COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**16 July 2014**	**Unrestricted**		
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): Bola Tobun - Investment & Treasury Manager		TITLE: **Investment Performance Review for Quarter Ended 31 March 2014** Ward(s) affected: N/A		

Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report informs Members of the performance of the Fund and its investment managers for the quarter ending 31st March 2014. Full details are contained in Hymans Robertson's quarterly reports and WM Quarterly Performance Review, as appendix A and B respectively.

1.2 In the quarter to the end of March 2014 the Fund achieved a return gross of fees of 1.3% which is 0.7% above the benchmark of 0.6%. The twelve month Fund return of 8.5% exceeds the benchmark by 2.3% at 6.2%. Over the longer term, performance is ahead of the benchmark with three year returns of 7.1% being 0.8% above the benchmark and five year returns of 11.6%, 0.1% above the benchmark of 11.5%.

1.3 The latest performance figures show that performance is heading in the right direction and the Fund matches or is ahead of benchmark over all reported time. This is as a result of a combination of market recovery, especially equities, and strategic decisions made by the Investment Panel on new allocations and investment manager appointments.

1.4 Six out of eight managers matched or achieved returns above the benchmark in the March quarter end; this is the same as the previous quarter. Performance was ahead of the benchmark over the quarter, mainly due to strong relative returns from the two global equity mandates.

1.5 The Fund is still 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 benchmark.

2. DECISIONS REQUIRED

2.1 Members are recommended to note the contents of this report.

3. REASONS FOR DECISIONS

3.1 There are no decisions to be made as a result of this report. The report is written to inform committee members of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

4. ALTERNATIVE OPTIONS

4.1 The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund.

5. BACKGROUND

5.1 The Pension Fund Regulations require that the Council establish arrangements for monitoring the investments of the Fund and the activities of the investment managers and ensure that proper advice is obtained on investment issues.

5.2 This Committee has established the Investment Panel, which meets quarterly for this purpose. The Panel's membership comprises all Members of the Pensions Committee, an Investment Professional as Chair, an Independent Investment Adviser, and the Corporate Director of Resources represented by the Service Head Financial Services, Risk and Accountability, one trade union representatives and one representative of the admitted bodies. The Investment Panel is an advisory body which makes recommendations to the Pensions Committee which is the decision making body.

5.3. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and may recommend that investment managers are invited to explain further to the Investment Panel.

5.4 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the year ending 31 March 2014.

Legal & General Investment Management

5.5 Legal & General has been appointed (02 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 31 March 2014 had a market value of £261.3m. The value of the assets taken on at the commencement of the contract was £204.7m.

5.6 The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 yrs benchmark for the UK Index-Linked Mandates.

Baillie Gifford & Co

5.7 Baillie Gifford has been appointed to manage two distinct mandates; global equity mandate with the value of this contract at the commencement of the mandate on the 5 July 2007 was £118.9m. The value of assets under management as of 31 March 2014 was £183m. The performance target for this mandate is +2% to 3% above the benchmark MSCI AC World Index gross of fees over a rolling 3-5 year periods.

5.8 And the Diversified Growth Fund mandate with contract value of £40m at the commencement of the mandate which was 22 February 2011. The value of assets under management as of 31 March 2014 was £46.9m. The performance target for this mandate is to outperform the benchmark (UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%.

GMO

5.9 GMO has been appointed to manage a Global Equity Mandate which at 31 March 2014 had a market value of £260.5m. The initial value of the assets taken on at the commencement (29 April 2005) of the contract was £201.8m.

5.10 The performance target is to outperform a balanced global equity benchmark by 1.5% per annum net of fees over a rolling three year period.

Investec Asset Management

5.11 Investec has been appointed to manage a Global Bond Mandate which at 31 March 2014 had a market value of £97.5m. The initial value of the assets taken on at the commencement (26 April 2010) of the contract was £97m.

5.12 The performance target is to outperform the benchmark (3 Month LIBOR) by 2.0% per annum net of fees over a rolling three year period.

