COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**17 September 2014**	**Unrestricted**	.
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): Bola Tobun - Investment & Treasury Manager		TITLE: **Investment Performance Review and LGPS Updates for Quarter Ended 30 June 2014** Ward(s) affected: N/A	

1. SUMMARY

1.1 This report informs Members of the performance of the Fund and its investment managers for the quarter ending 30th June 2014.

1.2 For the quarter, the Fund achieved a return gross of fees of 1.8%, which is -0.3% below the benchmark return of 2.1%. In money terms the portfolio had an increase of £18.8m made up of market appreciation of £21.1m less fund manager's underperformance valued at £2.3m.

1.3 In the twelve months to the end of June 2014, the Fund returned 10.4%, this exceeds the benchmark by 1.2%. In money terms, the Fund increased by £97.5m, this is made up of £90.9m of market appreciation and £6.6m attributed to the managers' outperformance.

1.4 For longer term performance the Fund posted three year returns of 7.2% matching the benchmark and posted five year returns of 11.0%, 0.2% below the benchmark return of 11.2%.

1.5 For this quarter end four out of the eight mandates matched or achieved returns above the benchmark. The Fund performance was below the benchmark over the quarter, this was mainly due to poor relative returns from Baillie Gifford Global Equities and Investec Bonds portfolio.

1.6 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 the strategic benchmark weight.

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. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.

5.2 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 Pensions Committee.

5.3 This report informs Members of the performance of the Fund and its investment managers for the quarter 30 June 2014.

Legal & General Investment Management

5.4 Legal & General was appointed (2 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 30 June 2014 had a market value of £266.6m. The value of the assets taken on at the commencement of the contract was £204.7m.

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

Baillie Gifford & Co

5.6 Baillie Gifford manage two distinct mandates; global equity mandate and diversified growth fund mandate. The global equity fund had had a value of £118.9m at the start of the mandate in July 2007. The value of assets under management as of 30 June 2014 was £183.6m. 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.

5.7 The diversified growth fund mandate was opened in February 2011 with contract value of £40m. The value of assets under management as at 30 June 2014 was £47.9m. 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

5.8 GMO manages a Global Equity Mandate which at 30 June 2014 had a market value of £267m. The initial value of the assets taken on at the commencement (29 April 2005) of the contract was £201.8m.

5.9 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

5.10 Investec manages a Global Bond Mandate which at 30 June 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.

5.11 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.

<u>Ruffer Investment Management</u>

5.12 Ruffer manage an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. The value of assets under management as of 30 June 2014 was £45.3m.

5.13 Their 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.

<u>Schroder Investment Management</u>

5.14 Schroder manage a property mandate. The value of this mandate on 20 September 2004 was £90m. The value of assets under management at 30 June 2014 was £110.1m.

5.15 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.

