

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 20 JUNE 2019

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

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Mohammed Ahabab Hossain
Councillor Eve McQuillan
Councillor Abdal Ullah
Councillor Andrew Wood
Kehinde Akintunde – (Union and Admitted Bodies, Non-Voting Member)

Officers Present:

Ngozi Adedeji – (Team Leader Housing Services, Governance)
Kevin Bartle – (Divisional Director of Finance, Procurement and Audit)
Tim Dean – (Senior Pensions Team Leader)
Neville Murton – (Corporate Director, Resources)
Bola Tobun – (Investments and Treasury Manager, Resources)
David Knight – (Senior Democratic Services Officer)
Maheen Nusrat – (Members Support Officer)

Others Present:

Steve Turner – (Mercer - Senior Investment Consultant)
Colin Robertson – (Independent Investment Advisor - Pensions Committee)

1. APPOINTMENT OF VICE-CHAIR

Councillor Perry invited nominations for the position of Vice-Chair of the Pensions Committee for the duration of the Municipal Year. Accordingly, Councillor Rachel Blake was nominated and seconded and it was:

RESOLVED

Councillor Rachel Blake should be appointed Vice-Chair of the Pensions Committee for the duration of the municipal year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Cllr. Abdal Ullah made a point to note that he and other councillors had received emails from the *Friends of Earth* and he has responded to some emails but not all, but wanted to place on record that he had received these emails.

3. VARIATION TO THE ORDER OF BUSINESS

The Chair indicated that she thought it appropriate that the Order of Business be varied:

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

RESOLVED

1. That the Order of Business be varied to have the presentations from *Friends of the Earth* First;
2. To move item 7.4 ahead of item 3.0 on the agenda; and
3. To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

4. MINUTES OF THE PREVIOUS MEETING

Item deferred

5. PETITIONS

Although there had been no requests received to present petitions it was noted that the *Friends of the Earth* had asked to address the Committee regarding the importance of the Councils Pension Funds. They wished to ensure the LBTH has protected itself from the financial risk of climate change through those remaining investments that it has in fossil fuel companies (See item 8.4 Revised Investment Strategy Statement and Investment).

The Chair asked Mr Turner for an update on how much of the Fund's equity assets were directly invested in carbon related stocks. In this context, carbon stocks meant all energy firms (oil, gas and coal producers and distributors) plus mining companies. Based on recent analysis, Mr Turner estimated that around 2.4% of the Fund's total assets (or £37m based on latest market values) was invested in carbon stocks. It was noted that this exposure would have reduced materially since 2017 following a reduction in the Fund's allocation to equities and decision to invest 30% of the equity assets in a passively managed low carbon global equity strategy. This level of carbon exposure was considered to be relatively low when compared to other LGPS funds and reflected the Committees early consideration of the importance of climate change issues to the Fund's investment strategy. It was anticipated that this would reduce further in the future as the Committee was giving

further consideration to switching additional equity assets into the low carbon global equity strategy. Mr Turner noted that this was a risk reduction strategy given the risks of climate change to companies and that the Fund was also investigating further how to invest in Infrastructure, with an emphasis on Renewable Energy assets, to help boost long-term expected returns.”

6. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Report from Pensions Board Chair John Jones was presented by Kevin Bartle and is set out below:

The Committee noted that:

