

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 7.00 P.M. ON WEDNESDAY, 29 NOVEMBER 2017**

**ROOM MP702, 7TH 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

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

Kehinde Akintunde – Unions Representative

**Other Councillors Present:**

None

**Apologies:**

Councillor Md. Maium Miah

Councillor Rabina Khan

Councillor Shiria Khatun

John Jones Chair – Pensions Board

**Others Present:**

Craig Scordellis

– CQS

Darren Toner

– CQS

Steve Turner

– Mercer

Sam Wreford

– Mercer

**Officers Present:**

Neville Murton

(Divisional Director Finance, Procurement  
and Audit, Resources)

Ngozi Adedeji

(Senior Lawyer, Legal Services)

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**

There were no declarations of disclosable interest.

Councillor Harrison advised the meeting that Councillor Andrew Cregan had resigned from the Pensions Committee and that a request will be made to full Council to appoint a Councillor onto the Committee.

**2. MINUTES OF THE PREVIOUS MEETING(S)**

The unrestricted minutes of the previous Pensions Committee held on 21 September 2017 was approved as correct record.

Matters Arising

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

The Chair requested that the Fund's Carbon & Environmental Footprint Analysis be revisited in the summer and that a full review be undertaken and is included as part of the Pensions Committees' Work Plan.

The Chair requested that the London Boroughs of Hackney and Waltham Forest be approached and be requested to share information about their carbon footprint.

**3. PETITIONS**

None received.

**4. SUBMISSIONS / REFERRALS FROM PENSIONS BOARD**

The Committee received a report from the Chair of the Pension Board which detailed the work of the Board. The Committee noted that the Board was supportive of the Investment Strategy Review and had received Presentations from PIRC on the Tower Hamlets Fund and the London CIV. The Board also considered a Report on the Risk Register and welcomed the preparatory work which had been undertaken in relation to the document.

The Chair advised that a joint letter by the chairs of the Pensions Board and Pensions Committee was to be sent to the London CIV. The letter will focus on the Governance at the London CIV. The Chair advised that she will liaise with Officers about the letters content.

## **5. DISCUSSION AND PRESENTATION FROM CQS ON MULTI ASSET CREDIT (MAC)**

The Committee received a presentation from Craig Scordellis and Darren Toner from CQS on Multi Asset Credit (MAC). CQS is a credit-focused multi-strategy asset manager which was founded in 1999. CQS provides expertise across the credit spectrum, which includes corporate credit, structured credit, asset backed securities, convertibles and loans. CQS investors include pension funds, insurance companies, sovereign wealth funds, funds of funds, endowments and foundations, and private banks. The Committee during a question and answer session: Noted that

- MAC offers a Broader Opportunity set when compared to vanilla Credit; MAC includes a full spectrum of corporate issuers and asset types.
- With MAC you have access to different Credit asset class with wide range of liquidity profiles over time.
- Credit classes work on different cycles driven by variations in fundamentals, supply/demand dynamics and regulatory environments.
- Within an individual issuer, greater value may be available in selected parts of a capital structure of a loan/credit due to broader technical drivers across the various asset classes.
- Access to substantial floating rate product facilitates a focus on credit risk and mitigates volatility associated with interest rate uncertainty.
- MAC allows access to a Broad Opportunity set which include Investment Grade Bonds, High Yield Bonds, Emerging Market Debt, Secured Loans, Asset Backed Securities (ABS), Convertible Bonds and Private Sub-Investment Grade Debt.
- Extensive fundamental credit research and in-house documentation analysis identifies investment opportunities within capital structures. This includes looking at risks, prices of raw materials, cash flows, jurisdiction surrounding business control and business cycles.
- The main objective is to secure a long-only global portfolio which seeks to exploit opportunities primarily across the sub-investment grade of the credit space via a tactical, multi asset approach.
- Steve Turner, Fund Investment Consultant advised MAC returns are more reliable than the Absolute Return Strategy (ARS) that the Fund has 12% allocation in and MAC usually achieved between 4% to 5% per annum returns.
- London CIV is currently searching for MAC managers and they would be in a position to announce which Fund Managers they will be using in the New Year. The Committee agreed in principle to have asset allocation to MAC pending further work being carried out by the consultant and officers working in collaboration with London CIV. The Committee requested for an update be provided at their next meeting.

