LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT TIME NOT SPECIFIED ON WEDNESDAY, 7 DECEMBER 2016

IDEA STORE CANARY WHARF, CHURCHILL PLACE, LONDON E14 5RB

Members Present:

Councillor Andrew Cregan (Chair)
Councillor Clare Harrisson (Vice-Chair)
Councillor Candida Ronald
Councillor Andrew Wood

Apologies:

Kehinde Akintunde
Councillor Gulam Kibria Choudhury
Councillor Md. Maium Miah
Councillor Abdul Mukit MBE

Officers Present:

Ngozi Adedeji	(Team Leader Housing Services, Legal Services, Law Probity & Governance)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Nishaat Ismail	(Democratic Services Officer)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

None declared.

2. MINUTES OF THE PREVIOUS MEETING(S)

Minutes of the previous meeting held on 22nd September were agreed as a correct record of proceedings with the following amendments;

- Cllr Harrisson requested that the value of projected new funding be reflected in the minutes which is 85%
- Mr Raymond Haines requested that his attendance in the Committee be reflected.

3. PETITIONS

Nil Items

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Nil Items

5. REPORTS FOR CONSIDERATION

Nil Items

6. PRESENTATION FROM DIVEST TOWER HAMLETS

The Committee received a presentation from Divest Tower Hamlets and the following points were highlighted;

- The campaign to divest from fossil fuels (FF) has grown into a significant global movement.
- Divest Tower Hamlets told the Committee that they believe that the Tower Hamlets Pension Fund's investments in FF companies are not in "the best financial interests of all its stakeholders, "the primary investment objective of the Pension Fund.
- The Committee were advised that the Pension Fund should divest the approximately £91 million it reportedly has invested in FF companies.
- The Committee were told about major divestments which include Rockerfeller Brothers Fund, Norges Bank and the University of Oxford.
- Divest Tower Hamlets told the Committee why engagement has not worked; FF companies have not responded to engagement efforts in the past and FF companies' actions indicate they are likely to continue to ignore engagement.
- The Committee were presented with the environmental and financial factors for divesting.
- Divest Tower Hamlets recommendations for the Pensions Committee:

    1. Divesting its holdings in the World's top 200 oil; coal and gas companies in full, or at least to the level adopted by the Environment Agency in 2015, that is to a level consistent with keeping below 2 degrees of global warming.
    2. A time frame for doing so (e.g. over the next 5 years)
    3. Refraining from making any new investments in FF companies
    4. Reinvesting a proportion of the divested funds in low carbon solutions.

It was **RESOLVED** that the presentation be noted.

7. PRESENTATION BY PAUL SPEDDING FROM CARBON TRACKER

The Committee welcomed Paul Spedding from Carbon Tracker to give a presentation to the Committee:

- Carbon Tracker is an independent non-profit financial think tank funded by European and US foundations interested in climate.

- Their vision is to enable a climate secure global energy market by aligning the capital markets with climate reality.
- Their mission is to map the transition for the fossil fuel industry to stay within a two degree budget.
- The Committee were told in order to limit global warming to 2 degrees, CO2 concentrations need to be limited to 450ppm.
- By 2040, coal demand needs to be 45% below business as usual levels.
- Oil and gas needs to be 30% below.
- The Committee heard that oil poses as a greater threat to institutions than coal does.
- Companies should be willing to share more information with the Local Authority, if they're not then this is a cause for concern.

In response to Members questions the Committee heard that:

- Due to the American election results oil prices had gone up
- Every single oil company at the moment is investing in low cost institutions.
- You have to be cautious with subsidies and tax on capital allowance may not be considered subsidies.

It was **RESOLVED** that the presentation be noted.

8. PRESENTATION BY CLIFFORD SIMS (PARTNER, SQUIRE, PATTON, BOGGS (LLP)

The Chair welcomed Clifford Sims (Partner, Squire, Patton, Boggs LLP) to give his presentation to the Committee.

The Committee heard that trustees of investment fund should divest only for two reasons. Trustees think scheme members share their outlook. Firstly to divest for purely ethical reasons.

