

COMMITTEE: Pensions Committee	DATE: 21 July 2011	CLASSIFICATION: Unrestricted	REPORT NO PC/002/112.	AGENDA NO
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Investment Panel		TITLE: Composition of the Pension Fund Investment Panel Ward(s) affected: N/A		

1. SUMMARY

- 1.1. This report informs Members of the current arrangements for the provision of Investment advice to this Committee and recommends that these arrangements continue.

2. RECOMMENDATIONS

- 2.1 Members are recommended to :
- 2.1.1 To establish an Investment Panel.
- 2.1.2 That membership of the Investment Panel comprise:-
- § All Members of the Pensions and Accounts Committee or their designated deputies.
 - § An Investment Professional as Chair
 - § An Independent Financial Advisor
 - § The Corporate Director of Resources or his designated deputy.
- 2.1.3 Provide that up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers.
- 2.1.4 To establish terms of reference for the Investment Panel as set out in Appendix 1.

**LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED)
LIST OF BACKGROUND PAPERS USED IN THE PREPARATION OF THIS
REPORT**

Brief description of "background papers"

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"background papers"

Brief description of "background papers"

None

3. BACKGROUND

- 3.1 The Pension Fund Regulations require the Council to establish arrangements for monitoring the investment activities of the professional fund managers and ensuring that proper advice is available on investment issues.
- 3.2 This role is currently undertaken by the Investment Panel the composition and terms of reference of which were established by this Committee on the 28th July 2004.
- 3.3 The terms of reference satisfy the Regulations, which require a formal statement of the responsibilities of the different parties involved in the investment process.

4. THE REGULATIONS

- 4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils to invest pension fund cash, which is not immediately required to pay pensions.
- 4.2 The Regulations require that Councils when undertaking such investment take proper advice at reasonable intervals and consider the need for diversification of investments.
- 4.3 The Regulations enable Councils to appoint one or more investment managers but in these circumstances are required: -
 - § To take proper advice
 - § To consider, at least every three months, the investments undertaken by the manager.
 - § To periodically review the managers appointment
- 4.4 To satisfy the requirement to obtain proper advice the Council has engaged an investment professional to act as chair of the investment panel and a firm of investment consultants to advise on the technical issues.
- 4.5 In addition the Council employs an independent performance measurement service to provide an analysis of individual manager's performance on a quarterly basis.
- 4.6 The Regulations have been supplemented by guidance on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to the Myners report, an independent review of pension investment, which reported in 2001.
- 4.7 The CIPFA best practice guidance sets out the responsibilities of the different parties involved in the investment process and requires that a periodic review be made of these arrangements and of the performance of the individual parties.

5. CURRENT ARRANGEMENTS

- 5.1 Currently the Council is advised on investment issues by a Investment Panel which holds morning meetings on a quarterly basis and comprises the following members :-
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- § An independent Chair (Raymond Haines)
 - § All Members of the Pensions and Accounts Committee or their designated deputies.
 - § An independent advisor (Hymans Robertson & Co.)
 - § The Corporate Director of Resources or his designated deputy.
 - § Two observers from the Trade Unions.
- 5.2 The terms of reference of the Investment panel were established by this Committee on the 28th July 2004 and satisfy the requirements of the Regulations.
- 5.3 It should be noted that the Investment Panel is purely advisory and has no executive powers. It advises this Committee on investment issues and this Committee decides on the basis of this advice what action is appropriate.
- 5.4 The terms of reference of the Investment Panel are as set out in Appendix 1.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1. The comments of the Corporate Director of Resources have been incorporated into the report.

7. RISK MANAGEMENT IMPLICATIONS

- 7.1 There is inevitably a relatively high degree of risk associated with investment in financial markets.
- 7.2 The Regulations attempt to mitigate this risk by ensuring that arrangements are in place to monitor the activities of investment managers and proper advice is taken.

8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 8.1 It is open to a committee appointed by the Council to appoint a sub-committee for the purposes of discharging its functions. The requirements for such an appointment are set out in Part 6 of the Local Government Act 1972.
- 8.2 It is understood, however, that the proposed Pension Fund Investment Panel is not to be a formal sub-committee but instead will be in the nature of a working group. On this basis, the Pension Fund Investment Panel may not exercise any of the functions of the Pensions Committee. The Panel may provide information to the Pensions Committee for its consideration. It will remain the responsibility of the Pensions Committee to make all relevant decisions within its terms of reference.

9. ANTI-POVERTY IMPLICATIONS

- 9.1 There is no specific anti poverty implications.
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10. ONE TOWER HAMLETS

- 10.1 The Council will select the chair, independent financial adviser and trade union representatives pursuant to open and fair processes that meet the requirements of the Equality Act 2010.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 There are no 'Sustainable Action for a Greener Environment' implications.
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APPENDIX 1: INVESTMENT PANEL TERMS OF REFERENCE

The Investment Panel is responsible for monitoring all aspects relating to the investment of the assets of the Scheme. Its specific responsibilities are as follows: -

- The Investment Panel will formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee.
 - The Investment Panel will consider and monitor the Quarterly Reports produced by their Investment Managers and independently produced performance measurement reports. The contents and formats of the reports will be specified by the Investment Panel.
 - The Investment Panel will formally review annually each manager's mandate, and its adherence to its expected investment process and style. The Investment Panel will ensure that the explicit written mandate of each of the investment managers is consistent with the Scheme's overall objectives and is appropriately defined in terms of performance target, risk parameters and timescale.
 - The Investment Panel will consider the need for any changes to the Scheme's investment manager arrangements (e.g. replacement, addition, termination) at least annually and make recommendations to the Pension and Accounts Committee if necessary.
 - In the event of a proposed change of managers, the Investment Panel will evaluate the credentials of potential managers and make recommendations to the Pensions Committee
 - The Investment Panel will consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.
 - The Investment Panel will review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.
 - The Investment Panel will assess the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
 - The Investment Panel will consider and conclude the negotiation of formal agreements with managers, custodians and other investment service providers on behalf of the Pensions Committee.
 - The Investment Panel is able to take such professional advice, as it considers necessary in order to fulfil its responsibilities.
 - The Investment Panel will keep Minutes and other appropriate records of its proceedings, and circulate these minutes to the Pensions Committee.
 - The Investment Panel may also carry out any additional tasks delegated to it by the Pensions Committee.
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