

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS BOARD

HELD AT 10.07 A.M. ON MONDAY, 27 NOVEMBER 2017

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

Members Present:

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| John Jones (Chair) | (Independent Chair) |
| David Stephen Thompson (Member) | (Vice-Chair) |
| John Gray (Member) | (Representing Active Admitted/Statutory Bodies Pension Fund Members) |
| Stephen Stratton (Member) | Pensions Board Member representing Active Members |
| Councillor Dave Chesterton (Member) | (Chair of the Overview and Scrutiny Committee) |
| Minesh Jani (Member) | (Head of Audit and Risk Management, Resource) |

Other Councillors Present:

None

Others Present:

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

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

1. APOLOGIES

None received.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

None.

VARY ORDER OF BUSINESS

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

3. PETITIONS

None received.

4. UNRESTRICTED MINUTES

The minutes of the meeting held on 16 October 2017 were agreed and approved as a correct record.

Matters Arising

Item 4 Unrestricted Minutes; Matters Arising (Item 5.1 ESG Factors) – Baillie Gifford / Tesla Poor Labour Practise

Further to the concern raised by John Gray on Tesla's health and safety record and their refusal to talk to trade union which has been in the media again.

Members were advised that the LCIV sub fund manager Baillie Gifford (BG) has communicated as thus – BG advised that the most recent health & safety failings at Tesla factories are of concern to them, and there are also questions about labour relations. BG advised they will be addressing this with Tesla, by encouraging them to disclose more data so they and other investors can get to the facts behind the problems. BG also said they will question Tesla from a governance angle why Tesla has nobody with manufacturing experience on the board who may be able to help respond to these challenges.

At current there is no further information about companies refusing to engage with Trade Unions.

Item 7 Presentation From PIRC on Local Authority Investments League Table

Members requested that the Annual Performance Review of Tower Hamlets Pension Fund be included as part of their Work Plan.

Item 8 Presentation From Mercer, Fund Investment Consultant

Members commented about the New Investment Strategy and agreed that it was a good strategy. Members advised that they were supportive of the Strategy and agreed that this should be communicated in writing to the Pensions Committee.

5. SUBMISSIONS FROM FUND MEMBERS

None.

6. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

None.

7. DISCUSSION AND PRESENTATION FROM LONDON CIV ON GOVERNANCE ARRANGEMENT, STEWARDSHIP AND ENGAGEMENT

The Board received a presentation from Kevin Cullen, Client Relations Director, London CIV. The London CIV aims to be the investment vehicle of choice for Local Authority Pensions Funds. The London CIV has a total of £6.1bn Assets Under Management (AUM) across 10 sub-funds and a £6.9bn AUM in passive outside the CIV Platform. The London CIV is undergoing a recruitment drive and will expanding their Investment Team. The Board during a question and answer session noted the following.

- The LBTH Pension Fund is the second largest investor at the London CIV and has total of £590m AUM. Wandsworth Council is the largest investor.
- The London CIV is working on the 1st Infrastructure investment Invest Fund and will be facilitating an Information Day in January 2018. An invite will be sent to Pensions Board and Pension Committee members. The Board was advised that expectations would need to be managed about when funds will be up and running and that the legal aspect takes a while to be set up.
- Members commented that a former Chancellor of Exchequer had proposed that Pension Funds be used to fund infrastructure and noted that a number of debates and discussion had been held about the above. At current there are no projects undergoing. Members raised concerns about the LCIV being used to fund such projects and noted that elections were scheduled to take place next year. The Board noted that the proposed Silver Town Tunnel in East London continued to remain a controversial subject.
- There are Quarterly Manager Review Meetings. These meetings are robust and involve challenges and the 'write ups' are sent to Boroughs. There is also a regular newsletter. Reports are sent automatically to client and made available in the portal. The information contained in the above are fed into the Pensions Committee Reports.
- There is continuing drive to ensure that the best products are put forward for clients. The London CIV was reported to be best in their class.
- There are Oversight and termination policies which Boroughs can redeem at any time.
- The London CIV (LCIV) is currently signed up to the Stewardship Code as a Tier 1 – Asset Owner.
- LAPFF voting alerts have been passed onto Fund Managers
- Members noted that there were no employee representation on the LCIV and noted that the body is modelled on the Government structure. Members commented that the LBTH Fund has representatives from both Employee and Active Members and asked whether this arrangement is replicated in the LCIV and questioned

