

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 7.00 P.M. ON WEDNESDAY, 17 SEPTEMBER 2014**

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE  
CRESCENT, LONDON E14 2BG**

**Members Present:**

Councillor Rajib Ahmed (Chair)  
Councillor Andrew Cregan  
Councillor Clare Harrisson  
Councillor Ayas Miah  
Councillor Harun Miah  
John Gray  
Frank West

Non-Voting Member (Admitted Body)  
Non-voting Member Representing Trade  
Unions

**Admitted Bodies, Non-Voting Members Present:**

John Gray	– Non-Voting Member (Admitted Body)
Frank West	– Non-voting Member Representing Trade Unions

**Others Present:**

Lynn Coventry	WM Representative
Anthony Dixon	Baillie Gifford
Fiona Macleod	Baillie Gifford
Robert Haynes	

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**Officers Present:**

Ngozi Adedeji	– (Team Leader Housing Services, Legal Services, Law Probity & Governance)
Anant Dodia	– (Pensions Manager)
Chris Holme	– (Acting Corporate Director - Resources)
Kevin Miles	– (Chief Accountant, Resources)
Bola Tobun	– (Investments and Treasury Manager, Resources)
Nishaat Ismail	– (Committee Officer, Democratic Services, Directorate Law Probity and Governance)
Antonella Burgio	– (Democratic Services)

**Apologies:**

Councillor Abdul Asad and Councillor  
Shafiquel Haque

**1. APPOINTMENT OF VICE CHAIR**

Councillor Claire Harrison self-nominated and was seconded by Councillors Ayas Miah and Harun Miah. There being no other nominations it was

**RESOLVED**

That Councillor Claire Harrison appointed Vice-Chair of Pensions Committee for the duration of the municipal year.

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interests were made.

**3. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes of the meetings held on 25<sup>th</sup> February 2014 and 16<sup>th</sup> of July 2014 were presented for approval.

**RESOLVED:**

1. That the minutes of 25<sup>th</sup> February 2014 be approved as a correct record of proceedings.
2. That minutes of the meeting held on 16<sup>th</sup> July 2014 be approved subject to the following two amendments:
  - that the attendance at the meeting of Simon Kilby service head of human resources and workforce development be recorded.
  - that the following sentence at Minute 5 “it was noted that discretion is applied to voluntary retirements but not to employees made redundant” be revised to the following “it was noted that there were actuarial reductions which applied to
  - voluntary redundancies but not to compulsory redundancies.”

**4. PETITIONS**

No requests to present petitions were received.

**5. REPORTS FOR CONSIDERATION****5.1 Disbandment of Pension Fund Investment Panel**

The Investment and Treasury Manager Resources, presented the report, recommending that investment advice is provided direct to the Pensions Committee without the need for a separate investment panel. The reasons stated for this recommendation were;

- There is duplicity of functions of the Pensions Committee and the Investment Panel, there would only be one meeting instead of two.

- the previous structure had been to enable focused investment debate to be undertaken by an investment panel but this had not proved that practical to pursue because of additional demands on Members' time.
- The proposed new committee structure would fit in well with the arrangements that would come about once the pensions boards, proposed in recent Local Government Pension Scheme (LGPS) legislation, had been established.

The Committee also noted that the authority had responded to the recent LGPS consultation

Councillor Harrison requested that a copy of guidance issued by Council of Independent Financial Advisors (CIPFA) supplementing regulations on best practice in response to the Myners report be provided.

### **RESOLVED**

1. That the Investment Panel be disbanded.
2. That the task of providing quarterly updates on performance and key issues arising out of the quarterly review in a written briefing to Members of the Pensions Committee be delegated to the Acting Corporate Director of Resources.

## **5.2 WM Annual Review of Pension Fund Performance 2013/14**

Lyn Coventry of World Markets (WM) presented the Performance Review of Tower Hamlets and informed the Committee about the work of World Markets. The purpose of the report was to give the Committee an insight into;

- economic and market environments
- in comparison to other local authorities funds which are monitored through this company

The key points covered in the report were;

- The national picture- in respect of performances of equities, bonds, alternatives and property markets in the short and medium terms.
- Average returns between 2013-14 (Section 1 pages 26-30 of agenda pack)
- Total Fund performance against Strategic Benchmark (Section 2 pages 31-34 of agenda pack)
- Performance of Fund Managers (Section 3 pages 34-35 of agenda pack)
- The Committee were informed that the pacific and emerging markets generated negative returns. The global financial crisis had made an impact with nine percent of returns over the past 5 years.
- The representative from World Markets informed the Committee that volatility rates are lower with bonds as they more consistent and

provide greater returns- Only in 3 years had there been negative returns from bonds.