Members thanked representatives from CQS for their presentation.

**RESOLVED**

1. That Officers look at potential outcomes in relations to Multi Asset Credit and this should include risk mapping, potential savings and also benchmarking within and outside the CIV and that the report is provided at their next meeting: and
2. That Officers provide recommendation about MAC and that they liaise with Mercer, Fund Investment Consultant about redistributing from Insight and or GSAM in particular whether there should be a percentage reduction from each or all from one and that they assess management selection and that they also obtain a view from the CIV.

**6. REPORTS FOR CONSIDERATION****6.1 Updated Investment Strategy Statement, November 2017**

Bola Tobun, Investment and Treasury Manager presented a report which gave an outline of the Updated Investment Strategy Statement. Following the 2016 actuarial valuation; the Pensions Committee initiated an investment strategy review. As a first step, the Pensions Committee received a scoping presentation at its meeting on 31st July 2017. The Committee's investment consultants, Mercer completed the strategy review which was presented to the Committee on 21st September 2017.

At the 21st September 2017 meeting, the Pensions Committee agreed that, in the interests of pursuing further diversification of the Fund's return seeking portfolio, and protecting its current buoyant equity asset value, further work be undertaken to achieve:

- an allocation to Multi-Asset Credit (MAC);
- downside protection with regard to equity risk; and
- Allocating to long-term illiquid asset classes (long lease, private debt and infrastructure.

Members noted that the Equity Portfolio had been repositioned from UK Equity to Global Equity and this was reflected in their strategy statement. Members requested that the Investment Strategy Statement be kept updated and reflect all changes that are made to the LBTH Pensions Fund. The Investment Strategy Statement was viewed as good aide in helping to demonstrate transparency.

The Chair commented that a lot of work had been undertaken around sustainable investment / ESG in particular around Low Carbon and asked that a positive statement be included in point 9.3 (Sustainable Investment / ESG) about where the Fund is in relation to ESG and the reasons why such decisions had been made.

Members noted that further work was being undertaken on long lease, private debt and infrastructure and that they were to receive training in the above areas and also hold further discussion on those topics at a future Committee. The Committee noted the importance of securing the right Fund Managers for the above investments. Members noted that the London CIV may have their own Fund Managers and agreed that this should be reviewed at a future meeting.

## **RESOLVED**

1. To note and approve the updated Investment Strategy Statement attached as Appendix 1 of this report;
2. That the decision to agree an allocation of 6% to Multi-Asset Credit (MAC) in line with the investment strategy outcome presented by the investment consultant, Mercer, at the Pension Committee meeting on the 31st July 2017 be deferred to the next meeting
3. That they receive a further paper on Multi-Asset Credit (MAC)
4. That training on Infrastructure is delivered at their next meeting; and
5. That a positive statement be included in point 9.3 (Sustainable Investment / ESG) about the where the Fund is in relation to ESG and the reasons why these decision was made and that Officer liaise with the Chair and Vice- Chair when drafting the summary.

### **6.2 Update on Market Outlook and the Fund Investment Managers by the Independent Adviser for Quarter Ending 30th September 2017**

Raymond Haines, the Fund's Independent Advisor presented a report which detailed the views of the Independent Adviser on the performance of the markets and the Pension Fund investment and the Pensions Fund investment managers for the second quarter of 2017/2018.

