reporting breaches or this procedure, please contact:

Bola Tobun - Investment & Treasury Manager
Email: Bola.Tobun@towerhamlets.gov.uk
Telephone: 020 7364 4733
Tower Hamlets Pension Fund
London Borough of Tower Hamlets, London E14 2BG

Designated officer contact details:
1) Divisional Director Finance and Procurement – Neville Murton
Email: Neville.Murton@towerhamlets.gov.uk

2) Corporate Director, Resources – Zena Cooke
Email: Zena.Cooke@towerhamlets.gov.uk

3) Monitoring Officer/Corporate Director, Governance – Asmat Hussain
Email: Asmat.Hussain@towerhamlets.gov.uk

Appendix A

Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being

properly identified and managed and/or the right money not being paid to or by the scheme at the right time.
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

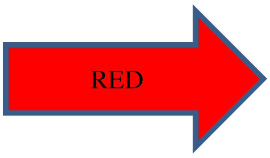
The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix B

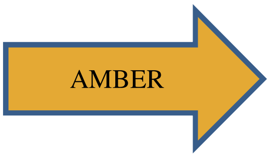
Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



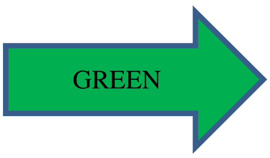
This where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.
Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.



This where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.



This where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link:http://www.thepensionsregulator.gov.uk/codes/code-related-report-reaches.aspx

Appendix C

Example Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

*New breaches since the previous meeting should be highlighted

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

Appendix 8
CONFLICTS OF INTEREST POLICY

June 2016

CONFLICTS OF INTEREST POLICY

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Tower Hamlets Pension Fund, which is managed by London Borough of Tower Hamlets. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Tower Hamlets Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pensions Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the management of London Borough of Tower Hamlets Pension Fund, the Chief Finance Officer (Section 151 Officer), Corporate Directors, and the Service Heads (from here on in collectively referred to as the senior officers of the Fund).

The Pension Manager/Investment Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he/she considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as "a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

Local Government Act 2000

All members and co-opted members of the Tower Hamlets Pensions Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

The Public Services Ombudsman for Wales' Ten Guiding Principles

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

CODE OF CONDUCT & CONFLICT OF INTEREST POLICY

1. **Code of conduct**

1.1 As members of a publicly funded body with a responsibility to discharge public business, members of the Tower Hamlets Pension Board should have the highest standards of conduct.

1.2 Pension Board members should have regard to the Seven Principles of Public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

1.3 All Tower Hamlets Pension Board members must:

- Act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

- Not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

- Make all choices on merit and must be impartial and seen to be impartial, when carrying out your public duties.

- Co-operate fully with whatever scrutiny is appropriate to your role.

- Not, without proper authority, reveal any confidential and sensitive information that is provided to you, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation.

- Ensure when using or authorising the use by others of the resources of the authority that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

- Promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

- Sign the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member.

- Comply with the Tower Hamlets Pension Fund Code in addition to all other existing Codes of Conduct or Protocols (e.g. The Member Code of Conduct).

2. **Conflict of interest**

2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

2.2 A conflict of interest exists where a decision on a matter might reasonably be regarded as affecting (to a greater extent than other persons who may be affected by the decision) the well-being or financial position of the Councillor, a relative or a friend or

- the employment or business carried out by those persons, or in which they might be investors (above a certain level)
- any of the bodies with which the decision maker is associated, and which decision maker will have registered in the appropriate register of interests.

It does not need to be shown that a conflict of interest actually exists. It is sufficient if it appears to a fair and informed observer that there was a real possibility of conflict.

..

2.3 Examples of potential conflicts of interest, not only for the Board but also for all those involved in managing the Pension Fund, are listed at appendix 1.

2.4 All prospective Pension Board members are required to complete the Tower Hamlets Pension Fund Conflict of interest declaration before they are appointed to the Pension Board, attached at appendix 2.

2.5 All appointments to the Pension Board should be kept under review by the Corporate Director, Resources.

2.5 It is the duty of any appointed Pension Board member to declare any potential conflict of interest. This declaration should be made to the Chair of the Pension Board in the first instance or to the Scheme Manager, and recorded in a register of interests.

2.7 The Pension Board shall identify and monitor any potential conflict of interests in a register of interests (attached at appendix 3). The register of interests should be circulated to the Tower Hamlets Pension Board and Scheme Manager for review and publication.

2.8 If the Pension Board suspects any conflict of interest it should report its concerns to the Scheme Manager.

2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct and decisions of the Pension Board, the Tower Hamlets Pension Board must consider obtaining legal advice when assessing its course of action and response. The Tower Hamlets Pension Board should consult the Monitoring Officer or the Service Head, Legal Services in the first instance.

2.10 Education on identifying and dealing with conflicts of interest will be included as part of the training requirement in the Knowledge and Understanding policy.

3. Operational procedure for officers, Pensions Committee members and Pension Board members

3.1 The following procedures must be followed by all individuals to whom this policy applies.

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict	On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2. This is in addition to the requirement to register disclosable pecuniary interests and other registerable interests. The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3.
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	At the commencement of any Pensions Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Governance Officer to the Chairman of every meeting prior to that meeting. At Tower Hamlets Pensions Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda. Any individual, who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Governance Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Officers, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. If such a conflict is identified outside of a meeting the notification must be made to the Governance Officer and where it relates to the business of any meeting, also to the Chairman of that meeting. The Officers, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Pensions Manager/Investment & Treasury Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Officers will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 2) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Officers to all individuals to whom it relates.