Ruffer Investment Management

5.13 Ruffer has been appointed to manage an Absolute Return Fund; the value of this contract at the commencement of the mandate on the 28 February 2011 was £40m. The value of assets under management as of 31 March 2014 was £45m.

5.14 The overall objective is firstly to preserve the capital over rolling 12 month periods and secondly to grow portfolio at a higher rate after fees than could reasonably be expected from the alternative of depositing the cash value of the portfolio in a reputable UK bank.

Schroder Investment Management

5.15 Schroder has been appointed to manage a property mandate. The value of this mandate at the commencement of the contract on the 20 September 2004 was £90m. The value of assets under management at 31 March 2014 was £105.2m.

5.16 The performance target for this mandate is to outperform the IPD UK Pooled Property Fund Indices All Balanced Funds Median by 0.75% net of fees over a rolling three year period.

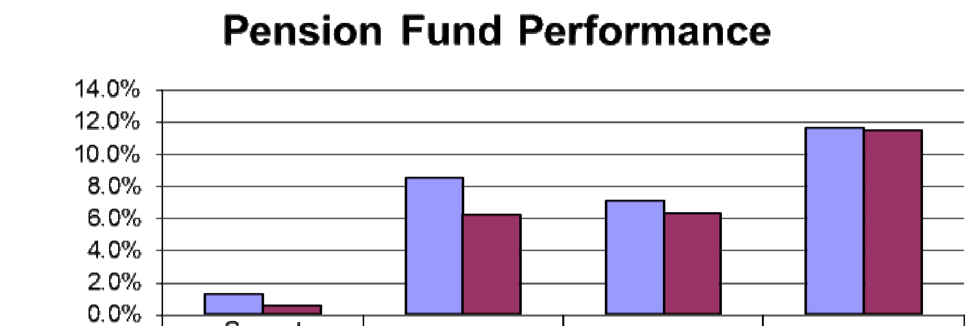
6. INVESTMENT PERFORMANCE

6.1 The Fund's overall value has increased by £17.3m from £998.9m as of 31 December 2013 to £1,016.2m as of 31 March 2014.

6.2 The fund outperformed the benchmark this quarter with a return of 1.3% compared to the benchmark return of 0.6%. Since April 2011 the fund has outperformed the benchmark by 0.8% per annum. The twelve month period sees the fund outperforming the benchmark by 2.3%.

6.3 The performance of the fund over the longer term is as set out in table 1. The chart demonstrates the volatility and cyclical nature of financial markets, but the outcomes are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pension liabilities are up to sixty years in the future. Consequently it can effectively ride out short term volatility in markets

Table 1 – Pension Fund Performance



	Current Quarter	One Year	Three Years	Five Years
Fund	1.3%	8.5%	7.1%	11.6%
Bench Mark	0.6%	6.2%	6.3%	11.5%

7. MANAGERS

7.1 The Fund currently employs eight specialist managers with mandates corresponding to the principal asset classes. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value March 2013 £M	Benchmark Weight % of Fund Managers	Actual Weight % of Fund Managers	Difference %	Value Dec 2013 £M	Date Appointed
GMO	Global Equity	**260.5**	25.0%	25.6%	0.6%	**255.4**	29 Apr 2005
Baillie Gifford	Global Equity	**183.0**	16.0%	18.0%	2.0%	**179.4**	5 Jul 2007
L & G UK Equity	UK Equity	**212.1**	20.0%	21.0%	1.0%	**213.4**	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**46.9**	5.0%	4.6%	-0.4%	**46.5**	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**45.0**	5.0%	4.3%	-0.7%	**45.4**	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**49.2**	3.0%	4.8%	1.8%	**47.5**	2 Aug 2010
Investec Bonds	Bonds	**97.5**	14.0%	9.6%	-4.4%	**97.4**	26 Apr 2010
Schroder	Property	**105.2**	12.0%	10.4%	-1.6%	**102.3**	30 Sep 2004
Cash	Currency	**16.8**	0.0%	1.7%	1.7%	**11.7**	
Total		**1,016.2**	**100.0%**	**100.0%**	**0.0%**	**998.9**	

7.2 The fund value of £1,016 million as at 31 March 2014, which includes cash held, this has increased to 1.7% of the total assets value.

