

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.35 P.M. ON TUESDAY, 25 FEBRUARY 2014

**COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Zenith Rahman (Chair)
Councillor Ann Jackson (Vice-Chair)
Councillor Judith Gardiner

Others Present:

Barry McKay (Actuary on Behalf of Hymans Robertson)
Matt Woodman Representing Hymans Robertson

Officers Present:

Ngozi Adedeji – (Team Leader Housing Services, Legal Services,
Law Probity & Governance)
Anant Dodia – (Pensions Manager)
Pearl Emovon – Interim Treasury Manager
Kevin Miles – (Chief Accountant, Resources)
Lisa Stone – (Pensions Accountant)
Antonella Burgio – (Democratic Services)

Apologies:

Councillor Craig Aston, Councillor Oliur
Rahman, Frank West and John Gray

APOLOGIES

Apologies for absence were received from Co-opted Members Frank West
and John Gray

An apology was also received from Mr Haynes, Chair of Investment Panel.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 14th November 2013 were approved as a correct record of proceedings.

3. REPORTS FOR CONSIDERATION

3.1 2013 Actuarial Review / Valuation

The Chief Accountant and Actuary on behalf of Hymans Robertson presented the results of the triennial evaluation of London Borough of Tower Hamlets Pension Fund. By way of background they advised the Committee that the triennial valuation:

- was a legal requirement and necessary for the recalibration of the fund and assessment of funds needed to continue to pay its members
- set out the fund's investments against its likely liabilities
- served to indicate any deficit required in order to meet its obligations
- informed the contribution rate required to be set

Members were informed that:

- the evaluation had been completed giving an indication of the sums needed to pay past and future members
- the last three years, the Fund had been required to perform in an environment of low gilt yields, uncertain markets, poor global economic performance and a reduction in membership.
- the Fund had been stable
- the Fund had outperformed by 20 points since the previous actuarial assessment in 2010
- the Government was looking for credible strategies for funding and funding plans
- although the Fund was in deficit, the position of the Fund was good
- the Government was looking to Councils to establish credible strategies for funding and credible funding plans
- since pension funds were of a long term nature, it was necessary to project their likely returns. Periodic valuations were a recalibration tool with which to address short term volatilities in financial markets and assess sums need to pay members of the fund
- liabilities were assessed over short terms and inform contribution rates which are measured on 20-year terms
- prudent projections of investment returns had been calculated.

The following results were also noted:

- the long-term pay growth evaluation,
- prudent projection on investment returns,
- key assumptions made which were specific to the members
- prudent assumptions and the allowance for improvements in the future.

The Actuary offered his actuarial opinion that:

- the funding policy was consistent with the current funding strategy of the fund. The asset outperformance assumption contained in the discount rate was within the range that would be considered acceptable funding purposes and was also considered to be consistent with the requirement to take a prudent long-term view of the funding liabilities as required by the UK Government
- in the short term, there was scope for considerable volatility and there was a material chance that, in the short – medium terms, asset returns would fall short of target. Therefore stability measures were proposed to dampen down the effect on employers contributions
- the fund did not hold a contingency reserve to protect it against the volatility of equity investments. Modelling had been carried out which indicated that by retaining the present investment strategy together with constraining employer contribution rate changes would enable the fund to strike a balance between minimising the long-term cost and retaining stable contribution rates. It was recommended that the current stabilisation mechanism remain in place until 2017 and reviewed at the next triennial evaluation.

The Actuary also noted that, since March 2013, there had been more favourable economic conditions and, were the fund to be valued at the present time, it would have delivered better results: this was to the benefit of the fund as its value was presently greater. He reminded members that a new local government pension scheme would be effective from 1 March 2014

A Member enquired about the impact of demographic assumptions on the evaluation and fund projection and Members were advised that membership profiles were typical in the context of the staff changes that had taken place since the last actuarial review.

RESOLVED

1. That the funding strategy statement set out in appendix A of the report to be adopted
2. That the recommendations arising from the actuarial review of the pension fund be approved

3.2 Funding Strategy Statement 2013

The Chief Accountant introduced the report which set out how technical investment matters would be approached informing the Committee of the following:

- the Council was required to have a funding strategy statement to indicate how it would recover a deficit and set a contribution rate. It was noted that statutory and admitted bodies into the Local Government Pension Scheme (LGPS) affected deficit recovery and contribution rate.

