

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS BOARD**

**HELD AT 10.00 A.M. ON MONDAY, 16 OCTOBER 2017**

**MG8, GROUND FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE  
CRESCENT, LONDON E14 2BG.**

**Members Present:**

John Jones (Chair)	(Independent Chair)
David Stephen Thompson (Member)	(Vice-Chair)
Stephen Stratton (Member)	Pensions Board Member representing Active Fund Members
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
Councillor Dave Chesterton (Member)	(Representing Pension Fund Employers)
Minesh Jani (Member)	(Representing Pension Fund Employers)

**Other Councillors Present:**

None

**Others Present:**

David Cullinan	(PIRC)
Steve Turner	(MERCER)
Sam Wreford	(MERCER)

**Officers Present:**

Amma Boateng	–	(Senior Lawyer, Legal Services)
Suzanne Jones	–	(Supporting the Divisional Director, Finance)
Kevin Miles	–	(Chief Accountant, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
Georgina Wills	–	(Committee Services Officer)

**1. APOLOGIES**

None received.

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**

None.

### **VARY ORDER OF BUSINESS**

At the request of the Chair, the Board agreed to vary the order of business. To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

### **3. PETITIONS**

None received.

### **4. UNRESTRICTED MINUTES**

The minutes of the meeting held on 31 July 2017 were agreed and approved as a correct record.

#### Matters Arising

Item 4 Matters Arising – *Funding Strategy Statement Consultation / Comments*:- Members noted that their agenda included presentations which would cover the Funding Strategy and that they were to hold discussions about inflation and ESG factors.

Item 7.2 *Feedback from the Chair on CIPFA Pensions Board Seminar / Governance of Pooled Investments (CIV)*:- Members were advised that the Government had started their review on the CIV and were requested to respond to the Survey. The meeting noted that the Survey had not been widely circulated and that they could complete the survey as a Body and also on an individual basis. The Board agreed that they should do a collective response to the survey.

#### Item 5.1 *ESG Factors*

Members commented about the poor labour practices and customer services within companies that were part of their investment schemes and noted that Baillie Gifford was one of the Fund Managers which had such companies in their portfolio. The meeting was advised that any concerns of poor working practices and poor customer service should be brought to the attention of representatives on the London CIV. These concerns will be addressed by representatives on the London CIV with the relevant Fund Managers.

Members were advised that they will be provided feedback on what was discussed at the London CIV Joint Committee and what course of action was being taking in regards to poor employer relationship and poor customer service.

Cllr. David Chesterton left the meeting at 12.10hrs

**5. SUBMISSIONS FROM FUND MEMBERS**

Members were advised that a submission had been received from an Active Fund Member about the Funds' current investments in fossil fuels. Members were advised that the Pensions Committee had received and agreed a report about investing in low carbon funds at their meeting on 21 September 2017. The Pensions Committee will be advised about the submission.

**6. SUBMISSIONS / RESPONSES FROM PENSIONS COMMITTEE**

None received.

**7. PRESENTATION FROM PIRC ON LOCAL AUTHORITY INVESTMENTS LEAGUE TABLE**

The Board received a presentation from David Cullinan of Pensions & Investment Research Consultants Ltd (PIRC), on the Annual Performance Review of the Tower Hamlets Pension Fund. PIRC is an independent corporate governance and shareholder advisory consultancy that has over 30 years' experience in their field and currently provides a service to 51 Funds which have a market value of over £160 Billion. PIRC has a diverse client base which comprises of large pensions funds and asset managers, trade unions and other responsible investors. The Committee during a question and answer session: Noted