7.3 The performance, gross of fees of the individual managers relative to the appropriate benchmarks over the past five years is as set out in table 3.

Table 3: Manager Investment Performance relative to benchmark

Manager	Current Quarter	Previous Quarter	One Year	Three Years	Five Years
GMO	2.0%	1.2%	6.5%	0.7%	0.2%
Baillie Gifford	1.6%	0.2%	5.3%	2.6%	3.2%
L & G UK Equity	0.0%	0.0%	0.1%	0.1%	N/A
Baillie Gifford Diversified Growth	0.6%	0.6%	0.6%	4.6%	N/A
Ruffer Total Return Fund	-1.0%	-0.4%	-1.6%	3.6%	N/A
L & G Index Linked-Gilts	0.0%	0.0%	0.1%	0.1%	N/A
Investec Bonds	0.0%	-0.1%	0.0%	-0.8%	N/A
Schroder	-0.5%	-0.6%	-1.9%	-0.8%	-2.1%
Total Variance (Relative)	**+0.7%**	**+0.4%**	**+2.2%**	**+0.8%**	**0.2%**

7.4 **GMO** made absolute return of 2.3% in the quarter, outperforming the benchmark of 0.3% by 2. The portfolio value has increased by £5.1m since 31 December 2013. This increase is made up of a benchmark/market value appreciation of £0.64m and GMO out performance of £4.46m.

7.5 The relative outperformance against the benchmark came from European and UK value stocks, with both European value stocks, and European stocks in general, performing well. The Fund benefited from overweight positions to Italy and France, as well as stock selection in Italy, France and the US. Underweights to Switzerland and Denmark slightly detracted from relative returns. At the sector level, an underweight to Consumer Discretionary and stock selection within Utilities, Industrials and Information Technology added to returns.

7.6 Strong performance over the past 12 months means that the Fund's performance since inception is now marginally above the benchmark, despite the poor relative performance exhibited during 2012 and Q1 2013.

7.7 **Baillie Gifford** returned 2.2% in the quarter against a benchmark of 0.5% resulting in relative outperformance of 1.7%. Over 12 months, a return of 12.4% is 5.3% above the benchmark. Over 3 years relative return exceeded benchmark by 2.6%, which is in line with their target.

7.8 The most significant positive impacts on performance over the quarter came from Tesla Motors and Ryanair. Tesla, the manufacturer of electric cars, continued to build on momentum from the previous quarter when it was the largest positive contributor to the fund's returns while Ryanair's shares rose as the airline expands its service to more affluent passengers and to offer flights to more destinations. After a strong return during the previous quarter, Amazon was one of the main detractors from performance over the first quarter of 2014 as its earnings disappointed due to increased competition and it did not meet analyst expectations. Shares in Rolls Royce also hurt performance as the company lowered growth expectations due to defence spending cuts in the US.

7.9 The portfolio value has increased by £20m since the 31 March 2013. This is made up of £10.8m market value appreciation and fund manager out performance of £9.2m.

7.10 **L & G (UK Equity)** performance has been in line with the index benchmark (FTSE-All Share) since inception, as expected.

7.11 **L & G Index Linked Gilts** performance has been generally in line with the index benchmark (FTSE-A Index-Linked over 15 Years Gilts) since inception.

7.12 **Investec (Bonds)** – The fund return was flat with the benchmark of 0.1% this quarter. Longer term performance remains negative, reflecting the negative returns experienced by the Fund during 2011. The portfolio has been behind the benchmark since inception.

