

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS BOARD

HELD AT 10.00 A.M. ON MONDAY, 13 MARCH 2017

Members Present:

John Jones	(Independent Chair)
Stephen Stratton (Member)	Pensions Board Member representing Active Fund Members
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
David Stephen Thompson	(Vice-Chair)
Councillor Dave Chesterton (Member)	(Mayoral Adviser for Strategic Planning) (Mayor's Cycling Adviser)
Minesh Jani (Member)	(Head of Audit and Risk Management, Resources)

Officers Present:

George Bruce	–	(Interim Pensions Manager)
Kevin Miles	–	(Chief Accountant, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
	–	(Democratic Services)

1. APOLOGIES

None.

2. DECLARATION OF DISCLOSABLE PECUNIARY INTERESTS

None.

3. MINUTES

The minutes of the previous meeting held on 05.12.16 were agreed as a correct record.

REPORTS FOR CONSIDERATION

4. PRESENTATION FROM LAPFF - ENGAGEMENT, APPROACH AND PRACTICE

The Board heard a presentation from Tessa Younger and Paul Hunter of PIRC, a research and engagement partner to the Local Authority Pension Fund Forum (LAPFF).

The Board was advised that LAPFF had 72 LGPS pension fund members and that the role of LAPFF was to protect the long term interests of LAPFF members by promoting high standards of corporate governance and corporate responsibility to ensure financially and environmentally sustainable returns.

LAPFF was active on a number of specific workstreams including

- Holdings engagement
- All Party parliamentary group LGPS meetings
- Reliable accounts
- Tax
- Carbon Risk
- Consultations

In respect of the engagement workstream, LAPFF had undertaken work on many areas including

- Capital market regulatory reform
- Reliable accounts
- Share buybacks
- AGM attendance
- Executive pay and employment practices
- Mergers and acquisitions
- Anti corruption

LAPFF actively communicated with affiliated members and stakeholders via e-bulletins, quarterly engagement reports, fringe events at party conferences, responding to consultation, attending seminars and networking events and social media. LAPFF also engaged in diversity on boards through a variety of mechanisms such as asking questions at AGMs, issuing voting alerts and direct company engagement.

LAPFF engaged directly with shareholders face to face (60% of this engagement was with company chairs) to encourage high standards of corporate behaviour by well run companies which deliver sustainable shareholder returns. LAPFF had been influential in encouraging companies to prioritise sustainability and lower carbon emissions and gravitate towards investment in low carbon assets and companies.

In respect of executive pay, LAPFF had called for all companies to recommend maximum annual pay levels for senior executives to be signed off by shareholders. 10 companies opposed to this recommendation had been identified and LAPFF would be issuing voting alerts for these company AGMs.

Following the presentation, the Board had a general discussion and made the following observations:

- Did LAPFF actively encourage amalgamation of LGPS Fund Manager Teams?
- What were the implications of the changing relationship with Fund Managers
- Would Fund Managers start to invest in infrastructure schemes following announcements made by Chancellor George Osborne in 2015?
- The LGPS current outturn was healthier following the move away from a final salary pension package
- How would the shift in foreign policy impact on LGPS investments (eg Israel/Palestine)?
- The Board had been advised not to get involved investment decisions and this was frustrating and disappointing given that the Board was trying to protect the interests of the fund.
- Was there a direct dialogue with Investment Advisors and were they fully aware of the risks?
- Diversity of company boards should be extended to employee representation as well as increasing the representation of women.

In response to questions and comments from attendees, Ms Younger and Mr Hunter stated that although it was not easy to demonstrate LAPFF successes, a framework had been established to set objectives and assess outcomes. However, LAPFF had successfully engaged with LGPS fund managers on issues such as climate change through filing shareholder resolutions.

Tower Hamlets Council was a member of LAPFF and received Quarterly reports. Pooled funds didn't allow for segregated voting and there were concerns that this could disenfranchise investors. Infrastructure investments would allow for investment in low carbon initiatives but PIRC was unable to provide investment advice.

