

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.00 P.M. ON THURSDAY, 21 SEPTEMBER 2017

**COMMITTEE ROOM 1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Clare Harrisson (Chair)
Councillor Candida Ronald (Vice-Chair)
Councillor Andrew Wood
Councillor Md. Maium Miah
Councillor Rabina Khan

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde –

Other Councillors Present:

None

Apologies:

Councillor Andrew Cregan
Councillor Shiria Khatun

Others Present:

John Jones	Chair - Pensions Board
Steve Turner	Mercer
Sam Wreford	Mercer

Officers Present:

Suzanne Jones	(Support to Neville Murton, Resources)
Johnathan Fox	Legal Services, Law Probity & Governance)
Lilian AJose	Legal Services, Law Probity & Governance)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Raymond Haines	Independent Investment Advisor
Georgina Wills	(Committee Officer, Governance)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillors Clare Harrisson, Candida Ronald and Rubina Khan advised the Committee that Divest Tower Hamlets (Friends of the Earth) had visited their Surgeries. The Committee were reminded that Divest Tower Hamlets was an Environmental Group who advocates for Bodies to disinvestment in business/companies whose profits are derived from fossil fuels. The Pensions Committee received a presentation from the Organisation at their meeting on 7 December 2016.

There were no declarations of disclosable Pecuniary Interest.

2. MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes of the previous Pensions Committee held on 31 July 2017 was approved as a correct record.

3. PETITIONS

None received

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

John Jones, Chair, Pensions Board advised the Committee that the Pensions Board had been deferred and would be meeting on 16 October 2017.

At the previous Pensions Board, members held discussions about the administration of Pensions Funds and the risks involved in working with complex data. The Board noted that there were going to be increased monitoring on performance on the above area and that they needed to ensure that they remain updated and also closely monitor how this will transpire.

5. REPORTS FOR CONSIDERATION

5.1 Investment Strategy Review / Strategic Asset Allocation Review 2017/18 and Carbon & Environmental Footprints Analysis Outcome of the Fund

The Committee considered a report which detailed an analysis and the results of the asset liability modelling study and the strategic asset allocation review carried out by the Fund's advisers Mercer. This review follows on from the Fund's 2016 Triennial Actuarial Valuation. This report presents the analysis and results of the asset liability modelling study and the strategic asset allocation review carried out by the Fund's advisers Mercer. This review follows on from the Fund's 2016 Triennial Actuarial Valuation.

The purpose of the review is to assess the ability of the current funding and investment strategy to close the deficit gap, as well as fund future benefits in an affordable and stable way. The review encompassed an asset liability study which assesses the suitability of alternative investment strategies for the pension fund's liability profile.

This report also summarised the carbon and environmental footprint analysis carried out by Trucost, (Trucost is part of the S&P (Standard & Poor) Global family, operated by S&P Dow Jones Indices) for the Fund's aggregate equities portfolio with holdings data as at 31st March 2017. Morgan Stanley Composite Index (All Country World Index) MSCI ACWI was used as a benchmark for this analysis.

The Committee received a presentation from Steve Turner, Fund's Investment Consultant of Mercer, on the Investment Strategy Transition Summary and Next Steps. The presentation provided a recap on the proposed strategic changes suggested by Mercer, particularly in relation to the Scheme's equity portfolio, detailed the rationale for making such changes and provided an analysis into the operational aspects of a transition exercise to implement the recommended portfolio changes that have not been agreed to date.

The Committee during a question and answer session: Noted:

- Members raised questions about their carbon footprint and how it compared to the Benchmark and also how Benchmarks are reached. Benchmarks are given to Fund Managers (Morgan and Morgan – Global Contact) and a carbon and environmental footprint analysis are carried out. An analysis was carried out on the Fund equity holdings with LGIM, GMO, BG (GEA), Ruffer and BG (DGF).
- The Carbon footprint for GMO portfolio is 340.71 compared to the benchmark of 468.68. The portfolio is 27.30% less carbon intensive than its benchmark, MSCI ACWI. The current benchmark is 468.68.tonnes CO2e per £1m of revenue.
- Members noted that there was no clear indication on how the Fund's carbon footprint fared in particular in comparison to other LGPS. The meeting was advised that the market in the Europe Index were less carbon intensive and that the whole market is considered rather than just low carbon incentives. At current there is difficulty with comparing carbon output and this due to there being limited data. Members requested that the London Boroughs of Hackney and Waltham Forest be approached and be requested to share their carbon footprint.
- Members welcomed that the LGPS TH was in the forefront in relation to reducing their carbon footprint and noted that this affected 15% of their total assets and third of their Equity Portfolio. The performance in this area will be continued to be monitored.
- That MSCI Low Carbon Target index was the most appropriate benchmark for the low carbon investments.
- Members raised questions about currency hedging and were advised that positive returns are reinvested and equities are sold when there are losses. During a low market the value of equities may reduce. The operational risk are managed LGIM and contracts to sell currencies are taken every 3 months and are rolled over.
- That their portfolio consisted of combined currency hedging, passive and low carbon
- Members made comments about recommended changes and noted that these could be undertaken with existing managers and that they

