

**Tower Hamlets Council  
Local Government Pension Scheme**

# **PENSIONS BOARD**

## **RECONVENED MEETING**

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**Tuesday, 18 September 2018 at 5.00 p.m.**  
**MP701 - 7<sup>th</sup> Floor, Town Hall Mulberry Place, 5 Clove Crescent,**  
**London E14 2BG**

**This meeting is open to the public to attend.**

**Members:**

Chair: John Jones

Vice-Chair: David Stephen Thompson

Steve Hill, (Representing Pensions Fund Employers)

Councillor Puru Miah, (Representing Pensions Fund Employers)

Annette McKenna, (Representing Admitted Bodies Employers)

John Gray, (Admitted Bodies Representative for Active Fund Members)

1 Vacancy, Active Fund Members' Representative

**Substitutes:**

Roger Jones

Contact for further enquiries:

Georgina Wills, Democratic Services.

Tel: 0207 364 6695. Email: [georgina.wills@towerhamlets.gov.uk](mailto:georgina.wills@towerhamlets.gov.uk)

Web: <http://www.towerhamlets.gov.uk/committees>

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Committee  
website.



1. **APOLOGIES**
2. **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS** (Pages 5 - 8)
3. **UNRESTRICTED MINUTES** (Pages 9 - 20)

To confirm as a correct record of the proceedings the unrestricted minutes of the meeting of the Pensions Board held on 19 July 2018 and 13 September 2018.
4. **SUBMISSIONS FROM FUND MEMBERS**

To consider any written submissions from Fund Members/Stakeholders.

(Submissions must be received by the Clerk to the meeting no later than 5.00p.m. on the day before the meeting.)
5. **SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE**
6. **PRESENTATION FROM PIRC**
7. **DISCUSSION ON THE PENSIONS BOARD WORK PLAN AND TRAINING FOR 2018/2019**
8. **REPORTS FOR CONSIDERATION**
  - 8.1 **Voting and Engagement Update for Quarter Ending June 2018** (Pages 21 - 36)
9. **MINUTES OF THE PREVIOUS PENSIONS COMMITTEE** (Pages 37 - 48)

To note the unrestricted minutes of the meeting of the Pensions Committee held on 24 July 2018.
10. **PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING**

To Follow
11. **DISCUSSION ON THE REVIEW OF POLICIES IN THE ANNUAL REPORT**

Discussion on review of the following policies as attached to the annual Report:

  - Funding Strategy Statement,
  - Governance Compliance Statement
  - Risk Policy
12. **DATE OF FUTURE MEETINGS**
  - 26 November 2018
  - 7 March 2019

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

The next meeting will be held at Thursday, 26 November 2018 in Room MP702 - 7<sup>th</sup> Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG.

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# Agenda Item 2

## **DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER**

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

### **Interests and Disclosable Pecuniary Interests (DPIs)**

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

### **Effect of a Disclosable Pecuniary Interest on participation at meetings**

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

### **Further advice**

For further advice please contact:-

Asmat Hussain, Corporate Director for Governance and Monitoring Officer.  
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	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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## LONDON BOROUGH OF TOWER HAMLETS

### MINUTES OF THE PENSIONS BOARD

HELD AT 10.05 A.M. ON THURSDAY, 19 JULY 2018

COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE

#### Members Present:

John Jones (Chair)	(Independent Chair)
David Stephen Thompson (Vice Chair)	(Retired/Deferred Pension Fund Members)
Councillor Puru Miah (Member)	(Representing Pensions Fund Employers)
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)

#### Others Present

Kevin Cullen	Client Relations Director (London CIV)
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#### Officers Present:

Ngozi Adedeji	(Senior Lawyer, Legal Services)
Neville Murton	(Divisional Director, Finance, Procurement and Audit)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Tim Dean	(Pension Team Leader)
Georgina Wills	(Committee Services Officer)

#### 1. APOLOGIES

The Chair noted apologies from Steve Hill, Roger Jones and Stephen Stratton.

The Chair advised the Board that Steve Stratton had resigned from the Pensions Board and this was due to personal reasons. The Chair requested that Mr Stratton be formally thanked for his hard work and contribution to the Pensions Board over the past three years and that this be recorded in the minutes.

#### 2. APPOINTMENT OF VICE-CHAIR

The Chair proposed that David Stephen Thompson be appointed as Vice-Chair for the rest of the Municipal Year. There being no other nominations it was

#### RESOLVED

That David Stephen Thomson is appointed as Vice-Chair for the remainder of the Municipal Year.

### 3. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

John Gray, Admitted Bodies Representative Active Fund, declared an interest on Item 9, *Minutes of the Previous Pensions Committee – item 6.2 Pensions Scheme Administration Report / One Housing's withdrawal from the LBTH Pensions Fund*. This was on the basis that he had met with the Chair of One Housing.

### 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.

### 4. UNRESTRICTED MINUTES

The minutes of the meeting held on 12 March 2018 were agreed and approved as a correct record subject to the below amendments.

Item 11 *Pensions Committee Agenda for the forthcoming Meeting. (6.1 Revised Investment Strategy Statement and Investment Options Considerations)*

Sentence which reads '*The Fund's current funding level is at 90% and this equates to £150million*' be amended to '*The Fund's deficit level is at 90% and this deficit equates to £150million*'.

#### Matters Arising

- Item 4 *Unrestricted Minutes: Matters Arising*

Members requested that the LCIV be asked to provide an update on what actions had been undertaken in relations to Tesla refusal to engage with Trade Unions.

- Item 7 *Discussion And Presentation From the Pensions Regulator (TPR)*

Members were advised that an assessment on data quality was to be undertaken later in the month.

- Item 11 *Pensions Committee Agenda for the forthcoming Meeting.*

*Item 6.2 - Pensions Scheme Administration Update) Pensions Administration / Finance Restructure*

Neville Murtion, Divisional Director, Finance, Procurement and Audit briefed members about the Finance Service Area restructure. The Board was advised that consultation with staff members in the respective areas had been undertaken. The final proposals are currently being drafted and there are ongoing discussions on which 'job titles' should be assimilated. Members

were advised that staff members had advocated for the Pensions Team and Pension Payroll Team to remain as two separate teams.

The Board was advised that a Pensions and Pensions Investment Team was to be created and that a Team Manager would oversee two senior level posts. These Posts will be graded as P04. Members were advised that the grades had been revaluated and the posts were now in parity with similar senior roles in other service areas. One of the post hold will focus on Accountancy and Investment. There have been no changes in the number of Scale 6 and SO2 posts. A 'career grade pathway' has now been created for both administrators and officers.

Members held discussions about the restructure and stressed the importance of the service areas responsible for the Pensions Administrations and Investments being adequately resourced and staffed. The Board noted that the administration of Pensions Schemes was becoming more complicated and commented that the Financial Regulators were increasingly monitoring this area and stressed the importance of officers having the requisite 'skills sets' to undertake the above role.

Following questions from Members, Officers advised that under the new structure, the Senior Officers roles will focus on Pensions and Strategy. These post holders will be graded at LPO9 and LPO7 and be expertise in their fields.

Officers advised that the proposed restructure would ensure that the Service Area is resilience and led to an increase focus on the Pensions Fund. Senior Officers will also be provided with more support.

- Item 6.4 - *Update on Pensions Fund Procurement Plans 2017/2018*

Officers advised the Board that a meeting was to be held with State Street in the forthcoming weeks and that 'Class Action Reports' were to be discussed. The Board agreed that it was prudent to ensure that they are compensated for any negligence and losses.

#### **RESOLVED:**

That Officers request feedback from the LCIV about actions taken in relation to Tesla non-engagement with Trade Unions.

#### **5. SUBMISSIONS FROM FUND MEMBERS**

None

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

The Chair commented on the reciprocal relationship between the Pensions Board and Pensions Committee and stressed that this continues. The Board noted that the above relationship was not always replicated in other LGS Funds.

## 7. PRESENTATION LONDON CIV - GOVERNANCE ARRANGEMENT UPDATE

Kevin Cullen, Client Relations Director, London CIV gave a presentation which detailed the works of the London CIV since November 2017. The Board was reminded that Mr Cullen had attended their meeting in November. The following was noted during a question and answer session.

