

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSION BOARD

HELD ON THURSDAY, 7 MARCH 2019

C3 - TOWN HALL MULBERRY PLACE

Members Present:

John Jones (Chair)	(Independent Chair)
Nneka Oroge (Member)	Trade Union Representative
Councillor Puru Miah (Member)	
Roger Jones	(Head of Revenues)

Officers Present:

Neville Murton	– Corporate Director, Resources)
Bola Tobun	– (Investments and Treasury Manager, Resources)
David Knight	– (Senior Democratic Services Officer)
Maheen Nusrat	– Members Support Officer

1. APOLOGIES

Apologies for absence were received from Annette McKenna, John Gray, David Stephen Thompson and Steve Hill.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

None

3. VARY ORDER OF BUSINESS

The Chair also indicated that he thought it appropriate that the Order of Business be varied so that the board is presented the presentation items first.

Accordingly the Chair Moved the following motion for the consideration of Board Members, and it was: -

RESOLVED

That the Order of Business be varied to have the presentations first. To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

4. PETITIONS

No petitions were received.

5. MINUTES OF PREVIOUS PENSIONS BOARD MEETING

The minutes of the meeting held on 26 NOV 2018 were agreed and approved as a correct record with the below comments:

Item 9, Page 11: MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

In response to a question about Tower Hamlets having a presentation on the CIV board, Bola Tobun is drafting a letter which will be reviewed by Neville Murton and sent to the CIV. London CIV has 2 AGMs a year. Pension committee chair will be attending meetings on a quarterly basis and she can raise it at the general meeting that she attends, but the letter will be sent well before that. Bola Tobun will check when the next meeting is. Chair suggested updating at the next week's Pensions Committee meetings.

6. SUBMISSIONS FROM PENSION FUND MEMBERS

None

7. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

Chair drew attention to Pension Committee papers, page 10 referencing the report that he presents at the Pension Committee.

The report is written by him to take comments and reports from the Pensions Board to be submitted for consideration at the Pensions Committee. The Committee it was noted has been responsive to any recommendations by the Board.

The report acts as an important link between the Board and Committee.

8. PRESENTATION FROM LAPFF-LATEST DEVELOPMENTS AND ACTIVITIES UPDATE

The Board received a presentation from the Local Authority Pension Fund Forum that maybe summarised as follows:

- There are 80 LGPS fund members, six pools, combined assets of approximately £230 Billion.
- LAPFF has an unparalleled resource of funds dedicated to develop responsible investment and to maximise shareholders influence.
- The forum engages on topics ranging from environmental and carbon risk, social and governance risk and reliable accounts.
- LAPFF working plan for 2019 priorities include: plastics, board employee representation, lobbying, sectoral aspects of disruptive technology and diversity, sustainable development goals with a

continued focus on executive pay, governance, corporate tax disclosure, bribery and corruption, employment practices, reliable accounts etc.

- As per the January meeting input, climate change is a priority. Presenter also requested input and feedback from Pensions board members. UN climate change report that says we have 12 years to address the issue if we do not wish to experience significant consequences of global warming being at more than 1.5 degrees.
- LAPFF also invited board members to the next meeting which is to take place in Leeds on 17th of April. Details to be circulated via email.
- Priorities for this year include worker representation on board, looking at the impact on different sectors of high disruptive technology; certain sectors have poor gender make up of their board. LAPFF will be pursuing these and also looking at how companies are tackling sustainable development goals. Other themes that remain in focus include: pressing for meaningful corporate tax disclosures, engagement on bribery and corruption (currently Glencoe) and the ever present issue of executive pay.
- Long-term focus is to essential need for reliable accounts and how these are policed. Will be following up on recommendations by the Competition Markets Authority (CMA) which have come out and supported a LAPFF position from 2010 that a separate independent company should be undertaking the audit function and not the FRC.
- Climate change is a major priority and it was also highlighted at the January meeting. To remain within the 1.5 degrees target, we need far-reaching decarbonisation demand reduction.
- One way member funds are consistently able to raise concerns to companies is by voting at the AGM. LAPFF consistently issues voting alerts on companies where they see there are egregious corporate governance or other concerns.
- LAPFF presentation also highlighted the importance of voting alerts.
- 14 voting alerts were issued in 2018, allowing members to vote at the AGM. In particular in US companies votes can be focused on specific shareholders' resolutions.
- The actual voting act can act as a huge catalyst for companies to respond to stakeholders.
- A question was asked what prompts a voting alert as 14 does not sound to be many alerts.
- In response: LAPFF explained that the voting alerts are a result of the engagement exercises surrounding the themes within the LAPFF work plan. Sometimes, the alerts are a result of engagement that LAPFF has been undertaking with companies for some time. The number of alerts is indicative of the resource issues. If members wish to see more voting alerts, then LAPFF could dedicate more resources to it.
- It is also important to note that the votes do have legal force leading to for example removal of a director or voting against a resolution.
- Another point to note was that often through engagement LAPFF has noted that many fund managers do agree to the issues in principal, however are afraid to rock the boat. So, often it takes time to get to the end result of issuing a voting alert.

