

Agenda Item 1

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.10 P.M. ON TUESDAY, 24 FEBRUARY 2015

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

Members Present:

Councillor Rajib Ahmed (Chair)
Councillor Clare Harrisson
Councillor Ayas Miah
Councillor Mohammed Mufti Miah

Admitted Bodies, Non-Voting Members Present:

John Gray – Non-Voting Member (Admitted Body)

Other Councillors Present:

None.

Apologies:

Councillor Andrew Cregan
Councillor Harun Miah
Frank West

Others Present:

Evan Grace – Asset Allocation Portfolio Manager
Tim Sutton – Vice President

Officers Present:

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)
David Knight – (Senior Democratic Services Officer)

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 previous meeting held on 19th November 2014 were presented for approval.

Cllr Harrisson-requested that the spelling of her name on page 8 at 4.1 be corrected.

RESOLVED:

- That the minutes of 19th November be approved as a correct record of proceedings.

ACTION BY: Nishaat Ismail (Committee Officer)

3. TRAINING - ASSET ALLOCATION BY WELLINGTON MANAGEMENT

The Committee received a training session on Asset allocation by representatives from Wellington Management.

The Committee were informed about the 3 main functions carried out by Wellington Management as an investment management firm, known as the "Spectrum of asset allocation services"

1. Research
2. Advise
3. Solve

The Committee were also told the following;

- The economic environment is important to asset allocation
 - It is important to diversify exposure across economic environments
 - Tactical Asset Allocation is important;
- There are different ways of making tactical decisions; Direct approach, outsourced approach and a hybrid approach.

Members were also told about the importance of having a combination of Active and Passive Management to manage the LGPS portfolio.

It was

RESOLVED:

That the presentation be noted by Members of the Committee.

4. REPORTS FOR CONSIDERATION

4.1 Investment Performance Review for Quarter End 31 December 2014

The Investment and Treasury Manager presented the Investment Performance Review for Quarter End 31 December 2014. The report informed Members of the performance of the Fund and its' investment managers for the quarter ending 31st December 2014.

The Committee were informed;

- For the quarter end December 2014, the US dollar strengthened against the sterling and Euro.
- The equity market for UK only rose by 0.4%
- US equities rose by 4.1% for the quarter
- US equities performed best than any other market.

Performance of Tower Hamlets Pension Fund

The Committee heard that;

- Five of Tower Hamlet's Pension Fund managers performed well.
- The Fund's overall value has increased by £31.77m from £1,049.7m as of 30 September 2014 to £1,081.5m as of 31 December 2014.
- Tower Hamlets has 2 global equities; GMO and Baillie Gifford.
- GMO made absolute return of 1.3% in the quarter, underperforming the benchmark of 2.8% by 1.5%.
- Baillie Gifford Diversified Growth Fund generated a return of 0.6% for the quarter, underperformed the benchmark of 1.0% by 0.4%
- Ruffer performed very encouragingly by posting a positive return of 4.2% against a target return of 0.6% over the quarter.

In response to Member's questions the Committee were told that;

- GMO's performance will be better in the coming quarter.
- Baillie Gifford takes a different approach to asset allocation in comparison to GMO.
- Baillie Gifford and GMO perform and produce returns at different times.
- The equities market was performing well.

The Chair requested to arrange a meeting with officers to discuss the Fund Managers further.

RESOLVED:

That the contents of the report be noted.

4.2 Investment in London LGPS Collective Investment Vehicle - Joint Committee Meeting 17th December 2014

The Chief Accountant presented the report which summarised the business of a Pensions CIV Sectoral Joint Committee meeting on 17th December 2014.

Cllr Clare Harrisson and Kevin Miles (Chief Accountant) attended the joint committee meeting where the terms of reference for the CIV were covered.

The Committee were told that the CIV asked an additional £50,000 from all authorities involved.

Members noted that one of the key concerns raised in the CIV joint committee meeting was concerns of accountability raised by most councils involved.

The Committee also heard that ultimately it was up to councils how much they wished to invest in the CIV.

In response to Member's questions, the Investment and Treasury Manager and the Acting Corporate Director said they would find out if Tower Hamlets has any non-disclosure clauses with any of the fund managers.

RESOLVED:

That Member's approved the recommendations to invest a further £50,000 into the CIV.

4.3 Tower Hamlets Pension Scheme- Social, Environmental and Ethical Investment

The Chief Accountant presented this report which informed the Committee of the Pension Fund's approach to socially responsible investments.

The Committee were told that the Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark.

Members were also informed that the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments.

Members raised their concerns about the importance of knowing exactly where LBTH's pension fund managers are investing the Council's money.

RESOLVED:

That the report be noted.