- The LCIV has £16bn AUM and this total includes passive assets. A total of £7bn is based on the ACS Platform and is insulated; £9bn is with passive Managers (LGIM, Blackrock etc.). The Board was advised that beneficial rates were obtained and that the large Investment life vehicles were prevented from being part of the ACS due to legal reasons.
- That 30 London Boroughs (LBs) had pooled and an additional LB was to join at the end of July and that the City of London was to make their first Investment.
- At present over 40% of London's assets are now pooled and that the London Boroughs of Merton, Hackney, Waltham Forest and Croydon had agreed to pool for the first time. The Board was advised that it would be beneficial for the Fund if all the London Boroughs pooled.
- Three new sub fund were launched in 2018 and this included Equity Fund Strategy and MAC. The First Fixed Income Fund was launched on 1 June 2018. Members were advised that a Working Group was set up before the Fund was launched and that the Group was used to gauge the views of Fund Members on what type of products were preferred.
- LCIV was currently considering their future targets and were viewing markets and vehicles. There will be meetings to ensure that the rights products are chosen. Infrastructure is currently being reviewed.
- That the cost of administrating the LCIV was lower than the gains derived from the AUM and that an increase in the latter would help to further reduce levies.
- That LCIV was seeking to obtain inflation protection for investments. The Board queried whether the above should also be undertaken for ESGs and were advised that this was dependent on the requirements and that it would involve reviewing funding strategies.
- Members noted that they had expressed concerns over the governance arrangement of LCIV in particular with the lack of independence of the Remuneration Committee and the Audit Committee and questioned whether this issue had been raised. Mr Cullen advised that the LCIV will be approached about the above topic and that the Board will be advised of the response.
- The LCIV was undergoing a staff restructure and that there had been a number of appointments made. It was anticipated that current vacancies will be filled in the autumn. The Board noted that the Chief Investment Officer Post remained vacant and was advised that this work area was currently being covered by the Chief Executive. A permanent appointment to the Chief Executive post will be made after autumn.

- Members raised concerns over the lack of BME representation on the Shareholders Committee and commented that the Body should be reflective of the community that they serve and asked that this be communicated to the LCIV.
- That the Shareholders Committee membership included a Trade Union Observer and that the individual had 'spoken rights'. The Board commented that it would be preferential if this committee member was given a more active role on the Committee.
- That Fund Managers were required to provide reasons for not following the LAPF Guidelines on Voting. The Board commented that the Guidelines should be widely circulated and requested they be provided a copy of the procedure
- That Share Action was currently working on the 'Workforce Disclosure Initiative' and the scheme aim was to encourage Large Investors Companies to disclose their 'work-chains and their 'workforce practises'. The Board noted that Individual Managers could be approached on the above topic.
- Members noted that Ruffer was underperforming and asked that the recovery measures to address the above be disclosed at a future Board. The Board was advised that quarterly meetings are held with each Fund Managers and reports are placed on the Client Portal. There is also constant tracking and monitoring of performances. The Funding Pools determines how Fund Managers should be managed.
- That the LCIV had devised a Responsible Investment Policy and the protocol was to be ratified at the Shareholder meeting. A copy of the draft Policy will be circulated to the Board.
- The LCIV has become an UN PRI signatory.
- That the LBTH Pensions Fund was committed to reducing their 'carbon footprint' and disinvesting in companies who have a high carbon output. This has led to disinvestment from £30m to £15m in such companies. Members commented whether they could completely disinvest from such companies and was advised that this would affect their passive funds. The Board requested that they receive a presentation on the disinvestments at a future meeting and commented that the same policy should also be extended to companies that have poor labour practise in developing countries.

Members thanked Mr Cullen for his presentation. Mr Cullen advised the Board that he will share the recommendations made by Members to the LCIV.

## **RESOLVED**

1. The LCIV is approached about their Governance arrangements in particular with the lack of independence and representation on the Remuneration Committee and the Compliance/ Audit/ Risk Committees.
2. The LCIV is requested to ensure that the Shareholders Committee members are reflective of the community that they serve and that it is proposed that the Trade Union Observer on the Committee is given a more active role.

3. That the LAPF Guidelines on Voting be circulated to Pensions Board Members.
4. That the LCIV Responsible Investment Policy be circulated to Pensions Board Members and.
5. That the Pensions Board receives a presentation on TH LGPS Carbon footprint and its disinvestment in companies who have a high carbon output.

## **8. REPORTS FOR CONSIDERATION**

### **8.1 Pensions Board Membership Quorum and Dates of Meetings**

The Committee Officer presented a report which set out the Terms of Reference, Membership and Quorum of the Pensions Board for the Municipal Year 2018/2019. The report also listed the scheduled meeting dates for the remainder of the year. Following discussions, the Board confirmed that 10am continued to be their preferred start time for scheduled meetings

The Committee Officer advised that a recruitment drive had been started and it was anticipated that the vacancies on the Pensions Board will be filled in the forthcoming months.

#### **RESOLVED**

1. That the Report be noted and.
2. That scheduled meetings continue to be held at 10am.

### **8.2 Training & Development Plans For Pension Committee and Board Members**

#### **REASON FOR URGENCY**

The report was unavailable within the standard timescales set out in the Authority's Constitution, because of continuing work to finalise the training and development plan for the new Board and Committee Members.

Member training is a key requirement in ensuring Members of the Board and Committee discharging their responsibilities; therefore it is important that the training and development plan is considered as part of the first post-election meeting.

Bola Tobun, Investment and Treasury Manager presented a report which outlined the needs for a training and development programme for Pensions Board Members. The Board was reminded that there were requirements for the LGPS Pensions Committee Members, Pensions Board Members and

officers to have appropriate level of knowledge and skills. The Chartered Institute of Public Finance and Accountancy (CIPFA) have provided a 'knowledge and Skills Framework (2010). The CIPA Framework provides a framework for the training and development of members/observers, the aim of the framework is to improve knowledge and skills in all relevant areas of the activity of a Pensions Board.

Members were reminded that a 'Training Analysis' had been circulated to the Board. The Chair requested that Members complete the Training Analysis and forward suggestions on the Work Plan. Officers requested that Members complete training Modules 1 and 2 before their next meeting, and that Modules 3 and 4 are undertaken before November 2018 and the remaining two Modules (5 & 6) by March 2019. The Board was requested to advise Officers of any training needs.

Members held further discussions about their Training and Development Work Plan and suggested that the previous year training timetable be replicated. The Pensions Regulator (TPR) Modules were noted as being a good tool for undertaking self-assessments.

Members suggested that a joint training be arranged for members of the Pensions Board and Pensions Committee. An evening training session was preferred; it was envisaged that the session would be a good opportunity for members of the Pensions Board and Pensions Committee to meet each other.

## **RESOLVED**

1. To note the assessment and training resources provided by the Pensions Regulator (paragraph 3.21 – 3.24);
2. To note the adoption of the CIPFA Local Pensions Boards Technical Knowledge and Skills framework (paragraph 3.25 – 3.32), including the self-assessment matrix (attached as Appendix 2);
3. To agree the training framework and programme for 2018/19 set out within the report (para 3.33 and 3.35)
4. To agree the Work Plan for 2018/19 attached as Appendix 3
5. That Members provide comments on the Work Plan and advice Officers of their training needs.
6. That the 2017-2018 Training and Development Work Plan schedule is replicated during the municipal year
7. That a joint training for Pensions Board and Pensions Committee be arranged for October and takes place in the evening. Officers should canvass both Pensions Board and Pensions Committee members about training dates and.

8. That Members complete training modules in the agreed set timeframes.

### **8.3 Update of LBTH TPR Compliance**

#### **REASONS FOR URGENCY**

The report was unavailable within the standard timescales set out in the Authority's Constitution, because of continuing work to review and update the Pensions Regulator's Compliance Checklist.

The Checklist contains a number of items that are subject to continuous review and it is important that the council current level of compliance is accurately reported to Members of the Board and Committee.

Tim Dean, Pensions Team Leader presented a report which provided an update on the Compliance Checklist for the London Borough of Tower Hamlets Pension Fund. The Pensions Regulator (TPR) has put in place a Code of Practice for Public Service Pension's Scheme. The code covers a number of areas which relate to the management of schemes. Since 1 April 2015, all Pension Schemes must now consider whether they comply with the Code.

Members were advised that LBTH Pensions Scheme was compliant in more areas of the Code. This includes the Internal Dispute Resolution (IDRP) notes and application forms; these documents have now been updated. Members were advised that Aviva, the Additional Voluntary Contributions (AVC) providers were DBS compliant. These documents are jointly managed by the Pensions Administration Manager and Investment and Treasury Manager.

Members were informed that a review of the contents of the Annual Benefits Statement was to be undertaken. The above will be carried out before the documents are issued. All Annual Benefits Statements must be issued by August 2018.

#### **RESOLVED**

To note the Code of Compliance Checklist and the further work which is required and being undertaken.