- Actual change is a result of long-term engagement. Presenters quoted examples of Shell, National Grid, Ryan air and TESLA. For example LAPFF started engagement with Shell in late 90s and finally by 2015, Shell made an announcement that they would half their net carbon foot print by 2050-which essentially helped set the tone for the rest of the oil and gas companies as well. Now the challenge for LAPFF is to check how to keep companies to commit to targets and how to measure what the companies are doing in the interim to reach the end goal. Another example was the engagement with National Grid-which was another long-term engagement. LAPFF started engagement in 2002 and were finally able to meet the chair in 2013, have been to 4-5 AGMs, pushing the company to focus on their scope 3 emissions. Recent meeting with the chair and senior executives in recent in 2018 and pushing the companies for the 1.5 degrees scenario. They will put electric charge stations around motorways all over the UK and LAPFF have been pushing on time scales for that.
- Different market forces work in the UK versus the US.
- Two examples of LAPFF engagement that relate to employment standards and overlap in corporate governance. Two of these are TESLA and Ryanair.
- Ryanair had been controversial amongst investors for a couple of issues. If you look at the board of the company, the chairman has been on there for 22 years, when the best practices in the UK for best governance are 9 years. The other non-executive members are ex-board members or business interests of Ryanair. It is a non-independent board.
- On the employment side, the large majority of the cabin crew are indirectly employed through agencies and it is also the case with the pilots too. This allows Ryanair to keep its benefits cost low. The large number of cabin crew and pilots are employed under Irish Law. Irish labour law is less beneficial than European labour law, thereby providing less protection to these employees than through other European labour laws. Ryanair insisted that there is nothing wrong with their model and in 2017 everything started to go wrong. There was a pilot rostering problem that Ryanair faced and they cancelled several hundred flights and said that they did that to improve punctuality, which was not the case. It became clear that Ryanair had problems retaining pilots as it is a great place to start your career as a pilot, but most pilots do not stay with Ryanair, they get their hours up and become captain elsewhere, so Ryanair suffers a shortage of senior pilots.
- Ryanair had also been extremely anti-union and had in its contract that you could be fired for taking industrial action that can cause disruption to the service-this is against the law. When the scheduling issues happened, that is when Ryanair was forced to deal with these issues.
- LAPFF has been engaged with Ryanair when this crisis in 2017 began over different issues including employment issues, governance standards and even climate change. LAPFF held an open forum with some investors where some cabin crew members came and spoke about their experience working with Ryanair. Ahead of the annual meeting, LAPFF decided to challenge Ryanair and should get rid of the

chair and build the process of a new independent board. This is when LAPFF issued a voting alert ahead of the last year's AGM in September. Paul Douny, who is the Chair of the fund, attended the AGM and spoke about reformed governance and highlighted some of the issues that he had spoken to workers about.