4. Operational procedure for advisers

4.1 All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with London Borough of Tower Hamlets.

4.2 Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pensions Manager/Investment & Treasury Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to London Borough of Tower Hamlets
- notify the Pensions Manager/Investment & Treasury Manager immediately should a potential or actual conflict of interest arise.

4.3 All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

4.4 London Borough of Tower Hamlets will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

4.5 London Borough of Tower Hamlets will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

4.6 Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

4.7 Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, London Borough of Tower Hamlets shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

4.8 *Minor Gifts*
For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £10 per item and an overall maximum value of £20 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pensions Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the London Borough of Tower Hamlets Members' Code of Conduct.

5. Monitoring and Reporting

5.1 The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Governance Officer for the Fund. In addition, it will be published in the annual report and accounts

5.2 In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

6. Key Risks

6.1 The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pensions Manager/Investment & Treasury Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

7. Costs

7.1 All costs related to the operation and implementation of this Policy will be met directly by Tower Hamlets Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

8. Approval, Review and Consultation

8.1 This Conflicts of Interest Policy is to be approved using delegated responsibilities on 30 June 2016. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Bola Tobun,
Tower Hamlets Pension Fund Manager,
London Borough of Tower Hamlets
E-mail - Bola.Tobun@towerhamlets.gov.uk
Telephone – 020 7364 4733

Appendix 1

Examples of Potential Conflicts of Interest

a) An elected member on the Pension Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pension Committee is on the board of a Fund Manager that the Committee is considering appointing.

c) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process.

d) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Executive Director of Finance and Public Protection, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.

Appendix 2

Declaration of Interests relating to the management of Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets

Tick as appropriate

I, [insert full name], am:

- an officer involved in the management ☐
- Pensions Committee Member ☐
- Pension Board Member ☐

of Tower Hamlets Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Tower Hamlets Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I declare that I understand my responsibilities under the Tower Hamlets Pension Fund Conflicts of Interest Policy. I undertake to notify the Pensions Manager/Investment & Treasury Manager of any changes in the information set out above.

Signed ____ Date ____________________

Name (CAPITAL LETTERS) ____

Appendix 3

Tower Hamlets Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by London Borough of Tower Hamlets, the Administering Authority.

Date Identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc.
(2) E.g. withdrawing from a decision making process, left meeting

The London Borough of Tower Hamlets Pension Fund
Appendix 9
Pension Administration Strategy Statement
April 2017

Introduction

This is the pension administration strategy of London Borough of Tower Hamlets Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by the London Borough of Tower Hamlets (the administering authority).

This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. It has been developed following consultation with employers who participate in the Fund and schools who employ their own payroll providers.

The Fund comprises 17 employers and approximately 19,600 scheme members. The efficient delivery of the benefits of the LGPS is dependent on reliable administrative procedures being in place between the administering authority and scheme employers.

The effective date is 1st April 2017.

Any enquires in relation to the pension administration strategy should be sent to the Pensions Manager, London Borough of Tower Hamlets at:

Pensions.LBTH@towerhamlets.gov.uk

This strategy when approved (and any significant amendments thereafter) will be sent to all scheme employers and the Secretary of State.

Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2014. Regulation 59(1) of the (Administration) Regulations 2014 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers.

The administering authority and scheme employers must have regard to the pension administration strategy when carrying out their functions under the LGPS Regulations

Aims

The aim of this pension administration strategy is to set out the quality and performance standards expected of the Fund, its scheme employers and payroll providers. It seeks to promote good working relationships and improve efficiency between the Fund, scheme employers and payroll providers.

The efficient delivery of the benefits of the scheme is reliant upon sound administrative procedures being in place between stakeholders, including the Fund and scheme employers. This administration strategy sets out the expected levels of performance of the Fund and the scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where persistent non-compliance occurs.

Implementation

The administration strategy is effective from 1 April 2017 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

London Borough of Tower Hamlets Pension Administration

Responsibility

The London Borough of Tower Hamlets, as administering authority, is responsible for administering the Council's LGPS fund. The administering authority has delegated this responsibility to the Pensions Committee (the Committee). The Committee monitors the activity and performance of the administration function on a quarterly basis. The Committee will monitor and review this administration strategy on a regular basis.

Objective

The Fund's objective in relation to administration is to deliver an efficient and value for money service to its scheme employers and scheme members. Operationally, the administration of the Fund is carried out by staff employed by the administering authority.

Communications

The Fund has published a Communication Policy Statement, which details the way the Fund communicates with Committee, scheme members, prospective scheme members, scheme employers and other stakeholders. The latest version is accessible from the Fund website:

http://towernet/staff_services/hr_workforce_development/pensions/

Telephone: 020 7364 4251

Performance Standards

Administration of the LGPS is maintained at local level by a number of regional pension funds and, as such, certain decisions must be made by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has service level agreements between itself and scheme employers which are set out below.

Overriding legislation

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Fund and scheme employers will, as a minimum, comply with overriding legislation.

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect, the standards to be met are:

- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration strategy

<u>Punctuality</u>

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. The LGPS itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

Fund Responsibilities

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as an exhaustive list.