### **8.4 Procurement and Insurance**

Neville Murton, Divisional Director, Finance, Procurement and Audit provided an update on Procurements. Members were advised that Indemnity for Pensions Board was to be put in place and that Colin Robertson had been appointed as the Independent Advisor. The appointment was made in June 2018.

Members agreed that Mr Robertson should be invited to their meeting in November 2018 and be requested to give a briefing about their investment strategy.

Members were advised that the Pensions Committee had appointed CQS as their MAC Manager; the portfolio will be managed by the LCIV.

### **RESOLVED**

1. To note the update and
2. That the Independent Advisor be invited to attend the Pensions Board in November and be requested to provide a brief about the LBTH Pensions Fund Investments Strategy.

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

The Board reviewed the minutes of the Pensions Committee held on 14 March 2018 and noted the contents.

### Matter Arising

#### *Item 6.2 Pensions Scheme Administration Update / One Housing*

John Grey advised that there had been poor consultation regarding One Housing proposal to withdraw from the LBTH Pensions Fund. To date there has been no assessment or evaluation undertaken. The Actuaries are currently liaising with Judicators. At present One Housing continues to remain as a Fund Member.

## **10. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING**

The Board noted the Agenda for the meeting which was to be held on 24 July 2018.

#### *Item 7.2 Draft Pensions Fund Annual Report and Accounts 2017/18*

Members commented about the Pensions Committee Attendance record for the 2017 / 18 Municipal Year and requested that officers provide feedback on attendance.

Members noted that the Equity Protection for the LBTH Pensions Fund would cost £250,000 and that the scheme was in place for a period of 18 months. The meeting was advised that scheme provides protection for losses up to 30%. Outside participation is 10%; if there is any further participation cost will be incurred.

The Equity market has depreciated and this has left Fund Managers such as Ruffer in a volatile position. There has been a devalue of £38m. Absolute Returns Bond Management have also not performed well.

Members raised questions about deficits and future contributions and were advised that Fund had a surplus at the end of March 2018 and that the

Council contribution rates to maintain the solvency of the Fund amounted to 19.9% and this equated to around £50m.

Members commented about the Universal Fund Programme and commended the performance of the LBTH Pension Fund. The Board noted that the Fund's value had increase by £113m and the last valuation was in March 2016. Since the last valuation the funding level has increased by 5.4% to 88.2%. The funding level is the highest recorded. Members agreed a presentation on the above topic should be made in the future.

Officers advised the Board that the Draft LBTH Pensions Fund Annual Report and Annual Accounts had been approved by the Audit Committee and that no concerns had been raised by the latter.

#### **11. DATE OF FUTURE MEETINGS**

- 13 September 2018
- 22 November 2018
- 7 March 2019

#### **12. ANY OTHER BUSINESS**

None.

The meeting ended at 11.50 a.m.

Chair, John Jones  
Pensions Board

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS BOARD**

**HELD AT 10.05 A.M. ON THURSDAY, 13 SEPTEMBER 2018**

**COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE**

**Members Present:**

John Jones (Chair)	(Independent Chair)
Annette McKenna (Member)	(Pensions Board Member representing (Admitted Bodies Employers))

**Officers Present:**

Ngozi Adedeji	(Senior Lawyer, Legal Services)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Tim Dean	(Pension Team Leader, Resources)
Georgina Wills	(Committee Services Officer)

**1. APOLOGIES**

The Chair noted apologies from David Stephen Thompson, Councillor Puru Miah, John Gray, Steve Hill and Roger Jones.

The Clerk advised the Board that the meeting was inquorate. The Board held a short discussion and it was agreed by the Chair that the Pensions Board be adjourned and is reconvened on 18 September 2018 at 5pm.

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**

Meeting adjourned

**3. UNRESTRICTED MINUTES**

Meeting adjourned

**4. SUBMISSIONS FROM FUND MEMBERS**

Meeting adjourned

**5. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE**

Meeting adjourned

**6. PRESENTATION FROM PIRC**

Meeting adjourned

**7. DISCUSSION ON THE PENSIONS BOARD WORK PLAN AND TRAINING FOR 2018/2019**

Meeting adjourned

**8. REPORTS FOR CONSIDERATION**

Meeting adjourned

**8.1 Voting and Engagement Update for Quarter Ending June 2018**

Meeting adjourned

**9. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE**

Meeting adjourned

**10. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING**

Meeting adjourned

**11. DISCUSSION ON THE REVIEW OF POLICIES IN THE ANNUAL REPORT**

Meeting adjourned

**12. DATE OF FUTURE MEETINGS**

Meeting adjourned

**13. ANY OTHER BUSINESS**

Meeting adjourned

The meeting ended at 10.10 a.m.

Chair, John Jones  
Pensions Board

<p>Non-Executive Report of the: <b>PENSIONS BOARD</b> <b>13 September 2018</b></p>	
<p><b>Report of:</b> Zena Cooke, Corporate Director of Resources</p>	<p><b>Classification:</b></p>
<p><b>Voting and Engagement Update for Quarter Ending June 2018</b></p>	

<p><b>Originating Officer(s)</b></p>	<p>Bola Tobun, Investment and Treasury Manager</p>
<p><b>Wards affected</b></p>	<p>All</p>

## Introduction

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and the Committee and Board has previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations. This report provides an update on voting activities on behalf of the Fund.

## Recommendations:

Members of the Pensions Board are asked to note the contents of this report.

## **1. REASONS FOR THE DECISIONS**

- 1.1 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Fund would remain a member of LAPFF but to ensure the Fund's Responsible Investment (RI) approach is enhanced the engagement approach can be improved by procuring an overlay service rather than relying on delegation to fund managers.

## **3. DETAILS OF REPORT**

- 3.1 The subject of voting and engagement has been considered by the Pensions Committee on a number of occasions. The Fund wishes to ensure that it is able to effectively express its views on ESG issues through the exercise of the Fund's voting rights, as well as enhancing the Fund's approach to engagement with its investee companies more generally. However, the rapid changes currently taking place across the sector have raised a number of questions about how voting rights, and Responsible Investment (RI) approaches more generally, can best be delivered through the new pooled structures.
- 3.2 The Fund currently delegates the exercise of its voting rights to its external equity managers, who are asked to comply as far as possible with the Fund's voting policies. The move to a pooled structure over the medium term would significantly impact this arrangement as voting rights would need to be exercised at pool level rather than fund level. The Fund will therefore need to ensure that it works with other London funds as well as the pool itself to ensure that in the future it is able to effectively express its views through the exercise of voting rights.
- 3.3 The Fund also currently delegates broader engagement with investee companies around ESG issues to its external managers. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 71 local authority pension funds with combined assets of £175 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.
- 3.4 The voting alerts received from LAPFF and the outcome of votes, as well as how the fund's equity manager, Legal & General Investment Management (LGIM) and London CIV, is detailed below. Managers have been asked to provide further information for not voting in line with LAPFF recommendations.

Company	Proposal Description	LAPFF Recommendation	Vote For / Oppose		AGM Vote outcome
			LGIM	LCIV	
Royal Dutch Shell	Special Resolution requesting Shell to set and publish targets aligned with the Paris Climate Agreement goal to limit global warming to well below 2°C.	ABSTAIN	OPPOSE	N/A	Outcome was 5.54% in support
CHEVRON CORPORATION	Report on Transition to a Low Carbon Business Model	FOR	OPPOSE	N/A	The resolution garnered 8% support
GENERAL MOTORS COMPANY	Shareholder proposal regarding a report on greenhouse gas emissions and CAFE standards	FOR	FOR	N/A	
WPP PLC	Approve the Remuneration Report	OPPOSE	FOR	N/A	Nearly 30% voted against
TESLA INC	Stockholder Proposal - Require that the Chair of the Board of Directors be an independent director	FOR	FOR	OPPOSE	
TESLA INC	Stockholder Proposal – Proxy Access	FOR	FOR	OPPOSE	
Rio Tinto Ltd	Special Resolution to amend our company's constitution	FOR	FOR	N/A	Received 10.7% support
Rio Tinto Ltd	Ordinary Resolution on public policy advocacy and energy by relevant industry associations	ABSTAIN	FOR	N/A	Received 18% support
Anadarko Petroleum Corporation	Stockholder Proposal - Climate Change Risk Analysis.	FOR	FOR	N/A	Resolution was supported by over 50% of shareholders

\*Where N/A means information not available at the time of writing or the Fund Manager has not invested in the company.

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

4.1 This is a noting report and there are no direct financial implications as a result of the contents of this report.

- 4.2 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund. Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.

