

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS BOARD

HELD AT 10.00 A.M. ON MONDAY, 26 NOVEMBER 2018

MP702 - TOWN HALL MULBERRY PLACE

Members Present:

John Jones (Chair)	Independent Chair
David Stephen Thompson (Vice-Chair)	
Nneka Oroge (Member)	Trade Union Representative
Annette McKenna (Member)	Pensions Board Member representing Admitted Bodies Employers
Roger Jones	Head of Revenues
Nneka Oroge	GMB

Officers Present:

Ngozi Adedeji	Legal Services
Bola Tobun	Investment and Treasury Manager
Kevin Miles	Chief Accountant
Tim Dean	Pension Team Leader
Rushena Miah	Committee Officer

Others:

Colin Robertson	Independent Advisor
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1. APOLOGIES

Apologies for absence were received from Councillor Puru Miah and John Grey. Annette McKenna sent apologies for lateness.

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 taking the presentation items first. To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

3. PETITIONS

No petitions were received.

4. UNRESTRICTED MINUTES

The Chair did not have an opportunity to review the minutes in advance and they were not included in the agenda pack. The Board requested they be given one week to review the minutes before sign off by the Chair.

RESOLVED:

1. For the Committee Officer to circulate the minutes of the 18 September 2018 Board meeting for comment before final sign off by the Chair.

5. SUBMISSIONS FROM FUND MEMBERS

None.

6. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

None.

7. PRESENTATIONS:**7.1 PRESENTATION FROM PIRC - LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS ANNUAL REVIEW**

The Board received a presentation from Pensions & Investment Research Consultants (PIRC) on the Pension Performance Annual Review.

Board Members received the following in response to their questions:

- It was difficult to generalise why there has been a move from equity towards diversification.
- The LGPS was performing well as a higher risk fund.
- The Fund had equity protection which reduced the risk of holding equities.
- With regard to the Risk and Return Last Five Years slide, Tower Hamlets Council was placed on the top half along the risk line.
- With regard to the Fund Structures slide, the blue arrow showed the number of managers had increased from 5 to 13. The figures 5, 7 and 13 represented the number of fund managers. The percentage numbers represented the proportion which is actively managed.
- With regard to the Top and Bottom Performers – Ten Years slide, the yellow dots represented underperforming funds and the red dots represented outperforming funds.
- It was noted that Bromley was doing well on the league tables and advisors suggested this may be due to a larger allocation on equities.
- It was clarified that the performance value dots on the diagram represented the whole of the UK not just the London boroughs. They represented the 63 funds covered by PIRC. There are 89 local authorities joined to the Fund in England and Wales. There are 101 authorities joined to the Fund in the UK.
- Members requested a clarification on point two of the What Can Be Learnt slide. It was clarified that Tower Hamlets had more active managers because it had invested in alternatives. The advisor explained that a wider range of investments tended to result in the need for additional specialist managers. It was noted that Tower Hamlets had two absolute return funds and two DGF (Diversified Growth Fund) managers. The Chair understood this to mean that the Council should be mindful to not lose manager value by investing in a pool with too many managers as there may be a risk of in effect moving towards passive management.
- It was clarified that the data presented on the table in the Tower Hamlets Fund Structure included funds which are not in the pool, namely GSAM, Insight and Schroders. It was noted that L&G was

separate but the Council was paying the London CIV fees for managing the relationship with L&G and this would count towards the pooling arrangement.

- It was reported that the Fund had done well and was performing well relative to the benchmark. Significantly over the past year the Fund outperformed the average by 1.5%, this ranked it in the 7th percentile out of the 63 local authorities covered by PIRC and about the 4th or 5th ranked fund. It was noted that Baillie Gifford's success contributed to this result.
- It was concluded that the Fund had outperformed over 1, 3 and 5 years and performed broadly in line with benchmarks over the long term which was a positive outcome.

ACTION: for a PIRC update to be on the meeting agenda for Board and Committee meetings in summer 2019. Bola Tobun to action.

RESOLVED:

1. To note the presentation.
2. To receive a PIRC update in summer 2019.

7.2 PRESENTATION: VIEWS ON CURRENT FUND INVESTMENT STRATEGY AND DIVESTMENT CONSIDERATION PROCESS FROM THE FUND INDEPENDENT ADVISOR

The Board received a presentation from Colin Robertson, Independent Advisor, on the soundness of the Council's investment strategy and consideration of fossil fuels.