- The Pensions Board meeting was held on Monday 17th June, 2019. All Board Members had been present including Councillor Asma Islam who had recently been nominated to the Board and was attending her first meeting;
- The Board received an informative presentation from Hymans Robertson providing an update on the 2019 Actuarial Valuation process highlighting (i) the importance of understanding risks and having a clear Funding Strategy statement in place; (ii) how the stabilising employer contribution rate assists budgeting and scheme affordability;
- Tower Hamlets response to the Pension Regulators compliance checklist was discussed along with the importance of this from a governance perspective. On the basis of the report presented, the Board noted that the Fund is 75% compliant with the Pension Regulator’s assessment criteria although it was noted that there remains a significant number where further action is required to meet the criteria in particular maintaining accurate member data and providing information. The Pensions Regulator is taking an increased interest in the LGPS in promoting effective governance and decision making. It was noted that the Board’s view is that an action plan is needed together with allocated responsibilities in order to achieve full compliance with the requirements of the checklist;
- The Board reviewed the Risk Management and Internal Controls Policy and the updated risk register. The Board suggested improvements around linking the register more closely to the high risk areas included in the covering report and clearer allocation of responsibilities between lead officers. The register had identified that there was no formal policy or documented procedure for checks on the accuracy of member data. It was agreed that a new policy would be drafted and introduced to provide a framework in future. Accordingly, the risk register would be reviewed again at the Board’s meeting in November;
- Because of the timing of meetings and the availability of papers, it had not been possible to have a full discussion on the Pensions Committee agenda. The Board received an update on the Fund’s investment arrangements. It was agreed to have another update in due course;
- Consideration of the performance of the Pensions Administration Team had also deferred to the meeting in September. The Pensions

Regulator it was noted had identified data quality and record keeping as a key area of performance as it impacts directly on member benefits. The Board noted that it had previously recommended that the report should be updated to provide more robust and complete monitoring information for the Board and Committee.

- Finally, the importance of training and development for new members of the Committee and Board was discussed. It was noted that the LGPS and pension fund investment has now become increasingly complex and higher profile. The stability of membership and an understanding of the technical issues have become even more important to the effective management of the LGPS in Tower Hamlets. With this in mind it was noted that the Board has placed on record its view that all new Members should take advantage of the training and development opportunities that are available, and that the case should be made for continuing membership on the Committee going forward.

RESOLVED to note the report.

7. MEMBERS TRAINING ON ROLES AND RESPONSIBILITIES IN LGPS

The Committee received and noted a presentation that provided an outline on the roles and responsibilities within the LGPS. Including the responsibilities of Pension Committee that may be summarised as follows:

1. ensuring that all investment activity complies with the requirements of current regulations and best practise;
2. approving the investment strategy statement, funding strategy statement, communications strategy and governance policy;
3. appointing investment managers, a fund actuary, custodian(s) and professional advisors;
4. reviewing and taking action on actuarial valuations;
5. ensuring the administration of the fund is (i) appropriately resourced; (ii) effective and (iii) meets performance standards;
6. regularly reviewing investment managers' performance and expertise against agreed benchmarks and determining any action required; and
7. ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments.

RESOLVED to note the report.

8. REPORTS FOR CONSIDERATION

8.1 REVIEW OF DRAFT ANNUAL REPORT

A report providing an update on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2018/19 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund was presented.

The Committee was also reminded that it acts as quasi-trustee to the Pension Fund and as such acts in the capacity of the Administering Authority of the

Pension Fund. The Committee's terms of reference requires that the Annual Report and Accounts on the activities of the Fund are presented and approved prior to their publication. The Local Government Pension Scheme Regulations 2013, Regulation 57 require the Pension Fund to publish its report and accounts by 1st December following the financial year end and for the Report to contain a number of standard items. The publication of the Pension Fund Annual Report and Statement of Accounts also helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets.

Due to the tight deadlines relating to the production of the Pension Fund Annual Accounts, the Annual Report was only available to be tabled at the meeting and it was important that the Committee considers and agrees the Annual Report so as to ensure that they are properly audited as part of the Council's annual statement of accounts process. It was therefore not possible to defer this report until the next meeting.

Accordingly, in light of this and the fact that Members clearly need time to consider the draft report fully the Chair indicated that

- I. She would like this item to be considered and discussed tonight and for any questions and comments on the annual report should be sent to Kevin Bartle, Interim Divisional Director of Finance Procurement and Audit, prior to the close of business on 27th June, 2019; and
- II. The Interim Divisional Director of Finance Procurement be authorised to amend the draft report before submission, after consultation with the Chair of the Pensions Committee following consideration of comments received by the 27th June, 2019.