7.13 The portfolio's corporate debt exposure performed well over the quarter, with both investment grade and high yield bonds producing strong returns. Spreads narrowed over the period. The credit hedges which have been implemented with the aim of minimising downside risk led to an overall negative performance from this asset class.

7.14 The portfolio's interest rate exposure produced a marginally negative return over the quarter. Short duration exposure to German Bunds, US Treasuries and Japanese government bonds detracted from returns, outweighing the slight positive contribution from long duration exposure to Canada, Sweden and the UK.

7.15 Currency and emerging market debt exposure slightly added to returns, reflecting the overall upward movement of emerging markets over the period. Investec are considering shorter duration issues to reduce spread duration at the fund level. This is based on their view that there is limited scope for spreads to rally and there is some risk of some sell off.

7.16 **Schroder (Property)** marginally underperformed benchmark by -0.5% in the quarter. Long term performance has also lagged the benchmark; with an underperformance of -2.1% p.a. over the 5 years to 31 March 2014. The positive absolute performance was due to the Fund's UK holdings. Over the 12 months to 31 March 2014 UK value add funds made a positive contribution to relative returns, with the Central London office market in particular having consistently delivered good returns over the past three years.

7.17 The Fund's European holdings were the most significant contributor to the Fund lagging the benchmark for this quarter ending. Within this region, the Axa European Real Estate Opportunity Fund II lost around 20% of its value following revaluation of its assets by an external valuer, on the basis of a shorter holding period given the fund expires in April 2015.

7.18 **Baillie Gifford Diversified Growth Fund outperformed the** benchmark of 0.1% by 0.6%. Performance in the last 12 months was 0.6% above benchmark.

7.19 Quarter ending March 2014 saw little growth for most developed economies, with most of the Fund’s asset class holdings producing broadly flat returns. High yield credit was the biggest contributor to overall performance, due in part to the Fund’s significant allocation to this sector, whilst active currency and absolute return holdings detracted from performance.

7.20 Baillie Gifford has a cautious view on markets because of uncertainty about the unwinding of monetary easing by central banks and the search for yield in the low rate environment which is reflected by falling yields of non-investment grade bonds. In accordance with this view, the manager has retained high exposure to developed market government bonds, investment grade bonds, gold and cash.

7.21 **Ruffer Total Return Fund (Absolute Return)** underperformed by -1.0% in the quarter, and -1.6% over the year to 31 March 2014. The negative return was largely driven by investor uncertainty over unrest in Ukraine and Syria which, with the uncertain macroeconomic outlooks for China, Europe and the U.S., contributed to increased volatility across equity, currency, commodity and fixed income markets.

7.22 The key detractor from performance was the Fund’s exposure to Japanese equities. After significant outperformance in 2013, Japanese equities fell in the first quarter and the Yen strengthened, hurting the Fund’s hedged exposure to Japanese banks, financials and a select few other companies. The Fund benefitted from its exposure to government bonds as investors retreated to fixed income.