There is a restriction now in terms of divesting due to the Boycott, Divestment & Sanctions movement (BDS)
The Committee were told that the local Pensions Board does not have any powers of investment, it has an advisory role and whilst it is important to take into account its view, they are not fiduciaries.

It was **RESOLVED** that the presentation be noted.

9. PRESENTATION BY IAN WILLIAMS (151 HACKNEY)

Members welcomed Ian Williams from 151 Hackney.

The Committee heard that they have 40 million pounds held in fossil fuels.
The Committee were also told that fund investment partners must be used for fund investment, a fund should not seek to impose particular views not shared

by members or employers. There is a duty to protect the Fund in financial terms, not based on ethics.

The Committee were told that society at present is highly dependent on fossil fuels.

Other points highlighted:

- Passive funds perform better than active funds
- They have almost completed investing 25 million into low carbon property.

It was **RESOLVED** that the presentation be noted.

10. EXAMINATION OF APPROACHES FOR MANAGING FOSSIL FUELS AND CLIMATE CHANGE ISSUES AS PART OF THE FUND ETHICAL, SOCIAL AND GOVERNANCE (ESG) POLICY

Bola Tobun, the Investment and Treasury Manager introduced this report to the Committee. The report provided the Committee with recommendations to be approved in relation to the Fund's approach to climate change issues and fossil fuel investment in order to formulate the Fund’s Ethical, Social and Governance (ESG) Policy.

In response to Members questions the Committee heard that:

- The recommendations from Divest Tower Hamlets can be included in the 2017 policy statement.
- Changing the portfolio to low carbon will reduce some of the risks, but officers can approach the Fund’s active managers to see how they approach it.
- Divesting from FF companies and moving to renewables is dependent on the size of the funds.
- It is important to get the recommendations of actuaries.
- Only where we have a regular portfolio can we divest.

Members raised concerns that the recommendations are not robust enough and they would like to know the risks before approving the recommendations.

Members requested another meeting in January to discuss the Strategy.

It was **RESOLVED** that the contents of the report be noted.

11. TRIENNIAL VALUATION- INITIAL RESULTS AND PUBLIC SERVICE PENSIONS ACT- SECTION 13 VALUATION

Bola Tobun, the Investment and Treasury Manager introduced the report on the Triennial Valuation. This report provided the Committee with a summary of progress to date on the 2016 actuarial valuation. Full report was not available to distribute but the preliminary work gives a guide to the outcome of the valuation. The result of this preliminary work was presented at the Committee by the Fund's actuary, Hyman's Robertson. The Committee were told that the Actuarial Valuation is undertaken every 3 years and is an assessment of the assets and liabilities of the Pension Fund which then determines the funding level.

Kevin Miles, Chief Account informed the Committee that he is confident the contribution rate will remain relatively stable.

The Pensions Committee was recommended to:

- Agree the assumptions and methodology used by the Actuary to determine the actuarial funding level and a standardised basis for setting employer contribution rates.
- Note the content of this report and the draft results of the triennial valuation of the Fund.

It was **RESOLVED:**

- That the report be noted
- That the assumptions and methodology used by the Actuary to determine the actuarial funding be agreed.

12. VERBAL UPDATE ON MARKET OUTLOOK AND INVESTMENT BY THE INDEPENDENT ADVISOR

Raymond Haines, the Independent Investment Advisor provided the Committee with an update on the market outlook.

The Committee heard that:

- The UK is stronger post Brexit vote
- The US economy post Trump's election is working well
- The European market is growing at a slower rate.
- There are three major elections in 2017 in Europe, French, Dutch and German elections may put market into disarray.

It was **RESOLVED** that the verbal update be noted by the Committee.

13. INVESTMENT PERFORMANCE REVIEW FOR QUARTER END 30 SEPTEMBER 2016

The Investment Performance Review Quarter End 30th September was presented by Bola Tobun, the Investment Treasury Manager.

This report informs Members of the performance of the Fund and its investment managers for the quarter ending 30th September 2016.
For the quarter, the Fund outperformed the benchmark by 1.5%, delivering a positive absolute return of 6.9% against benchmark return of 5.4%.