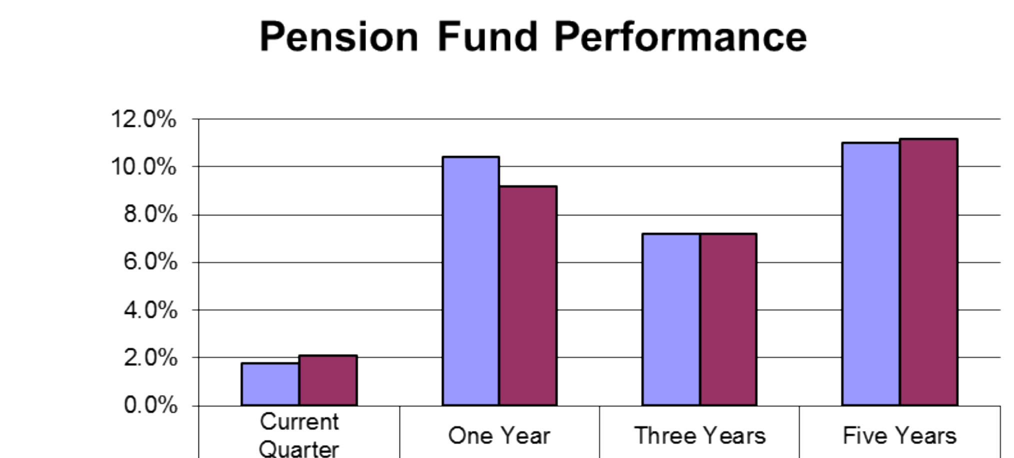
6. INVESTMENT PERFORMANCE

6.1 The Fund's overall value has increased by £18.8m from £1,016.24m as of 31 March 2014 to £1,035m as of 30 June 2014.

6.2 The fund underperformed the benchmark this quarter with a return of 1.8% compared to the benchmark return of 2.1%. The twelve month period sees the fund outperforming the benchmark by 1.2%.

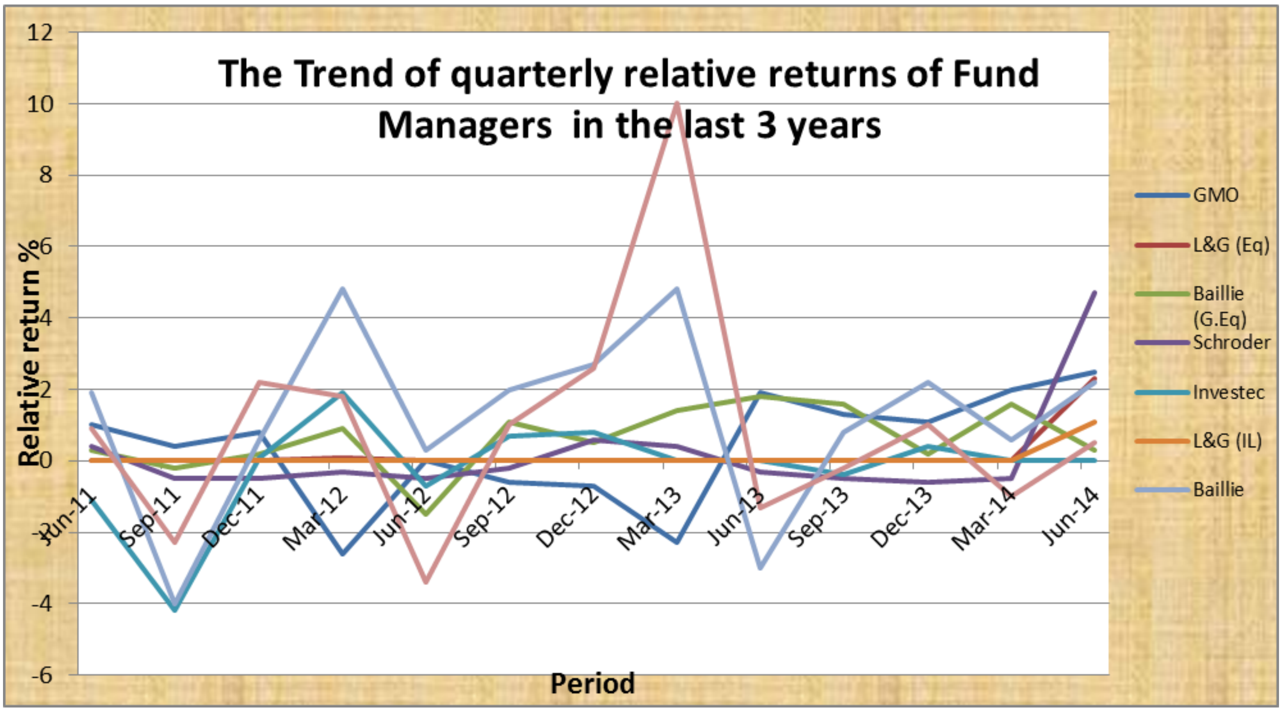
6.3 The performance of the fund over the longer term is as set out in table 1.