### **Asset Allocation**

- With regards to Asset Allocation the Committee were told from end of March 2014, corporate pension funds were closed to new members, but local government fund is different to this.
- The UK was down thirty six percent on equity allocation.
- There has been no major change with regard to bonds. Government bonds were main asset class but corporate bonds stand for 2/3 of investments
- More money has been put into diversified funds
- The Committee were made aware that long term risk investments generated greater returns. An example of this was equities, although it has higher volatility rates, it gave higher returns than low risk investments.

### **Tower Hamlets Pension Fund**

- The Committee were informed that there has been 1.6% return-more than last year, surpassing the benchmark.
- The fund outperformed the benchmark over the latest year for the first time in 8 years and only the second time in the last decade.
- longer term stock selection has been unfavourable. This was due mainly to below benchmark returns in the UK equities.
- Relative risk is low compared to other Funds within the local authority universe- The World Markets representative informed the Committee that over the course of five years LBTH has not performed in accordance with the benchmark

In response to Members' questions, the following information was provided:

- Concerning long term Manager performance and low percentile, the Committee were informed by the World Market's representative that the low percentile was due to having a UK equity Manager which was not performing well, which explained the low returns.
- Concerning investment in the Pacific region and whether it was possible to invest elsewhere, where the authority would get higher returns, the Committee were informed that it is important to have a long term strategy in place and ensure that it is at a level of risk that the authority is comfortable with as this has proven to be beneficial. The Investment and Treasury Manager informed the Committee that the Fund is running on low risk due to the current set up. The Committee were also told that the way in which the authority has exposure to oversee markets is in line with global equity markets.

- Concerning whether some comparative figures of targets and performance achieved, could be provided/made available to the committee, Members were informed that this kind of figure should be the actuarial target. They were also advised that the 'performance aimed for' constitutes the 'target' and could be either in-line with the market or relative to it this. This 'target' therefore becomes the benchmark. The committee was informed that, while there was no established comparative reporting against other London authorities, the Fund had performed better than average in relation to other London boroughs monitored by WM Company.
- The Committee was recommended to establish a benchmark strategy and that this should be set at a level of risk that the Council was prepared to accept.
- Concerning whether there were any possible effects arising from the forthcoming referendum on Scottish independence, the committee was informed that financial markets dislike uncertainty and therefore a short term impact could be expected; especially in relation to equities markets. However it was harder to anticipate what the effect would be on bond markets.

In managing and directing investment of the Fund, members were asked not only to consider investment returns but at the same time also to consider the effects of liabilities on returns since pension funds were compromised of two aspects 'returns and liabilities'. Mr Haynes noted that the Fund strategy for the longer term had been to keep as low as a risk as possible that enabled returns to be achieved. Additionally members were recommended to consider the potential consequences of poor returns and what would be the Council's role/duty in such an event.

Councillor Harrison asked that paper be brought to the next meeting to discuss how the investment strategy could be changed or influenced by the Committee.

#### **RESOLVED**

That the report be noted.

Action by:

C Holmes- Acting Corporate Director of Resources

#### **VARY ORDER OF BUSINESS**

At the request of the Investment and Treasury Manager, the Chair moved and the Committee agreed that the order of business be varied to enable Managers Baillie Gifford to be interviewed. Accordingly, agenda item 5.5 was considered following item 5.2 and consideration of the agenda as published was resumed from item 5.3.

### **5.3 Investment Performance Review and LGPS Updates for Quarter Ended 30 June 2014**

The Investment and Treasury Manager reported performance of each of the mandates in the fund's investment portfolio, as reported at agenda item 5.3, and highlighted in particular the outperformance of Baillie Gifford Global Equity Mandate, GMO Global Equity mandate and Legal and General Index Linked Gilts mandate.

The committee was informed that

- the Fund's overall value in the period 31st of March 2013 to 30th of June 2014 had increased by £18.8 million.

#### **Resolved**

that the report to be noted

### **5.4 Fund Managers Update**

The external Investment Consultant presented the report on the Review of Investment Manager's Performance for Second Quarter of 2014.

The key findings presented from the report were;

- That the UK equity markets were up 6.4%
- Since June, UK and USA equity markets had increased and gilts markets had returned 2.8% in the quarter.
- The manager performance summary, including the rating health check attributed to each of the investment manager's in the fund portfolio
- GMO- The Committee were told that GMO had outperformed in the recent quarter and had retained all underperformance back. The Committee were made aware that GMO were asked one year ago to make a contribution on the scale of underperformance and were asked to reduce to their fees, however they since returned all the performance they had previously lost.
- Investec- were a bond manager dealing in absolute returns and the fund had underachieved since inception. However it was not recommended that this manager be replaced at this time as it was anticipated that performance would improve once rising interest rates returned.
- Schroder- a property manager, and had been placed on 'close watch'. By way of background he advised that five years ago this manager had diversified its portfolio into the European market and its investments were seven-year horizons. Therefore it was necessary that these be completely concluded. He noted that although there had been underperformance, this manager had been giving good returns explaining that property portfolios operated differently to equities and were good income generators over the longer term. Additionally the Tower Hamlets pension fund had higher exposure in this area than

other local authorities; hence the effects witnessed on the fund's overall performance.