- the funding strategy must be linked with the fund investment strategy.
- revised investment regulations now required Councils to publish a revised Funding Strategy Statement whenever there was a material change in its policy or a change to its Statement of Investment Principles.
- the Tower Hamlets pension strategy statement was typical of most local authorities.
- admitted and statutory bodies had been consulted on the strategy statement (a response deadline of 21 February 2014 was given) and no comments had been received.
- there had been no substantial changes to the strategy statement since it was last reported to Committee in November 2013.
- there were presently no applications from other admitted or statutory bodies to join the scheme.
- the effect of additional and statutory bodies on the scheme was a matter for Council as its payroll would become reduced. However admission to the pension scheme was not beneficial for statutory bodies (e.g. academies) because their element of the fund would become immature rapidly.

A Member noted that previous funding strategies and structures had been more conservative than those of other local authorities and was advised that this approach had been chosen undertaken because of governance issues caused by Members failing to attend meetings of the Pensions Committee. In the absence of the authorising member decisions, a conservative strategy was chosen.

Concerning the extent to which the fund was bound by the strategy, the Committee was informed that the structure and strategy had a flexibility of 10% either way which enabled movement to the structures at the edges. This would not much affect the fund but served to give flexibility.

RESOLVED

That the funding strategy statement, as set out in appendix A to the report, be adopted.

3.3 Report of Investment Panel for the Quarters Ending 30 September and 31 December 2013

The Hymans Robertson Representative presented the report which advised the Committee of investment performance in Quarters three and four. The following matters were noted:

- performance in both quarters had been good
- Investec and Schroeders only had performed below benchmark
- there had been two Manager under performances in the past 12 months. It was noted that diversification of the fund was in place to meet such situations.

He advised that Investec had been placed under close watch and investment advisors were minded to permit a further period to perform as the manager had improved diversification and returns had stabilised. It was noted that no money had been lost over this 12 month period. Mr Woodman further advised that he had interviewed John Stopford who had put forward cogent arguments for diversification and therefore it was recommended to remain with this manager at present to allow time for performance and avoid transfer costs unless necessary.

He noted that Schroeders' investment in European property had performed poorly and since realignments had delivered good returns in a difficult market. Therefore, since performance had improved, he recommended that this manager be retained.

He also tabled a market update report highlighting the UK equity PE ratio as at 31st of December 2013. This had performed favourably. Noting there was volatility in equity markets, he recommended that equity allocations should be trimmed.

He further noted that property yields were average but property voids were declining and therefore it was likely there would be some opportunity for prices in this market to rally. He recommended that the property allocation be rebalanced to its benchmark level.

RESOLVED

That the investment performance update reports be noted

3.4 Pension Fund Work Plan

The Chief Accountant advised that there had been a printing error in the report. He then introduced the report advising Members that the draft plan had been presented, at this time, for information. This would be brought back for approval in September 2014.

A Member, in order that the Council may demonstrate due diligence on ethical aspects of investment, enquired whether data on ethical investments by fund managers could be communicated to the Committee outside of LAPFF meetings. The Chief Accountant advised that he would report back on this matter at a future meeting.

RESOLVED

That the report noted

Action By:

Kevin Miles (Chief Accountant, Resources

4. FORTHCOMING TRAINING EVENTS

A calendar of training events available was presented and the Chief Accountant asked that any expressions of interest should be made through the clerk.

RESOLVED

That the report be noted

5. EXCLUSION OF THE PRESS AND PUBLIC

Following legal advice taken on the nature of the information to be discussed it was deemed that the report and appendix were suitable for discussion in open session. Accordingly no resolution to exclude press and the public was passed

6. INVESTMENT IN LONDON LGPS COMMON INVESTMENT VEHICLE (CIV)

The Chief Accountant introduced to report advising the committee that a proposal to merge London pension schemes (CIV) had been suggested. The following were noted:

- London Councils have asked all London boroughs to express their interest in the merger scheme by the payment of £1.00
- the proposals for fund mergers would reduce managers' fees
- proposals were under investigation at present and Tower Hamlets, Hackney and Southwark councils were jointly seeking advice from a barrister on the implications of pooling their pension schemes.
- it was expected to take a year to initiate the CIV
- An information event was shortly to be held and most London councils had accepted an invitation to this event

The Committee supported the proposal to explore and pursue the expression of interest, However:

- Members asked for care in considering the proposal, since pooling would also mean that councils' individual ability to direct their own preferred investment strategy would be diminished.
- it would be necessary to understand how the Council would be expected to pool its investments and assess what proportion of its investments the Council wished to pool and what proportion it wished to retain under its own control. The Hymans Robertson Representative informed Members that only investments into the same asset management pool would be placed into the appropriate CIV.

RESOLVED

1. That the report and discussion be noted
2. That TH Pension Fund be authorised to express its interest by the payment of £1.00

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.56 p.m.

Chair, Councillor Zenith Rahman
Pensions Committee