needed to be guarded about fees levied in relation to new products. The Committee noted that the CIV did not have a direct impact on changes and existing funds will remain with LGIM

- That the Global Equities market included 55% in the USA, 7% to 8% in Japan/UK and the remainder was in Europe and Asia.
- Asked about the underperformance of the oil sector and what would be the effects on the Low Carbon market if this was to be reverse. The meeting was advised that other clients had invested in low carbon assets despite oil prices being high. Investment in low carbon should be phased and these assets should be retained when there are price changes in the oil sector.
- Members noted that Infrastructure was an area which Pensions Fund were increasingly looking to invest in and requested that information be provided about this area.
- The meeting noted that environmental pressure groups had met with a number of members about the Council's Carbon footprint and were reminded that they had held discussion and received presentations in this area and will continue review the subject.

EXCLUSION OF THE PRESS AND PUBLIC

Following due consideration and receipt of legal advice the decision was taken to exclude the public from the meeting for a short period of time. This was to facilitate the presentation of one of the slides which contained information that could prejudice the commercial interests of a third party.

Due consideration was given to the impact on the Council should such information be released into the public domain and therefore it was considered that the public interest in knowing the information was outweighed by the public interest in maintaining the exemption.

The Committee agreed to adopt the following motion

“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 part of the Presentation on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

Cllr. Andrew Wood left the meeting at 7.30pm.

RESOLVED:

1. To note the outcome of the carbon and environmental footprint analysis;
2. To note the outcome of the investment strategy review as presented by the Fund Investment Consultant, Mercer; and

3. Agree to make the following changes to the investment strategy and amend the Investment Strategy Statement (ISS) accordingly
 - a) To agree to reduce Equities allocation from 60% to 50%
 - b) To agree to disinvest from passive UK Equities
 - c) To agree to invest into Low Carbon Passive Global Equity (15%)
 - d) To agree to invest into Passive Global Equity (15%)

5.2 Update on Market Outlook and the Fund Investment Managers by the Independent Adviser for Quarter Ending 30th June 2017

Raymond Haines, Independent Advisor presented a report which detailed the views of the Fund Independent Advisor on markets and the performance of the Fund pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

The Committee was advised that the Market and Economy continued to perform well despite their being a snap election, Brexit and strained relationship in the international political arena. At the end of June the FTSE All Share was up 3.3% (c.5% total return), the S&P IS + 8.2% and gilt yields are below the level at the start of the year. This is attributed to governments creating cash by buying first government bonds then corporate debt. The main beneficiary has been capital markets both bond and equity. Equity markets have raised more on the basis of valuation than economic growth.

The absence of demonstrable value in bonds investors has been continuing to support equity markets. The UK equity market has a number of conflicting influences; sterling's depreciation is positive for overseas earning and exporters but negative for domestic companies and importers. Brexit uncertainty is negative for most quoted equities and rising inflation and failing economic growth for none.

The market were 'well behaved' in Q2 and Q3 and moved up and down by c.1%. Where markets move from here is dependent on exogenous influences such as Brexit negotiations and the USA political leadership, there is enough concerns both external and fundamental to suggest caution. The current strategy in place for the Fund is appropriate.

RESOLVED

That the contents of the report be noted.

5.3 Quarterly Investment Performance Review for June 2017

Bola Tobun, Investment and Treasury Manager presented a report which outlined the performance of the Pension Fund and its Investment Managers of the first quarter of 2017/18.

During this quarter end, five out of the nine mandates matched or achieved returns above the benchmark. The four that did not reach the benchmarks were the mandates with LCIV Ruffer, Schroder, Insight and GSAM. Overall for this reporting quarter the Fund performance was ahead of its benchmark. For

12 months to end of reporting quarter, the Fund is ahead of its benchmark by 2.5%. One out of the eight mandates underperformed its benchmark. This was the mandate with Schroders which posted a return that lagged behind its benchmark by 0.4%.