RESOLVED:

- (a) That any questions and comments on the annual report should be sent to Kevin Bartle, Interim Divisional Director of Finance Procurement and Audit, prior to the close of business on 27th June, 2019; and
- (b) To authorise the Interim Divisional Director of Finance Procurement to amend the draft report before submission, after consultation with the Chair of the Pensions Committee following consideration of comments received by the 27th June, 2019.

8.2 INVESTMENT AND FUND MANAGERS PERFORMANCE REVIEW FOR QUARTER END MARCH 2019

The Committee received and noted a report that provided details of the performance of the pension fund managers and the overall performance of the Tower Hamlets Pension Fund. Whilst there are no direct financial implications arising from this report, the long term performance of the pension fund will impact upon pension contribution rates as set by the Committee. The main points of the report may be summarised as follows:

- i. **Investments managed under the London Common Investment Vehicle (LCIV) pooling arrangement**

a) **LCIV Global Alpha Equity Fund - Baillie Gifford (BG GA)**

Managed under the LCIV pooling arrangements, the market value of the assets as of 31 March 2019 was £345.890m. The portfolio outperformed the benchmark by delivering a return of 12.39% compared to a benchmark return of 9.64% over the quarter while underperforming against the one-year benchmark return by -1.69%. However, it outperformed the three-year benchmark return by 3.73% per annum and the 5 year benchmark return by 2.41% per annum.

Over the 12-month period to 31 March 2019 the top contributors to performance in the portfolio were Amazon Corporation, Anthem Inc and Advanced Micro Devices. Over the same period the top detractors to performance were Prudential, Ryanair, Zillow and Microsoft.

b) **LCIV Diversified Growth Fund - Baillie Gifford (BG - DGF)**

Market value of assets as at 31 March 2019 was £136.822m. Quarter ending return of this portfolio was 6.14% with relative outperformance of 5.09% above benchmark return of 1.04%. This portfolio underperformed the one-year benchmark by -3.78%, but outperformed the three year benchmark return by 1.15% per annum and by 0.61% per annum over 5 years. The portfolio invests in a range of asset classes.

c) **LCIV Absolute Return Fund – Ruffer Ltd (Ruffer LLP)**

The value of assets under management as of 31 March 2019 was £130.574m. The portfolio outperformed the benchmark by delivering a return of 3.15% compared to benchmark return of 1.04% over the quarter while underperforming against benchmark on the one year by posting a return of -0.55% against a benchmark return of 4.06%. Over 3 years the portfolio outperformed its benchmark by posting a positive return of 3.71% per annum and posting 3.72% per annum, slightly ahead the benchmark by 0.11% per annum for over 5 years period.

d) **LCIV Multi Asset Credit - MAC Fund**

Tower Hamlets Pension Fund transferred £90m on 29 May 2018 to London CIV to invest in LCIV (CQS) MAC which was launched 31 May 2018. The portfolio had a market value of £91.8m at 31 March 2019. This portfolio delivered a positive return of 2.65% over the period and outperformed its benchmark by 1.29%.

ii. **Goldman Sachs Asset Management (GSAM)**

The portfolio had a market value of £52.542m at 31 March 2019. The portfolio outperformed the benchmark in the reporting period by posting returns of 2.66% against a benchmark return of 1.29% and underperformed the benchmark for one year to reporting period considerably by -4.93%.

The largest contributor to performance was the interest rate exposure and cross sector asset allocation exposure to corporate credit.

iii. **Insight Investment Management**

The portfolio had a market value of £46.901m at 31 March 2019. The portfolio underperformed the benchmark in the reporting period by

posting returns of -0.39% against a benchmark return of 1.29%, the portfolio also underperformed its benchmark for one year to reporting period, significantly by -10.54%.

