

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.05 P.M. ON WEDNESDAY, 14 MARCH 2018

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

Name

Councillor Clare Harrison (Chair)	Member
Councillor Candida Ronald (Vice-Chair)	Member
Councillor Andrew Wood	Member
Councillor Sabina Akhtar	Substitute for Shiria Khatun
Steve Turner	Mercers
Sam Yeandle	Mercers
Neville Merton	Service Head – Finance & Procurement
Kehinde Akintunde	Union Representative
John Jones	Chair Pension Board
Jon Ames	CQS
Craig Scordellis	CQS
Bola Tobun	Investment & Treasury Manager
Tim Dean	Pensions Manager
Ngozi Adedeji	Legal Services
Rushena Miah	Democratic Services

Apologies

Councillor Md. Maum Miah	Member
Councillor Shiria Khatun	Member
Councillor Rabina Khan	Member

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

The Chair disclosed an interest in that she was a board member of Tower Hamlets Community Housing which would be discussed under item 6.2, Pension Scheme Administration Update. It was agreed that the Chair would be excused from the meeting whilst THCH was being discussed and the Vice-Chair would take responsibility for chairing that segment of the meeting.

2. PETITIONS

There were no petitions received.

3. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the open meeting on the 27 November 2018 were approved as an accurate record. The Chair declassified the 'exempt' minutes as there

was no exempt information contained in them. Both sets of minutes were signed as an accurate record of the meeting.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Committee received an update from John Jones, Independent Chair of Tower Hamlets Pension Fund. To summarise:

- The Pension Board met on Monday 12 March 2018. It heard a presentation from the Pensions Regulator (TPR). They advised on the importance of good governance, data quality, record keeping and administration. The TPR is taking a stricter approach on deadlines.
- There is a focus at the national level on the governance of Pension Funds.
- The Pension Board held a discussion on the role and responsibility of the board on service improvements and reporting breaches to TPR.
- TPR also raised the issue of cyber security and the importance of the Council implementing robust arrangements to protect data. EU data protection regulations will come into force in May 2018. It was recommended that this should be the subject of a report to the Pensions Committee and Board.
- There was an offer from TPR to speak to the new Members of the Committee for the next municipal year.
- The Board considered the Regulators Compliance Checklist and asked for a report on progress to improve the arrangements for an internal dispute resolution procedure and improved performance in providing information. This is linked to the report on Pensions Administration where there were still concerns over staffing resources and progress in achieving the deadline at the end of 2018 for the GMP calculations.
- The Board considered and agreed its work plan for 2018/19 and discussed training and development issues. The membership of the Board will change during 2018 and this may impact on the training programme.
- Non-engagement with trade unions as part of the ESG policy, and how this will operate via the London CIV will be followed up at a future meeting.
- Two Board Members will be standing down and will need to be replaced. The Chair of the Pension Board thanked Councillor Dave Chesterton and Minesh Jani for their positive and helpful contributions to the work of the Board.

RESOLVED

To note the update.

5. DISCUSSION AND PRESENTATION FROM MULTI ASSET CREDIT (MAC) MANAGER AND INVESTMENT CONSULTANT

The Committee heard a presentation from Jon Ames and Craig Scordellis, CQS. The Committee set an aim of making a recommendation on MAC by the end of the meeting.

Summarised points from the presentation:

- CQS is a London-based global multi-strategy credit asset management firm. It specialises in convertibles, asset backed securities, credit, loans and equities.
- They manage \$15.2 billion in a range of long, alternative and bespoke vehicles in multi-strategy credit portfolios. They have been running MAC funds for 5 years, their overall assets under management in long-only MAC is \$5.9 billion.
- MAC offers the opportunity to access different credit asset classes liquidity profiles over time and provides access to substantial floating rate product facilities, focuses on credit risk and mitigates volatility associated with interest rate uncertainty.
- They have adopted a conservative approach in managing funds. Their strategy is for capital preservation with minimal risk.
- They are confident of a 5% return rate p.a..

Questions and comments from Members:

- **Why was CQS chosen to work with the Collective Investment Vehicle (CIV)?** CQS officers responded that it was likely due to their defensive position on asset management. CQS avoids risks and emerging market debt, it is on the conservative end of a conservative asset class.
- **Which other local authorities have appointed CQS?** Wandsworth, Haringey and Merton. Ten local authorities have expressed interest, they are likely to join when the CIV platform goes live in May 2018.
- **Why is there so little investment in the Asian market?** It is not CQS's area of expertise as it is difficult to get access to local information about Asia. There is a Global Convertible for the US and Japan and they are better placed to work with the Asian market.
- It was noted a credit rating of CCC was generally considered to carry substantial risk.
- **How soon can we access our money?** A client can access their money after 30 days' notice is provided.
- **Regarding governance what procedures are in place to make decisions such as changing limits?** The fund is a listed vehicle so CQS would have to consult Mercers and its Trustees when making substantive changes.
- The Pension Board were invited to attend an asset allocation meeting with CQS for further information.