The Committee was advised that the Global equity markets moved ahead with the MSCI World Index (+2.0 in GBP) reaching record highs despite ongoing geopolitical tensions, tighter US monetary policy and the US Federal Reserve announcing that the size of its balance sheet would be reduced. The UK market underperformed, but UK mid-cap stocks delivered better returns, this was due to the strength of sterling. European markets (+3.6% in GBP) and Emerging markets equities (+4.6 continued to perform well. Rising commodity prices also supported emerging market equities.

The previous concerns raised about risks not being priced properly has been addressed by Jonathan Ruffer who suggest that 'the market was the most difficult market in memory and was comparable to the TMT boom in 1999. This is attributed to the cost of money namely interest rate.

There is a general consensus across the managers that the economic outlook is positive and stable, however fund managers such as Baillie Gifford have

been taking some risk of the table. In the Diversified Growth Fund it is cautioning that there is a clear risk that the path of monetary policy in the developed world, particularly in the US, becomes less supportive for investment markets. The nine year long period of extraordinarily loose monetary policy since the Financial Crisis has driven asset prices higher than wished. This has pushed an increasing number of markets to a point where they are at least fully valued or expensive. An unexpected or sudden removal of stimulus would likely have a detrimental impact on sentiment and market levels. There should be more focus on protection and diversification.

Mr Haines advised the Committee that he was to retire from his position as independent Advisor and that the meeting would be his last. The Chair thanked Mr Haines for his service to the Pensions Committee during the past 15 years and commented on the clarity and contents of his reports. The Committee wished Mr Haines well in his future roles.

## **RESOLVED**

That the contents of the report be noted.

### **6.3 Investment and Fund Managers Performance Review for Quarter Ending 30th September 2017**

Kevin Miles, Chief Accountant presented a report which informed Members of the performance of the Pension Fund and its investment managers for the second quarter of 2017/18.

The Fund delivered a positive return of 2.2% for the quarter, outperforming its benchmark return of 1.7% by 0.5%. For the twelve months to September 2017, the Fund returned 11.7% outperforming the benchmark of 10.4%. Looking at the longer term performance, the three year return for the Fund was 10.3% also ahead the benchmark return by 0.3% for that period. Over the five years, the Fund posted a return of 10.9% outperforming the benchmark return of 10.3% by 0.6%.

For 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, LCIV BG (DGF), 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 1.3%. Three out of the nine mandates underperformed their respective benchmark. The mandates that lagged behind their respective benchmarks were LCIV Ruffer lagged behind by -2.4%, Insight lagged behind by -2.7% and GSAM by -3.3%.

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.

Steve Turner, Fund's Investment Consultant, Mercer queried the accuracy of State Street figures for Baillie Gifford Fund and advised that the forecast that

was provided may be erroneous and that this would have an impact on the Funds returns. Officers were advised that they would need to revisit the set of figures provided and make the necessary revisions if required.

Members requested that reports be printed in colour if they contain graphs and figures.

## **RESOLVED**

1. To note the contents of the report in respect of the Investment and Fund Managers Performance Review for Quarter Ending 30<sup>th</sup> September 2017; and
2. That Officers revisits figures provided by State Streets for Baillie Gifford and make any necessary revisions if required.

### **6.4 Update on Pension Fund Procurement Plans 2017/18**

Bola Tobun, Investment and Treasury Manager presented a report which provided an update on the ongoing procurement activity in relation to the Pension Fund. The outcome from the current activity will be to secure a new contract with a global custodian and the appointment of the independent adviser to the Fund. In both of these cases, the contracts or arrangements have been in place for long periods of time and therefore it is appropriate to carry out a formal review of the requirements, followed by the appropriate procurement activity.

The Council has an overarching responsibility to maintain the Pension Fund. It is essential that the Fund has the right range of advisers to support the Pension Fund Trustees (Pension Committee) to discharge its responsibilities. It is therefore essential to have both a Global Custodian and an Independent Investment Adviser for the Fund.

Within the terms of reference for the Pensions Committee, they are required 'to make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodians and periodically to review those arrangements.