<u>Fund administration</u>

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

Ref	Function / Task	Performance Target
1	Publish and keep under review the pensions administration strategy.	Within three months of any changes being agreed with scheme employers.
2	Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers.	30 days from any revision. New employers to receive within three months of admission.
3	Host meetings for all scheme employers.	Twice per annum (usually June/July and November/December each year).
4	Organise coaching sessions for scheme employers.	Upon request from scheme employers or as required.
5	Provide bespoke meetings for scheme employers.	As required.
6	Notify scheme employers and scheme members of changes to the scheme rules	Within one month of the change(s) coming into effect.
7	Issue scheme member / employer bulletin.	At least once a year.
8	Notify a scheme employer of issues relating to the scheme employer's non-compliance with performance standards.	Within ten days of a performance issue becoming apparent.
9	Notify a scheme employer of decisions to recover additional costs associated with the scheme	Within ten days of scheme employer failure to improve performance, as

	employer's poor performance (including any interest that may be due).	agreed.
10	Issue annual benefit statements to active and deferred members as at 31 March each year.	By 31 August following the year-end.
11	Issue formal valuation results (including individual employer details).	No later than 1 March following the valuation date.
12	Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
13	New admission agreement, where required (including the allocation of assets and notification to the Secretary of State).	Within three months of agreement to set up provided prospective employer adheres to certain prescribed timescales
14	Publish, and keep under review, the Fund's governance compliance statement.	By 30 September, following the year-end as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
15	Publish, and keep under review the Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published by 31 March following valuation date or as required.
16	Publish the Fund's annual statement of accounts.	By 30 September following the year-end or following the issue of the auditor's opinion.
17	Publish the Fund's annual report	By 30 September following the year-end
18	Publish, and keep under review, the Fund's communication policy statement.	By 30 September, following the year-end, as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
19	Publish, and keep under review, the Fund's termination policy statement.	Within 30 days of any changes being made to the policy
20	Publish, and keep under review, the Fund's charging policy.	Within 30 days of any changes being made to the policy.

Scheme administration

This details the functions which relate to scheme member benefits from the LGPS.

Ref	Function / Task	Performance Target
21	Provide an answer or acknowledgement to scheme members/scheme employers/ personal representatives/ dependents and other authorised persons.	Five days from receipt of enquiry.
22	Set up a new starter and provide statutory notification to the member.	Twenty days from receipt of correctly completed starter form from a scheme employer.
23	Non-LGPS inward transfers processed.	Ten days of receipt of request from scheme member.
24	Non-LGPS transfer out quotations processed.	Ten days of receipt of request.

25	Non-LGPS transfer out payments processed.	Ten days of receipt of completed forms.
26	Internal and concurrent transfers processed.	Ten days of receipt of request.
27	Estimates for divorce purposes.	Ten days of receipt of request.
28	Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence.	Ten days of receipt of election from scheme member.
29	Process scheme member requests to pay/amend/ cease additional voluntary contributions.	Five days of receipt of request from scheme member.
30	Provide requested estimates of benefits to employees/employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency.	15 days from date of request. Note: bulk requests of more than 20 estimates per month will be subject to further agreement.
31	Deferred benefits calculated.	Fifteen days from receipt of all necessary information.
32	Deferred benefits processed for payment following receipt of election	Five days from receipt of all necessary information.
33	Refund payments	Five days from receipt of all necessary information.
34	Provision of new retirement letters detailing member options.	Fifteen days from receipt of all necessary information.
35	Payment of retirement benefits following receipt of election	Lump-sum payment within five days of receipt of all necessary documentation. First pension payment on next available payroll run.
36	Notification of death processed	Within ten days of receipt of all necessary documentation.
37	Calculate and pay death grant.	Within ten days of receipt of all necessary documentation.
38	Processing of dependants' pensions for payment.	Within ten days of receipt of all necessary documentation.
39	Calculate and pay transfer out payments to receiving fund and notify scheme member.	Ten days following receipt of election form from scheme member.
40	Provide payslips to scheme members in receipt of a pension.	Twice a year in paper format unless specifically requested, otherwise available online.
41	Process all stage 2 pension internal dispute resolution applications	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.
42	Answer all calls to pensions during office hours.	85%.
43	Answer calls to pensions in office hours at first point of contact.	95%.
44	Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme and keep under	Any changes to be published within one month.

	review.	

Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service. All information must be provided in the format prescribed by the Fund within the prescribed timescales.

Fund administration

This details the functions which relate to the whole Fund, rather than individual events.

45	Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation.	30 days of employer joining fund or change to nominated representative.
46	Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	To be kept under review and a revised statement published within one month of any changes.
47	Respond to enquiries from the Fund / Administering Authority.	Ten days from receipt of enquiry
48	Remit employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.	Schedules by the 19th calendar day of the month after deduction. Cleared funds to be received by 22nd calendar day of the month after deduction or 19th if by cheque.
49	Implement changes to employer contribution rates as instructed by the Fund.	At date specified on the actuarial advice received by the Fund.
50	Provide year-end information required by the Fund in the format stipulated in the instructions issued March each year.	By 30 April following the year-end.
51	To ensure optimum accuracy of year-end information	With no less than 98% accuracy across all members.
52	Distribute any information provided by the Fund to scheme members/potential scheme members	Within 10 days of its receipt.
53	Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation.	At the time of deciding to tender so that information can be provided to assist in the decision.
54	Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with.	Agreement to be in place no later than date of contract
55	Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund.	As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations, if applicable.
56	Refer new/prospective scheme members to the Fund's website.	Ten days of commencement of employment or change in contractual conditions.
57	Make additional fund payments in relation to early	Within 30 days of receipt of invoice

	payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	from the Fund.
58	Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Within 30 days of receipt of invoice from the Fund.
59	All new prospective admitted bodies to undertake, to the satisfaction of the administering authority and the scheme employer, a risk assessment of the level of the bond required in order to protect other scheme employers.	To be completed before the body can be admitted to the Fund.
60	All admitted bodies to undertake a review of the level of the bond or indemnity required to protect the other scheme employers.	Annually, or such other period as may be agreed with the administering authority.