Cash Management

7.23 Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

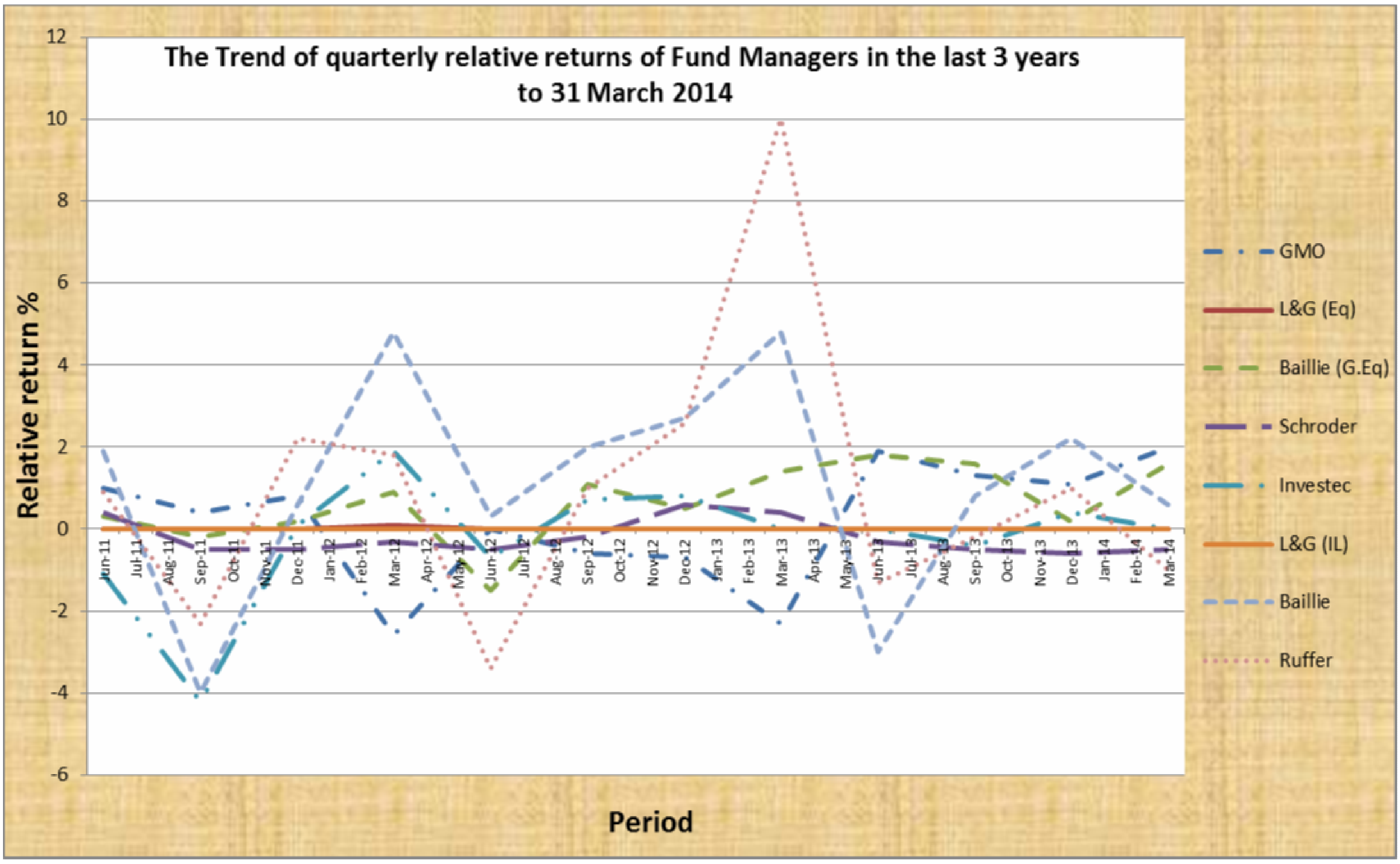
7.24 The Pension Fund invests in accordance with the Council’s Treasury Management strategy agreed by Full Council in February 2014, which is delegated to the Corporate Director of Resources to manage on a day to day basis within set parameters.

7.25 As at 31 March 2014 the Pension Fund internal cash balance was £16.8m.

7.26 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund's cash remains the overriding priority, ahead of yield. As at 31 May 2014 the Pension Fund in house cash position stood at £17.9m.

7.27 Interest generated for the year from cash held internally was £0.062m up to March 2014.

7.28 Set out below is a graphical representation of the fund managers relative return against their benchmark.



8 ASSET ALLOCATION

8.1 The original allocation of investments between the different asset classes was determined in conjunction with the Council's professional advisors in 2004 and is subject to periodic review by the Investment Panel – the latest review was carried out in January 2011. Asset allocation is determined by a number of factors including:-

8.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.