The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.

The Committee was advised that Baillie Gifford had had a steady performance throughout and that the Group had cautioned their clients about their expectation that the Fund's continual outperformance was indefinite.

Members thanked and commended Officers for their report.

RESOLVED:

That the contents of the report be noted.

5.4 Risk Management Policy and Register

Bola Tobun, Investment and Treasury Manager presented a report which set out the Risk Management Policy for the London Borough of Tower Hamlets Pensions Fund. The Risk Register and the approach to internal controls in respect of the Pension Fund was also outlined in the report.

The Policy sets out the aims and objectives for the management of risk. It also recognises that risks cannot be entirely removed from the management of the Pension Fund because of the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks, where appropriate, and the monitoring of risk on an ongoing basis.

RESOLVED:

1. To adopt Risk Register; and
2. To approve the Risk Management Policy and note the key internal controls.

5.5 Review of the Tower Hamlets Pension Fund Governance Policy and Compliance Statement

Bola Tobun, Investment and Treasury Manager presented a report which details the changes to and regulations guiding the Pension Fund Governance Policy and Compliance Statement. The Governance Policy and Compliance Statement have been prepared in accordance with the Local Government Pension Scheme Regulations. It sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State.

RESOLVED:

1. To approve the draft Pension Fund Governance Policy and Compliance Statement, and agree that officers may now proceed with the consultation with the Fund's employers and Tower Hamlets Council union officials; and
2. To approve the Scheme of Delegation which is included as Appendix A of the attached draft Statement.

5.6 MiFID II Opt Up Implementation Plan

Bola Tobun, Investment And Treasury Manager presented a report which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFIDII") and in particular the risk to the administering authority of becoming a retail client on 3 January 2018. The report recommends that the Committee decide that elections for professional client status should be made on behalf of the authority immediately.

Tower Hamlets Pension Fund will not be able to access the wide range of assets needed to implement an effective, diversified investment strategy when the Markets in Financial Instrument Directive 2014/65 comes into force on 3rd January 2018 unless it applies for a change in status from a retail client to a professional client. Remaining as a retail client will significantly restrict the range of financial institutions and instruments available for effective and efficient management of the Fund because many institutions currently servicing the LGPS are not authorised to deal with retail clients and are unlikely to choose to undergo the required changes to resources and permissions in order to do so.

The Committee held a discussion about the Professional Clients status and noted that this classification group was entitled to fewer protections under the UK and EU regulatory regimes in comparison to Retail Clients and requested that this be recorded in the minutes. There will be a number of areas affected following the change in status and these include, Communication with clients (including financial promotions), Information about the firm (its service and remuneration) and services offered by the Financial Ombudsman Service.

The Committee noted that they had a number of long standing members on their committee and commented that they may experience some difficulties if their current membership changes. The Chair advised the meeting that Political Group Leaders will be written to and asked to re-appoint the same returning councillors back onto the Pensions Committee.

RESOLVED:

1. To note the potential impact on the Fund of becoming a retail client with effect from 3rd January 2018;

2. To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;
3. To acknowledge and agree to forgo the protections available to retail clients attached as APPENDIX 1; and
4. To delegate responsibility to the s151 officer to complete the applications and determine the basis of the application as either full or single service.

5.7 Pension Contribution Prepayment

Bola Tobun, Investment And Treasury Manager presented a report which considered the potential economic benefits to the Council from the prepayment of the Local Government Pension Scheme (LGPS) deficit contribution for the three years 2017/18 to 2019/20 by being able to access potentially higher investment returns in the Pension Fund.

The Council pays a contribution towards the pension deficit as a lump sum figure calculated by the Actuary. As the pension fund has scope to invest in higher risk investments earning potentially a higher return, there is scope for the Council to prepay the 3 deficit contributions due for 2017/18, 2018/19 and 2019/20 in 2017/18 but at a lower net present value amount of £520,000 per year.

RESOLVED:

1. To approve the principle of accepting the prepayment of pension deficit contributions into the Pension Fund for the three years 2017/18 to 2019/20 in principle
2. To delegate to the Corporate Director, Resources, the determination of the actual amount to be pre-paid to equate to the £15m annual instalments per the Actuary's report.