- The 2017 AGM against the chairman was 10% but this time around it was up to 30-35%. This is an example of the difference engagement makes and the impact of voting alerts. This vote was fatal for the chairman. We informed the company that we need to see some changes from the company and if Ryanair doesn't comply, then LAPFF would issue a shareholders resolution. This happened October 2018 and there was still no movement from Ryanair, LAPFF wrote to the company earlier this year asking what the succession plan was for the chairman, and are you going to change the structure of the board or we will file a resolution and we will remove the chairman. Upon the circulation of that notice, Ryanair when it issued its earnings, it announced that the chairman was going to step down.
- The other example is of TESLA which is also very strong founder based organisation where Elon Musk is the central figure. TESLA is a similar model where the board is built of people that are close to the founder and it isn't very independent appearing. There is not a lot of experience from the automotive industry on the board as it sees itself as a tech company. TESLA is a company that people want to see do well however there has been activities of anti-union activities, poor health and safety practices so LAPFF hosted an investor briefing in 2018 where production line workers spoke about their experience working for TESLA including the health and safety issues.
- Two issues that caught a lot of attention which was the introduction of the new incentive scheme for Elon Musk which was somewhere along 2.5 billion dollars. LAPFF issued a voting alert on that. Another standard UK practice is to split Founder and chief executive which was not the case at TESLA, so at the annual meeting in June, there was a resolution seeking the appointment of an independent chair. LAPFF recommended a voting issue asking to vote in favour of that proposal. The incentive scheme did pass even though it did get a large vote against and some of the asset managers were putting pressure on pension fund clients who direct their voting to vote in favour of that resolution. The independent chair vote got a large vote for, but did not pass as major shareholders opposed it. However, subsequently, the company has been forced to split the chair and chief executive role but that was the result of the SC regulator stepping in asking Elon Musk to step down as chair or be fined for his tweet on taking the company private.

9. PENSIONS BOARD REPORTS FOR CONSIDERATION

9.1 Training & Development Plans For Pension Board Members For 2019/20

The Board received a report that set out the need for a training and development programme for both the Members of the Pension Board and Committee. The report outlined the recommendations for the Board for the

need for training. The report has been brought to the Board before the beginning of the new municipal year so that the Board can agree a framework and training programme for the next financial year.

The Board then asked a number of questions about the proposals and the points raised are summarised below:

The Board noted that:

- A straight forward framework has been adopted in the areas of knowledge that the Board members should have as outlined in the report).
- There are 5 main areas outlined in the report and that there will be various training programmes that will be on offer.
- Investment & Treasury Team pointed out that the date recorded in section 3.31 on page 18 is incorrect. A new date for the year 2019 has yet to be agreed with the Governance Team.
- Chair had proposed to plan a training programme several months ahead so that people can schedule the training dates in their diaries ahead of time and are able to attend. The Investment & Treasury Manager pointed out that if she is unaware of the areas people feel they are lacking in, then she cannot forward details of relevant trainings.
- It has been suggested that it would be useful to have a clear understanding of roles and responsibilities and then based on that highlight areas that Members need training on.
- Investment & Treasury Manager had drawn the attention of the Board to the Terms of References in the attached to the report.
- The statutory requirement is for the Board to have expertise in Pensions whereas the same is not applicable to the Committee. The Chair pointed out though that the Committee does have a requirement to take advice from the Board. There is a discussion going on in the LGA about the roles and responsibilities and what requirements there are as the regulators require a certain level of training for the Board. This is also an issue that is being discussed on a national level and it was hoped that changes/clarification will be seen in the months ahead.
- The preferred training time for members is evening: start time 5:30PM - 7:30PM was agreed by members.
- There should be combined training with Pensions Committee, with some of the training sessions at 5:30, some at a later start at 6/6:30pm. It was also suggested that food be provided at training sessions so as to allow members coming from straight work so as to eat.
- A spreadsheet is kept by the Investment and Treasury Management Team about the monitoring and record keeping of the training. However, there is no record of training which various individuals have attended. If members are completing the Pension Regulator modules, it is advised that they should inform Treasury Management Team once the training has been completed so that records can be maintained.

ACTION:

- Treasury Management Team will forward the information about all trainings/seminars/ that members are entitled to attend. Members do not need to attend all training sessions that are on offer however they can choose trainings in areas they feel they may be lacking.
- Treasury Management Team will confirm the date for the training session which outlines the roles and responsibilities and statutory documents of the fund, so that all members and observers of the Pensions Committee have an understanding of this framework.
- Members to send filled out the form attached in Appendix 2 of the report to Treasury Management Team highlighting the areas of need for development. The forms will need be filled in by the end of April and then sent to Treasury Management Team.
- Treasury Management Team to email members a Word file of the PDF of Appendix 2, so members are able to complete it.
- Treasury Management Team to send a doddle link to select a few dates for roles and responsibilities training.

