

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.35 P.M. ON TUESDAY, 24 JULY 2018

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Muhammad HM Harun (Chair)
Councillor Shah Ameen
Councillor Andrew Wood
Councillor Rachel Blake
Councillor Leema Qureshi
Councillor Sabina Akhtar
Councillor Shad Chowdhury

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde

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Other Councillors Present:

None

Apologies:

Councillor Ehtasham Haque

Others Present:

John Jones	Chair - Pensions Board
Alex Pearce	Mercer
Ciaran Madine	Mercer
Sam Wreford	Mercer

Officers Present:

Suzanne Jones	(Support to Neville Murton, Resources)
Neville Murton	Divisional Director, Finance, Procurement and Audit)
Ngozi Adedji	Legal Services, Law Probit & Governance)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Tim Dean	(Pensions Team Leader)
Colin Robertson	Independent Investment Advisor

1. APPOINTMENT OF VICE-CHAIR

The Chair invited nominations for the position of Vice-Chair for the Municipal Year 2018-19.

Councillor Shah Ameen proposed that Councillor Ehtasham Haque be appointed as Vice-Chair for the Municipal Year 2018 -19. This was seconded by Councillor Leema Qureshi.

The Chair proposed that Councillor Rachel Blake be appointed as the Vice-Chair; however the nomination was declined by Councillor Blake. There being no other nominations, it was

RESOLVED

That Councillor Ehtasham Haque be appointed Vice-Chair of Pensions Committee for the duration of the Municipal Year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

None

3. PETITIONS

Members were advised that a Petition had been received from Adam Schneider (and others) regarding Divestment from fossil fuels. The Petition was considered at Council on 18 July 2018.

The Petition called for several actions to be undertaken by the Council, these include, the immediate freeze of any new investments in fossil fuels in particular in the top 200 publicly - traded fossil fuel companies and disinvestment from fossil fuel companies.

Officers advised the meeting that the Pensions Committee had received a presentation from Friends of the Earth at a previous meeting. Members were reminded that they had held discussions about reducing their Carbon Footprint. The LBTH Pensions Fund has the lowest investment in Carbon in comparison to other LG Pensions Funds and aims to reduce the carbon exposure of their Portfolio by around 70%.

The Pensions Committee agreed that their Carbon Footprint should continue to be monitored and reviewed on annual basis.

RESOLVED

1. To note the Petition submitted by Adam Schneider (and others) regarding the Divestment from fossil fuels and
2. That the LBTH Pensions Fund carbon footprint is monitored and reviewed annually.

4. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 14 March 2018 were approved as an accurate record.

Matters Arising

Item 6.1 *Revised Investment Strategy Statement And Investment Options Considerations.*

Members were advised that LBTH Pensions Fund Investment Strategy on long lease and infrastructure had been placed on the Pensions Committee Forward Plan.

Tower Hamlets Youth Sports Foundation (THYS) application for Admitted Body status has been withdrawn and this was due to set criteria being unmet.

Tower Hamlets Community Housing (THCH) has converted from a company to a community benefit society. Members were advised that a Funding Agreement is in place which will ensure that the pension deficit is recouped. This is to ensure that the Fund is not adversely affected.

LCIV – update

Members were advised that Councillors Andrew Wood and Candida Ronald had assisted in the interviews for the Independent Advisor to the Pensions Fund and this position had now been filled. The Global Custodian Contract has been awarded and all necessary transfers have been undertaken.

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Committee received an update from John Jones, Chair of the Pensions Board.

The Pensions Board met on 19 July 2018 and received a presentation from the London CIV on progress in implementing the asset pool across London. Tower Hamlets was noted as having the largest percentage of assets either managed through the CIV or in the passive pooled. There concerns raised around the lack of independence in the CIVs Audit Committee and the lack of BME representation on the Shareholders Committee. The Board also raised issues on Ruffer's investment performance, the CIV responsible investment policy and its approach to disinvesting from fossil fuels.