- There were excellent returns for funds' asset between 2016 / 2017. All major asset classes delivered positive returns; this return was driven by strong equity performance. The above would have led to Funding levels being improved. The alternative asset performance is healthy but mixed.
- There was a notable move from traditional equities and bonds.
- For Equities, all markets delivered significant doubly digit returns; however the domestic equities were weaker when compared to their overseas counterparts. This was bolstered by the weakness of sterling. Equities have driven the excellent long term performance of the LGPS.
- Members commented on the relationship between the value of sterling and performance of equities and questioned whether any losses had occurred with Funds that had employed 'hedging'. The Board was advised that 'hedging' which had occurred before Brexit would have encountered losses and reminded that Sterling had picked up since the Referendum. The Board was advised that currency hedging was good opportunity to 'lock funds' and that 'Active Currency' had risen in popularity.
- Bonds returns have been positive in particular those which were index linked; Absolute return strategies lagged by some margin.
- Performance of Alternatives were strong but mixed; Private equity in aggregate performed best and diversified growth strategies outperformed benchmarks but lagged other assets.

- Only six of the last thirty years have produced negative returns; these periods are often followed by strong growth. The thirty year return averages close to 9% p.a. this is a real return of 6% p.a.
- Members commented about the long term performance and noted there had been a long sustained period of positive returns and questioned whether this will remain. There are number of factors which may have an effect on the future returns; these include US Election, Brexit, domestic market and changes to interest rates.
- Long term alternative asset performance benefited the large funds who were early investors in private equity.
- Alternative asset exposure has increased. There has been changes at asset class level which include; domestic to global equity, Gilt to alternative credit sources and Hedge funds to more transparent alternative strategies. Members were advised that two thirds of Funds have moved from domestic to international.
- Member commented that there were little changes with Equity and was advised that a large portion of this class was held in cash. During the past ten to fifteenth years there was a lack of complexity in this class; however it is now well diversified but still not overly complicated. This Asset is close to its benchmark.
- Schroders UK performance over the past year has been limited; the property mandate has performed well.
- Members raised questions about moving out of asset class and why strong mandates churn. The Board was advised that performance was dependent on performing managers and the Managers selection process. Poor performing manager are dispensed by Funds. There has been over 30 years of testing of performance managers; there is uncertainty if they are pooled. Members noted that they could review decisions made about the Fund and this include performance managers.
- Strong performance by Baillie Gifford and Ruffer were offset by the high cash weighting yield at the start of the year. GMO failed to add value over any of the long term period.
- The Fund bettered its benchmark in the latest year by a sizeable margin. It has tracked broadly in line with benchmark medium term but lagged longer term. The Fund fell short of the LGPS average however returns have consistently outpaced the important measure of inflation by a substantial margin. Over the last ten years the Fund had an average level of volatility but delivered a below average return; this has continued over the last five years.
- The Fund has performed below its peers over the past 20 year period
- Members commented about the Funds' Performance over the past 20years and agreed that returns could be better and requested that Officers provide information about past trends.
- The Fund enjoyed an excellent 2016/17 both in absolute and relative terms versus the benchmark. Importantly, performance over all meaningful timeframes has outpaced inflation and actuarial assumptions for asset growth.

Members thanked David for his presentation and requested that the Annual Performance Review of the Tower Hamlets Pension Fund be included in their Work Plan.

## **8. PRESENTATION FROM MERCER, FUND INVESTMENT CONSULTANT**

The Committee received a presentation from Steve Turner and Sam Watford of Mercer, on the Investment Strategy Review. The aim of the review is to consider the allocation between asset classes; risk and returns, ensure there is reasonable balance between the two objectives and to identify improvements to the investment strategy to help achieve these objectives. This review will be the key determinant of overall investment performance. The Committee during a question and answer session: Noted.