<u>Table 1 – Pension Fund Performance</u>



	Current Quarter	One Year	Three Years	Five Years
Fund	1.8%	10.4%	7.2%	11.0%
Bench Mark	2.1%	9.2%	7.2%	11.2%

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



6.5 The graph above 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.

7. MANAGERS

7.1 The Fund currently employs six specialist managers with eight different mandates. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value June 2014 £M	Benchmark Weight % of Fund Managers	Actual Weight % of Fund Managers	Difference %	Value March 2014 £M	Date Appointed
GMO	Global Equity	**267.0**	25.0%	25.8%	0.8%	**260.5**	29 Apr 2005
Baillie Gifford	Global Equity	**183.6**	16.0%	17.7%	1.7%	**183.0**	5 Jul 2007
L & G UK Equity	UK Equity	**216.9**	20.0%	21.0%	1.0%	**212.1**	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**48.0**	5.0%	4.6%	-0.4%	**46.9**	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**45.3**	5.0%	4.4%	-0.6%	**45.0**	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**49.7**	3.0%	4.8%	1.8%	**49.2**	2 Aug 2010
Investec Bonds	Bonds	**97.5**	14.0%	9.4%	-4.6%	**97.5**	26 Apr 2010
Schroder	Property	**110.1**	12.0%	10.6%	-1.4%	**105.2**	30 Sep 2004
Cash	Currency	**17.0**	0.0%	1.6%	1.7%	**16.8**	
Total		**1,035.1**	**100.0%**	**100.0%**	**0.0%**	**1,016.2**	

7.2 The Fund was valued at £1,035.1million as at 30 June 2014. This includes cash held and being managed internally (LBTH Treasury Management), this has increased to 1.6% 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	One Year	Three Years	Five Years
GMO Global Equities	0.30%	4.90%	0.50%	0.40%
Baillie Gifford Global Equities	-2.20%	0.80%	1.70%	2.40%
L & G UK Equity	0.00%	0.10%	0.10%	N/A
Baillie Gifford Diversified Growth	1.10%	2.30%	1.10%	N/A
Ruffer Total Return Fund	-0.10%	-1.80%	1.40%	N/A
L & G Index Linked-Gilts	0.00%	0.10%	0.10%	N/A
Investec Bonds	-0.60%	-2.10%	-2.40%	N/A
Schroder	0.30%	-1.30%	-0.90%	-1.20%
Total Variance (Relative)	**-0.30%**	**1.10%**	**0.00%**	**-0.20%**

7.4 **GMO** made absolute return of 2.5% in the quarter, outperforming the benchmark of 2.2% by 0.3%. The portfolio value has increased by £6.5m since 31 March 2014. This increase is made up of a benchmark/market value appreciation of £5.724m and GMO out performance of £0.78m.

7.5 Strong returns for equity markets globally during this quarter generally resulted in small reductions in GMO's assessment of equity market opportunities. Hence the marginal outperformance delivered by the manager this quarter.

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** delivered marginally positive return of 0.3% in the quarter against a benchmark of 2.6% resulting in relative underperformance of -2.2%.

7.8 For this quarter, the portfolio increased by £0.5m. Assuming the portfolio posted the benchmark return of 2.6% for the quarter, the portfolio would have increased by £4.76m but the manager did not capture the available market value appreciation for the reporting period.

7.9 The fund's holdings in Whole Foods detracted from performance over the quarter, as the share price fell due to reduced earnings expectations as competition in the industry has intensified. The manager has retained the position, however is now monitoring the competitive environment more diligently. During the period, the fund purchased a holding in Workday, a cloud based enterprise software provider, as Baillie Gifford see significant growth potential for the company. The manager also took advantage of temporary share price weakness to add to holdings in Amazon, LinkedIn, and Tesla Motors.

7.10 Over the longer term, the portfolio performance remains ahead of the benchmark for 12 months, 3 years and 5 years.

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

7.12 **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.

7.13 **Investec (Bonds)** – The portfolio posted a flat return against benchmark return of 0.6% this quarter. Longer term performance remains negative. The portfolio has been behind the benchmark since inception.