The Committee were told that:

- The Fund is ahead of its benchmark for the last twelve months to end of September 2016.
- The Fund returned 18.1% which was ahead of the benchmark return of 17.6% by 0.5%.
- For longer term performance, the Fund matched the benchmark return of 9.2% for three year returns and outperformed the benchmark marginally by posting five year returns of 10.5%; this is 0.1% above the benchmark return of 10.4%.
- For this quarter end, all the eight mandates matched or achieved returns above the benchmark.
- The Committee also heard that all Managers added something to the Fund.
- Ruffer did particularly well percentage wise.

It was **RESOLVED**:

- That the report be noted.
- And the current Fund strategic asset allocation be approved.

14. 2015/16 PENSION FUND ANNUAL REPORT AND AUDIT REPORT (ISA 260 REPORT)

The Pension Fund Annual report was presented by Bola Tobun, the Investment and Treasury Manager.
This report presents the Pension Fund Annual Report and Statement of Accounts for 2015/16 and 2015/16 Pension Fund Audit Report (ISA 260 Report) following the audit by KPMG.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and was presented for consideration at the last meeting of the Pensions Committee. For completeness, this report is included on the December 2016 Pension Committee agenda for noting.

Members thanked officers for completing the report.

It was **RESOLVED**:

- That the 2015/16 Pension Fund Annual Report and Audit Report be noted.

15. TRAINING EVENTS

Nil Items

16. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil Items

17. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee agreed 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.

18. MAXIMUM DEFICIT RECOVERY PERIOD FOR ACADEMIES (TO FOLLOW)

Members were informed that this report outlines the latest government guidance on Local Government Pension Scheme (LGPS) liabilities for academy conversion, including guidance from the actuary
and details the possible risks to the LBTH Local Government Pension Scheme (LGPS) as a consequence of extending the maximum deficit recovery period of academies so that it is the same as the Council's deficit recovery period, which is currently 20 years.

The Committee agreed to leave the decision made during the meeting of 22nd September in regards to Mulberry deficit recovery period to be 14 years from November 2016 to March 2017.

The Committee were told that the report tabled at the meeting was flawed by not advising them of the pension's liability provision by the government, the Committee then indicated this was not enough to vary the length of deficit recovery period from 14 years to a longer period for that valuation cycle.

The Committee agreed a maximum deficit recovery period to be the same as the Council (currently 20 years) for academies from April 2017. This is primarily due to the improved funding position of the Fund as the deficit of the Fund has reduced by £130m from £365m to £235m; this gave the Committee assurance to take on the risk of accepting the pseudo guarantee provision from the government.

It was **RESOLVED:**

- that the contents of the report be noted;
- that the maximum deficit recovery period for academies be the same as the Council's deficit recovery period (20 years) at a given valuation cycle from 1st April 2017; and
- that the guidance in the Funding Strategy Statement be amended to reflect the above changes from 1st April 2017.

18.1 London Collective Investment Vehicle (CIV) and FCA MiFID II

The Investment and Treasury Manager, Bola Tobun introduced this report

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

Over the last three years, the 32 London Boroughs and the City of London have been collaborating through London Councils to establish a route through to reduced costs and overall improved investment returns for the Local Government Pension Scheme funds across the Capital.

The London Collective Investment Vehicle is an (FCA regulated, Authorised Contractual Scheme) through which the Boroughs will be able to invest, achieving economies of scale, providing a platform for significant cost savings, and opening up opportunities to invest in alternative asset classes (e.g. direct investment in infrastructure) that may not be easily achievable for individual funds.

With over £24 billion of assets under management with 87 fund managers, across 253 mandates, and £72.8 million paid in fees in 2012/13, collaboration through the CIV is likely to deliver substantial savings.

Importantly the CIV will open up significant opportunities to invest collaboratively in a range of alternative asset classes.

It was **RESOLVED**:

- That the contents of this report be noted.

Chair, Councillor Andrew Cregan
Pensions Committee