## **5. LEGAL COMMENTS**

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of:
- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
  - The authority's policy on the exercise of the rights (including voting rights) attaching to investments.
- 5.2 In addition, Government guidance on the preparation and maintenance of the Investment Strategy Statement states that Administering Authorities should explain their policy on stewardship with reference to the Stewardship Code, the seven principles of which apply on a 'comply or explain' basis.
- 5.3 There are no immediate legal implications arising from this report.

## **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 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 Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.
- 8.2 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.
- 9.2 Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to 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**

- Appendix 1 – Quarterly LAPFF Voting and Engagement Update June 2018

#### **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
- Mulberry House, 5 Clove Crescent E14 2BG

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# QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2018



Continuing concerns over board composition, performance targets and human capital management at Tesla Inc.

Climate-related voting alerts issued ahead of company AGMs, Anadarko resolution garners more than 50% support.

Growing criticism of the Financial Reporting Council and the announcement of the Kingman Review

# Executive Summary

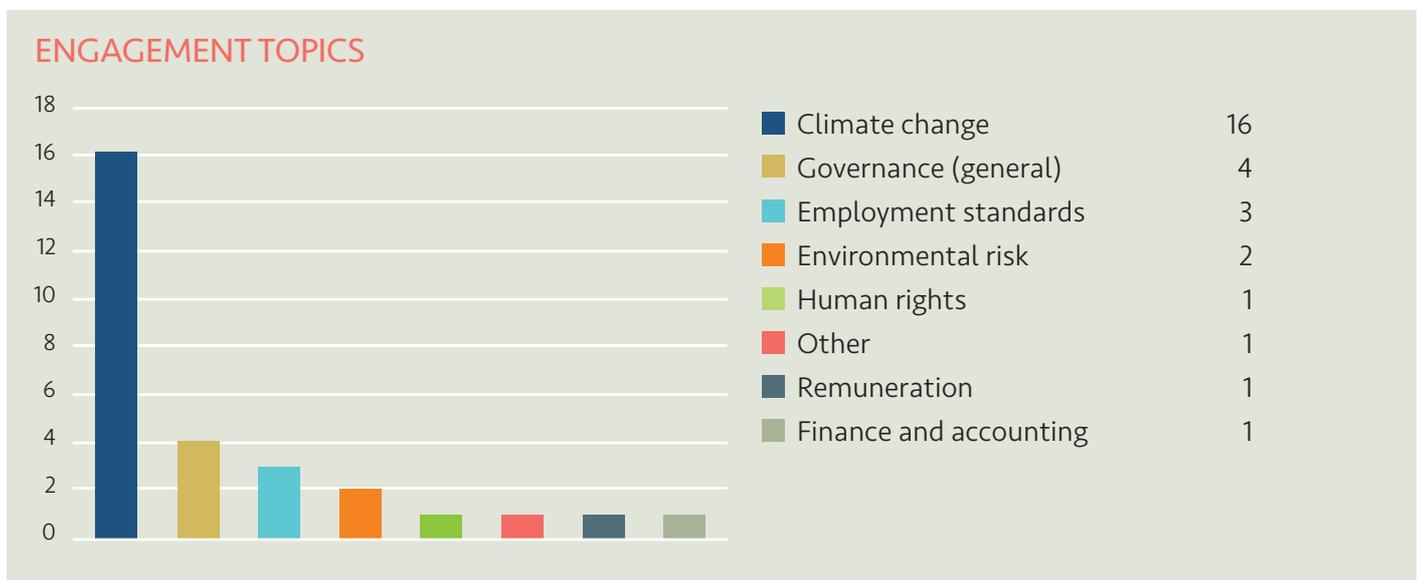
During the last quarter, LAPFF has engaged with 17 companies on issues ranging from climate change reporting to poor human capital management and board composition.

In this busy AGM season, the Forum has issued several climate related voting alerts at a range of oil and gas, mining and transport companies. These related to climate change risk analysis, alignment with the Paris Agreement goals, disclosure of public policy advocacy on energy and climate change and fuel efficiency standards. Other voting alerts covered remuneration, proxy access and support for appointing an independent Chairman.

Concerned over reports of poor human capital management, LAPFF engaged with Banco Santander on practices at its US subsidiary, as well as progressing engagement with Tesla Inc. A LAPFF executive member had a call with a Tesla representative to discuss a range of governance issues, including board composition, health and safety and employment standards. In addition, the Forum also organised a webinar to discuss the Company’s most pivotal problems and issued voting advice to members.

LAPFF has substantially contributed to the debate on the future of the Financial Reporting Council (FRC). Following the announcement of the Kingman Review the LAPFF chair met with Sir John Kingman in May and put its view that the FRC should be disbanded. In June, the Kingman Inquiry issued a call for evidence, including an option that would result in the break-up of the FRC’s functions and asking for structural solutions.

# Company Engagement



## GOVERNANCE RISK

In May, the Forum hosted a webinar *'What Next for Tesla? Human Capital Management and Sustainability'*, to discuss some of the more pressing concerns relating to the **Tesla** motor vehicle range and current production challenges. LAPFF Executive member Cllr Barney Crockett of North East Scotland Pension Fund chaired a panel consisting of a former Administrator of the Occupational Safety and Health Administration at Tesla, a current Tesla employee and representatives from Baillie Gifford and CtW Investment Group. A number of LAPFF members participated as well as UK and US-based asset owners and fund managers. The Webinar recording and presentations can be accessed [here](#).

LAPFF attended a morning investor session with Rick Haythornthwaite, the Chair of **Centrica**, which set out the Board's approach to governance. The Senior Independent Director and Chair's of the Remuneration, Audit Committee and Health, Environment, Security and Ethics Committee also gave short presentations. In the question and answer session, LAPFF asked about the company's approach to employee-input at board level, and it was noted that despite pushback, employee engagement has been included as a performance indicator for remuneration.

The Forum has co-signed a letter to the **US Securities and Exchange Commission** (SEC) over new regulations that make it more difficult to file shareholder resolutions in the US. The letter sets out concerns, including that their staff's new analytical approach increases uncertainty and inefficiency, a new interpretation of micromanagement undermines investor engagement and a new approach to the applications of the rules encourages gamesmanship. A meeting is being sought to explore these concerns further.



## Voting Alerts

The Forum has issued several voting alerts throughout the quarter on issues ranging from remuneration and board structure, to climate change reporting.

LAPFF advised a vote in [favour](#) of a shareholder proposal requesting **General Motors** to publish a report on greenhouse gas emissions and corporate average fuel economy standards. The Forum considers that the proposal would enable shareholders to more clearly understand how the company's fleet emissions will change as well as the company's approach to emissions reduction.

An alert was also issued recommending a vote in [favour](#) of a request for **Chevron Corporation** to publish a report on how it would transition to a low carbon business model. The vote was set in the context of the growing pressure for companies and economies to decrease carbon dependency and investors increasingly wanting to understand how Companies are planning to transition to a low carbon business model. The resolution garnered 8% support.

Similarly, ahead of the **Anadarko Petroleum Corporation** AGM, LAPFF recommended members to [support](#) a shareholder proposal seeking a climate change risk analysis and advised members to pre-declare voting intentions. The Forum considered that the current disclosure is insufficient as shareholders have very little information to assess the degree of carbon asset risk to the company and how it can address or reduce this risk. The resolution was supported by over 50% of shareholders.

A shareholder resolution was filed at the **Royal Dutch Shell** AGM requesting the Company to set and publish targets aligned with the goal to limit global warming. The resolution was filed prior to Shell's announcement of its Net Carbon Footprint Ambition which sets a marker for the oil and gas sector as a whole. However, considering that there is merit in a sharper focus on targets associated with implementation of the Paris Agreement, LAPFF advised members to [abstain](#). For more information on this recommendation, please see the [LAPFF position paper](#). The vote outcome was 5.54% in support.

A [voting alert](#) was also drafted for the **RioTinto Group** recommending members support an amendment to the company's constitution to allow for the filing of advisory shareholder resolutions at the Australian listed entity, and to abstain on a resolution seeking a review of the company's direct and indirect public policy advocacy on energy and climate change. The former received 10.7% support and the latter, 18%. LAPFF had communicated with the chairs of both Royal Dutch Shell and Rio Tinto prior to issuing the voting recommendations.

A voting alert was drafted ahead of **WPP's** AGM recommending members [oppose](#) the remuneration report, owing to concerns over the quantum of pay to the former

CEO, Martin Sorrell. Sir Martin is set to receive almost £20 million in pay-outs after stepping down as CEO in April 2018. The Forum also questioned whether Sir Martin's pay-out was reasonable in light of the allegations of breach. Nearly 30% of shareholders voted against the remuneration report.