- 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.
- That their Asset Portfolio needed to keep pace with rising inflation.
- Equities had risen consistently during the past eleven months and that this had only occurred once in the last thirty years. The Forward looking Equity Market Returns are unlikely to be as strong as they have been over the last 7 years.
- Members raised questioned about the Funds Deficit and asked whether steps should be made to close it. In response members were advised that their Actuaries should be consulted and that decision should be based on the actuaries' Discount Rate. The Board was advised that periods during High Funding Levels were good points to make changes and that risk should be identified before strategies are implemented.
- That rising Inflation is a key risk to the Fund and that an Inflation Protection Strategy should be in place. There has been the biggest spread of inflation ever chronicled during the period from 2012 to date.
- That Equities made up 60% of their Portfolio and are expected to provide 75% of the Funds excess returns and account for 56% of the Fund's risk on the VaR. This outturn is due to the depreciation of Sterling. There is uncertainty on how long this will be sustained.
- The best estimated expected return for Gilts was + 4.1% p.a. and this return surpassed the requirements of the Actuaries. There is a 73% probability of achieving Gilts +2.0%. There is a 66% probability that the +2.0% outperformance will close the deficit within the next eight to ten years
- Members raised questions about the recession in 2008/2009 and asked what would be the implications if this economic downturn was to re-occur. In response, members were advised that they would be a dip in their Assets and their liability will be affected. This economic situation will be damaging for the Pensions Fund and most LGPS. Members noted that the Fund had long term investments and were advised that during an economic downturn, their deficit may increase and this will affect payments towards the deficit and also future performance. The Board was advised that Valuing was important and

that all potential outcomes should be narrowed and that this could be undertaken in various ways.

- Members questioned the process and implications of moving UK Equity into Global Equity. The Board was advised that the *Fund UK Insurance Contract* will be used to purchase assets; the Fund will be based in the UK and the assets brought will be purchased using the currency of the said country.
- That only 50% of currency exposure should be hedged. This is to ensure that positive returns are made on the remaining 50% unhedged currency when Sterling appreciates.
- That Assets had increased by £400 million between the years of 2013 – 2017 and Liabilities had increased by £300 million during the same period. The latter was reported not to be a significant amount. The increase in Assets value was due to performance and contribution from employees. Members requested that further information be provided about contributions.
- 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 a March 2017.
- That LGPS TH low carbon investment was being overseen by DGI and Baillie Gifford and that the performance managers had released £2b of additional capacity to investors.
- Members raised questions about the LGPS TH current deficit and long term financial strategy and questioned whether the Local Authority would need to consider the deficit whilst setting their budget. Members were advised that early contribution from the Local Authority would be beneficial to the LGPS cash flow.
- Members raised questions about triennial revenues and risk involved and asked what happens at a point in time when there is a change in risks and how it is ensured that the best decisions are made at such times. The Board was advised that there is continual monitoring of Funds and this is part the overall financial planning and Actuaries testing on what could occur in future financial markets were based on probabilities.
- Members noted that a Local Election was to take place next year and this may affect the composition and knowledge base of the Pensions Committee and agreed that it would be prudent to ensure that all recommendations agreed by the Committee are undertaken before May 2018. The Board noted that training will be provided to all members of the Pensions Board and Pensions Committee in the new municipal year and were reminded that both Bodies would need to prove that their members have the requisite competency which will allow them to be classified as a 'Professional Client'.
- 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 available from the CIV should also be considered to achieve the above.

- That investments in high grade credit 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.
- That LGPS were to invest in Pensions Fund and that Infrastructure would be a good investment. Members were advised that they should put pressure on the CIV.
- Members raised questions about Interest rates exposure and were advised that Gilt Yields will rise causing the NPV of future benefit liabilities to fall.

Members thanked Steve Turner and Sam Watford for their presentation.

The Board agreed to have a short break at 11.55am.

## **9. PRESENTATION FROM THE CHAIR ON PENSIONS BOARD 2016/17 ANNUAL REPORT**

The Chair advised the meeting that 2016/2017 Annual Report had been considered and agreed by the Pensions Committee at their meeting on 21 September 2017.

## **10. REPORTS FOR CONSIDERATION**

### **10.1 Employer Representative Substitute**

Suzanne Jones, Support to Divisional Director Finance, presented a report which proposes to confirm formal arrangements for substitution for the Employer Representative on the Board for future meetings.

It is proposed that any employed senior officer (i.e. grade LP07 or above) that is a member of the Resources Directorate Leadership Team, except for the Divisional Director, Finance and Procurement and the Divisional Director HR and Transformation (or any future posts that cover those areas of responsibility) be allowed to substitute for the Employer Representative on the Board.