what challenges and scrutiny process was in place. The Board noted that three Directors were both members of the Compliance / Audit / Risk Committee and also the Remuneration Committee. The Board were advised that the LCIV Governance system Review would be published in the forthcoming weeks and that it is better to exclude beneficiaries from the above. Members commented that the exclusion of beneficiaries may cause concerns to be raised and that this may result in clients not 'buying' into the LCIV. The Board noted that the Chair of the Pensions Committee had raised concerns about the lack of representation.

- Twenty out of the 32 London Boroughs have investments in the LCIV
- There are wide ranges of strategies available for Fixed Income. Managers will be launching more strategies; cost savings and ease of will be considered. Members were advised that a balance needed to be sought with all investments and it would be difficult to meet clients every requirements.
- Investment Pools are now required to report to the Secretary of State
- Members raised questions about the LCIV procurement process and were advised that a formal process was in place and various factors are looked at when awarding contracts such as fees and AUM. Consultants are used in the procurement process and also a 'scoring system'. It was reported that a Working Group reviews all information and interviews can last up to four hours.
- Members asked if only larger based Managers were invited to tender for contracts and was advised that a wider stream of managers were used when procuring for Global Equities. The Board was advised that during the above process, markings are checked alongside costs and overheads. Members were advised that new managers were happy to assist clients in meeting their individual objectives.
- Members raised questions about Fund Managers not following voting rules. The voting rules will be explained to Fund Managers. Members were advised that an explanation is sought when voting rules are not adhered to and that younger companies are given some leeway.
- Quarterly meetings are held with Pensions Committee Chairs.
- That LCIV are seeking views from the Borough; members were advised that there was to be Workshop on Growth.

Members thanked Mr Cullen for his presentation and noted that there was a LCIV Board Meeting on 11 January.

RESOLVED

1. That feedback is provided about the LCIV Governance Review.
2. That LCIV is approached about their Governance arrangements in particular about the same Directors sitting on Remuneration Committees and Compliance/ Audit/ Risk Committees; and
3. That Board Members send their views on the LCIV to Officers

8. UPDATE ON INDEMNITY INSURANCE FOR PENSION BOARD

Suzanne Jones, Support to the Divisional Director, Finance and Minesh Jani Head of Service, Risk Management provided a verbal update on obtaining Indemnity Insurance for Pensions Board. Minesh Jani joined the meeting at 10.35am

Members were advised that there was still working progress with securing indemnity insurance for Pensions Board members and that potential policy coverage had been identified. At current there are discussions with other Local Authorities about procuring coverage for their Pensions Board. The Board was advised that two Local Authorities had chosen to purchase Indemnity Insurance for their Pensions Board Members.

Members were reminded that they were not a decision making body and that it needed to be ascertained what were the 'perils' and 'liability' that the Pensions Board faced and whether these were already sufficiently covered or if an additional Indemnity Insurance should be purchased. It is anticipated that Indemnity Insurance for the Pensions Board will cost £5000

RESOLVED

1. That Officers circulates potential Indemnity Insurance Policies to Pensions Board Members; and
2. That Pensions Board Members provide feedback on the proposed Indemnity Insurance Policies.

9. REPORTS FOR CONSIDERATION

9.1 Risk Register, Risk Management & Internal Controls Policy

Bola Tobun, Investment & Treasury Manager presented a report which detailed the Risk Management Policy for the London Borough of Tower Hamlets Pension Fund. The report also included a Risk Register and set out the Council's approach to internal controls in respect of the Pensions Fund. The report was tabled at the Pensions Committee on 21 September 2017

Members welcomed the report and were advised that the Risk Management Policy was still in working progress. Officers commented that a lot of work had been undertaken in relation to the document and that further work would continue. Overall the current Risk Management Policy was viewed as a 'good starting point' and it was noted that the document would continue to evolve.

Members held an in-depth discussion about the Risk Management Policy and noted the following.