The Chair thanked CQS speakers for their presentation.

RESOLVED

To note the MAC presentation from CQS

6. REPORTS FOR CONSIDERATION

6.1 Revised Investment Strategy Statement and Investment Options Considerations

The Committee received a report on the revised Investment Strategy presented by Bola Tobun, Investment and Treasury Manager. Revisions were made to the social and environmental impact and carbon emission sections of the Statement as outlined on page 41- 42 of the agenda and reports pack.

The report also outlined the work done in achieving further diversification of the Fund's return seeking portfolio and protecting its buoyant equity asset value by considering:

- An allocation to MAC
- Equity gains protection
- Allocation to long-term illiquid asset classes (long lease, private debt and infrastructure).

The Committee decided to appoint CQS as its MAC manager and the portfolio to be funded when the CIV add the manager to its platform, LCIV is planning to launch this sub-fund in May 2018.

This is being funded from rebalancing of LGIM equity portfolio and reduction of the Bond portfolio with Insight and GSAM to 3% each.

There was a discussion on equity protection which the CIV platform did not offer. Members were in agreement that there should be equity protection for the Fund. [Councillor Ronald arrived at this point, 8.10pm].

There was a discussion on the protection of assets. The Committee were advised that they may wish to consider liability hedge assets, long-lease assets and renewable energy. Members asked for long-lease and other infrastructure options to be put on the Committee's Forward Plan.

RESOLVED

- To approve the revised Investment Strategy Statement.
- To delegate to the Corporate Director of Resources the ability to implement a downside protection with regard to the equity risk of the Fund as deemed appropriate; subject to officers working with advisors to identify and implement a suitable strategy for the fund.
- To agree a target allocation of 6% to Multi-Asset Credit.
- To approve the recommended MAC strategy/manager (a sub-fund to be launched on the London CIV platform).
- To approve reduction of Fund assets allocation from 6% to 3% for each absolute return manager.
- To note the research for illiquid asset classes on page 21 of the agenda and reports pack; officers will present findings for discussion at a future meeting.

ACTION:

For long-lease and other infrastructure options to be put on the Committee's Forward Plan.

6.2 Pension Scheme Administration Update

It was reiterated that the Chair would be exempted from the discussion pertaining to Tower Hamlets Community Housing and that the Vice-Chair would lead the meeting during that time.

The Committee heard an update on the pension scheme administration from Tim Dean, Pensions Manager.

Key points from discussion:

- The Committee requested to see data on the number of employees who decide to opt out of the scheme.
- In principle, Tower Hamlets Youth Sports Foundation was admitted into the Fund however, the Committee asked for Officers to investigate appropriate protection in relation to this organisation as a condition to formal admission. This could be in the form of a bond or other suitable approach to minimise the potential for a cessation event having an adverse impact on the Pension Fund..
- KM Cleaning and Maintenance was admitted into the Fund.
- East London Arts and Music Academy was admitted into the Fund.
- One Housing - the Committee accepted One Housing's withdrawal from the Fund, however, they requested it be noted that the decision was improperly consulted on. Ideally One Housing should have discussed their intention to withdraw from the Fund with the Pension Committee before they independently took the decision. The Committee also said they would have liked to see the business case for withdrawal. They asked officers to feedback their comments to One Housing.
- The Committee welcomed the roll out of the i-connect system, it was noted it would be useful in benchmarking.
- The Committee noted the three schools cited in pages 55-56 of the report pack had been turned into academies, a number of staff members will retain their local government pension.
- Tower Hamlets Community Housing – (THCH) made a proposal to convert from a company to a community benefit society. Santander bank THCH's lender have asked for priority status as a creditor, this could impact on the Councils ability to recoup any pension deficit. It was suggested the proposal be delegated to the Chief Financial Officer (CFO) and Monitoring Officer (MO) for decision, subject to assurances that the pension fund would not be disadvantaged. The legal officer said that the delegation would need to be checked for legality so the Committee agreed to the proposal on the condition that the CFO and MO could assure there would be no impact to recouping the pension fund deficit.