Members were advised that Minesh Jani, (Service Head, Risk Management LBTH) Representing Pension Fund Employers, would be their permanent member on the Pensions Board and that attendance to meetings will not be rotated between senior officers. This is to ensure continuity. All senior officers will be given appropriate training before being appointed as a substitute.

Members held a discussion on whether there should also be substitutes for Active Fund Members Representatives and requested that Officers provide feedback about the suitability of this arrangement. The meeting noted that prospective representatives would need to be vetted to ensure that they do not have any conflicts which could affect their role.

**RESOLVED**

1. that any employed senior officer (i.e. grade LP07 or above) that is a member of the Resources Directorate Leadership Team, except for the Divisional Director, Finance and Procurement and the Divisional Director HR and Transformation (or any future posts that cover those areas of responsibility) be allowed to substitute for the Employer Representative on the Board.
2. to agree any proposed substitute from the above recommendation must undergo appropriate training as set out in the terms of reference. Once this training has been undertaken that officer will be listed in the Board Membership as a substitute.
3. that enquiries be made on whether a similar arrangement could be arranged for Active Fund Members Representatives.

**10.2 Report on Compliance with the Code of Practice (The Pensions Regulator Checklist)**

Bola Tobun, Investment and Treasury Manager presented a report which covered the updated Code of Compliance Checklist for the London Borough of Tower Hamlets Pension Fund.

From 1 April 2015 the Pensions Regulator (TPR) assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Code of Practice for Public Service Pension Schemes came into force from 1 April 2015 and all schemes must now consider whether they comply with the Code.

Members noted that the words 'in progress' had been recorded for H9 (Is all other information provided in accordance with legal timescales?) and H10 (Is all other information provided in the format and methods required by law?) in the Compliance Checklist and that there were 30 areas in the checklist that had been recorded as either non / non-partially compliant and requested that officers report back on how these areas were progressing.

Members highlighted that Pension Regulators were undertaken more stringent checks on Pensions Fund Administration and stressed that any shortfalls must be closed.

Members were asked to complete the Pensions Board Regulator Questionnaire. A link will be sent to all Board Members.

**RESOLVED**

1. Noted the Code of Compliance Checklist and where further work is required and being undertaken.



2. That officers provides feedback on how the areas which were recorded as either non / non-partially compliant on the Complaints Checklist was being progressed at a future Board.
3. That officers circulates the Pensions Board Regulator Survey to all Board Members.
4. That all Board Members complete the Pensions Board Regulator Questionnaire.

### **10.3 Pensions Fund Administration Update**

Bola Tobun, Investments and Treasury Manager presented a report which detailed the activities and performances of the Pensions Administration Team.

Members were informed that statements for deferred members were sent on 22 August 2017 and for active members on 8 September 2017. There was a slight delay in sending out the active member's statements. This was due to errors on the returns printed information layout. A decision was made that the layout should be corrected before the statements were sent. This action ensured that there were less returns.

Officers advised members that the timetabling had improved from the previous year and that this was a great achievement by the Pensions Team. Members were informed that during the above period there was a high turnover of staff and that over 300 errors was recorded in the previous year. Members were advised that the Care Database had been updated and that they had received positive feedback from Audit.

Members held a brief discussion about Pensions Administration Team Performance Information (PIs) and noted that their 'Percentage meeting target' was varied. Officers advised that there was an increase in workload and that there was a drive to ensure that all work undertaken is carried out correctly the first time and that there had been positive progress. Members were reminded that the Pensions Administration Team were to receive external support with their projects and now had HR staffs which were designated to the Team. There has also been a change in management since June. Three staff members were noted to have sat exams during this period.

Members commented on the importance of data accuracy and noted that PIs statistics had received clearance.

#### **RESOLVED**

To note the contents of the report in respect of the update on the administration of the Pension Fund.

#### **10.4 Pensions Board Work Plan Review And Discussion**

The Pensions Board considered their Work Plan for the remainder of the 2017-2018 Municipal Year.

