LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 29 NOVEMBER 2018

ROOM C3, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG

Members Present:

Councillor Muhammad Harun (Chair)
Councillor Rachel Blake
Councillor Leema Qureshi
Councillor Andrew Wood

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – Unions Representative

Apologies:

Councillor Ehtasham Haque
Councillor Sabina Akhtar

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Governance)
Tim Dean	–	(Senior Pensions Team Leader)
Neville Murton	–	(Acting Corporate Director, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
David Knight	–	(Senior Democratic Services Officer)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pencuniary interest were received.

2. PETITIONS

None received.

3. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 18th September, 2018 were agreed as a correct record. Copy to sign.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

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

The Committee noted that:

- The Pensions Board had met on 26th November 2018;
- The vacancies on the Board have been filled and the Board is now back to a full complement of 7 members: 3 employee and 3 employer representatives with John Jones as Independent Chair;
- The Board received 2 presentations at the meeting: the first from PIRC reviewing the performance of the Tower Hamlets Fund and the second from Colin Robertson on the Fund's Investment Strategy and Divestment from Fossil Fuels;
- The PIRC presentation looked at the investment performance from 63 Local authority Funds in England, Wales and Scotland in terms of overall results, identified trends in asset classes and risk return. The Funds that have performed best tended to have less complex structures, hold a higher percentage in equities and have longer term relationships with managers. It was noted that Tower Hamlets meets these criteria. The Fund has performed very well in 2017/18 and ahead of its peers and ahead of inflation over all timeframes. A key factor in recent good performance has been the contribution from Baillie Gifford that offset weaker performance elsewhere. The Board agreed that the Committee should consider receiving the same presentation at a future meeting;
- Colin Robertson made a very useful presentation on the Funds Investment Strategy covering liability matching, return seeking and other risks. He went on to outline the context and approach to disinvestment from fossil fuels based on the report you have on the agenda today. This included discussion on the role of the London CIV and noting the relatively low carbon of the Tower Hamlets Fund compared to other similar Funds. The Board is supportive of the approach as set out in the report on the agenda today.
- The Board discussed the latest report on Voting and Engagement asked for more information in future from LAPFF and the CIV on the effect of their engagement with companies as much of it is described as dialogue.
- The Board also had a preliminary discussion on next year's work plan. This also included feedback on the recent training sessions held for Board and Committee members. The unanimous view of those who attended was that the sessions had been very good and further training sessions should be arranged in 2019;
- It is very important that Board and Committee members can evidence effective training and development as this is an area of interest for the Pensions Regulator; and
- The monitoring report on Pensions administration was not available at the meeting so it could not be discussed on this occasion.
- Finally, it was noted that the issue of non-representation at the London CIV shareholder committee had been raised and given that Tower Hamlets has the largest percentage of pooled assets of all the London

Boroughs. The Board made a recommendation that this issue should be raised by the Chair of pensions committee with the board of LCIV and the LCIV Shareholder Committee.

The Chair Moved and it was:-

RESOLVED

To

1. Note the Chair of Pension Boards submission; and
2. Officers to write on behalf of Pension Committee to the Board of LCIV and the LCIV Shareholder's Committee highlighting the Committee concerns on the issue of LBTH Pension Fund not being part of the Shareholders Committee in spite of having the largest percentage of assets on LCIV platform and asking for explanation why this issue is so.
3.

5. PRESENTATION AND TRAINING

5.1 Presentation - Renewable Energy Infrastructure Training by Temporis Capital Ltd - To follow

The Committee received a presentation from Andres Senouf and Matthew Ridley from the Temporis Equity Infrastructure team which manages a number of private and public renewable energy portfolios across onshore wind, hydro, biomass and solar.

The Committee noted:

- The modern world depends on food, energy and water. The world is facing crises in the availability of these vital natural resources. Temporis' investment philosophy is that the global economy is facing huge structural change across these fundamental sectors. These dislocations are creating excellent conditions for implementing an active investment strategy. Disruptive technology and government interference are creating uncertainty and volatility in global equity prices leading to undiscovered investment opportunities. Climate change, shifting demographics and the pursuit of food-energy-water security present opportunities as well as challenges. Temporis Capital combines financial and sector expertise to take advantage of these opportunities;
- Temporis have a team of over thirty investment professionals with combined experience of over 170 years in renewables and over 400 years in financial services. Temporis feel that their investment and operational policies enable them to deliver consistent returns for our clients. Temporis see challenges and uncertainty as an opportunity. Their approach it was noted was manage and mitigate it carefully such risks;

- Temporis work to build mutually beneficial relationships with clients and counterparties leads to long term working relationships that they see as core to their philosophy and strengthen their success as a business.
- Cohesive and High Performance Team.