8.1.2 The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

8.1.3 The deficit recovery term. All Council funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

8.2 The benchmark asset distribution and the fund position at 31 March 2014 are as set out below:

Table 4: Asset Allocation

Mandate	Fund Benchmark 2013/14	Fund Position 31 Mar 2014	Variance as at 31 Mar 2014	Variance as at 30 Dec 2013
UK Equities	24.0%	21.0%	1.5%	1.5%
Global Equities	37.0%	44.0%	1.7%	1.7%
Total Equities	**61.0%**	**64.2%**	**3.2%**	**3.2%**
Property	12.0%	10.0%	-1.8%	-1.8%
Bonds	14.0%	9.7%	-4.3%	-4.3%
UK Index Linked	3.0%	4.8%	1.8%	1.8%
Alternatives	10.0%	9.2%	-0.8%	-0.8%
Cash	0.0%	2.0%	2.0%	2.0%
Currency	0.0%	0.0%	0.0%	0.0%
Total Equities	**100.0%**	**100.0%**		

8.3 Allocations are therefore considered to be broadly in line with the benchmark. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

9. LGPS Current Issues Update

Changes to the LGPS 2014

9.1 As outlined at previous meetings the new LGPS scheme became effective from 1 April 2014. The changes to the Public Sector Pensions Act emanated from the recommendations in the Hutton report. The LGPS has implemented the changes 1 year ahead of the rest of the public sector and is estimated to have saved approximately £500m by doing so.

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LGPS New Governance Arrangements – Discussion Paper consultation

9.2 DCLG's governance discussion paper was circulated in June 2013.

9.3 As discussed at previous meetings, the Public Service Pension Act 2013 has a number of governance provisions which have to be incorporated into specific LGPS regulations by CLG. The Act makes certain provisions which limit the scope for manoeuvring on the regulations by CLG.

9.4 The Act already requires that a local Pension scrutiny Board is established to assist the administering authority in complying with regulations etc., however CLG have scope to determine whether the Pension Board can be one and the same as the existing statutory pension committees or whether a separate body is required. They are aiming to implement the changes with as little bureaucracy as possible.

9.5 One example of regulatory restriction is that the Act requires an equal number of employer representatives and scheme member representatives, hence CLG have limited scope in this respect.

9.6 At a national level a national LGPS advisory board has set up a shadow advisory board which is now operational and they have started to assist in formulating the role of the new national body. They recently produced a paper on their view of the changes required to the LGPS.

9.7 DCLG has recently produced a consultation on their proposals for the new governance arrangements (Appendix C).

9.8 Officers will work up an options proposal for the implementation of the new governance arrangements in consultation with legal and the chair and deputy chair of the pensions committee and this will be brought to the meeting on September 2014 for approval.

Call for Evidence on the Future structure of the Local Government Pension Scheme

9.9 The Local Government Association's call for evidence on the structure of the LGPS was circulated in June 2013 with a closing date on 27 September 2013. The aim is to seek to identify the optimum structure to enable delivery of the new scheme benefit and governance changes for the LGPS.

9.10 The aim of the structural reform as outlined in the call for evidence is to achieve a number of high level and secondary objectives.

High level objectives

1. Dealing with deficits
2. Improving Investment returns

Secondary Objectives

1. To reduce investment fees
2. To improve the flexibility of investment strategies
3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

9.11 Hymans Robertson (an actuary and investment advising firm with the biggest LGPS footprint) was commissioned to carry out the above work and their report was submitted to the Minister in early December 2013.

Consultation Paper on proposals for the Restructure of the LGPS – LGPS Opportunities for Collaboration, Cost Savings and Efficiencies

9.12 The awaited consultation paper on the proposals for LGPS structural reform "**LGPS Opportunities for Collaboration, Cost Savings and Efficiencies"** was published in May 2014 and is attached as **Appendix D.**

9.13 The consultation follows on from the responses received to the call for evidence on the options for structural reform of the Local Government Pension Scheme (LGPS) which ran from 21 June to 27 September 2013. The consultation sets out the Government's preferred approach to reform. The consultation duration is for 10 weeks with a deadline of 11 July 2014.