RESOLVED

- To note the information provided in the report.
- To note the change of status of the following schools: Ian Mikardo Academy, Letta Trust, Clara Grant/Stepney Green College, to academies.
- To note the intention of One Housing to close their scheme.
- To accept the transfer of East London Arts and Music Academy into the Fund.
- To agree in principle the admission of the following bodies into the Fund; KM Cleaning and Maintenance Limited, Tower Hamlets Youth Sports Foundation. The admission of THYSF to be subject to appropriate protection being in place to protect the Pension Fund.
- To approve the Communications Strategy as set out in the appendix to the report.
- To agree to the conversion of THCH from a company to a community benefit society, subject to the Chief Finance Officer and Monitoring Officer satisfying themselves that there would be no impact on recouping the Pension Fund deficit.

6.3 London Collective Investment Vehicle (CIV) Latest Development

The Chair briefed the Committee on a London CIV meeting she attended earlier in the day. Key points included:

- Many boroughs had concerns that the CIV was not functioning as well as it could. They talked about what the CIV should look like in the long term and what boroughs wanted out of it.
- Several proposals and recommendations came out of the meeting. There was a suggestion to hold the shareholder meeting twice a year. The first meeting will be held in July 2018.
- The formation of a Shareholder and Treasury Advisory Group. Made up of 8 Members, 4 treasurers and 1 Trade Union Representative with observer status. This would not be a decision making body but could make recommendations to the CIV Board.
- There are 2 local authority Member positions to be filled on the CIV Board.
- With regard to investment, more detailed consultation was requested with more options to be presented.
- The meeting reminded Members to sign up to the City of London Pension Scheme. The Chair requested Finance Officers to confirm sign off on this via Council as Tower Hamlets may be one of a few that has not yet confirmed.
- The meeting notes will be circulated to CIV Members.

RESOLVED

- To note the outcome of the governance review of the London CIV undertaken by Willis Towers Watson.
- To note issues that exist within the LCIV.

- To note a number of recommendations for change and improvement to LCIV's current governance arrangements.
- To note the London CIV Consultation process.
- And to fund launch progress.

ACTION – Officers to progress sign up to the LCIV participation in the City of London Pension Scheme.

6.4 Update on Pension Fund Procurement Plans 2017/18

The report, presented by Bola Tobun – Investment and Treasury Manager, sought assistance with the interview process for an independent advisor to the pension fund. An update was given on the progress of the new appointed global custodian contract. Councillors Candida Ronald, Clare Harrison and Andrew Wood volunteered to attend the scheduled interview for 9-11 April 2018 to assist in interviewing candidates.

RESOLVED:

- To note the report.
- For Councillors Clare Harrison and Andrew Wood to be involved in interviews for an independent advisor.

6.5 Pension Fund Business Plan, Pensions Committee Work Plan and Budget for 2018/19

The Committee considered the report of Zena Cooke, Corporate Director of Resources. Comments from Members included:

- The need for joint training exercises in the new municipal year for those on Pension Board and Pension Committee.
- That infrastructure consideration should be incorporated into the plans before September 2018 and this should be on the agenda for the first meeting of the municipal year.

RESOLVED:

- To note the Business Plan attached as Appendix 1 to the report.
- To note the work plan for 2018/19 attached as Appendix 2 to the report.
- To approve the Revenue Budget for 2018/19 as attached as Appendix 3 to the report.

6.6 Investment and Fund Managers Performance Review for Quarter Ending 31st December 2017

The Committee considered the report of Zena Cooke, Corporate Director of Resources presented by Bola Tobun, Investment and Treasury Manager. Ms Tobun summarised the report noting that the Fund is in line with the strategic benchmark.

RESOLVED:

To note the Investment and Fund Managers Performance Review for Quarter ending 31 December 2017 report.

7. TRAINING AND EVENTS

There were no training or events discussed.

8. DATE OF FUTURE MEETINGS

The Council meetings diary will be presented to Council on the 21 March 2018. Dates will be published shortly after.

9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Councillor Woods thanked the Chair and Vice-Chair for their contributions towards the Pensions Committee. Councillor Harrison, Chair, said it had been a pleasure to work as an elected Member and that she would miss learning and working with the team. She wished everyone the best of luck.

10. EXCLUSION OF THE PRESS AND PUBLIC

11. RESTRICTED MINUTES

Not applicable – refer to minute 3.

12. ANY OTHER RESTRICTED BUSINESS

None.

The meeting ended at 9.07 p.m.

Chair, Councillor Clare Harrison
Pensions Committee