The Board thanked Ms Younger and Mr Hunter for attending and the presentation was noted.

The Board agreed

- (1) That LAPFF be requested to examine and report back on engagement with Fund Managers on how the voting rights of LGPS Funds can be strengthened, and to continue promoting diversity on company Boards.

- (2) That a presentation be made at a future meeting on how ESG risk factors can be incorporated into investment decisions (this may also be of interest to the Pensions Committee)

5. PENSION ADMINISTRATION UPDATE WITH PERFORMANCE INDICATOR FOR YEAR TO REPORTING QUARTER

The report was introduced by George Bruce, Interim Pensions Manager. Mr Bruce flagged up the main headlines from the report and explained that a quarterly updates had not been submitted for some time due to staffing issues which had impacted on performance. Although the Key Performance Indicators (KPIs) showed deteriorating performance in a number of areas, it was hoped that this would be addressed in part through improved workflow design would lead to better data quality and reporting.

Mr Bruce drew the Board's attention to the Pensions Committee recommendation to approve the admission of 7 Home Care Companies subject to the conditions of admission being met. He also highlighted that Academy Schools were categorised as Scheduled Bodies and were obliged to join the LGPS. The outcome of the audit on pension administration systems was also discussed and a number of recommendations had been made in respect of

- Users and password access
- Issuing statutory notices
- Auto scheduling
- Updating workflows

During the course of debate, concerns were raised regarding the bureaucracy associated with transferring to the LGPS, costs, risks and dispute resolution outcomes. The Board

- Sought reassurance that adequate resourcing was available to manage the Pensions Fund.
- Requested regular reports on performance within the context of KPIs complaints
- Flagged up concerns regarding cessation arrangements and associated risks and costs
- Highlighted the volume of GMP reconciliations and requested an update on progress in completing these reconciliations.

The Board endorsed the officer recommendations to the Pensions Committee.

6. PENSION BOARD WORK PLAN FOR 2017/18

The Board considered a report outlining the Board's remit and setting out a draft workplan for 2017/18. In presenting the report, officers flagged up some of the core functions of the Board including

- Review the outcome of internal and external audit reports.
- Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- Review the risk register as it relates to the scheme manager function of the authority.

RESOLVED – That the report be noted and that the workplan set out in the report be agreed.

7. INVESTMENT STRATEGY STATEMENT CONSULTATION/COMMENTS AS PER REPORT INCLUDED IN PENSIONS COMMITTEE AGENDA PACK

The Board considered the Pension Fund Draft Investment Strategy which was welcomed. During the course of debate, a number concerns were raised including

- Too much latitude being given to the worst performers
- How the scrutiny process would work under the CIV
- Addressing ESG issues
- Employee representation in the CIV governance structure

The Board recommended that

- The strategy should include a section at the beginning of the document setting out the funding level of the Fund and the context within which the investment strategy has been set.
- The strategy should include an explanation for the 2 lowest yielding asset classes (Property and Corporate Bonds) taking up to 35% of the Funds total assets.
- More information should be provided on the transitional arrangements as assets move into the London CIV.
- More information was also requested on how the London CIV will be scrutinised effectively, and how ESG decisions will be incorporated into the Pool.

8. FUNDING STRATEGY STATEMENT CONSULTATION/COMMENTS AS PER REPORT INCLUDED IN PENSIONS COMMITTEE AGENDA PACK

In introducing the report, officers highlighted that schools had not been contributing towards reducing the deficit and also flagged up the financial risks and appropriate controls.

The Board asked for clarification on inflation risks and ESG factors.

The report was noted.

9. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

In noting the minutes, the Board expressed concerns over the absence of Pensions Committee Members at the previous meeting and emphasised the

importance of full engagement and input from those responsible for managing the Pension Fund.

The meeting ended at 12.38 p.m.

John Jones
Chair, Pensions Board