9.14 The recommendations outlined in the consultation paper drew on three sources of evidence:

- Call for evidence responses (133 responses were received)
- An in depth analysis of the call for evidence responses carried out by the Shadow LGPS Scheme Advisory Board
- The work commissioned jointly by the Local Government Minister and the Cabinet Minister under the contestable policy framework. A cost benefit evidence backed analysis of three possible structures for LGPS was carried out by Hymans Robertson. This entailed a detailed review of the LGPS in aggregate.

9.15 **KEY PROPOSALS**

- Establishing collective investment vehicles (CIV) to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and
- to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.

- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

10. London Collective Investment Vehicle (CIV) Update

10.1 Members have been updated of the various debates surrounding rationalisation of the LGPS which saw the schemes facing the possibility of mergers.

10.2 The various reviews prompted London Funds (as part a London Council's led initiative) to look into options for forging collaboration within London via a CIV, which it is anticipated would deliver substantial savings without the cost, implementation risk and loss of local discretion surrounding a merger. Members agreed to make a contribution of £25,000 towards the costs of further exploration and possible set up of a CIV.

10.3 The preliminary work of the group was completed in late 2013 and a CIV structure has been proposed. The recommended pooling structure called an Authorised Contractual Scheme (ACS) has a lead time of some 6-8 months.

10.4 The aim is to seed the CIV with equity investments with a view to expanding the asset offering to incorporate other investments.

Acquiring Share Capital in the CIV ACS operator

10.5 At the last pensions committee meeting on 25 February 2014 a separate report was brought on the CIV. Members agreed to recommend to Cabinet that the Council acquire share capital in a private limited company to be set up to become the operator for the CIV. That report will be going to Cabinet on the 23 July 2014. The recommendations of that report were as follows:

10.6 To participate in the establishment of the London (LGPS) Collective Investment Vehicle (CIV)

10.7 To participate in the establishment of a private company limited by shares to be incorporated to be the Authorised Contractual Scheme Operator (the 'ACS Operator') of the London (LGPS) Collective Investment Vehicle (CIV), the ACS Operator to be structured and governed as outlined in this report.

10.8 That following the incorporation of ACS Operator, the London Borough of Tower Hamlets:

10.8.1 become a shareholder in the ACS Operator.

10.8.2 contribute £1 to the ACS Operator as initial capital;

10.8.3 appoint an executive member to exercise the Council's rights as shareholder of the ACS

10.9 Under Regulation 11 of the Local Authorities (Arrangement for the Discharge of Functions) (England) Regulations 2012 to establish the Pensions CIV Joint Committee, pursuant to the existing London Councils Governing Agreement dated 13 December 2001 as amended, to act as a representative body for the Local Authorities participating in these arrangements; and

10.10 to delegate to this Joint Committee those functions necessary for the proper functioning of the ACS Operator including the effective oversight of the ACS Operator and the appointment of Directors.

11. <u>COMMENTS OF THE CHIEF FINANCIAL OFFICER</u>

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

12. <u>LEGAL COMMENTS</u>

12.1 Regulation 11(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund. Regulation 11(1) requires the Council to have a policy in relation to its investments. The investment policy must be formulated with a view –

(a) to the advisability of investing money in a wide variety of investments; and

(b) to the suitability of particular investments and types of investments. The Council is also required to have a Statement of Investment Principles in accordance with regulation 12 (1) which cover the following matters:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

In accordance with Regulation 11(5), The Council is required to take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

12.2 Under regulation 8(1), the Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

12.3 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

12.4 There are no immediate legal consequences arising from this report.

13. ONE TOWER HAMLETS CONSIDERATIONS

13.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

13.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

14.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

15. RISK MANAGEMENT IMPLICATIONS

15.1 Any form of investment inevitably involves a degree of risk.

15.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

16. CRIME AND DISORDER REDUCTION IMPLICATIONS

16.1 There are no crime and disorder reduction implications arising from this report.

17. EFFICIENCY STATEMENT

17.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
None	