9.2 Local Pension Board General Remit and LBTH Pensions Board 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.

The Board then asked a number of questions about the report and the points raised are summarised below:

The Board:

- Noted that the report outlined the general remit of a local Pension Board; the indicative Work Plan for 2019/20 for Tower Hamlets Pensions Board and the Role and Responsibilities of the Pension Board are;
- Was advised that their purpose was to monitor internal and external audit reports, monitor performance of administration.
- Was reminded that whilst it has been undertaking external audit reports it has not yet undertaken any monitoring internal audit reports
- Was informed that the last internal audit report had presented to them in 2016 and since then. However, the internal audit reports are now being circulated and should be available to the Board for the year 2017/2018;
- Suggested that a spreadsheet of complaints should be provided and it was suggested for the Pensions Team to add this as an additional element to their report. As complaints are received through the council's iCasework and the data is extractable from that system.
- On the nature of complaints are diverse, most pertain to the lack of response in a timely manner. Many people also go directly to the complaints process having had never actually contacted the council to raise the issues and allowing an opportunity to rectify.

- Noted the review of the Terms and Conditions that Tower Hamlets is currently undertaking will not have an impact on the work plan as it does not impact the Pensions Fund. The changes will not affect people's entitlement which is a statutory requirement nor will it affect the funding levels of the fund as contributions will remain the same. The only way it would impact the fund is if there was a rapid contraction in the work force. If there was such an impact, then the impact of such changes would be looked at by both the Board and the Pensions Committee.
- Was informed that it the work plan is an ongoing process and Board Members have been contributing on a regular basis towards the Plan.
- Considered the question of switching to a digital platform rather than posting out paper statements and noted that IT is being brought back in house from Agilisys and the Council is currently renegotiating the contracts to implement the building of a self-service portal and it is hoped to have this finalised by end of the month. Although there is no deadline as such for when the Council will become paperless the initial target is to be 80% paperless by the end of the year.

It was also suggested that the Board:

- Needs to see the risk register twice a year as once a year is not sufficient. It was noted that the register is scheduled to be seen in June and suggested that it would wished to see it again in November.
- Needs a separate report monitoring investment costs and custodian and transaction costs, which would be added in September.
- Felt that it should have a budget which would include things like cost of training. This would be a budget that is separate from the overall Pensions Committee Budget and to outline the allocation for the Pension Board.

ACTIONS:

- The Pensions Team to include complaints statistics as part of their report and present to the Board.
- Investment & Treasury Manager to further investigate if there will be an impact into the pensions fund due to the proposed changes to the Councils terms and conditions.
- The Pensions Team to include in their report an update on the progress of going paperless for statements.
- The Investment & Treasury Team to include the investment, custodian and transaction costs into reporting by September.
- The Pensions Team's report to include the progress of going towards this paperless model.

10. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

It was noted that Colin Robertson and John Jones had been in attendance at the 29th November 2018 meeting and the minutes needed to be amended to reflect that.

RESOLVED:

1. The amended version of the minutes to show that both John Jones and Colin Robertson were in attendance.

11. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING**11.1 Pensions Committee Agenda 13 March, 2019**

The Board then asked a number of questions about the proposals and the points raised are summarised below:

The Board noted with regard to the:

- Staffing levels of the scheme's administration and performance metrics (as referred to in Page 239 of the Pensions Committee agenda); Board was informed that currently there are 4 permanent posts, 1 agency, 1 seconded from another role. The new structure has scope for 8 full-time positions. The requirement is to find someone with pension related experience. Currently, there is 1 pension accountant and one investment manager. Board suggested that the Pensions Team report should show numbers rather than percentages to provide a better picture of the performance of the Administration team.
- Capturing of correct death records, the Board was informed that this information is captured through the national fraud database. Every beneficiary receives a life certificate every year. The beneficiary is to respond within an allocated time frame and failure to respond would put a halt to the funds being released. The certificate is to be signed and witnessed. The Board was also informed about the importance by regulators on data quality and that the board needs to perform a data quality assessment annually.
- Statutory interest charges for breaches, the Board was informed that there are statutory interest charges but they are nominal charges, although the amount of work to charge that is more than the benefit of the actual charges. The alternative mechanism is to report the breaches to regulators who can then choose to fine repeat offenders.
- Topic of data quality, it was noted that there are 5 target areas. The data quality looks at whether the National Insurance numbers are correct, the addresses are complete with the correct postcodes, that the correct prefixes are used for the beneficiaries. There is a requirement by regulators to record breaches, e.g. breaches in the conditions of payment. These need to be reported up. Information on breaches is available, as the Pensions Team sends out an email when

a reconciliation report is done. The Team would be able to use this information to add a column about breaches in their report.

ACTIONS:

- Tim to amend report to reflect numbers rather than percentages on the activity and performance report.
- The report is to also include breaches-the information can be collected from the reconciliation report produced by Lisa.