The questions and comments from Members on the report may be summarised as follows

The Committee noted that:

- One of the most important economic benefits of wind power is that it reduces the exposure of fuel price volatility;
- Whilst offshore wind capacity is more expensive than onshore wind there is an expected benefit of higher wind speeds and the lower visual impact of the larger turbines;
- Wind power is one of the oldest-exploited energy sources and today is considered to be the most seasoned and efficient energy of all renewable energies provided by companies such as Siemens a trusted technology partner;
- There is benefit in the amalgamation of several wind farms than investment in the development of a larger new wind farm;
- Temporis are one of the few companies that invest across the supply chain;
- Whilst Temporis will outsource element of the development and running of schemes they have a skilled Asset Management Team who maintain an oversight of the scheme; and
- Whilst solar and wind farms provide a valuable contribution to the National Grid on a daily basis there can be fluctuations. However, there is the ability to use gas/nuclear to address such fluctuations.

Andres Senouf and Matthew Ridley were thanked for their presentation.

The Chair **Moved** and it was:-

RESOLVED

To note the Presentation.

The Chair gave a quick update on the Infrastructure training he attended, which was organised by LGA (Local Government Association) & SAB (Scheme Advisory Board):

- Pension funds are trying to diversify their portfolios and to enhance their long-term asset-liability management with infrastructure assets.
- There is an appetite for infrastructure projects with local government schemes to increase their investment in infrastructure;
- Infrastructure is an asset class that can help preserve capital, deliver diversification and potentially generate stable cash flows;

- Infrastructure (i) Provides a stable long term cash return; (ii) there are many projects within the UK that are significant in terms of scale; and (iii) investment in scheme could be undertaken through pooling;
- Currently LGPS invests just 0.5% in UK infrastructure whilst overseas investment is up to 20%; and
- Greenfield infrastructure investment finances new assets at the construction stage, in contrast to acquiring already-operational “brownfield” infrastructure. This offers investors an early entry [point to ownership of infrastructure, typically at a higher return than brownfield and with a steady yield over the very long term, in return for accepting a degree of execution risk.

5.2 Presentation - LCIV Governance Update by LCIV

The Committee received a Governance Update from Kevin Cullen regarding the London CIV Investment Strategy and the Divestment from Fossil Fuels. The questions and comments from Members on the presentation may be summarised as follows

The Committee noted that:

The CIV are offering training with StepStone on infrastructure to meet the needs of institutional investors at any stage of their investment program

Kevin Cullen was thanked for his presentation.

The Chair **Moved** and it was:-

RESOLVED

To note the Presentation

6. REPORTS FOR CONSIDERATION

6.1 Quarterly Investment Performance Review

Bola Tobun, Investment and Treasury Manager presented the Quarterly Investment Performance Review.

- The Fund underperformed its benchmark return of 3.24% by 0.84% for the quarter.
- Five mandates matched or achieved returns above the set benchmark. The five that did not achieve the benchmarks were the mandates with LCIV BG (DGF), LCIV BG (GE), Insight and GSAM bond portfolios.
- The Fund Valuation of £1.560bn, a £35m increase over the quarter. For the twelve months to September 2018, the Fund returned 7.81% marginally underperforming the benchmark of 7.88%; the Fund is behind its benchmark by 0.08%.

- Four mandates underperformed their respective benchmark. The mandates that underperformed their respective benchmarks were LCIV RF lagged behind by 1.66%, LCIV BG (DGF) lagged behind by 2.45%, GSAM lagged behind by 6.34% and Insight by 7.82%.
- The three year return for the Fund was 12.45%, above its benchmark return by 0.54% for that period. Over the five years, the Fund posted a return of 9.42% outperforming the benchmark return of 9.19% by 0.23%.
- The Fund remains 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 questions and comments from Members on the report may be summarised as follows

The Committee:

1. Noted performances of Goldman's and Insight were bad and there is a need to meet with them.
2. Considered inviting Goldman and Insight to the next meeting to discuss their current performances, or for Officers to review their performances and report back to the Committee.

The Chair **Moved** and it was:-

RESOLVED

I. To note the report; and
II. For officers to review Goldman's and Insight performances and report back to the committee with recommendation/s.