The Forum also recommended voting in [favour](#) of two shareholder proposals at the **Tesla** AGM, on appointing an independent Chair and for proxy access. In LAPFF's view, the role of the Chair is distinct from that of the Chief Executive Officer and the two should not be held by the same person. Moreover, the combined role at Tesla is more problematic owing to the lack of independence across the Board and continuing concerns about performance targets and human capital management. The Forum considered that separating the current role of CEO and Chairman was in the best interest of shareholders. LAPFF also recommended voting in favour of proxy access as this improves shareholders' ability to nominate directors; an important consideration for Tesla, given the current Board classification does not allow for annual election of Directors.

Cllr McMurdo of the LAPFF executive committee had a call with a **Tesla** representative to seek assurance about governance practices mainly related to board composition, but also on health and safety and labour concerns. A request was made to meet the Senior Independent Director.

### Finance and Accounting

LAPFF Acting Chair Cllr Ian Greenwood met with **Lloyds Banking Group's** Chairman, Lord Blackwell, to discuss the International Financial Reporting Standards and the ongoing response to the HBOS Reading fraud issues. The meeting also covered cyber risk management, following the 2017 cyberattack that affected Lloyd's customers. The Chair stated that cyberattacks were a top priority and outlined in detail how the risk was being managed.



## ENVIRONMENTAL AND CARBON RISK

Through the 50/50 initiative, the Forum continued dialogue with **ExxonMobil Corporation** on succession planning and directors' qualifications, raising concerns that future directors may not be required to have climate-related knowledge. Clarification was also sought in relation to incorporating metrics of climate resiliency into executive compensation.

Correspondence was exchanged with the **Southern Company** around the company's recently issued climate change report, *'Planning for a Low-Carbon Future'*. The Board has committed to examining carbon reduction goals as an element of incentive compensation.

LAPFF also signed an Investor Statement on High Risk Drilling in Arctic Refuge flagging up concerns over financial, reputational and human rights risks to companies proposing to initiate oil and gas development in the region. Cllr Toby Simon continued engagement with **Anglo-American** by attending the AGM to ask whether the Company's 2030 carbon emissions goal is science-based, and, if not, whether the company would set a science-based target in the coming year. The Chair noted that Company's targets were science based for direct (scope 1 and 2) emissions and that they expect it to be shortly for indirect (scope 3) emissions. Other investor members of the Climate Action 100+ initiative also attended to ask questions, including a request for further disclosure on the Company's public policy advocacy.

LAPFF Executive member, Rodney Barton, met with Sir Peter Gershon, the chair of **National Grid** to ascertain the Board's climate resilience plans and overall approach to sustainability in light of the 'energy revolution'. Discussions ranged from the Company's gas and electricity business restructuring to adoption of the Task Force on Climate-related Financial Disclosure guidance. The Head of UK Regulation provided further information on stakeholder consultation and consumer preferences.

In a phone call with **BMW**, Jane Firth of the LAPFF Executive explored how the Company was reducing exposure to climate-related risk. This was seen largely through the prism of regulation driving reductions in emissions levels with the company developing an approach predicated on a tightening regulatory and tax environment. The Forum also probed BMW's strategy to manage risks related to disruptive technology, including electric and autonomous cars. There was a strong emphasis on protecting the Company's reputation by putting safety and driving experience ahead of being first to market.

LAPFF also participated in collaborative calls with Directors of Sustainability at **Ford Motor** and **General Motors** with one objective being to ensure that both companies take action to preserve the current US fuel economy and emissions standards which may be weakened and to disassociate themselves from the lobby group Alliance of Automobile Manufacturers' position on the standards and comments they have made on climate change.

At a meeting with Ian Davies, the chair of **Rolls-Royce**, Cllr Ian Greenwood, LAPFF's acting chair, discussed scope 3 emissions disclosure and climate-related scenario planning. The Company provided information on how they were planning to increase fuel efficiency and reduce carbon emissions of their products, including through technological advances and use of alternative fuels. The meeting also covered the Company's recently-announced reorganisation and historic bribery issues.

Cllr Doug McMurdo of the LAPFF Executive attended the **Unilever** AGM in May. He asked about the company's strategy for reduction of single use plastic, whether targets are set and what needs to be done at an industry level. The CEO, Paul Polman, noted that the aim was for products to be 100% to be reusable, recyclable or compostable and that they were in discussions on this with the UK government. Unilever has reduced packaging by 37% and have taken microbeads out of their packaging. Mr Polman noted that the challenge over the next 15-20 years was taking plastic reduction to a global scale and moving to a world without plastic packaging.

Cllr Greenwood also met with Rosalyn Schofield, a member of the **Adaptation Sub-Committee** (ASC) of the Committee on Climate Change. The ASC reports to Parliament every other year with an independent assessment of the plans and policies in place to manage the risks, and realise the opportunities, of the changing climate. The meeting discussed the ASC's latest [report](#) on the Government's National Adaptation Programme and what could be done to promote disclosure of climate risk by business.

## SOCIAL RISK

### Employment Standards

Owing to claims about poor workforce and lending practices in the US, the Forum followed up with **Banco Santander** to determine whether practices at the US

subsidiary, Santander Consumer US, meet the standards across the group. The Forum continues to engage with the company on this matter.

### Human Rights

Following an announcement about a 'blacklist' compiled by the UN Human Rights Council, LAPFF communicated with a number of companies that allegedly do business with, or operate in, the West Bank, East Jerusalem and Golan Heights. The Council believes that operating in this region violates international human rights law and urges companies to carry out human rights due diligence. LAPFF met with the Group Corporate Affairs Director and other representatives of **G4S**, which has previously operated and retains at least one financial connection to the region to explore how risks are mitigated and whether an adequate human rights diligence process is in place. G4S considers human rights when assessing new investments and conducts specific inquiries into allegations. It was also noted that some contracts would not be renewed due to them being high risk.



Rachel Reeves MP

## RELIABLE ACCOUNTS/CONSULTATION RESPONSES

LAPFF has been a substantial contributor to the debate on the future of the **Financial Reporting Council** (FRC). In April 2018 the Secretary of State announced that Sir John Kingman would be heading an independent review into the future of the FRC. LAPFF's acting chair met Sir John on 9 May, making the point that the FRC problems have reached the stage where it needs to be disbanded. Since the announcement, Baroness Bowles has tabled additional Parliamentary questions, bringing the total to 70, which covers subjects such as; how the FRC procured legal advice, the funding levy, the irregularities over its status as a public body and its not conforming to standards in public life, non-compliance with company law, conflicts of interest, issues regarding the inquiries into KPMG and HBOS, as well as issues with Carillion.

On 6 June, the Kingman Inquiry issued a call for evidence that now includes options that would result in the break-up of the FRC's functions and asks for structural solutions. There are some questions dealing with the more specific issue of the accounting standards regime (IFRS and UK-GAAP).

The LAPFF response to the FRC's Governance Code consultation earlier in the year, which referred to companies' culture, commented on issues with the FRC's own culture. The FRC Chair, Sir Win Bischoff, made public a letter critical of the LAPFF response. The report of the Joint Parliamentary Committee into the failure of Carillion has also raised the matter of the FRC's culture. On 22 May, the Co-Chairs of that Committee, Rachel Reeves MP and Frank Field MP wrote to Sir Win as follows.

*"You will be aware that the Work and Pensions and Business, Energy and Industrial Strategy Committees published our joint report into Carillion on Wednesday 16 May. The report*

*highlighted multiple serious concerns about the performance of the FRC. We stressed that, though additional powers would be useful, the FRC needed a "significant shift in culture" to perform as it should. We are therefore pleased that your review will encompass the culture of the FRC. Culture in an organisation is largely defined at the top. Can you therefore confirm that your review will consider whether the leadership of the FRC is equipped to effect the necessary change?"*

LAPFF wrote to three FRC non-executive directors in June 2017 expressing concern about the FRC which led to a meeting with a number of them in November 2017. A written reply was finally received in April 2018 but with no movement of consequence in the FRC position. Some of the response is inconsistent with the position that the government has set out in answers to some of Baroness Bowles questions. A final reply to wind up the engagement has been sent.