<u>Scheme administration</u>

This section details the functions which relate to scheme member benefits from the LGPS.

61	Use online forms or web portal for all relevant scheme administration tasks as required by the administering authority.	Within one month of employer being set up to use the online system.
62	Notify the Fund of new starters.	Six weeks of member joining or such shorter periods as required by auto-enrolment obligations under the Pensions Act 2008.
63	Arrange for the correct deduction of employee contributions from a member's pensionable pay.	Immediately on joining the scheme, opting in or out or change in circumstances.
64	Ensure correct employee contribution rate is applied.	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
65	Ensure correct deduction of pension contributions during any period of child related leave, strike absence or other forms of leave or absence from duty.	Immediately, following receipt of election from scheme member to make the necessary pension contributions
66	Commence deduction of additional regular contributions or amend such deductions, as appropriate.	Month following election to pay contributions or notification received from the Fund.
67	Cease deduction of additional regular contributions.	Immediately following receipt of election from scheme member.
68	Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s).	Commence deduction of AVCs in month following the month of election. Pay over contributions to the AVC provider(s) by the 22nd of the month following the month of election or 19th if by cheque.

69	Provide the Fund with details of all changes to members' working hours using the method stipulated by the Fund.	Six weeks of change for protected members only.
70	Notify the Fund of other material changes in employees' circumstances (e.g., marital or civil partnership status) using the method stipulated by the Fund.	Immediately, following notification by the scheme member of a change in circumstances
71	Notify the Fund of leaves of absence with permission (maternity, paternity, career break, etc) using the method stipulated by the Fund.	Within 20 days of notice from employee for protected members only.
72	Notify the Fund when a member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund.	Six weeks of month end of leaving where payroll service not provided by the London Borough of Tower Hamlets.
73	Notify the Fund when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement using the method stipulated by the Fund.	At least one month before retirement date.
74	Notify the Fund of the death of a scheme member using the method stipulated by the Fund.	As soon as practicable, but within ten days.
75	Appoint person for stage 1 of the pension dispute process and provide full details to the Fund	Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator.
76	Review 3rd tier ill-health retirement cases.	Notify administering authority immediately a member retired with a third tier ill-health benefits returns to paid employment or outcome of the 18 month review, whichever is earlier.

Monitoring Performance and Compliance

Ensuring compliance with the LGPS regulations and this administration strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

Audit

The Fund is subject to an annual external audit of the accounts by extension the processes employed in calculating the figures for the accounts. The key findings of their work are presented to the Pension Committee in an annual report, and the Committee / Administering Authority is provided with an action plan of recommendations to implement. In addition the Fund is subject to internal audits by the LB Tower Hamlets internal auditors of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and, where appropriate, duly implemented.

Both the Administering Authority and Scheme Employers will be expected to comply with requests for information from internal and external audit in a timely manner.

Performance monitoring

The Fund monitors its performance utilising its own internal key performance indicators. Monitoring occurs on a monthly basis and the key performance indicators are reported to Committee via a quarterly report on administration of the Fund allowing them to monitor the performance of the Fund's in-house staff. A high level overview of performance is provided to Committee on an annual basis. The performance of Scheme Employers against the standards set out in this document will be incorporated into the reporting to the Committee, as appropriate, to include data quality.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should email comments to Pensions.LBTH@towerhamlets.gov.uk This feedback will be incorporated into the quarterly reports to the Committee.

Annual report on the strategy

The scheme regulations require the Fund to undertake a formal review of performance against the administration strategy on an annual basis. This report will be produced annually and incorporated within the annual report and accounts.

Policy on Charging Employers for Poor Performance

The scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where a fund wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated
- the provisions of the administration strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any scheme employer (including the administering authority). The circumstances where such additional costs will be recovered from the scheme employer are:

- failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this administration strategy (either as a result of punctuality of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this administration strategy
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

Approach to be taken by the Fund
The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of poor performance, provide the necessary support or training and put in place appropriate

processes to improve the level of service delivery in the future. Therefore, scheme employers will be afforded the time to address the causes of non-compliance with performance standards in order that they do not become persistent, before any fines are levied. Employers should be aware that in the case of late payment of contributions and non-submission of monthly contribution forms, penalties will be incurred for persistent instances of non-compliance with performance standards.

The process for engagement with scheme employers will be as follows:

1) Write to the scheme employer, setting out area(s) of non-compliance with performance standards and offer support and, where applicable, further training.

2) If no improvement is seen within one month of the support or training or no response is received to the initial letter, the scheme employer will be asked to attend a conference call/meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3) If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of non-compliance with performance standards that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4) An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.

A report will be presented to the quarterly Committee meeting detailing charges levied against scheme employers and outstanding payments.

Charging scales for administration

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the 'Scheme Employer Responsibilities' section.

Item	Charge	Ref
Late payment of employee and employer contributions	£50 plus interest*	48
Non-provision of the correct schedule accompanying the contributions	£50 per occasion.	48
Underpayment of employee or employer contributions.	£50 plus interest*	49, 63, 64.
Late or non-provision of year-end information or the poor quality of year-end information.	£250 plus £100 for every month the information is late.	50
Failure to use the notified process to provide member amendment and earnings information to the administration authority.	Recharge of the additional costs incurred by the administering authority.	60
Late or non-provision of starter forms.	£100 per month for forms not received or late.	62
Late or non-provision leaver forms.	£100 per month for forms not received or late.	72, 73, 74.

*Interest will be charged in accordance with Regulation 44 of the LGPS administration regulations, which states interest should be charged at Bank of England base rate plus one per cent.