7.14 For this quarter, the portfolio was flat. Assuming the portfolio achieved benchmark return of 0.6% for the quarter, the portfolio would have increased by £0.585m but the manager did not capture the available market value appreciation for the reporting period due to their adopted strategy/approach.

7.15 Longer term performance remains below the benchmark for 12 months, 3 years, 5 years and since inception. 12 months to reporting period the benchmark returned 2.5% and the portfolio has delivered 0.4%. In money terms assuming the portfolio posted a benchmark return for the period, the market valuation would have been £99.571m, instead of actual portfolio valuation of £97.531m, indicating uncaptured market gain of £2m.

7.16 The most significant contribution to the negative relative performance was the Fund's credit and interest rate exposure, to which the portfolio is positioned defensively.

7.17 The manager believes that they will be able to benefit from a return to normalisation in core government yields, although this failed to materialise over the quarter. This negative relative performance was somewhat offset by strong performance of the fund's emerging market debt exposure, in particular its hard currency debt.

7.18 Currency also made a modest positive contribution despite sterling strengthening over the period.

7.19 **Schroder (Property)** returned 4.7% in the quarter against a benchmark of 4.3% resulting in marginal outperformance of the benchmark by 0.3%. In money terms the benchmark appreciation for the portfolio was £4.5m but the portfolio appreciated by £4.9m, posting a gain of £0.4m.

7.20 Although the portfolio posted marginally positive return this quarter. The longer term performance has lagged the benchmark. There has been an underperformance of -1.2% p.a. over the 5 years to 30 June 2014.

7.21 The biggest contribution to absolute returns continues to come from the Fund's in UK holdings. Over the 12 months to 30 June 2014, UK funds made a positive contribution to relative returns, with the UK portfolio now showing an outperformance over its benchmark over all periods.

7.22 The Fund's European holdings continue to act as a drag on returns, despite this being just 5% of the portfolio by value.

7.23 Over the quarter £5 million was invested into Metro Property Unit Trust, funded by a partial sale of Standard Life UK Shopping Centre PUT (£1.76m) and capital distributions from two specialist funds.

7.24 **Baillie Gifford Diversified Growth Fund** delivered a 2.2% return for the quarter, outperformed the benchmark of 1.0% by 1.2%. In money terms, the portfolio increased by £1.057m, £0.47m of it was market appreciation and £0.587m can be attributed to value added by manager's strategy and approach.

7.25 The long term performances are ahead of the benchmark. The last 12 months are ahead by 3.0% and the last 3 years by 1.1% above benchmark.

7.26 Emerging market bonds had the most significant positive contribution to returns over the quarter, representing a reversal in investor sentiment toward the asset class.

7.27 Holdings in listed equities, investment grade bonds and infrastructure also enhanced quarterly returns. Only absolute return strategies detracted from performance, mainly due to the fund's short position in the Australian dollar vs the US dollar.

7.28 The manager has a cautious outlook on the markets and in accordance with this view has increased exposure to defensive assets, such as government bonds, investment grade bonds and structured finance.

7.29 The allocation to cash was cut to 7% due to the higher yield offered by liquid structured finance products. Despite strong performance from high yield bonds over the past year, the manager continued to reduce exposure to the asset class as spreads have contracted to their tightest levels since the beginning of the financial crisis. The manager opened a new position in Allianz's merger arbitrage fund to profit from increased M&A activity.

7.30 **Ruffer Total Return Fund (Absolute Return)** underperformed by -0.1% in the quarter, and -1.8% over the year to 30 June 2014. The fund's relative performance suffered over the quarter as a whole, as the fund's allocation to 'non-equity' assets has meant that it has not benefitted fully from the recent equity market growth. US Dollar exposure also detracted as, despite the Fed's tapering of quantitative easing and increasing expectations of interest rate hikes, the currency remained relatively weak.