## MEDIA COVERAGE

[West Midlands to divest from arms manufacturer](#) – Pension Expert, 29 March 2018

[Amid criticism, can trust in U.K. FRC be restored?](#) – Compliance Week, 16 April 2018

[Review of accounting watchdog to consider its closure](#) – Financial Times, 6 June 2018

[Former MEP says 'fatally flawed' FRC should be shut down](#) – IPE, 15 June 2018

[Financial Reporting Council unveils upsized investor advisory group](#) – IPE, 26 June 2018



## NETWORKS AND EVENTS

The following lists some of the events and meetings attended by or on behalf of LAPFF representatives during the quarter:



Climate Action 100+ Calls – The Forum participated in a number of conference calls on co-ordination of this initiative and ahead of AGMs including Arcellor-Mittal, Anglo-American, ExxonMobil, La-Farge Holcim and Rio Tinto where participants gave updates on engagement and on progress each Company has made.



30% Club Investor group meeting – The group initiative, of which LAPFF is a member, met to discuss how they can further support greater gender diversity on Company Boards, including targeting specific sectors and companies with poor records.



The Investor Agenda – LAPFF co-signed a statement on climate change, calling on governments to achieve the Paris Agreement's goals, accelerate private sector investment into low carbon transition and commit to improve climate-related financial reporting.

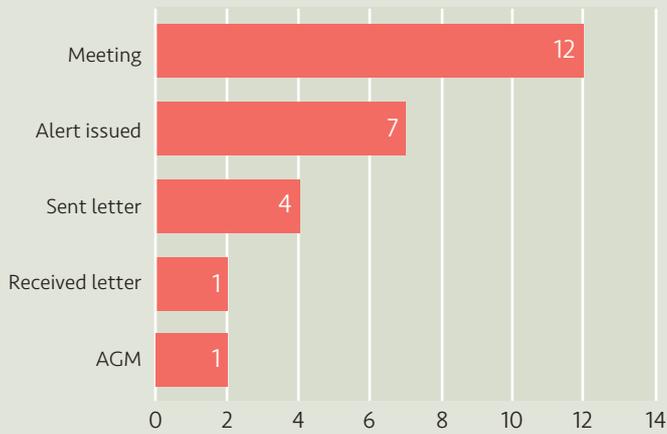
## COMPANY PROGRESS REPORT

19 companies engaged over the quarter

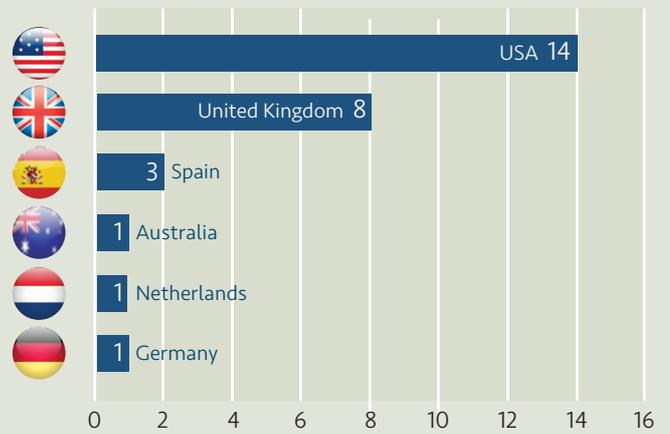
Q1 2018 ENGAGEMENT DATA			
Company	Activity	Topic	Outcome
Anadarko Petroleum Corporation	Alert Issued	Climate Change	Substantial Improvement
Anglo American plc	AGM	Climate Change	Moderate Improvement
Banco Santander SA	Meeting	Employment Standards	Dialogue
Bayerische Motoren Werke AG	Meeting	Environmental Risk	Change in Process
Centrica plc	Meeting	Governance	Dialogue
Chevron Corporation	Alert Issued	Climate Change	Dialogue
Exxon Mobil Corporation	Letter	Climate Change	Dialogue
Ford Motor Company	Letter/Meeting	Climate Change	Dialogue
G4S plc	Meeting	Human Rights	Moderate Improvement
General Motors Company	Letter/Meeting/Alert Issued	Climate Change	Dialogue
Lloyds Banking Group plc	Meeting	Finance and Accounting	Moderate Improvement
National Grid plc	Meeting	Climate Change	Moderate Improvement
Rio Tinto Group (AUS)	Alert Issued	Climate Change	Dialogue
Rolls-Royce Holdings plc	Meeting	Climate Change	Satisfactory Response
Royal Dutch Shell plc	Alert Issued	Climate Change	Dialogue
Southern Company	Letter	Climate Change	Substantial Improvement
Tesla Inc.	Alert Issued/Meeting	Governance/ Employment Standards	Dialogue
Unilever plc	AGM	Environmental Risk	Satisfactory Response
WPP plc	Alert Issued	Remuneration	Dialogue

## COMPANY ENGAGEMENT ACTIVITIES

### Company engagement activities



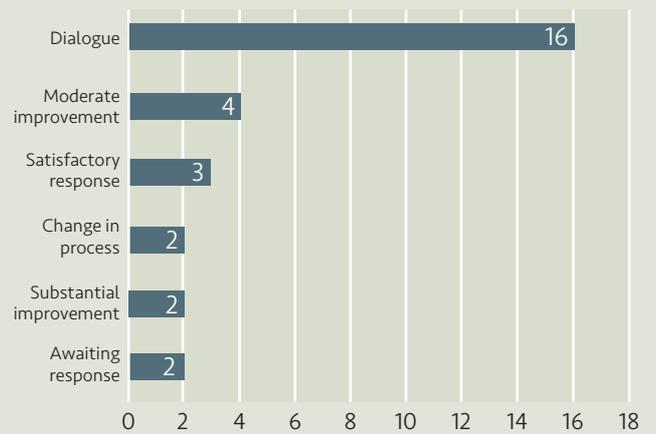
### Company domiciles



### Position engaged



### Outcomes



## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Border to Coast Pension Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Hammersmith and Fulham LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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## LONDON BOROUGH OF TOWER HAMLETS

### MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.35 P.M. ON TUESDAY, 24 JULY 2018

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

#### Members Present:

Councillor Muhammad HM Harun (Chair)  
Councillor Shah Ameen  
Councillor Andrew Wood  
Councillor Rachel Blake  
Councillor Leema Qureshi  
Councillor Sabina Akhtar  
Councillor Shad Chowdhury

#### Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde

–

#### Other Councillors Present:

None

#### Apologies:

Councillor Ehtasham Haque

#### Others Present:

John Jones	Chair - Pensions Board
Alex Pearce	Mercer
Ciaran Madine	Mercer
Sam Wreford	Mercer

#### Officers Present:

Suzanne Jones	(Support to Neville Murton, Resources)
Neville Murton	Divisional Director, Finance, Procurement and Audit )
Ngozi Adedji	Legal Services, Law Probity & Governance)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Tim Dean	(Pensions Team Leader)
Colin Robertson	Independent Investment Advisor

**1. APPOINTMENT OF VICE-CHAIR**

The Chair invited nominations for the position of Vice-Chair for the Municipal Year 2018-19.

Councillor Shah Ameen proposed that Councillor Ehtasham Haque be appointed as Vice-Chair for the Municipal Year 2018 -19. This was seconded by Councillor Leema Qureshi.

The Chair proposed that Councillor Rachel Blake be appointed as the Vice-Chair; however the nomination was declined by Councillor Blake. There being no other nominations, it was

**RESOLVED**

That Councillor Ehtasham Haque be appointed Vice-Chair of Pensions Committee for the duration of the Municipal Year.

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

None

**3. PETITIONS**

Members were advised that a Petition had been received from Adam Schneider (and others) regarding Divestment from fossil fuels. The Petition was considered at Council on 18 July 2018.

The Petition called for several actions to be undertaken by the Council, these include, the immediate freeze of any new investments in fossil fuels in particular in the top 200 publicly - traded fossil fuel companies and disinvestment from fossil fuel companies.

Officers advised the meeting that the Pensions Committee had received a presentation from Friends of the Earth at a previous meeting. Members were reminded that they had held discussions about reducing their Carbon Footprint. The LBTH Pensions Fund has the lowest investment in Carbon in comparison to other LG Pensions Funds and aims to reduce the carbon exposure of their Portfolio by around 70%.

The Pensions Committee agreed that their Carbon Footprint should continue to be monitored and reviewed on annual basis.

**RESOLVED**

1. To note the Petition submitted by Adam Schneider (and others) regarding the Divestment from fossil fuels and
2. That the LBTH Pensions Fund carbon footprint is monitored and reviewed annually.

#### 4. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 14 March 2018 were approved as an accurate record.

##### Matters Arising

Item 6.1 *Revised Investment Strategy Statement And Investment Options Considerations.*

Members were advised that LBTH Pensions Fund Investment Strategy on long lease and infrastructure had been placed on the Pensions Committee Forward Plan.