Members were advised that Stephen Stratton a long standing member of the Pensions Board had resigned. Mr Stratton was thanked for his hard work and dedication to the Board since its inception. There is currently a recruitment drive to fill the vacancies on the Board.

The Board also received an update on the Pensions Administration Team and noted. The Committee were informed that the Pensions Regulator was increasing monitoring the governance of LGPS Pensions Funds and were

advised of the importance of the administration and investment functions being properly resourced.

Members were advised that the Board had considered their training and development arrangements for the year and had requested for a joint training to be held with the Pensions Committee. The Board had also raised concerns over the low attendance record of Committee members during 2017/18 and commented that good governance was important and that Members should be fully engaged.

RESOLVED

To note the update.

6. UPDATE ON EQUITY PROTECTION PROVIDER SEARCH

The Committee received a presentation from Sam Wreford, Alex Pearce and Ciaran Madine of Mercer, on Equity Protection Strategy. At the meeting in February 2018, the Committee agreed to pursue an equity protection strategy. The aim of the Strategy is to protect funding gains and reduce the risk of funding level deterioration which could lead to an increased contribution. The Protection will focus up to the period between December 2019 or March 2020 and would protect against equity losses between 10% and 25%. The Committee noted the following

- That Equity Markets were at all time high and also at present the largest risk. The purchase of Insurance will ensure that the Fund is protected from Markets such as 2008. Members noted that proposed Insurance would have protected 40% of returns during the 2008 crisis and that no coverage would have been more expensive.
- That there were several factors taking into consideration when designing a strategy and this include how much the downside protection should be made and how much upside is required. Members were advised that Protection Strategy was set at a middle range and this was to ensure to capture any upside.
- The Strategy aims to protect equity market values, where there are falls worse than 10% this will equate to 13.5% and in 25% this will equate to 5.9%.
- That the Actuaries evaluations on contribution rate were set every three years and potentially Equities could come down and recover during this period. Members were advised that 3 years was a relatively short period and a good timeframe to undertake evaluations. This time period enables gains 'to be locked' if Equity values increase and allows strategies to be reviewed,
- That three Managers were approached to undertake the mandate and this included Insight Investments, Legal and General Investment Management (LGIM) and Schrodgers. Three areas were looked when selecting the Managers this include, fees and value for money, experience with dealing with similar mandates and current infrastructure. Schrodgers was noted as being able to offer a bespoke Fund. Members noted that Banks were traditional resistant to trade with Local Authorities.

- Members raised questions about bankruptcies and were advised that Investment Banks in these instances are collateralized and that banks will have to forward money to Funds which are exposed to daily movement.
- Members agreed that Equity Protection Strategy should be ongoing and be part of their Investment Strategy Review and be added onto their Work Programme.
- Members noted that they had a large Equity Portfolio and that the Strategy was a good method of reducing equities. Investment in Infrastructure was viewed as a good alternative to Equities.
- Members noted that the Equity Protection Strategy was to be implemented and that the Pensions Committee had delegated to the Chief Finance Officer and Monitoring Officer

Sam Wreford, Alex Pearce and Ciaran Madine were thanked for their presentation and left the meeting.

RESOLVED

That the Equity Protection Strategy is ongoing and is made part of the Investment Strategy Review and is also added onto the Committee's Work Programme.

7. REPORTS FOR CONSIDERATION

7.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings

The Clerk presented a report which set out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2018/2019. The Committee agreed that 6.30pm was the preferred start time for their scheduled meetings.

RESOLVED:

1. That the contents of the report be noted.
2. That all scheduled meetings start at 6.30pm.

7.2 Draft Pension Fund Annual Report and Statement of Accounts 2017/18

Kevin Miles, Chief Accountant, presented a report which updated Members on the arrangement for the preparation of the Pensions Fund Annual Report and Accounts 2017/18 in accordance with the regulations and the arrangements for the separate audit engagements, opinion and certificate for the Fund.

Members were advised that the Annual Report presented was in a draft form. A foreword from the Chair is to be drafted. The final report will include information on the Funds governance arrangements, attendance at Pensions Board and Pensions Committee, outline how knowledge and skill gaps are being addressed and also examine 'risk management'.