Service and Communication Improvement Planning

As set out earlier in this administration strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is, therefore, an important aspect of service improvement planning.

The Fund's staff work together on a programme of continuous improvement to the service and meet quarterly to review progress against the action plan agreed.

The monitoring of the performance standards set out in this document will inform the programme going forward, and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be emailed to Pensions.LBTH@towerhamlets.gov.uk

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund through the monthly briefing note.

Consultation and Review Process

In preparing this administration strategy, the Fund will place it upon its website and open up consultation with scheme employers with a closing date of 28 February 2017. The strategy will be reviewed every year and more frequently if there are changes to the scheme regulations or Fund policies. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website at:
http://towernet/staff_services/hr_workforce_development/pensions/

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

Appendix 10

RISK POLICY

RISK POLICY

Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets ("we") recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the London Borough of Tower Hamlets Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants;
- around 20 employers; and
- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Tower Hamlets Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;
- minimise loss and damage to the Tower Hamlets Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and the Pensions Regulator Requirements

CIPFA Managing Risk Publication
CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice
The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> ***"249B Requirement for internal controls: public service pension schemes***
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
> *(a) in accordance with the scheme rules, and*
> *(b) in accordance with the requirements of the law.*
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme;
- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Tower Hamlets Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

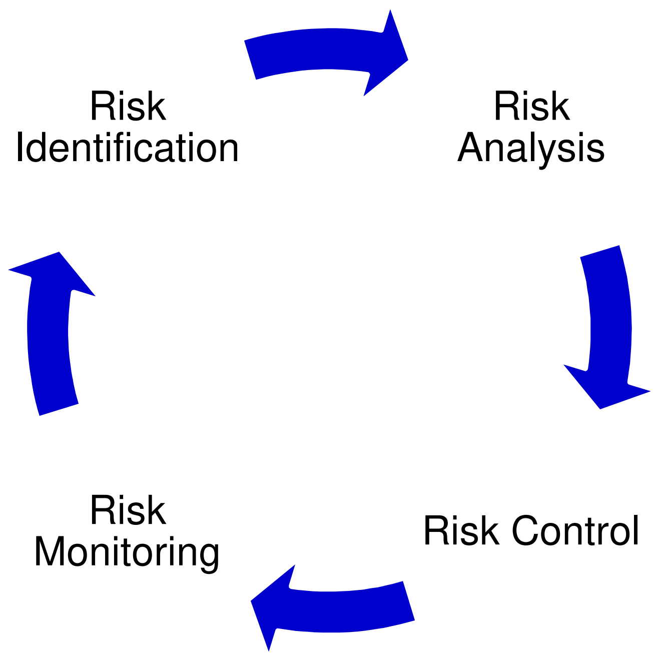
Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification

Our risk identification process is both proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Tower Hamlets Pension Fund Officers and Advisers Panel;
- performance measurement against agreed objectives;
- monitoring against the Fund's business plan;
- findings of internal and external audit and other adviser reports;
- feedback from the local Pension Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Potential impact if risk occurred						
	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Tower Hamlets Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix);
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report;
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion; and
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, with the assistance of the Tower Hamlets Pension Fund Officers and Advisers Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All training costs related to this Risk Policy are met directly by Tower Hamlets Pension Fund

Approval, Review and Consultation

This Risk Policy tabled at the September 2017 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Bola Tobun – Investment & Treasury Manager,
London Borough of Tower Hamlets
E-mail - Bola.Tobun@towerhamlets.gov.uk
Telephone – 020 7364 4733

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

PENSIONS BOARD
ANNUAL REPORT FOR 2016/17

ANNUAL REPORT OF THE PENSIONS BOARD 2016-17

Purpose of the Report

To provide an update on the work undertaken by the Local Pensions Board during 2016-2017 and to meet the legislative requirement to produce an annual report.

Constitution, Representation Meetings and Attendance

The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 28 July 2015 before the recommended Scheme Advisory Board (SAB) deadline of 31 July 2015.

The board consists of three representatives of the scheme employers, three representing of the scheme members and an Independent Chair.

Membership

Tower Hamlets Pension Board Membership 2016 /17

Member Representatives	Designation	Employer Representatives	Designation
David Thompson	Pensioners Representative	Cllr. David Chesterton	Elected Member
John Gray	Admitted Bodies Representative	Minesh Jani	Administering Authority
Stephen Stratton	Active Members Representative	Andrew Crompton	Admitted Bodies

Andrew Crompton left Tower Hamlets Homes – 31st January 2017, the post of admitted body employer representative is currently vacant awaiting recruitment and selection process.

The Corporate Director, Resources wishes to thank the Board members for their work over the last year.

The Board met on four occasions during the year ending 31 March 2017.

1) 27 June 2016
2) 19 September 2016
3) 05 December 2016
4) 13 March 2017

Functions and Operation of the Board

The two primary functions of a Local Pension Board are to assist the Administering Authority to:

- Ensure effective and efficient governance and administration of the LGPS
- Ensure compliance with relevant laws and regulation

It therefore has a monitor/assist /review purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.

The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. The Board operates under Terms of Reference which were approved at inception.

The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time budget accordingly.

Costs
There is a financial budget for the Board of £12.5k. The costs of running the Board are borne by the Pension Fund as part of its overall budget. The costs have in fact minimal as forming and running the board have been incorporated within existing workloads.

Detailed Work of the Board by the Independent Chair:

This is my first annual report as Chair of the Tower Hamlets Pension Board since my appointment in January 2016. The Board was set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds.
The purpose of the Board is to assist Tower Hamlets Council (as the scheme manager) in the management of the Local Authority Pension Scheme (LGPS), and to provide oversight and challenge. The terms of reference for the Board were set out and agreed by Tower hamlets Council prior to the establishment of the Board. These terms of reference are available on the Fund website.