- Risk - Failure to Manage Cost
There are two methods identified to help manage cost. This includes obtaining a cost breakdown from investment managers and comparing the sums. These figures will determine whether services would be cheaper if they are procured directly or through the LCIV. In addition the cost of Administration would also be considered. Members were advised that the Government produced data about local Authority Pensions Funds and that these figures would be used in benchmarking exercises. The above undertakings would be included in the LBTH Pensions Fund Annual Review
- Risk Accounts balance end of May.
Officers advised that work will be undertaken to ensure that steps are in place to ensure that questions are answered throughout the year and that the Service was aiming to publish 2017 / 2018 Accounts before the end of the financial year.
- Responsibilities
Members noted the Pensions Board Manager was Bola Tobun, Investment and Treasury Manager, Resources. The Pensions Manager is responsible for overseeing The Tower Hamlets Pensions Fund Risk Management Process (Risk Identification, Risk Analysis, Risk Control and Risk Management)
- Monitoring of the Risk Policy
Members were advised that the Independent Governor Advisers were LBTH Legal Service.
- Key risk to the effective delivery of the Risk Policy
Members commented about 'Officer's Risk' and were advised that this risk would be included.

Members commented that the Pensions Board was rarely mentioned in the document; and was only referred to in Point 2 under Governance Risk (Frequent and extensive turnover of Committee / Board Members). Officers reminded Members that the Risk Management Policy was still in working progress and advised that Members of the Board and Committee received sufficient training and that they needed to be pro-active about attendance at meetings.

Members raised questions about GOV15, (Failure to Comply with Guidance Issued by The Pensions Regulator TPR) and noted that one of the risks was that the Council could experience reputational damage. Members noted that both the Pensions Board and Pensions Committee were part of the mitigating control factors in relation GOV15. Members stressed that there should be one key owner in relation to GOV15 and that controls/ mitigation should not be shared. Members advised that the role of the Pensions Board should be explained

Members highlighted that there were risk in relation to Councillor in particular surrounding their learning and training. The Pensions Board noted that there were to be local elections in the forthcoming year and that some Councillors will not be returning. Members commented on the importance of providing tailored training for new Councillors and that consideration is made in how information is presented to the said individuals. Members advised Officers about the risk involved with the Pensions Committee membership altering and stressed that this matter is given due consideration.

Members held a brief discussion about their Training Plan and requested that officers review the Plan and ensure that well received modules are replicated in the next training manual. This is hoped to ensure continuity of learning. Members commented that training on Asset Allocation should take priority and noted that it was one of the most significant modules.

Members were advised that the Modules toolkit (Pensions Regulator) monitored attendance at training, records scores and also details what modules have been completed by individuals. This information can be printed. Officers advised Members that they had a good training record and that a 'traffic light' system was in place which flags up any concerns about individuals Members not participating with the set learning. Members were reminded that training modules could be completed in their own pace and were requested to complete all modules by 12 March 2018.

Members noted that the Fund agreement policy required potential admitted bodies to have a guarantor / bond in place and requested that officers provide further information about the requirement. The Board was advised that it was a legal requirement for such bodies to have a Guarantor.

The meeting held further discussion about the risk register and commented that Risk GOV 6, Members having undisclosed conflict of interest, was not a risk. Members agreed that only major critical risks should be included in the Risk Register.

Members welcomed the Risk Register, Management & Internal Controls Policy and commented that the document was a good start and stressed that consideration should be made on how the document will be presented.

RESOLVED

1. To note the contents of the report in respect to the Risk Register, Risk Management and Internal Controls
2. That Pension Board Members complete all Pensions Regulator Modules by 12 March 2018; and
3. That further information be provided about the requirement of potential Admitted bodies having a guarantor/bond in place.

9.2 Work Plan and Training Review by Pensions Board November 2017/18

Bola Tobu, Investment and Treasury Manager presented a report which gave an outline of their work plan and detailed the reasons for a training and development programme for the Pensions Board members.

The report explains the requirement for good governance of the Pension Fund and the framework of legislation, regulation and guidance which the Fund must comply with and that therefore there is a need for a formal training programme for Members of the Pensions Board.