Tower Hamlets Youth Sports Foundation (THYS) application for Admitted Body status has been withdrawn and this was due to set criteria being unmet.

Tower Hamlets Community Housing (THCH) has converted from a company to a community benefit society. Members were advised that a Funding Agreement is in place which will ensure that the pension deficit is recouped. This is to ensure that the Fund is not adversely affected.

LCIV – update

Members were advised that Councillors Andrew Wood and Candida Ronald had assisted in the interviews for the Independent Advisor to the Pensions Fund and this position had now been filled. The Global Custodian Contract has been awarded and all necessary transfers have been undertaken.

#### 5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Committee received an update from John Jones, Chair of the Pensions Board.

The Pensions Board met on 19 July 2018 and received a presentation from the London CIV on progress in implementing the asset pool across London. Tower Hamlets was noted as having the largest percentage of assets either managed through the CIV or in the passive pooled. There concerns raised around the lack of independence in the CIVs Audit Committee and the lack of BME representation on the Shareholders Committee. The Board also raised issues on Ruffer's investment performance, the CIV responsible investment policy and its approach to disinvesting from fossil fuels.

Members were advised that Stephen Stratton a long standing member of the Pensions Board had resigned. Mr Stratton was thanked for his hard work and dedication to the Board since its inception. There is currently a recruitment drive to fill the vacancies on the Board.

The Board also received an update on the Pensions Administration Team and noted. The Committee were informed that the Pensions Regulator was increasing monitoring the governance of LGPS Pensions Funds and were

advised of the importance of the administration and investment functions being properly resourced.

Members were advised that the Board had considered their training and development arrangements for the year and had requested for a joint training to be held with the Pensions Committee. The Board had also raised concerns over the low attendance record of Committee members during 2017/18 and commented that good governance was important and that Members should be fully engaged.

## **RESOLVED**

To note the update.

### **6. UPDATE ON EQUITY PROTECTION PROVIDER SEARCH**

The Committee received a presentation from Sam Wreford, Alex Pearce and Ciaran Madine of Mercer, on Equity Protection Strategy. At the meeting in February 2018, the Committee agreed to pursue an equity protection strategy. The aim of the Strategy is to protect funding gains and reduce the risk of funding level deterioration which could lead to an increased contribution. The Protection will focus up to the period between December 2019 or March 2020 and would protect against equity losses between 10% and 25%. The Committee noted the following

- That Equity Markets were at all time high and also at present the largest risk. The purchase of Insurance will ensure that the Fund is protected from Markets such as 2008. Members noted that proposed Insurance would have protected 40% of returns during the 2008 crisis and that no coverage would have been more expensive.
- That there were several factors taking into consideration when designing a strategy and this include how much the downside protection should be made and how much upside is required. Members were advised that Protection Strategy was set at a middle range and this was to ensure to capture any upside.
- The Strategy aims to protect equity market values, where there are falls worse than 10% this will equate to 13.5% and in 25% this will equate to 5.9%.
- That the Actuaries evaluations on contribution rate were set every three years and potentially Equities could come down and recover during this period. Members were advised that 3 years was a relatively short period and a good timeframe to undertake evaluations. This time period enables gains 'to be locked' if Equity values increase and allows strategies to be reviewed,
- That three Managers were approached to undertake the mandate and this included Insight Investments, Legal and General Investment Management (LGIM) and Schroders. Three areas were looked when selecting the Managers this include, fees and value for money, experience with dealing with similar mandates and current infrastructure. Schroders was noted as being able to offer a bespoke Fund. Members noted that Banks were traditional resistant to trade with Local Authorities.

- Members raised questions about bankruptcies and were advised that Investment Banks in these instances are collateralized and that banks will have to forward money to Funds which are exposed to daily movement.
- Members agreed that Equity Protection Strategy should be ongoing and be part of their Investment Strategy Review and be added onto their Work Programme.
- Members noted that they had a large Equity Portfolio and that the Strategy was a good method of reducing equities. Investment in Infrastructure was viewed as a good alternative to Equities.
- Members noted that the Equity Protection Strategy was to be implemented and that the Pensions Committee had delegated to the Chief Finance Officer and Monitoring Officer

Sam Wreford, Alex Pearce and Ciaran Madine were thanked for their presentation and left the meeting.

### **RESOLVED**

That the Equity Protection Strategy is ongoing and is made part of the Investment Strategy Review and is also added onto the Committee's Work Programme.

## **7. REPORTS FOR CONSIDERATION**

### **7.1 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 2018/2019. The Committee agreed that 6.30pm 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 6.30pm.

### **7.2 Draft Pension Fund Annual Report and Statement of Accounts 2017/18**

Kevin Miles, Chief Accountant, presented a report which updated Members on the arrangement for the preparation of the Pensions Fund Annual Report and Accounts 2017/18 in accordance with the regulations and the arrangements for the separate audit engagements, opinion and certificate for the Fund.

Members were advised that the Annual Report presented was in a draft form. A foreword from the Chair is to be drafted. The final report will include information on the Funds governance arrangements, attendance at Pensions Board and Pensions Committee, outline how knowledge and skill gaps are being addressed and also examine 'risk management'.

The financial statement of the Pension Fund has been approved by Audit Board and this includes value of the Fund, value of investments and the Pensions Fund's Accounts. The Annual Report also contains a Strategy Statement which explains the roles and duties of Councillors, include a document on Reporting of Breaches Procedures and also one which outlines the Management Policy.

### **RESOLVED**

1. To note the contents of this report and the Annual Report for 2017/18 attached as Appendix A to this report;
2. To note the Tower Hamlets Pension Fund position and outcome of the Pensions & Investment Research Consultants Ltd (PIRC) UK Local Authority League table for 2017/18, set in section 3.5 of this report; and
3. To note the Tower Hamlets Pension Fund Funding Level as at 31<sup>st</sup> March 2018, prepared by the Fund actuary as set in section 3.6.

### **7.3 Training & Development Policy For Pension Committee Members**

Bola Tobun, Investment and Treasury Manager presented a report which set out the need for a training and development programme for Members of the Pensions Committee. The report explained the requirement for good governance of the Pensions Fund and the framework of legislation, regulation and guidance which the Fund must comply. The Chartered Institute of Public Finance and Accountancy (CIPFA) has provided a 'Knowledge and Skills Framework (2010) which provides a framework for the training and development of Elected Members and other representatives on public sector pensions scheme decision making bodies

Members noted that Councillor Andrew Wood was the only returning Councillor from the previous Pensions Committee. Councillor Wood was requested to provide input and guidance on the training for new Members. Officers advised Members that they were required to attend training in order to meet the MIFID requirements which would allow them to be classified as Investments Managers. There are three scheduled evening training which are to be held during the year.

### **RESOLVED**

1. To note the assessment and training resources provided by the Pensions Regulator (paragraph 3.21 – 3.24);
2. To note the adoption of the CIPFA Local Pensions Boards Technical Knowledge and Skills framework (paragraph 3.25 – 3.32), including the self-assessment matrix (attached as Appendix 2)

3. To agree the training policy and programme for 2018/19 set out within the report (para 3.33 and 3.35) and
4. That Councillor Andrew Wood provide comments and guidance on the Pensions Board Training And Development Programme

#### **7.4 Market and Economic Outlook by the Independent Adviser**

Colin Richardson, Independent Advisor presented a report which detailed the views of the Independent Adviser in respect of the performance of the markets and the Pensions Fund Investment managers for the fourth quarter of 2017/18.

The Committee was advised that the 2<sup>nd</sup> Quarter April to June was opposite to the previous, Equity was strong, Sterling was weak and Bonds went down. During the 1<sup>st</sup> Quarter there were concerns regarding 'Trade Wars' between China and the USA, however this confrontations has deescalated and the Markets have recovered and become more stabled.

Emerging markets have not performed very well and this includes China. The changing political climate in Turkey which has led to a more autocratic leader and Argentina sterling falling has contributed to above.

There were concerns that Inflation was too low; however this is changing as the economy continues to stabilise. There are currently several risk and the main concerns are international trade wars. This in particular will have an effect on 'shipping chains'; the tariffs will have an effect on the prices of goods. Also geopolitical, North Korea continues to remain a big concern. Other area of concerns is the valuation of FANGS 'Technology Stock Markets' (Google, Amazon and Facebook) and the reversal of central bank policies of low or negative interest rates and 'quantitative easing'. The Committee was advised that how the 'unwinding' is implemented will affect both equity and bond markets.