The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is line with the regulations requiring equal employee and employer representation. Details of the members of the Board are shown in Appendix A to this report. The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by Tower Hamlets Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way.
At the end of March 2017, the Tower Hamlets Pension Fund had total assets of £1.367 billion and a membership of over 20,000, comprising pensioners, deferred pensioners and current contributors.
The Board met on 4 occasions during 2016/17 in June, September, December 2016 and March 2017. There have been full agendas for the meetings and the issues discussed during the year included:

a) The development of an annual work plan for the Board.
b) Briefings and discussion on the performance of the pension administration service
c) Briefing and discussion on the Investment performance on the Fund
d) Consideration of the Triennial Actuarial review of the Fund
e) Review and discussion of the decisions of the Pensions Investment Committee
f) Consideration of the Governments proposals for the consolidation of the LGPS and the setting up of asset pools, and the new Investment Regulations
g) Audit and risk management issues affecting the Fund
h) Consideration and discussion on the updated Investment Strategy and Funding Strategy Statements of the Fund.

I am pleased to report that attendance over the 3 meetings was very good at 86% showing a high degree of commitment by members to the work of the Board. The Board will continue to focus on the key issues affecting the Fund and its beneficiaries through the forward work plan to ensure that it best placed to support the Council in the delivery of the LGPS in Tower Hamlets.

In my role as Chair I have presented and reported on behalf of the Board to the Pensions Committee on Governance matters, and on issues arising from our consideration of policy and administration reports. This is a positive and welcome arrangement to ensure that the Board's views are considered by the Pensions Committee.

Pension Fund Investment and administration is becoming ever more complex so a structured programme of training and development is essential for individual members and the Board collectively to discharge its responsibilities. With this in mind, members of the Board have attended various training sessions over the past year. This has included:

a) A presentation and discussion on the long term performance of the Tower Hamlets Pension Fund.
b) A presentation from the London CIV on progress in implementing the new pooling arrangements.
c) The case for divesting from investments in fossil fuels.
d) The role of the Local Authority Pension Fund Forum (LAPFF) in promoting high standards of corporate governance and corporate responsibility.

Regular training sessions will continue to be arranged and also incorporated as part of Board meetings.

The LGPS nationally is currently going through major change and upheaval with the setting up of asset pools. Central Government have taken the view that a small number of asset pools are best placed to reduce costs and provide the scale to access illiquid asset classes to help diversification and improve investment returns. The London collective investment vehicle (CIV) has been established for this purpose. In future the assets of the Tower Hamlets Fund will be invested through this pool rather than directly as is the case at present. There will be a period of transition as assets are moved into the CIV. The Pension Board have been updated on developments at each meeting, and will continue to take a close interest in this process and work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

John Jones
Independent Chair
August 2017

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Non-Executive Report of the: **Pensions Committee** 21 September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Pension Contribution Prepayment	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All

Summary

This report considers the potential economic benefits to the Council from the pre-payment of the Local Government Pension Scheme (LGPS) deficit contribution for the three years 2017/18 to 2019/20 by being able to access potentially higher investment returns in the Pension Fund.

Recommendations:

The Pensions Committee is recommended to:

1. Approve the principle of accepting the prepayment of pension deficit contributions into the Pension Fund for the three years 2017/18 to 2019/20 in principle,
2. Delegate to the Corporate Director, Resources, the determination of the actual amount to be pre-paid to equate to the £15m annual instalments per the Actuary's report.

1. REASONS FOR THE DECISIONS

1.1 The Council pays a contribution towards the pension deficit as a lump sum figure calculated by the Actuary. As the pension fund has scope to invest in higher risk investments earning potentially a higher return, there is scope for the Council to prepay the 3 deficit contributions due for 2017/18, 2018/19 and 2019/20 in 2017/18 but at a lower net present value amount of £520,000 per year.

2. ALTERNATIVE OPTIONS

2.1 The Council could continue to pay the deficit contribution annually into the Pension Fund. At present this is a charge of £15m to the Council budget (£11.96m charged to GF, £3.04m charged to HRA).

3. DETAILS OF REPORT

3.1 The Council pays a contribution towards the pension fund deficit as a lump sum on a quarterly basis. The Actuary calculates the deficit contribution required as part of the tri-ennial valuation. The March 2016 Valuation set a deficit contribution of £15m per year, a total of £45m over the three years.

3.2 The Actuary has advised that if the deficit payment for the three year period is prepaid in year 1 (2017/18), the amount paid by the Council will be lower as the pension fund has scope to earn higher investment returns than the Council's lower risk investment strategy.

3.3 The prepayment would be funded from the Council's investment balances of over £400m that are currently earning an interest rate averaging 0.6%. The Actuary assumed that the pension fund will earn an investment return averaging 4.2%, a theoretical 3.6% higher return.

3.4 The net present value of £45m paid halfway through the first year assuming a 3.6% higher return would equate to a payment now of £43.44m (£14.48m each year). **This equates to a £520,000 reduction in the cost charged to the Council each year, a saving of £1.56m over three years**. This will contribute towards the Council's overall savings target. This payment of £43.44m will increase the value of investments that the Pension Fund can make in the near future by nearly £29m more than previously planned.

3.5 The deficit contribution will be charged to revenue over the three year period but at a lower net present value. This is in line with the accounting treatment other Councils have adopted.