6.2 Market Outlook Update by the Fund Independent Adviser

Colin Robertson, Independent Adviser presented the Market Outlook Update in respect of the performance of the markets and the Pension Fund investment managers for the first quarter of 2018/19. The questions and comments from Members on the report may be summarised as follows

The Committee noted that:

- Tower Hamlets has a lower carbon exposure than a benchmark of other pension funds and the fund's equity portfolio also has a lower carbon exposure;
- This is partly attributable to a commitment to the L&G Passive Low Carbon Global Equities fund, as well as to the relatively low carbon exposure of other funds held;
- These other funds do not specifically target low carbon exposure and low exposure will have arisen for a number of reasons, including stock

selection and sector allocation for other reasons **e.g.** the very large tech stocks such as Alphabet (Google) and Facebook have relatively low carbon exposures;
- The stage in the economic cycle will have a major influence on the performance of low carbon or fossil free portfolios **e.g.** the energy and material sectors are carbon heavy and cyclically sensitive;
- Therefore it will not be easy to establish whether bad performance is caused by an environmental strategy or for other reasons and the time period for measurement will be critical;
- The situation will be fluid over the next 5 years and flexibility will be required as regulations and the investment manager products on offer change;
- There is an increasing prominence of Environmental, Social and corporate Governance (ESG) factors on pension trustee agendas and, as a result, a corresponding need for clarity on how, in practice, these fit with trustees' legal duties and how they might realistically be taken into account as part of the investment decision making process.
- There is a danger that stocks which tick the environmental boxes become very expensive compared to their fundamental values as investors embrace ESG to an ever greater extent. Timing purchases could become important in avoiding unfavourable short term supply / demand imbalances;
- A transition to "fossil fuel free" from "low carbon" will need to be handled carefully as clearly the scoring system will change. More generally, environmental scoring systems will no doubt become standardised with distortions in the first instance; and
- The LCIV Ruffer fund performed poorly, falling by 0.4% over the quarter. This was surprising given that the fund's performance is sensitive to equity market movements and equities performed strongly over the quarter. This it was noted can be partly attributed to the significant exposure to the UK equity market which did not perform well but the fund also has a significant exposure to Japanese equities which did perform well. Negative factors are reported to have been the large holding of index-linked gilts and the investment in gold. It was understood that Ruffer has now hedged the interest rate component of the index-linked gilts holding, but not the inflation component.

The Chair **Moved** and it was:-

RESOLVED

To note the Update Report

6.3 Responsible Investment and ESG Considerations

Bola Tobun, Investment & Treasury Manager to present the report that outlined the Funds current position on responsible investments, and discusses the Environmental, Social and Governance (ESG) issues currently dominating Pension Fund investment debate. The report also considered what other LGPS funds are doing and recommends alternative ways in which the London Borough of Tower Hamlets Pension Fund (LBTHPF) can further promote the integration of ESG issues into its investment decision making. Amendments made to recommendations VI and deletion of recommendation VII as LCIV not currently considering or have investment in fossil fuel fund on their platform.

In addition, the following recommendations and amended recommendations were noted:

II. Note the LBTHPF regulatory obligations in respect of responsible investments (para. 3.6);
III. Note the LBTHPF’s current responsible investment stance (para. 3.8);
IV. Maintain the Fund’s current engagement activities which the Local Authority Pension Fund Forum (LAPFF) carries out on behalf of the Fund (para. 3.13 - 3.14);
V. Note the outcome of carbon foot print analysis as at 31st March 2018 as set out in paragraph 3.33;
VI. consider a policy (recommendations as set out in paragraph 3.43) regarding the LBTH Pension Fund’s approach to fossil fuel investment with a view to incorporating this within the Fund’s Investment Strategy Statement;
VII. Note the returns delivered by LCIV (BG) GA portfolio as set out in paragraph 3.40;
VIII. Consider allocation of some 5% of total fund assets to Renewable Energy Strategy and or Infrastructure Fund.