5.8 Pension Fund Administration Update

Bola Tobun, Investment and Treasury Manager presented a report which updated the Committee on issues affecting scheme members and employers

There have been several changes to the Pensions Management Team. Tim Dean has been appointed as the Senior Pensions Team Leader and Sue Grimstead has been seconded from Surrey County Council. Ms Grimstead will be providing support to the Pensions Team Leader and also to the various Projects. The activity levels and level performance against service standards indicates that 87% of activity met target dates. There is one outstanding IDRP, which relates to the award of a lump sum Death Grant payment. There is one new employer, Wettens Cleaning Services Ltd. Staff transferred to Wettens on 31 July.

The Committee were informed that the March 2017 Benefit Statements had been printed and dispatched on 17 September. There was a slight delay with dispatching the Statement; this was due to difficulties with the reprographics. The Statements were scheduled to be sent to active members at the end of August. Members were advised that the Benefits Statements sent in the previous year were wrong and also several months late. The Committee was advised that there were concerns about the current addresses of active members; overall the Services have received positive feedback about the statements.

Members commented and commended officers about the improvements on the timetabling and data accuracy of the Statements and asked what measures were being put in place to ensure that next year's deadline is met. In reply; officers advised members that there were to be regular meetings and that resources were to be put in place to ensure that the Service meets its deadlines. The Pensions Team and the Human Resources will continue to work collaboratively. The HR Interface will also reduce printing.

The Committee were reminded that there would be increased monitoring on the administration of Pensions Fund and that fines were being levied at Local Authorities. Members agreed that the Pensions Committee and Pensions Board should continue to receive information about Monitoring and that their Board should monitor whether set targets were being met. Members agreed that the proposed division of work would be good use of both the Pensions Committee and the Pensions Board.

JTL Employee Benefits have been commissioned to trace individuals whose current address is unknown to the Local Authority. The projects to introduce member self-service, payroll data-interface (iConnect) and GMP Reconciliation were delayed as priority was given to the issuing of benefit statements.

RESOLVED:

1. To approve the admission of Wettons Cleaning Services Ltd as an employer within the pension fund.
2. To note the contents of this report in respect of the update on the administration of the pension fund
3. That the Pensions Board receives reports about the administration of the Pensions Fund and be delegated to closer monitor set targets.

5.9 2016/17 Pension Fund Annual Report with ISA 260 Report and Review of Fund Managers Internal Control Reports

Bola Tobun, Investment And Treasury Manager presented the final Pension Fund Annual Report for 2016/17. The draft version of the accounts was presented to the Committee in July 2017 together with the 2016/17 Audit Report of the Pension Fund (ISA 260 Report) following the audit by KPMG.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules. This report also presents the finding of the review of the adequacy of internal control measures put in place by the fund managers that hold the Fund's assets. Officers and Advisers have reviewed the SAS70 and SSAE16 (which signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm).

The reviews of fund managers, internal control reports, have identified no significant changes in the internal control environment from last year.

The Fund managers' internal control reports have been audited and approved by external auditors and six out of the seven fund managers received unqualified opinion from their managers with the exception of Schroder. This means the auditors are satisfied that adequate controls are in place for managing and reporting of the Fund's assets.

The Chair thanked the Chief Accountant and the Pensions Team for their work on the Pension Fund Annual Report.

RESOLVED:

1. That the report be noted;
2. That the draft ISA 260 (Annex 2) be noted;
3. To approve the Pension Fund Statement of Accounts (Appendix 5 of Annex 1);
4. To approve the Pension Fund Annual Report and to give delegated authority to s151 to finalise and publish this in order to meet the statutory publication deadline of 1 December 2017 (Annex 1); and
5. To approve publication and distribution to interested parties.

6. TRAINING EVENTS

None.

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

None

8. DATE OF FUTURE MEETINGS

Scheduled Pensions Committee dates for the remainder of the Municipal Year.

- 14 March 2018

9. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

RESOLVED

That press and public be excluded from the remainder of the meeting in 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.” which relates to information relating to a particular employee, former employee or applicant to become an employee of, or a particular officeholder, former office-holder or applicant to become an officeholder under, the authority.

10. RESTRICTED MINUTES

This item was discussed in closed session

11. ANY OTHER RESTRICTED BUSINESS

This item was discussed in closed session

The meeting ended at 8.35 p.m.

Chair, Councillor Clare Harrisson
Pensions Committee