3.6 As the balance of Council investments is over £400m, this decision will not require any short-term borrowing. Therefore this will not impact upon the Council's Prudential Code treasury borrowing indicators.

3.7 If the Pension Committee approve the prepayment in principle, officers will finalise the amount payable with the actuary based on the date the prepayment is due to be made.

3.8 The proposed approach has been discussed informally with the Council's external auditors, KPMG. KPMG are unlikely to raise objections on this approach as other councils have adopted this approach, but officers will confirm KPMG have no objections before proceeding.

3.9 There is a risk pension investments might fall in value after investment, but officers will monitor the return achieved from the pre-payment to ensure the deficit liability payment required by the actuarial report is met.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The financial implications of this decision are as set out in the report. As part of the 2017/18 budget process the Council agreed a savings target of £1.5m in 2017/18 and £0.5m in 2018/19 to be delivered through treasury management efficiencies including the early payment of Pension Fund Deficits. The estimated savings of £1.56m over three years referred to in paragraph 3.4 above will contribute towards these targets, which are a necessary part of ensuring the Council delivers a balanced budget annually.

5. LEGAL COMMENTS

5.1 The Council as an employer in the pension fund, must in accordance with section 67 of the Local Government Pension Scheme Regulations 2013, contribute to the fund in each year covered by the triennial actuarial valuation. This will include making an advance payment towards the pension fund deficit contribution which has been calculated in the triennial valuation. In line with the Council's statutory duty to ensure the proper administration and management of the fund, it is appropriate for the Committee to agree the recommendation to make the prepayment and reduce the pension deficit cost to the Council.

5.2 When fulfilling its role as the administering authority for the Pension Fund, 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 No implications.

7. BEST VALUE (BV) IMPLICATIONS

7.1 These proposals will give scope for the deficit charge to the Council to be reduced thus contributing towards savings targets in the medium term financial strategy.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 No implications.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The Council's pension investment strategy is frequently reviewed to manage the risk to the Council in not being able to meet its estimated pension liabilities. The decision will not have a material impact upon the risk and value of the Council's £1.3bn of investments.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 No implications.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

- N/A

Non-Executive Report of the: **Pensions Committee** 21 September 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Pension Fund Administration Update	

Originating Officer(s)	Tim Dean
Wards affected	All

Summary
This report covers issues affecting scheme members and employers participating in the Tower Hamlets pension scheme.

Recommendations:

The Pensions Committee is recommended to:

1. Approve the admission of Wettons Cleaning Services Ltd as an employer within the pension fund.
2. Note the contents of this report in respect of the update on the administration of the pension fund.

1. REASONS FOR THE DECISIONS

1.1 To enable staff transferring to Wettons Cleaning Services Ltd to remain within the pension fund.

2. ALTERNATIVE OPTIONS

2.1 There are no grounds for refusing admission. The admission agreement has been signed by the company and is awaiting the Mayor's seal.

3. DETAILS OF REPORT

3.1 This report provides an update on pension administration between July and September 2017: The issues covered are:

Staffing
Activity and Performance
Internal Dispute Resolution Procedure
New Employers
Benefit Statements
Data Quality
Projects

Staffing

3.2 Interim Pensions Manager George Bruce has now left the pension administration team.

3.3 Tim Dean has been designated as the Senior Pensions Team Leader and is now responsible for the day-to-day tasks of the team.

3.4 Sue Grimstead has been seconded from Surrey County Council for two days a week starting from 4 September 2017 to provide support – focusing on the upcoming Member Self Service, iConnect and GMP Reconciliation exercises.

Activity and performance

3.5 The activity levels and performance against service standards are reported in appendix 1.

3.6 The achievement of service standards report for July 2017, in appendix 1, shows 87% of activity meeting target dates. This is the same as June 2017.

IDRP

3.7 There is one outstanding IDRP appeal. This relates to the award of a lump sum Death Grant payment. This case is currently being reviewed by our actuaries.

New Employers

3.8 There is one new employer not previously mentioned – Wettons Cleaning Service Ltd.

3.9 The admission agreement has been signed by the employer and is awaiting the Mayor's seal.

3.10 Staff transferred to Wettons on 31 July 2017.

Benefit Statements

3.11 The March 2017 statements were due to be posted to active members by the end of August.

3.12 Statements for deferred members were sent on 22 August 2017.

3.13 The data for the statements for active members was sent to the printers on 31 August 2017. However, due to problems with the statement template, printing did not begin until 5 September 2017.

3.14 Statements were returned to the Pensions Admin team, checked and posted 7 September 2017.

Data Quality

3.15 Tracing lost members – JTL Employee Benefits have been commissioned to undertake an exercise to trace individuals' for which we have no current address.

3.16 This exercise has been delayed while priority has been given to the issuing of benefits statements. Data will be sent to JTL by the end of September 2017.

Projects

3.17 The projects to introduce member self-service, payroll data-interface (iConnect) and GMP Reconciliation have been delayed while priority was given to the issue of benefit statement.

4. <u>COMMENTS OF THE CHIEF FINANCE OFFICER</u>

4.1 There are no financial implications arising from the contents of this report.

5. <u>LEGAL COMMENTS</u>

5.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration function of the pension fund.

5.2 The Committee is asked to approve the admission of Wettons Cleaning Services Ltd as an employer within the pension fund. In accordance with Schedule 2, Part 3, section 1(d)(i) of the Local Government Pension Scheme Regulations 2013, the Committee may approve the admission.The Committee must satisfy itself that Wetton Cleaning Services Ltd is a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme Employer as a result of –
the transfer of the service or assets by means of a contract or other arrangement. Employees of the London Borough of Tower Hamlets have transferred to Wettons Cleaning Services.
The Committee must also be satisfied that Wettons Cleaning Services have signed an admission agreement and secured an appropriate level of indemnity or bond,

5.3 When carrying out its functions as the administering authority of its pension fund, 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 administration costs of running the pension scheme are a very small part of the contributions paid. An efficient administration function will contain costs over the long term, minimising the costs falling on the scheme employers, including the Council.