Members were advised that it was good practice to have an Equity Protection Strategy. Following question from Members, the Independent Advisor commented that the Pensions Fund was in a broadly suitable position and noted that there was a drive to reduce exposure to market movements and a more dependency on the 'skills' of Fund Managers. The Fund was noted as having a good 'Asset Strategy'; it was advised that long term planning should be undertaken at the 'right time'.

#### **RESOLVED**

That the contents of the report be noted.

#### **7.5 Equity Protection Strategy Investment/Manager Search**

This report provided an update on the action taken in relation to the Equity Protection Investment. Work was carried out supported by the Fund

Consultant Mercer, and the Independent Adviser to put in place an Equity Protection Investment for the Fund. The aim of the investment being to reduce the risk to the Fund of its exposure to investment in equities.

Members noted that they had received a presentation from Mercer regarding Equity Protection Investment and this included the procurement of Equity Protection Investment Managers.

### **RESOLVED**

To note the process undertaken to select an Equity Protection Investment Option to offer some protection against a fall in the value of the fund at the next valuation date of March 2019 and the decision made by the CFO under the authority that was delegated.

#### **7.6 Pension Fund Business Plan, Pensions Committee Work Plan for 2018/19**

Bola Tobun, Investment and Treasury Manager presented a report which set out a business plan for the Pensions Fund, which outlined the Funds goals and objectives in delivering the Council's statutory function as the administering authority of the London Borough of Tower Hamlet's Pensions Fund.

Members were advised that the report was considered and agreed at the last Pensions Committee in March 2018 and was for information only. The Business Plan will cover a three year period. Officers were advise that Colin Curren, Client Relations Manager, London CIV (LCIV) had recommended that Individual Managers Performance be reviewed on a quarterly basis. The Committee agreed that the LCIV should be a standing item and stressed the importance of developing requisite skill sets.

The Chair advised that he will be attending the LCIV AGM on 12 July 2018 and that he would give feedback at future Pensions Committee. Member commented on the importance of being represented and maintaining local intelligence. The Committee noted that there were concerns regarding the LCIV governance structure and representation on their committees.

### **RESOLVED**

1. To note the Business Plan as Appendix 1 to this report and
2. To approve Work Plan for 2018/19 attached as Appendix 2.

#### **7.7 Investment and Fund Managers Performance Review for Quarter Ending 31st March 2018**

Bola Tobun, Investment and Treasury Manager presented a report which informed members of the performance of the Pensions Fund and its investment managers for the fourth quarter of 2017/18. The Fund marginally

outperformed its benchmark return of -1.2% by 0.1%. For this quarter six mandates matched or achieved returns over the benchmark. The four that failed to reach the benchmarks were LCIV RF, (TR), LCIV BG (DGF), Insight and GSAM bond portfolios. The value of the Fund (£1.485bn), decreased over the quarter by £38m.

The Independent Advisor advised that he approved of the Benchmark used for the Fund and suggested that a Peer Group Benchmark should also be undertaken. The Committee was advised that *PERC*, private sector organisations should be considered. Stage Street currently benchmarks the performances of all LGPS Funds. Members noted that the LBTH Pensions Fund performance had improved and had better standing and was rated as the 4<sup>th</sup> best in its platform. This position has been retained for 3 years and is a considerable improvement as the Fund was rated as the worst 36 years ago

Members noted that that their Absolute Bond Portfolio was dependent on the skills and strategies of Managers. Member also noted that Bonds returns were more predictable as the returns are based on interest rates. The Independent Advisor noted that Multi Asset Credit (MAC) were not classified as high risk and questioned the investment in this product and commented on the high reliance on Managers skills present in this area. The purchase of vehicles which have a more market exposure was recommended. Members were advised that the LCIV was currently undertaken the above.

## **RESOLVED**

1. To note the contents of the Report and
2. That other Benchmarks are considered when Benchmarking the Fund; this should include Stage Street or PIRC

### **7.8 Pension Scheme Administration Update**

Tim Dean, Pensions Team Leader presented a report which covers the activities and performance of the Pensions Administration Team. Overall in the first quarter of 2018/19, the Pensions Team has completed 89.43% of its workload in line with service standards measured by the performance indicators. This is an improvement from the 85.66% completed in line with service standards during the 2017/18 year.

There have been some changes to the statutes of employers that are admitted to the fund, Green Spring Academy Shoreditch will be joining Mulberry Schools Trust from 1 September 2018. The Pensions Team have identified just over 1200 deferred members that could potentially claim payment of their benefits with immediate work. Further work will be undertaken to look at potential impact on the Fund.

## **RESOLVED.**

1. To note the information provided in this report in respect of the scheme administration and the performance metrics;
2. To note the changes to the Local Government Pension Scheme regulation set out in Appendix 2 and
3. To note the Statement of Policy for the payment of lump sum Death Grants as set out in Appendix 3.

#### **7.9 The Pensions Regulator Compliance Checklist For Tower Hamlets Pension Fund**

Tim Dean, Pensions Team Leader presented a report which covers an updated Compliance Checklist for the London Borough of Tower Hamlets Pension Fund. From 1<sup>st</sup> 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<sup>st</sup> April 2015 and all schemes must now consider whether they comply with the Code.

Members noted that the LBTH Pensions Fund was generally able to demonstrate good level of compliance with the Code and these were highlighted in green. There were two areas which needed further attention and was highlighted in red in a previous report was items in respect to Internal Dispute Resolution (IDRP) which relate to the need to update IDRP notes and applications form to ensure they include all required and helpful information. These documents have been updated. The other was Section H, Providing Information to Members and Others, the principal concern related to the content of Annual Benefits Statement, A review of the content of this year's statement will be completed before being issued.

#### **RESOLVED**

To note the Code of Compliance Checklist and where further work is required and being undertaken.

#### **8. THCH FUNDING AGREEMENT REQUEST**

This item was covered in other sections of the Agenda.

#### **9. TRAINING EVENTS**

Bola Tobun, Investment and Treasury Manager gave a presentation which outlined the roles and responsibilities of Actors and Bodies who are involved in the Local Government Pensions Schemes (LGPS). The Committee noted the following

- That there are a number of Actors Involved in the LGPS and this includes Regulation Makers such as the Ministry of Housing, Communities and Local Government (MHCLG). The Statutory and Professional Boards,

provide direction and oversight, e.g. The Pensions Regulator; other Bodies include the National Advisory Groups and Regional Groups.

- That the Pensions Regulator (TPR) role had been extended since April 2015. The Body aims to promote good administration of work-based pension's schemes, to educate and enable, resolve internal disputes and acts as a regulator. Members were advised that the TPR had attended their Pensions Board and requested that the Body be invited to a future Pensions Committee.
- The LBTH Pensions Fund includes an Administering Authority; which has Scheme Managers of the LBTH, a Pensions Fund Committee and a Pensions Fund Board.
- That there were a number Key Policy Documents which oversees the Funds; these include Statement of Accounts, Training and Development Policy and Risk Management Policy.
- That the primary duty of the Fund was to pay member benefits as they fall due (Fund liabilities). To undertake the above enough assets are required in order to pay liabilities. A shortfall will lead to a funding gap; this is prevented by generating investments returns, increasing employee contribution or changing the benefits. The generation of investment is regulated within a framework which ensures assets are safeguarded. The Investment strategy will take into account both liabilities and assets and the Funding ratio provide an assessment of the Fund's abilities to pay pension liabilities.
- There are four 'core' asset classes, these include, Equalities, Fixed Interest, Cash and Property. All have different levels of expected returns and risk factors and have an effect on the Funding levels.
- That the Actuaries evaluate the Fund and will examine various areas which include Age, employer's contribution, funding level and the deficit. Investment Consultants look at Investments and this includes looking at risk. One of the main objects of the Pensions Administering Authority is to reduce the deficit.

Members thanked Ms Tobun for her presentation,

## **RESOLVED**

To note the Presentation.

### **10. DATE OF FUTURE MEETINGS**

- 29 November 2018
- 13 March 2019

### **11. ANY OTHER BUSINESS CONSIDERED TO BE URGENT**

Neville Murton, Director, Finance, Procurement and Audit advised Members that Barry McKay had left Hymans Actuaries. Mr McKay has been a permanent Actuary for 6 months and will be replaced by Mr Douglas Green. Mr Green will be attending the next Pensions Committee and will be accompanied by Mr Barry Dodd.

The Chair advised the meeting that Suzanne Jones, support to Neville Murton, Resources, was leaving the Council. The Chair thanked Ms Jones for her hard work and support to both the Pensions Board and Pensions Committee and wished her well in her new role and requested that this be recorded in the minutes.

The meeting ended at 8.45 p.m.

Chair, Councillor Muhammad Harun  
Pensions Committee