The contents of this report and the procurement process demonstrate that this Committee is meeting both its regulatory and constitutional requirements.

The Committee held a brief discussion about the vacancies and agreed that the Chair, Councillor Candida Ronald, Councillor Andrew Wood and also Kehinde Akintunde be involved with the appointment of the Independent Advisor. Officers agreed to canvass Members about possible dates and times for holding interviews. It is anticipated that the above vacancy will be filled before the next Committee. Members commented about their current Independent Advisor and noted that his delivery of the economic forecast was clear and easily understood.

**RESOLVED**

1. To note the contents of this report in respect to the update on the Pension Fund Procurement Plans 2017/2018; and
2. That Officer canvasses Members about possible dates and times to hold interviews for the Independent Advisor.

**6.5 Work Plan Update for 2017/18**

Bola Tobun, Investment and Treasury Manager presented a report which outlined the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other scheduled bodies as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.

The work plan for the authority has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

Members welcomed their Work Plan and commented that members on the Pensions Committee were reasonably experienced and that it would be prudent to make a number of decisions at their next meeting and also to obtain a steer on the future of the Fund and investments.

**RESOLVED**

That the contents of this report be noted

**6.6 Pension Scheme Admin Report November 2017**

Kevin Mills, Chief Accountant presented a report which covers the activities and performances of the Pensions Administration. Members were advised that a Secondment will be returning to the Pensions Team in December and that a Level 2 apprentice will also be leaving the Team in the same month. The secondment support from Surrey County Council will be providing support to management on an as when needed rather than two fixed days.



Member were provided an update on the various projects which the Team was undertaken which included, GMP reconciliation, Member Self Service, Transfer Amnesty, iConnect and Data Quality. Member held a brief discussion about the report and noted that the Team had performed well in relation to the seven performance indicators but had also had dipped and stalled in the same number of indicators. Members commented that additional support had been provided to the Team and that dips in the Team's performance needed to be guarded. Members requested that feedback is provided about the team's performance. The meeting was advised that the Pensions Board was also taking a lead in relation to the Teams performance.

Members also raised concerns about the contents of the Report and requested that more analysis and better detailed information about the Team's Performance is provided in future reports. Members commented that they had received a report about outsourcing work and noted that the Pensions Administration Team would be included in the Human Resources restructure and that there were proposal for the Team to be moved into Finance. There is ongoing consultation about the restructure

Officers were advised that the Pensions Manager will attend their next meeting.

**RESOLVED:**

1. To note the contents of the report in respect to the activities and performance of the Pensions Administration Team.
2. That the Pension Scheme Administration Report is more detailed and contains more analysis; and
3. That the Pension Manager attends the next Pensions Committee.

**7. TRAINING EVENTS**

Members held a brief discussion about Training and asked the Committee to forward suggestions on how they could be delivered in the future. The Chair stressed the importance of ensuring that the Pensions Committee has the requisite skill set which would enable them to retain their Professional rating. The Chair advised that she will be writing to Political Leaders about allocations to the Pensions Committee and will be requesting that they take into consideration their members' background when appointing to the Committee.

The Chair commented that the Committee's composition would be clearer after the 5 May (Local Elections) and that Training would need to be levied at member's knowledge base. There were concerns with the MIFID training

Members noted that there were a number of absences on the Committee and that Tony Child (Co-Optee Admitted Bodies Representative) had retired. The Chair advised that a request will be made for returning Members to be re-appointed onto the Pensions Committee.

**RESOLVED**

That the Chair writes to Political Leaders about appointing prospective Councillors onto the Pensions Committee in the new municipal year.

**8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT**

None.

**9. DATE OF FUTURE MEETINGS**

14 March 2018

**10. 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.

**11. RESTRICTED MINUTES**

This item was discussed in closed session.

**12. ANY OTHER RESTRICTED BUSINESS**

None.

The meeting ended at 8.45 p.m.

Chair, Councillor Clare Harrisson  
Pensions Committee