The financial statement of the Pension Fund has been approved by Audit Board and this includes value of the Fund, value of investments and the Pensions Fund's Accounts. The Annual Report also contains a Strategy Statement which explains the roles and duties of Councillors, include a document on Reporting of Breaches Procedures and also one which outlines the Management Policy.

RESOLVED

1. To note the contents of this report and the Annual Report for 2017/18 attached as Appendix A to this report;
2. To note the Tower Hamlets Pension Fund position and outcome of the Pensions & Investment Research Consultants Ltd (PIRC) UK Local Authority League table for 2017/18, set in section 3.5 of this report; and
3. To note the Tower Hamlets Pension Fund Funding Level as at 31st March 2018, prepared by the Fund actuary as set in section 3.6.

7.3 Training & Development Policy For Pension Committee Members

Bola Tobun, Investment and Treasury Manager presented a report which set out the need for a training and development programme for Members of the Pensions Committee. The report explained the requirement for good governance of the Pensions Fund and the framework of legislation, regulation and guidance which the Fund must comply. The Chartered Institute of Public Finance and Accountancy (CIPFA) has provided a 'Knowledge and Skills Framework (2010) which provides a framework for the training and development of Elected Members and other representatives on public sector pensions scheme decision making bodies

Members noted that Councillor Andrew Wood was the only returning Councillor from the previous Pensions Committee. Councillor Wood was requested to provide input and guidance on the training for new Members. Officers advised Members that they were required to attend training in order to meet the MIFID requirements which would allow them to be classified as Investments Managers. There are three scheduled evening training which are to be held during the year.

RESOLVED

1. To note the assessment and training resources provided by the Pensions Regulator (paragraph 3.21 – 3.24);
2. To note the adoption of the CIPFA Local Pensions Boards Technical Knowledge and Skills framework (paragraph 3.25 – 3.32), including the self-assessment matrix (attached as Appendix 2)

3. To agree the training policy and programme for 2018/19 set out within the report (para 3.33 and 3.35) and
4. That Councillor Andrew Wood provide comments and guidance on the Pensions Board Training And Development Programme

7.4 Market and Economic Outlook by the Independent Adviser

Colin Richardson, Independent Advisor presented a report which detailed the views of the Independent Adviser in respect of the performance of the markets and the Pensions Fund Investment managers for the fourth quarter of 2017/18.

The Committee was advised that the 2nd Quarter April to June was opposite to the previous, Equity was strong, Sterling was weak and Bonds went down. During the 1st Quarter there were concerns regarding 'Trade Wars' between China and the USA, however this confrontations has deescalated and the Markets have recovered and become more stabled.

Emerging markets have not performed very well and this includes China. The changing political climate in Turkey which has led to a more autocratic leader and Argentina sterling falling has contributed to above.

There were concerns that Inflation was too low; however this is changing as the economy continues to stabilise. There are currently several risk and the main concerns are international trade wars. This in particular will have an effect on 'shipping chains'; the tariffs will have an effect on the prices of goods. Also geopolitical, North Korea continues to remain a big concern. Other area of concerns is the valuation of FANGS 'Technology Stock Markets' (Google, Amazon and Facebook) and the reversal of central bank policies of low or negative interest rates and 'quantitative easing'. The Committee was advised that how the 'unwinding' is implemented will affect both equity and bond markets.

Members were advised that it was good practice to have an Equity Protection Strategy. Following question from Members, the Independent Advisor commented that the Pensions Fund was in a broadly suitable position and noted that there was a drive to reduce exposure to market movements and a more dependency on the 'skills' of Fund Managers. The Fund was noted as having a good 'Asset Strategy'; it was advised that long term planning should be undertaken at the 'right time'.

RESOLVED

That the contents of the report be noted.

7.5 Equity Protection Strategy Investment/Manager Search

This report provided an update on the action taken in relation to the Equity Protection Investment. Work was carried out supported by the Fund

Consultant Mercer, and the Independent Adviser to put in place an Equity Protection Investment for the Fund. The aim of the investment being to reduce the risk to the Fund of its exposure to investment in equities.