The questions and comments from Members on the main body of the report may be summarised as follows

The Committee:

- Noted that the overall Equity portfolio exhibits approximately 38% lower carbon exposure relative to each Equity mandate held by the Fund contributes to carbon efficiency of the Fund as follows a) Baillie Gifford Global Equities. 40% reduction in Carbon exposure relative to the MSCI ACWI benchmark; b) L&G Passive Global Equities: This passive equity fund demonstrates a very similar carbon intensity to its benchmark; and c) L&G Passive Low Carbon Global Equities: This passive equity fund demonstrates a very similar carbon intensity to its benchmark but has a 72% reduction in carbon exposure;
- Agreed that there was a need for more training and further analysis as to what is appropriate for the Fund;
- Wished going forward to undertake a transition to “fossil fuel free” from “low carbon” and to see examples from other Funds on how they had transited to “fossil fuel free”;
- Noted that there is an increasing demand by members of the London Collective Investment Vehicle for a reduction in fossil fuel investment and a reduction in the Carbon Footprint;

- Considered that careful consideration was needed regarding the priorities on investment with a balance between the benefits of reducing the Funds Carbon footprint without a significant reduction in performance;
- Indicted that it would wish to receive a report providing a clearer picture of the costs and benefits of moving towards “fossil fuel free” investment; and
- Wanted to receive the necessary training to provide the Members with the require skill sets to manage the towards “fossil fuel free” investment.

The Chair **Moved** and it was:-

RESOLVED

To

I. Note the LBTHPF regulatory obligations in respect of responsible investments (para. 3.6);
II. Note the LBTHPF’s current responsible investment stance (para. 3.7);
III. Maintain the Fund’s current engagement activities which the Local Authority Pension Fund Forum (LAPFF) carry out on behalf of the Fund (para. 3.13 - 3.14);
IV. Note the outcome of carbon foot print analysis as at 31st March 2018 as set out in paragraph 3.33;
V. Consider and develop a policy (recommendations as set out in paragraph 3.43) regarding the LBTH Pension Fund’s approach to fossil fuel investment with a view to incorporating this within the Fund’s Investment Strategy Statement; and;
VI. Note the returns delivered by LCIV (BG) GA portfolio as set out in paragraph 3.40;
VII. Consider allocating some 5% of total assets to Renewable Energy Strategy and or Infrastructure Fund;
VIII. To receive a report providing a clearer picture of the costs and benefits of moving towards “fossil fuel free” investment; and
IX. To receive the necessary training to provide the Members with the require skill sets to manage the towards “fossil fuel free” investment

6.4 Pensions Administration Performance targets and indicators

Tim Dean, Pensions Team Leader presented a report that report covered the activities and performance of the Pensions administration team.

The Committee noted that

- There have been no changes to the staffing situation since the last committee report in July 2018;
- Overall, in the second quarter of 2018/19, the Pensions team has completed 87.91% of its workload in line with the services standards measured by the performance indicators. Noted that this is an

improvement from the 85.66% completed in line with service standards during the 2017/18 year, but down from the first quarter figure of 89.43%;

- A change to the SCAPE discount rate, which is used to set employer contribution rate in unfunded public service pension schemes and actuarial factors across all public service pension schemes, means that transfer payments, both in and out, have been put on hold since 29th October 2918. New transfer factors are expected by mid-December;
- New regulations to correct the unintended error in the LGPS (Amendment) 2018 Regulations have been consulted on. The new regulations, if approved, would allow deferred members who left prior to 1st April 1998, to access their benefits from age 55 without the consent of their former employer;

The Chair **Moved** and it was:-

RESOLVED

To

I. Note the information provided in this report in respect of the scheme administration and the performance metrics;
II. Note that payment of member’s transfers has current been suspended; and
III. Receive details of the backlog of data in the next report.

6.5 Update on GAD Section 13 Valuation Results based on 31st March 2016 Triennial Valuation of Pension Schemes

The Chair to invite Bola Tobun, Investments and Treasury Manager to present the report that provided Members with information on the Section 13 analysis completed by the Government Actuary’s Department (GAD) using the 2016 valuations.

The Committee noted that:

- The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out;
- Each LGPS pension fund is required to appoint its own fund actuary, who carries out the fund’s valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Liabilities are split between those that relate to the past (the past service cost), and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.
- The report is based on the actuarial valuations of the 91 funds, with data provided by the funds and their actuaries, and a significant engagement exercise with affected funds. GAD is committed to preparing a section 13 report that makes practical recommendations to

advance the reporting aims. Also expecting that their approach to section 13 will continue to evolve to reflect ever-changing circumstances and feedback received.

The Chair **Moved** and it was:-

RESOLVED

To note the report.

7. TRAINING EVENTS

Members were advised that they will be receiving training on Infrastructure at the next Committee.

A list of LGA Training for Pensions Committee Members will be circulated to Members. Members were asked to inform Bola Tobun if they wish to attend any of the training events.

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

None.

The meeting ended at 9.20 p.m.

Chair, Councillor Muhammad Harun
Pensions Committee