- The independent advisor explained that there were two types of bond fund. Firstly there were those unlikely to fall much in absolute terms and so often considered low risk and secondly those which might fall significantly in absolute terms but which moved more in line with the liabilities, crucial to a pension fund. The Board were advised that this second category included index linked gilts, so they had strong defensive characteristics.
- It was clarified that strategic weight was a long term goal and could be found recorded in the investment strategy statement. Actual weight was dependent on how markets perform in the short term. In the case of equities, the actual was higher than strategic so there could be an argument for reducing closer to the strategic 50% mark. The equity protection strategy would protect the Fund from a fall in equity markets to some extent.
- It was noted that the pension fund's current investment strategy was sound and appropriate for current conditions but probably not the best place to be in the longer term.
- The strategic weight for the Council's Diversified Growth Funds and Absolute Return Funds combined was 32%. Having heard the performance in this type of fund had been poor, Members' queried if this would be an issue in the long term. The advisor explained that the majority of the pension fund's investments in these asset classes were

of the same type or nature in that they aimed to produce a return above cash utilising the skills of an investment manager. Consequently these assets should be thought of as less sensitive to market movements than other asset classes and hence less vulnerable to falls in markets. However Members were cautioned against holding onto them on the current scale in the long term.

- The Council has some protection against inflation through property and index linked gilts and potentially through infrastructure.
- The Fund did not have a lot of exposure to the credit cycle which was a positive thing at this time.
- It was concluded that the Fund's overall position was sound but in due course the council may wish to consider a move into bonds which would match the liabilities to some extent (second category above) However this would be dependent on where markets were at the time.
- It was noted that Investment Strategy Statements were usually reviewed every three years unless there was an issue.

Fossil fuels:

- Government advice has stated that Funds could be environmentally conscious as long as it was expected that this would not lead to significant financial loss.
- Tower Hamlets Fund already had a low carbon exposure. Carbon exposure would to some extent be accidental depending on the individual stock selection of the manager.
- It was noted that Councils' had an obligation to invest via the London CIV, however the London CIV had a limited offer in environmentally friendly stocks, this may present a dilemma for a local authority.
- Bola Tobun, Investment and Treasury Manger, said the London CIV were planning a fossil fuel free equity fund in second quarter next year however this would be dependent on demand as was an expensive process.

RESOLVED:

1. To note the presentation.

8. REPORTS FOR CONSIDERATION:**8.1 Voting and Engagement Update for Quarter Ending September 2018**

The Committee received a report from Bola Tobun, Investment and Treasury Manager, on voting and engagement LAPFF Fund for quarter ending September 2018.

Members requested a presentation form LAPFF to learn how they effectively manage a large number of assets. Bola Tobun agreed to invite someone from LAPFF to speak.

Members wished to query why the newsletter did not provide a reason for why there was a variance and why there was only a 50% return rate. Bola Tobun agreed to look into this and provide a briefing note.

ACTION:

- Bola Tobun to request reasons for variance from fund manager.
- Bola Tobun to invite LAPFF to speak at a Board meeting on asset management.

RESOLVED:

1. To note the report.

8.2 Local Pension Board General Remit and LBTH Pensions Board Draft Work Plan For 2019/20

The Board received the report of Bola Tobun, Investment and Treasury Manager, on the draft work plan for the Pension Board 2019/20.

ACTIONS:

- Finance Officers agreed to provide a Breaches Report as a standing item at every Board meeting.
- Board Members agreed that a key performance indicators report covering the areas outlined in point 3.9 of the report, should be made available at every Board meeting. Finance Officers agreed to provide this.
- The cost of managing the Fund is to be reported on at the end of the financial year. Finance Officers to add this to the work programme.
- The Board thanked Bola for the comprehensive training programme that she had organised for the financial year. They said it was useful to conduct training alongside the Pensions Committee and this practice should continue into the next year.
- The Vice-Chair informed the committee that he had almost finished drafting the Trustee Toolkit which will include e-learning and videos. The Board were instructed to contact Bola or Vice-Chair if they wished to contribute to the toolkit.

RESOLVED:

1. To note the report.
2. Note the Pension Board's Terms of Reference attached at Appendix 1 of the report.
3. To agree the work plan as attached at Appendix 2 of the report.

9. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

It was noted that Councillor Puru Miah had raised the following query outside of the meeting: 'given that Tower Hamlets has the most assets in the London CIV pool, should it not have representation on the CIV Board?'

RESOLVED:

1. The minutes of the previous pension committee were agreed as an accurate record.

10. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

Bola Tobun summarised the reports that would go to the Committee. It was noted that divestment to fossil fuels would be discussed at the meeting.

11. ANY OTHER UNRESTRICTED BUSINESS

The Chair said that Councillor Puru Miah had requested that meetings be moved later in the day due to his daytime work commitments. Other Board Members agreed that they would also prefer a later start. The Board proposed meetings be held at 5pm. It was agreed that the Committee Officer should contact the Board to confirm a preferred start time.

ACTION:

- Committee Officer to confirm with Board Members whether a 5pm start time was acceptable.

12. DATE OF NEXT MEETING

13 March 2019, time to be confirmed.

13. 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.

14. RESTRICTED MINUTES OF THE PENSIONS BOARD

None.

15. RESTRICTED MINUTES OF THE PENSIONS COMMITTEE

None.

The meeting ended at 12.15 p.m.

Chair, John Jones
Pensions Board