Members noted that they had received a presentation from Mercer regarding Equity Protection Investment and this included the procurement of Equity Protection Investment Managers.

RESOLVED

To note the process undertaken to select an Equity Protection Investment Option to offer some protection against a fall in the value of the fund at the next valuation date of March 2019 and the decision made by the CFO under the authority that was delegated.

7.6 Pension Fund Business Plan, Pensions Committee Work Plan for 2018/19

Bola Tobun, Investment and Treasury Manager presented a report which set out a business plan for the Pensions Fund, which outlined the Funds goals and objectives in delivering the Council's statutory function as the administering authority of the London Borough of Tower Hamlet's Pensions Fund.

Members were advised that the report was considered and agreed at the last Pensions Committee in March 2018 and was for information only. The Business Plan will cover a three year period. Officers were advise that Colin Curren, Client Relations Manager, London CIV (LCIV) had recommended that Individual Managers Performance be reviewed on a quarterly basis. The Committee agreed that the LCIV should be a standing item and stressed the importance of developing requisite skill sets.

The Chair advised that he will be attending the LCIV AGM on 12 July 2018 and that he would give feedback at future Pensions Committee. Member commented on the importance of being represented and maintaining local intelligence. The Committee noted that there were concerns regarding the LCIV governance structure and representation on their committees.

RESOLVED

1. To note the Business Plan as Appendix 1 to this report and
2. To approve Work Plan for 2018/19 attached as Appendix 2.

7.7 Investment and Fund Managers Performance Review for Quarter Ending 31st March 2018

Bola Tobun, Investment and Treasury Manager presented a report which informed members of the performance of the Pensions Fund and its investment managers for the fourth quarter of 2017/18. The Fund marginally

outperformed its benchmark return of -1.2% by 0.1%. For this quarter six mandates matched or achieved returns over the benchmark. The four that failed to reach the benchmarks were LCIV RF, (TR), LCIV BG (DGF), Insight and GSAM bond portfolios. The value of the Fund (£1.485bn), decreased over the quarter by £38m.

The Independent Advisor advised that he approved of the Benchmark used for the Fund and suggested that a Peer Group Benchmark should also be undertaken. The Committee was advised that *PERC*, private sector organisations should be considered. Stage Street currently benchmarks the performances of all LGPS Funds. Members noted that the LBTH Pensions Fund performance had improved and had better standing and was rated as the 4th best in its platform. This position has been retained for 3 years and is a considerable improvement as the Fund was rated as the worst 36 years ago

Members noted that that their Absolute Bond Portfolio was dependent on the skills and strategies of Managers. Member also noted that Bonds returns were more predictable as the returns are based on interest rates. The Independent Advisor noted that Multi Asset Credit (MAC) were not classified as high risk and questioned the investment in this product and commented on the high reliance on Managers skills present in this area. The purchase of vehicles which have a more market exposure was recommended. Members were advised that the LCIV was currently undertaken the above.

RESOLVED

1. To note the contents of the Report and
2. That other Benchmarks are considered when Benchmarking the Fund; this should include Stage Street or PIRC

7.8 Pension Scheme Administration Update

Tim Dean, Pensions Team Leader presented a report which covers the activities and performance of the Pensions Administration Team. Overall in the first quarter of 2018/19, the Pensions Team has completed 89.43% of its workload in line with service standards measured by the performance indicators. This is an improvement from the 85.66% completed in line with service standards during the 2017/18 year.

There have been some changes to the statutes of employers that are admitted to the fund, Green Spring Academy Shoreditch will be joining Mulberry Schools Trust from 1 September 2018. The Pensions Team have identified just over 1200 deferred members that could potentially claim payment of their benefits with immediate work. Further work will be undertaken to look at potential impact on the Fund.

RESOLVED.

1. To note the information provided in this report in respect of the scheme administration and the performance metrics;
2. To note the changes to the Local Government Pension Scheme regulation set out in Appendix 2 and
3. To note the Statement of Policy for the payment of lump sum Death Grants as set out in Appendix 3.