7.31 The fund is ahead of target over 3 years and since the mandate's inception. The main driver for positive performance was the fund's allocation to US Treasury Inflation Protected Securities (TIPS), as valuations rose due to falling long term interest expectations in the US, despite expectations for short term inflation increasing. The fund's allocation to oil stocks also added value, benefitting as the price of crude oil increased over the quarter due to ongoing political tensions in the Middle East.

Cash Management

7.32 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.

7.33 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 Acting Corporate Director of Resources to manage on a day to day basis within set parameters.

7.34 As at 30 June 2014 the Pension Fund internal cash balance was £18.6m.

7.35 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 August 2014 the Pension Fund in house cash position stood at £18.7m.

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 30 June 2014 are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark	Fund Position as at 30 Jun 2014	Variance as at 30 Jun 2014	Variance as at 31 Mar 2014
UK Equities	24.0%	24.7%	0.7%	0.8%
Global Equities	37.0%	39.40%	2.4%	2.1%
Total Equities	**61.0%**	**64.1%**	**3.1%**	**2.9%**
Property	12.0%	10.6%	-1.4%	-1.8%
Bonds	14.0%	9.4%	-4.6%	-4.4%
UK Index Linked	3.0%	4.8%	1.8%	1.8%
Alternatives	10.0%	9.0%	-1.0%	-1.0%
Cash	0.0%	2.1%	2.1%	2.5%
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 Updates

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. LGPS Administration regulations are being updated to reflect the provisions in the Public Sector Pension Act.

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Draft Regulations on Scheme Governance Arrangements – Consultation Response

9.2 DCLG's governance discussion paper was circulated in June 2013 with 15 August 2014 deadline. The Council responded to the consultation.

9.3 At the last meeting you were advised that 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 Board is established to assist the administering authority in complying with regulations. Each administering authority is required to establish a local pension board by 01 April 2015 to be responsible for assisting it to secure compliance with these regulations, any other legislation relating to the governance and administration of the scheme and requirements imposed by the Pensions Regulator in relation to the scheme. The local pension board is also to be responsible for assisting the administering authority to ensure the effective and efficient governance and administration of the scheme.

9.5 The regulations allow for the possibility of local authority administering authorities combining an existing pension committee established under the powers of s.101 of the Local Government Act 1972 (LGA1972) and the local pension board into a single body subject to approval by the Secretary of State. There are obstacles inherent in trying to form a joint committee/board under two separate pieces of primary legislation may make the operation of a joint body impractical. The understanding of many is, that the Pension Board does serve a different role to that of a s.101 pension committee. The LGA1972 is designed with elected members in mind and as such, many of its provisions do not sit well with the constitution of a pension board. It is also worth noting that there are benefits in ensuring a clear separation between the two bodies since they appear to be conceived with different functions in mind.

9.6 The regulations provide alternative versions of regulation 106(5), with respondents asked to choose between a version in which a pension board's constitution complies with LGA1972 and a version in which the administering authority has greater flexibility around voting rights, sub-committees, joint committees and the payment of expenses. While there may appear to be benefits in adopting the LGA1972 provisions, given that they are already there and provide a ready-made framework, there are concerns that this is not the best approach. For s.101 type rules are not compatible with the different roles of pension boards. In particular, the membership of pension boards is required to be broader than that of s.101 pension committees. While it may be possible to amend the s.101 option to include a series of exemptions from some of the restrictions of LGA1972, the more straightforward approach, the general view, is to go with option two which enables administering authorities to prescribe their own procedures and requirements. However, if this is the case, there do need to be some safeguards to ensure that administering authorities cannot frustrate the intention of the regulations. As a minimum, the regulations must ensure that employer and scheme representatives are given equal and full voting rights. Also the expenses of the pension board should be viewed as the cost of good administration.

9.7 It is for the administering authority to determine the membership of the local pension board but it must have an equal number of employer and scheme member representatives with relevant experience and the capacity to represent, with a total of at least 4, and must together form the majority of the membership. A member of a local authority may not be appointed as an employer or scheme member representative.