The Board was presented with the Performance of the Fund Report-Quarter ending Dec 2018 in the Pensions Committee Agenda. The following points were highlighted and summarised as listed below:

- There was £75.9 million which is an unrealised loss but had recovered in February at £85 Million.
- Concerns were raised about the performance of the fund at the end of March given the impact of Brexit.
- It was noted that six of the fund managers had not performed well in the last quarter.
- At the last meeting, Pensions Committee had requested to see the fund managers. Officers had met with the Fund managers ahead of the Pensions Board. Insight and GSAM had then attended the pensions committee meeting the following week presenting on the reasons for why the fund has been underperforming. Following the meeting, a decision regarding the continuation of relationship with the funds is to be made by the Committee.
- The equity protection that is in place is helping protect the fund. Page 26 of the report before the Board highlighted the impact of the equity protection on the funds.
- Low carbon equity resulted in unrealised loss as Council did not sell any of the portfolios, so it remains as unrealised loss

The Board was presented with the LGPS Current issues and update as detailed in the report on the Pensions Committee Agenda. The following points were highlighted and summarised as listed below:

- The report provides some guidance on Pooling.
- The guidance is an informal consultation which is asking all funds need to adhere to investing within the pool. The officers felt this is not right. Pools are meant to help save money, but if the pools are performing badly then it is counter-productive.
- Kensington and Westminster have declared they will not be investing with Pools.
- Counter arguments to investing solely in pools is that, if the pools are government regulated, then it removes competition between pools and also removes the motivation for active management of the pools to make the most money from investments.

- By investing in Pools, the Council fund is still left with meeting the most liability.
- A LGPS Employer cost cap is also being introduced as presented in the report on page 249 of the report on the Committee agenda. The Council is waiting on the approval of the Treasury.
- There is also a review of the Academies Pension cost as outlined on page 252 of the Committee agenda.
- On the topic of good governance in the LGPS, it was noted by the Chair that this is a topic under debate within the LGPS.
- On the topic of Employee Exit credits: there is a 3 months deadline timeline to settle the exit credits for employees.

ACTIONS:

- The Investment and Treasury Manager to draft a response to the consultation and circulate to the Board members for input.

The Board was presented with the Update and Further Implementation considerations on Sustainable and Low Carbon investments for Tower Hamlets Pension Fund in the Pensions Committee Agenda. The following points were highlighted and summarised as listed below:

- The new Pensions Committee members are keen to divest from all fossil fuels. A report is in the process of being developed of the decisions by the previous Pensions Committee to advise the current Members as to how the decisions had been reached.
- The Investment and Treasury Manager highlighted that the Mercer's ESG Rating scale on page 228 of the report. In addition, based on the Mercer ESG Rating scale, the new multi-asset managers seems to have a poor rating.
- The issue with selling off and completely divesting from fossil fuels is that Council would have to divest from all Oil and Gas, and that would impact on the level of revenue/dividends earned from Oil and Gas.
- The Council is instead proposing to sell its L&G Passive Global Equities which has the highest weighted average of Carbon Intensity at 199 investments with and reinvest that money into the L&G Passive Low carbon equities.

12. DATES OF FUTURE MEETINGS

It was noted that the next meeting is provisionally scheduled for 17 June, 2019 subject to approval from Full Council.

13. ANY OTHER UNRESTRICTED BUSINESS

13.1 London CIV Pension recharge and guarantee.

The Board received a verbal update on the London CIV that relates to the London CIV LGPS Limited Employee Pension Scheme ('LCIV Pension Scheme') Guarantee and Recharge agreements.

The Board:

- Noted that as Tower Hamlets are not in control of their staff an unlimited guarantee is not an option.

ACTIONS:

- The Investment and Treasury Manager to draft a letter to the London CIV outlining that the Council will not be offering an unlimited guarantee; and
- The Chair will sign the letter to the London CIV.

14. EXCLUSION OF THE PRESS AND PUBLIC

As the agenda circulated contained no exempt/confidential business and there was therefore no requirement to exclude the press and public to allow for its consideration.

15. RESTRICTED MINUTES

Nil Items

16. RESTRICTED MINUTES OF THE PENSIONS COMMITTEE

Nil items

17. ANY OTHER RESTRICTED BUSINESS

Nil items

The meeting ended at Time Not Specified

Chair, John Jones
Pension Board