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 In each case decisions to acquire additional services have followed the Council's procurement procedures. All costs are paid for from the assets of the Pension 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 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. This and future reports are designed to provide the Pensions Committee with assurance that pension risks are being adequately managed.

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

- Appendix 1 – Activity and Performance – July 2017

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- None.

Officer contact details for documents:

- Tim Dean – Senior Pensions Team Leader
- 3rd Floor Mulberry Place, 5 Clove Crescent, London E14 2BG
- Tel: 0207 364 4530

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	Target	Number	Outside Target	% in Target	Average Days
Address Changes	10	17	2	88.24	3.29
Bank Account Changes	10	11	1	90.91	1.91
Death of a Pensioner	5	18	3	83.33	3.11
Deferred Calculations	15	27	5	81.48	10.63
Estimates	10	22	4	81.82	4.32
General Enquiries	10	51	4	92.16	4.31
Lump Sum Payments	5	15	1	93.33	1.47
Nomination Updates	10	25	3	88.00	5.76
Refund Calculations	15	40	6	85.00	9.55
Refund Payments	10	31	10	67.74	7.74
Retirements	10	16	0	100.00	1.31
Transfers In (Actual)	10	8	2	75.00	8.63
Transfers In (Quotes)	10	10	0	100.00	0.80
Transfers Out (Actual)	10	6	0	100.00	0.83
Transfers Out (Quotes)	10	6	1	83.33	5.00
				87.36	

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Non-Executive Report of the: **PENSIONS COMMITTEE** **21 September 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:**
Markets in Financial Instrument Directive (MiFID II) Opt Up Implementation Report	

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

Introduction

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFIDII") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018. The report recommends that the Committee decide that elections for professional client status should be made on behalf of the authority immediately.

Recommendations:

Members of the Pensions Committee are recommended to:

- Note the potential impact on the Fund of becoming a retail client with effect from 3rd January 2018;

- Agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;

- Acknowledge and agree to forgo the protections available to retail clients attached as **APPENDIX 1**; and

- Delegate responsibility to the s151 officer to complete the applications and determine the basis of the application as either full or single service.

1. REASONS FOR THE DECISIONS

1.1 Tower Hamlets Pension Fund will not able to access the wide range of assets needed to implement an effective, diversified investment strategy when the Markets in Financial Instrument Directive 2014/65 comes into force on 3rd January 2018 unless it applies for a change in status from a retail client to a professional client. Remaining as a retail client will significantly restrict the range of financial institutions and instruments available for effective and efficient management of the Fund because many institutions currently servicing the LGPS are not authorised to deal with retail clients and are unlikely to choose to undergo the required changes to resources and permissions in order to do so.

2. ALTERNATIVE OPTIONS

2.1 No alternative.

3. DETAILS OF REPORT

3.1 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

3.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a'per se professional' client or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.

3.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact

3.4 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

3.5 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

3.6 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

3.7 MiFID II allows for retail clients that meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

3.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

3.9 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 2.**

3.10 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities will result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

3.11 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

3.12 A flowchart of the process is attached as **APPENDIX 3.**

3.13 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. Tower Hamlets Pension Fund may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end. An example of this would be where , the next procurement is going to be achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

3.14 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status. , For example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

LGPS pools

3.15 LCIV is a professional investor in its own right so will not need to opt up with the external institutions they use. Tower Hamlets Pension Fund will however need to opt up with LCIV in order to access the full range of services and sub-funds on offer.

3.16 In some circumstances, such as where the pool only offers access to fund structures such as Authorised Contractual Scheme (ACS), the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

3.17 Elections to professional status will be needed for every financial institution that Tower Hamlets Pension Fund uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

Next steps

3.18 In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the Fund has an existing or potential relationship in relation to the investment of the pension fund.

3.19 This process needs to commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the Fund's investments.

3.20 The Chief Finance Officer should be granted the necessary delegation to make applications on the Fund's behalf and to determine the nature of the application on either full or single service basis.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Chief Finance Officer 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 the Markets in Financial Instruments Directive II (MiFIDII).

5.2 The policy statement from the Financial Conduct Authority in respect of the Markets in Financial Instruments Directive II (MiFIDII), sets out the final rules for implementation of MiFIDII. MiFIDII 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.This will assist the authority to comply with its statutory duty to ensure the proper administration and management of the fund. Before making a decision on whether to opt up to professional client status, the Committee must have regard to the information in Appendix 2 attached to the report. This sets out the loss of protections which the authority will lose as a professional client. This should be weighed against the benefits of opting up to professional status as set out in the body of the report.

5.4 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
APPENDIX 1 – Retail client protections
APPENDIX 2 – Summary of FCA policy statement
APPENDIX 3 – Opt up process flowchart

Officer contact details for documents:

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Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. 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

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, 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. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

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.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage **Finalise standard opt-up process**	**End July 2017**	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 **Local authorities to complete letter and questionnaire and send to investment firms**	**August – September 2017**	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 **Investment Firms to validate the information and run the client status assessment**	**September – October 2017**	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 **Dispatch the confirmation letter to LA clients confirming professional client status**	**October 2017**	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 **Client re-categorisation**	**3 January 2018**	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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

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