9.8 Generally there are concerns over the prohibition on elected members being appointed as scheme member or employer representatives. While it is desirable to ensure a degree of separation between the existing pension committee and the new pension board, it is believed that this aim can best be achieved by other means. There is also the requirement for "capacity and experience" is proving unpopular in some quarters. Capacity can be read as meaning someone having available time and resource to carry out their pension board functions or it can be taken as meaning they have knowledge and skills or the capability to acquire these. Both definitions are welcome when considering membership of a local pension board. In the absence of a definition the term “experience” is potentially more problematic. Clearly some experience of pension schemes would be useful for a pension board member but if the expectation is set too high it will make it impossible to fulfil.

9.9 Local pension boards must not have a conflict of interest, the administering authority must satisfy themselves of this and a member of the local pension board must provide information reasonably requested to enable this.

9.10 As the administering authority we must have regard to guidance issued by the Secretary of State in relation to local pension boards. We are hoping in formulating such guidance, that the DCLG will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator. Such guidance will probably need to include the following:

- Minimum number of local pension board meetings per year
- Determining employer and scheme member constituencies for representation on the local pension board
- Local pension board reporting requirements
- Local pension board whistle-blowing mechanisms
- Complying with the Pension Regulator’s code of practice given that this was not written for LGPS funds specifically e.g. good governance around funding and investment and what it actually means for local pension boards.

9.11 Officers are currently evaluating 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 November 2014 meeting for approval.

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

9.12 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.

9.13 DCLG Consultation Paper on proposals for the Restructure of the LGPS – LGPS Opportunities for Collaboration, Cost Savings and Efficiencies with a deadline of 11 July 2014, LBTH responded.

10. London Collective Investment Vehicle (CIV) Update

10.1 London’s local authorities currently have over £24 billion of assets under management. London Councils’ analysis shows that in 2012-13 approximately £72.8 million was paid in fees across 253 fund mandates from 87 fund managers.

10.2 To date, 28 boroughs have agreed to contribute £25,000 each to a fund (another is likely to contribute shortly), which is being used to commission specialist advice associated with the development of the proposed CIV.

10.3 The CIV is being developed for and on behalf of the London boroughs and the boroughs will participate on an entirely voluntary basis. As such, considerable attention has been given to ensuring that the proposed governance and operational structures of the CIV reflects the wishes and needs of the boroughs, both on day one and into the future.

- Investment in the ACS (Authorised Contractual scheme) should be voluntary, allowing both entry and withdrawal.
- Boroughs choose which asset classes to invest into, and how much.
- Boroughs should have sufficient control over the ACS Operator.
- Investing authorities will take a shareholding interest in the Operator.
- Shareholders will have membership of the Pensions Joint committee.
- ACS Operator will provide regular information to participating boroughs
- ACS will not increase the overall investment risk faced by boroughs.

10.4 Since April, work has been underway to set up the operating company required for the establishment of the ACS. With this work nearly complete, procurement of a number of service providers for the ACS has started, beginning with an Asset Servicer, a partner organisation that will be integral to the overall operation.

10.5 By the end of autumn 2014 contracts should be in place with all the key outsourced partners for the ACS. Current thinking suggests that the Operator will initially be based on an outsourced model in order to facilitate the quickest and most pragmatic route to the CIV's launch.

10.6 A private limited company has now been created by London Council's and LBTH acquired share capital in the company following the approval of the Pensions Committee and the Cabinet.

10.7 The first meeting of the joint select committee will take place shortly.

10.8 A shortlist of three suppliers has been selected to take forward into the competitive dialogue stage for the Asset servicer procurement.

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

11.1. The comments of the Acting Corporate Director Resources are incorporated in the report.

12. LEGAL COMMENTS

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***
Hymans Robertson's Briefing notes, Hymans Robert quarterly reports and WM Quarterly Performance Review	*Bola Tobun Investment &Treasury Manager x4733*