Members were advised that a training needs analysis had been circulated to individuals. The analysis will highlight any knowledge gaps and also inform what trainings were available to fill the void. The Board agreed that Officers should consult members of the Pensions Board and Pensions Committee on what training courses they found to be useful and that a training plan be devised during the forthcoming weeks and is ready and finalised for the new municipal year.

Members held a discussion about former training facilitators and were advised that State Street were structuring a training programme. LGA Fundamental, LPF Seminars and Chatham House were noted for providing and hosting excellent courses and training. Members commented about Away Days and agreed that more of them should take place. Officers advised the Board that training provided will be in various formats which include 1-2-1 sessions, presentations, seminars and conferences. Members were reminded that training was part of the Regulators Toolkit and that this was considered as a low risk.

The Board noted that they had an Independent Chair and commented that that both the Pensions Board and Pensions Committee were beacons for good practise in terms of development and progress of their Members. The Chair suggested that the Pensions Regulator be invited to attend a meeting.

Officers were reminded that the Pensions Board current meeting times may need to be reviewed in the new municipal year. The Board noted that their membership was to change.

RESOLVED

1. Note the current training and development policy for the Tower Hamlets Pension Fund attached as Appendix 1
2. Note and review work plan (attached as Appendix 2) is in line with core functions as outlined in the Tower Hamlets Pension Board terms of reference (attached as appendix 3)
3. Note and review the training log (attached as appendix 4) for addition of identified training needs or changes to the proposed schedule training

4. The Work Plan be reviewed in the next 18 months; and
5. Officers be informed of any duplication found in the Work Plan

10. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

The Board reviewed the minutes of the Pension Committee held on 21 September 2017 and noted the contents.

11. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING (29.11.17)

The Board noted the Agenda for the meeting which was to be held on 29 November 2017.

Item 6.1 Updated Investment Strategy Statements, November 2017.

Members noted that Multi Asset Credit was part of their new strategy and that they had received a presentation from Mercer, Fund Investment Consultant. The Board welcomed and supported the decision for the LBTH LGPS to invest in Low Carbon and were advised that that two member's enquiry had been received about the Funds commitment to disinvest fossil fuels. Officers advised that an information sheet will be devised and will be used to answer general enquiries. The document will be forwarded to the Chair of the Pensions Committee and the Corporate Director of Resource for comments before put in circulation.

John Gray, Admitted Bodies Representative for Active Fund Members, advised the Board that he had received enquiries from Tower Hamlets Disinvestment about the LBTH LGPS commitment to disinvest fossil fuels. The Interest Group were advised to get in contact with the Trade Unions.

Members noted that One Housing Group was undergoing a consultation with its members about withdrawing from the LBTH LGPS and commented that scheme members should be encouraged to remain. Members noted that process may lead to a deputation and commented that it would be unhealthy for TUPE scheme members to withdraw from the LBTH LGPS. One Housing Groups past contributions will be frozen. Officers advised members that the matter within One Housing Groups was largely an employment relation matter and not related to the Fund.

Members noted that the funding level had increased and that the Fund's performance was good and doing well. Officers advised that Actuaries will be liaised with if there were any breaks with contributions

6.3 Investment and Fund Managers Performance Review Quarterly Report Ending 30 September 2017

Members noted that GMO Global Equity Mandate had been terminated and that funds had been transferred in November. The contract will cease by the 1 December 2017.

6.4 Update on Pensions Fund Procurement Plans 2017/18

Members were advised that Panels would be set up for the vacancies.

6.6 Pensions Scheme Admin Report November

Members were advised that recruitment for a Pensions manager had started and that the overall performance of the Team had improved. The Service Area was to undergo restructure

12. ANY OTHER UNRESTRICTED BUSINESS

None

13. DATES OF FUTURE MEETINGS

To note the scheduled Pensions Board dates.

- 12 March 2018

14. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

RESOLVED

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.” This information pertains to paragraphs 1 and 3 of Schedule 12A – information likely to reveal the identity of an individual and information pertaining to the financial and business affairs of an individual including the authority including the authority holding that information.

15. RESTRICTED MINUTES

This item was discussed in closed session.

16. RESTRICTED MINUTES OF PENSIONS COMMITTEE

This item was discussed in closed session.

The meeting ended at 11.55 a.m.

Chair, John Jones
Pensions Board