7.9 The Pensions Regulator Compliance Checklist For Tower Hamlets Pension Fund

Tim Dean, Pensions Team Leader presented a report which covers an updated Compliance Checklist for the London Borough of Tower Hamlets Pension Fund. From 1st April 2015 the Pensions Regulator (TPR) assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Code of Practice for Public Service Pension Schemes came into force from 1st April 2015 and all schemes must now consider whether they comply with the Code.

Members noted that the LBTH Pensions Fund was generally able to demonstrate good level of compliance with the Code and these were highlighted in green. There were two areas which needed further attention and was highlighted in red in a previous report was items in respect to Internal Dispute Resolution (IDRP) which relate to the need to update IDRP notes and applications form to ensure they include all required and helpful information. These documents have been updated. The other was Section H, Providing Information to Members and Others, the principal concern related to the content of Annual Benefits Statement, A review of the content of this year's statement will be completed before being issued.

RESOLVED

To note the Code of Compliance Checklist and where further work is required and being undertaken.

8. THCH FUNDING AGREEMENT REQUEST

This item was covered in other sections of the Agenda.

9. TRAINING EVENTS

Bola Tobun, Investment and Treasury Manager gave a presentation which outlined the roles and responsibilities of Actors and Bodies who are involved in the Local Government Pensions Schemes (LGPS). The Committee noted the following

- That there are a number of Actors Involved in the LGPS and this includes Regulation Makers such as the Ministry of Housing, Communities and Local Government (MHCLG). The Statutory and Professional Boards,

provide direction and oversight, e.g. The Pensions Regulator; other Bodies include the National Advisory Groups and Regional Groups.

- That the Pensions Regulator (TPR) role had been extended since April 2015. The Body aims to promote good administration of work-based pension's schemes, to educate and enable, resolve internal disputes and acts as a regulator. Members were advised that the TPR had attended their Pensions Board and requested that the Body be invited to a future Pensions Committee.
- The LBTH Pensions Fund includes an Administering Authority; which has Scheme Managers of the LBTH, a Pensions Fund Committee and a Pensions Fund Board.
- That there were a number Key Policy Documents which oversees the Funds; these include Statement of Accounts, Training and Development Policy and Risk Management Policy.
- That the primary duty of the Fund was to pay member benefits as they fall due (Fund liabilities). To undertake the above enough assets are required in order to pay liabilities. A shortfall will lead to a funding gap; this is prevented by generating investments returns, increasing employee contribution or changing the benefits. The generation of investment is regulated within a framework which ensures assets are safeguarded. The Investment strategy will take into account both liabilities and assets and the Funding ratio provide an assessment of the Fund's abilities to pay pension liabilities.
- There are four 'core' asset classes, these include, Equalities, Fixed Interest, Cash and Property. All have different levels of expected returns and risk factors and have an effect on the Funding levels.
- That the Actuaries evaluate the Fund and will examine various areas which include Age, employer's contribution, funding level and the deficit. Investment Consultants look at Investments and this includes looking at risk. One of the main objects of the Pensions Administering Authority is to reduce the deficit.

Members thanked Ms Tobun for her presentation,

RESOLVED

To note the Presentation.

10. DATE OF FUTURE MEETINGS

- 29 November 2018
- 13 March 2019

11. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Neville Murton, Director, Finance, Procurement and Audit advised Members that Barry McKay had left Hymans Actuaries. Mr McKay has been a permanent Actuary for 6 months and will be replaced by Mr Douglas Green. Mr Green will be attending the next Pensions Committee and will be accompanied by Mr Barry Dodd.

The Chair advised the meeting that Suzanne Jones, support to Neville Murton, Resources, was leaving the Council. The Chair thanked Ms Jones for her hard work and support to both the Pensions Board and Pensions Committee and wished her well in her new role and requested that this be recorded in the minutes.

The meeting ended at 8.45 p.m.

Chair, Councillor Muhammad Harun
Pensions Committee