The largest detractor to performance over the period was country allocation. The largest contributor to performance was the long position in investment grade credit, which benefitted from a narrowing of credit spreads. Insight performance has been greatly disappointing and has struggled to meet its benchmark return or target since inception.

iv. **Legal & General Investment Management (LGIM)**

As at 31 March 2019, the Unhedged Passive Global Equity portfolio had a market value of £82.853m; the Low Carbon Passive Global Equity portfolio had a market value of £244.708m and the Hedged Passive Global Equity portfolio had a market value of £22.795m. As expected from an index-tracking manager, all the portfolios matched the benchmark returns. Low carbon equities marginally outperformed normal market cap equities over the quarter.

v. **Schroder's Investment Management Property Investment**

The market value of assets at 31 March 2019 was £161.655m. The fund has performed well over all periods under review. The industrial sector continues to be the strongest positive driver of returns over recent periods.

The manager made no purchases over the quarter and continues to disinvest from weaker performing funds within sectors that are poorly aligned with their house view (the fund sold a further £0.7m from the Standard Life Pooled Pension Property Fund over the period).

- vi. **Equity Protection Strategy** – In September 2018, the Fund implemented the equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings of £718m at the time with an option overlay, also establishing long synthetic equity positions of some £142m. The equity protection strategy is designed, on average, to help protect against losses of some 15% on a portfolio of the Fund global equities, after suffering an initial 5% loss. The Fund would start experiencing losses again after equities have fallen by 20%. The exact levels of protection vary by equity region but the US is the most important one.

The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect help protect strong gains in recent years. The equity protection expires at the end of March 2020, and will need to be reviewed in Q4 2019 to consider if the current strategy simply finishes or is continued in some way.

As at 31 March 2019 the value of the strategy was £717.3m compared to starting position of £718m in September 2018 and the net assets value of the Fund was £233.8m compared to £214.66m.

RESOLVED to note the report.

8.3 INDEPENDENT ADVISOR REPORT ON MARKET PERFORMANCE AND FUND PERFORMANCE FOR QUARTER ENDING 31 MARCH 2019

Colin Robertson presented his report to the Committee. The main points of the discussion maybe outlined as follows:

- "Financial markets performed strongly in Q1 2019 as central banks adopted a more accommodative monetary policy. Moderate economic growth might be expected but with policy already so simulative, policymakers have few tools at their disposal when something goes awry. Politics could prove problematic for financial markets. Equity market valuations are not unduly demanding but earnings forecasts might well be too optimistic.
- The fund has a very low exposure to bonds which might be considered to match the liabilities to some extent but this would not appear to be the ideal time to increase the fund's exposure as bond yields are extraordinarily low at present. Serious consideration should be given to investment in infrastructure now that the London CIV has a plausible infrastructure product on offer. The desired and achievable level of renewables exposure within the fund's infrastructure investment was discussed. Rebalancing the fund's equity exposure back to benchmark was raised.
- The differing opportunity sets for the various absolute return / DGF funds was noted."

RESOLVED to note the report.

8.4 REVISED INVESTMENT STRATEGY

The Chair informed the Committee that a revised Investment Strategy is fundamental to the work of the Council and that she was grateful for the work already undertaken on this issue by the Committee over recent years. She made it clear that it was important that going forward the current Membership must have a clear understanding of all relevant issues and consider for itself how this should impact the Fund's investment strategy.

In addition, (i) as the report had not been published within the required 5 clear days of the meeting date and having sought advice from the officers, it was clear that it is not essential that the Strategy is reviewed at the meeting; (ii) the Committee needed to hear for itself the points made by Friends of the Earth regarding the financial risk of climate change and take those points into consideration before approving.

Accordingly, the Chair recommended to the Committee that a decision is deferred on the Investment Strategy until a future meeting and that in the intervening period Members of the Committee will have an adequate opportunity to contribute to the Strategy and to fully understand its implications prior to its approval.

RESOLVED to defer consideration of this report to a future meeting.