Mr Haynes reported that:

- two weeks previously he had met with GMO and had agreed to move from the custom benchmark that had been agreed and place GMO on the same benchmark basis as Baillie Gifford (i.e. MSCIAC world index).
- 1% had been removed from the GMO portfolio and 1% from the Legal and General money portfolios which would be redeployed to cash for an interim term pending other investment opportunities.
- Baillie Gifford's diversified growth fund was closed to new investors, however Tower Hamlets was an investor at the inception of the mandate and as such were able to retain access to further investment in this mandate.

Resolved

that the update to be noted

## **5.5 Presentation by Fund Managers - Baillie Gifford**

The committee welcomed Anthony Dixon and Fiona McLeod of Baillie Gifford and noted that the Fund held the following two mandates with this manager.

- Equities- 'Global Alpha'
- Diversified growth fund

The Committee were informed of Baillie Gifford's primary aims, which was to endeavour to get greater returns with low risks but to have less volatility.

Members were informed of the volatility targets which were less than 10% per annum and they were also told that the Fund was able to make broad investments as long as the management was suitable.

Baillie Gifford representatives informed the Committee of LBTH's current approach:

- After the financial crisis most assets have been better valued, this could be seen as an opportunity to have allocation of riskier assets. However assets were expensive and geopolitical risks needed be taken into consideration, for example China's financial growth.

A Member noted that the firm incorporated environmental and ethical governance into its activities but it had not signed up to the London Association of pensions fund authorities (LAPFA) statement of investment principles approved by the LAPFA Board in December 2013 and highlighted the reputational risk that public sector bodies could incur where investment ethics were not well monitored. In response to this query, Mr Dixon advised that Baillie Gifford has a specialist corporate governance team who are able

to advise on ethical matters and the firm has subscribed to the U N principles of ethical investments. He agreed that the firm's statement on ethical investment would be provided to the committee and advised also that, in relation to the Diversified Growth Fund, it was not possible to monitor all activity as closely as equity investments since very many investments made up this portfolio. Additionally investments that comprised this fund crossed a number of stocks and therefore exposure to individual investments was diluted.

The committee also requested the following information be provided to all Council Members:

- An outline of the general approach to ethical investments
- A copy of the annual governance review providing this information

Concerning the selection of appropriate investments for the Global Alpha portfolio members were informed that these were on the basis of projected investment returns. If returns were not achieved, the investments would be reviewed and where necessary terminated

## **RESOLVED**

that the presentation be noted

### **Action by:**

Mr Dixon – Baillie Gifford

Members requested report on ethical call for future agendas

## **5.6 LGPS Governance Updates**

Mr John Raison Independent Investment Adviser, Pensions Fund Adviser provided an update on the LGPS framework outlining the changes and responsibilities arising from the regulations of the Public Services Pension Act 2013

In particular he highlighted:

- The identity of the responsible authority
- The this role and powers of the scheme advisory board
- Role and powers of the scheme manager (i.e. the Pensions Committee)
- The role and powers of the pensions board
- The role and powers of the pensions regulator.

Members noted the presentation made and requested that the CIPFA code of practice been made available/circulated to members of the committee.

### **Action by:**

B. Tobun, Investment and Treasury Manager, Resources



**5.7 Training Events**

This item was incorporated into item 5.6.

**5.8 2013/14 Pension Fund Annual Report**

The chief accountant presented the draft annual report 2013-14 and requested that members note the draft presented. In particular he highlighted:

- The statement of accounts audit was almost complete
- The statement of investment principles required updating
- The governance compliance statement

The committee requested information on the following matters:

The following requested were made:

- a report on the impacts, possible impact on the pension fund of the forthcoming financial savings achieved through voluntary redundancies was requested by the Committee.

Concerning what accessibility issues would be caused by the recent legislation that prevented member participation in local government pension schemes, the chair was informed that some research had been done into this matter and the and officers were investigating whether any alternatives were available.

**Resolved**

That the following be noted:

1. Pension fund annual report 2013-14
2. Pension fund statement of accounts
3. Funding strategy statement
4. Statement of investment principles
5. Governance compliance statement.

**6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT**

Nil items

The meeting ended at 9.30 p.m.

Chair, Councillor Rajib Ahmed  
Pensions Committee