Members noted that the Review of Risk Management Policy and Risk Register had been incorporated into the Pension's Board Cycle and was part of their Work Plan and agreed to hold further discussion about the Register at their next meeting.

The Board also receive regular feedback on the CIV and this undertaken an ad hoc basis.

#### **RESOLVED**

1. Noted the Pensions Board Work Plan for 2017 – 2018 Municipal Year.
2. To hold further discussions about the Risk Management Policy and Risk Register at their next Board.

#### **10.5 Update on Indemnity Insurance for Pension Board**

Bola Tobun, Investment and Treasury Manage provided a verbal report which updated Members about providing Indemnity Insurance for the Pensions Board.

The meeting was advised that enquiries were made about providing indemnity for Pension Board Members and that it had been advised that no further insurance cover was needed for members as they were adequately covered and were not part of a decision making body. The CLG and GLT were consulted.

The Chair advised that there were confusion with the statutory regulations about administration of funds and that Board Members could be implicated as being liable if funds were not administered correctly as they are part of the scrutiny process. Officers were requested to seek further information and provide feedback on Insurance for the Board.

Stephen Stratton left the meeting at 12.33pm

#### **RESOLVED**

That further clarification be sought regarding Indemnity Insurance for the Pension Board.

#### **11. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE**

The Board reviewed the minutes of the Pensions Committee held on 31 July 2017 and noted that the Chair of Pensions Committee had requested that there be active engagement between members of the Pensions Board and Pensions Committee.

Members also made comments about the poor attendance at the last Pensions Committee.

## **12. PENSIONS COMMITTEE AGENDA MEETING (21.09.2017)**

The Board noted the agenda for the meeting which was held on 31 July 2017.

Item 5.6- 2016/17 Pension Fund Annual Report with ISA 260 Report and Review of Fund Managers Internal Control Reports.

- Members were advised that the report had also been considered by the Audit Committee and had received a clean audit opinion. Members requested that the ISA 260 Report be brought to the Board.

Item 5.7 Pensions Contribution Prepayment.

Members had a brief discussion about the recommended pre-payment towards the LGPS TH deficit and the potential economic benefits to the Council. The Actuary has advised that deficit payment for the three year period (2017/2018 to 2019/20) be prepaid in Year 1 (2017/18). This will equate to £43.44m. It is estimated that there will be a saving of £1.56m during the three year period. The amount will contribute towards the Council's overall savings.

Members agreed that this was a sensible approach and noted that prepayment would be funded from the Council's investment balances and the deficit contribution will be charged to revenue over the three year period. The pre-payment will increase the value of investments that the Pension Fund can make in the near future by nearly £29m more than previously planned. Members were advised that Auditors had been consulted about the above proposals.

## **13. ANY OTHER UNRESTRICTED BUSINESS**

Training

Members were advised that training dates will be resent to Members and were reminded that an email regarding CIPFA Training had been circulated to all Board Members.

The Board were reminded to update their Training Log and list all training attended. These should include any external training course. This information will be added onto the Pensions Board Training Spreadsheet. The training spreadsheet will also include all the presentations which the Board has received at their meetings.

**14. DATES OF FUTURE MEETINGS**

To note the scheduled Pensions Board dates.

- 27 November 2017
- 12 March 2018

**15. EXCLUSION OF THE PRESS AND PUBLIC**

The Chair moved and it was

**RESOLVED**

“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.” This information pertains to paragraphs 1 and 3 of Schedule 12A – information likely to reveal the identity of an individual and information pertaining to the financial and business affairs of an individual including the authority including the authority holding that information.

**16. RESTRICTED MINUTES**

The restricted minutes of the meeting held on 31 July 2017 were agreed and approved as a correct record.

**17. RESTRICTED MINUTES OF PENSIONS COMMITTEE**

The restricted minutes of the Pensions Committee meeting held on 31 July 2017 were agreed and approved as a correct record.

The meeting ended at 12.55 p.m.

Chair, John Jones  
Pensions Board