8.5 PENSIONS ADMINISTRATION PERFORMANCE TARGETS AND INDICATORS

The Committee received a report that covered the performance during the current and previous financial years. This included the activity levels and the performance levels against agreed service standards. The main points of the report considered may be summarised as follows:

The Committee noted that:

- In the fourth quarter of 2018/19, the Pensions team had completed 88.68% of its workload in line with the services standards measured by the performance indicators;
- There are currently 180 cases classified as 'Undecided Leavers' i.e. members that have left employment or opted out of the pension scheme and have yet to be processed as refunds, deferred beneficiaries, pensioners of transfers out;
- Possible incoming transfer currently being processed – 158. In these cases we are either waiting for a response from the transferring scheme, waiting for a response from the member, or waiting for payment of the transfer;
- On 10 April 2019 HM Treasury had launched a consultation until 3rd July 2019 on draft regulations, guidance and Directions to implement the cap on public sector exit payments;
- The impact of the regulations on LGPS members if the cap is exceeded and the exit payment includes a pension strain cost is still unclear, but it is understood that the policy intent is for the member's pension to be reduced to the extent that the exit payment cap is not breached, with the member having the option of paying extra to 'buy-out' some or all of the reduction. Amendments to the LGPS regulations would be required to facilitate this change. Guidance from the Government Actuary on calculating the pension reduction and operating the buy-out process would also be required;

RESOLVED to note the report.

8.6 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

The Committee received a report that provided an update and background information into the Pooling arrangements and also London CIV Pool. The main points of the report considered may be summarised as follows:

The Committee noted that:

- The UK's 89 Local Government Pension Schemes (LGPS) have finalised their asset-pooling plans by having eight regulated fund management entities to run almost all of the LGPS assets, leaving

individual funds to decide asset allocation and focus on other areas of pension scheme management.

- The London CIV of which the Fund is a member sought agreement from shareholders to extend the scope of the Company's business activities, in order to reflect the broader understanding of pooling. It has now proposed to define the purpose of the Company as an FCA company rather than the FCA authorised operator of an ACS. This would mean that the scope of the Company's business would be consistent with the evolving expectations of a LGPS pooling company and allow it to be sufficiently flexible to add value and meet pooling objectives. The change discussed at the LCIV Shareholder Committee in December 2018 prior to approval at the General meeting of Shareholders on 31 January 2019 requires shareholders' approval in writing and the LCIV sent the proposed change letter to all shareholders.

RESOLVED to:

1. Note the contents of the report; and
2. Approve London CIV variation of business activity

8.7 LGPS (LOCAL GOVERNMENT PENSION SCHEME) CURRENT ISSUES AND UPDATES

The Committee received a report that provided an update on general developments in Local Government Pensions Scheme arena and also the Scheme Advisory Board's key projects relating to the governance and administration of the Local Government Pension Scheme; specifically national initiatives that deal with inconsistencies across the Scheme for academies, the risks associated with Third-Tier employers and the conflicting interests at local authority employers who undertake the administering authority function.

The Committee noted the report which covered the following matters:

- 1) LGPS Employer Cost Cap;
- 2) New Fair Deal in the LGPS;
- 3) Separation Project / Good governance in the LGPS;
- 4) Academies Pension Cost;
- 5) GMP Equalisation and the LGPS;
- 6) Employer Exit Credits;
- 7) Cost Transparency;
- 8) Exit Payment Caps; and
- 9) Changes to the Valuation Cycle and Management of Employer Risk.

RESOLVED to note the contents of the report.

9. DATE OF FUTURE TRAINING/SEMINAR/CONFERENCE EVENTS

The Committee that they will shortly be receiving a list of future training; seminar and conferences. Members were asked to inform Miriam Adams, the

Interim Pensions & Investment Manager if they wish to attend any of the training events.

10. DATE OF FUTURE MEETINGS

The Committee noted the dates of future meetings for the current Municipal Year.

1. 24 Sep 2019 6.30 p.m.
2. 28 Nov 2019 6.30 p.m.
3. 19 Mar 2020 6.30 p.m.

In addition, it was noted that more details on the committee (Including the Agenda Management Timetable) was available on the Web Site from this [Link](#)

11. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items

The meeting ended at 8.25 p.m.

**Chair, Councillor Kyrsten Perry
Pensions Committee**