4.4 LGPS Governance Regulations and LBTH Local Pensions Board Establishment

The Investment and Treasury Manager presented this report explaining the planned changes to the governance of the Local Government Pension Scheme (LGPS) as a result of the public Service Pensions Act 2013 and regulations issued on 28th January 2015.

Members were informed about the discussions of the meeting of Pension Board Working Group meeting.

Members requested that changes be made to the Local Pension Board of LBTH Terms of Reference, at points 19.b & c under the Employer representatives section.

RESOLVED:

- That the report be noted
- The monitoring officer will make the necessary changes to the constitution that the Pensions Committee has the delegated authority and power to create the Local Pension Board be noted.
- And the Local Pension Board Terms of Reference be approved with amendments.

4.5 Pension Fund Business Plan and Budget for 2015/16

The Investment and Treasury Manager presented the Pension Fund Business Plan and Budget for 2015/16.

The report outlined the Work Plan for the Council's statutory function as the administering authority of the LBTH Pension Fund.

The Committee were told about the Key Performance Indicators that cover the following areas:

- Investment performance
- Funding level
- Death benefit administration
- Retirement administration
- Benefit statements
- New Joiners
- Transfers in and out
- Employer and member satisfaction
- Data quality
- Contributions monitoring
- Overall administration cost
- Audit

Members were told that the Pensions Committee will receive update on those performance indicators.

In response to Members questions, the Committee were told that;

- From 1st April 2015, changes will enable people to opt for Pension scheme outside. There will be procedures in place to advise the individual by independent advisors.
- Officers are in the process of finding out more information from the Council's actuaries to prevent loss of cash flow as a result of people transferring to private pension schemes.
- People would be made aware of the implications of opting for a pension scheme elsewhere.

RESOLVED:

- 1 That the work plan be agreed.
- 2 The revenue budget for 2015/16 also be agreed.

4.6 Review of discretions under the Local Government Pension Scheme

The Pensions Manager presented the Review of discretions under the Local Government Pension Scheme.

Members were told about the Pension Policies which need reviewing. There were five discretions to reconsider;

- Whether the Council will pay towards the cost of Shared Cost Additional Pension Contributions (SCAPC) made by an active scheme member to purchase extra Pension benefits of up to £6,500 per annum.
- Whether to permit flexible retirement for staff aged 55 or over.
- Whether to waive in whole or part any actuarial reduction on benefits which a member voluntarily draws before normal pension age.
- Whether to grant an additional pension of up to £6,500 to an active pension scheme member or within six months of leaving to a member whose employment was terminated on the grounds of redundancy or retirement on grounds of efficiency.
- Whether to apply the "85 year rule" for a scheme member wishing to voluntarily draw benefits on or after age 55 and before age 60.

RESOLVED:

That the employer discretions set out in Section 4 of this report and the policy statement be approved.

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 9.00 p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.05 P.M. ON THURSDAY, 23 JULY 2015

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

Members Present:

Councillor Andrew Cregan (Chair)
Councillor Clare Harrison
Councillor Candida Ronald
Councillor Mohammed Mufti Miah

Admitted Bodies, Non-Voting Members Present:

—

Other Councillors Present:

Apologies:

Councillor Abdul Mukit MBE
Councillor Harun Miah
John Gray

Others Present:

—

Officers Present:

Ngozi Adedeji	— (Team Leader Housing Services, Legal Services, Law Probity & Governance)
Anant Dodia	— (Pensions Manager)
Kevin Miles	— (Chief Accountant, Resources)
Bola Tobun	— (Investments and Treasury Manager, Resources)
Antonella Burgio	— (Democratic Services)

1. APPOINTMENT OF VICE-CHAIR

The Chair proposed that Councillor Clare Harrison be appointed Vice-Chair of Pensions Committee for the duration of the municipal year. The proposal

was seconded by Councillor Candida Ronald and, there being no other nominations, it was

RESOLVED

That Councillor Clare Harrison be 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 meeting held on 24 February 2015 were approved subject to correction that the attendance of Legal Officer Ngozi Adedji be recorded.

4. PETITIONS

No requests to receive petitions relating to agenda items to be discussed were made.

5. REPORTS FOR CONSIDERATION

5.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings

The clerk introduced the report informing Members that this annual report was presented to enable the Committee to note its arrangements and, if desired, agree an alternative meeting time for the duration of the municipal year.

RESOLVED

1. That the Terms of Reference, Membership and Quorum as set out in Appendix A to the report be noted.
2. That scheduled meetings of Pensions Committee for the current municipal year will start at 7.00pm.

5.2 Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2015-16

The clerk informed the Committee that prior to the beginning of the municipal year Admitted bodies had been contacted to verify whether they wished to endorse the reappointment of John Gray as co-opted member (Admitted Bodies) of Pensions Committee. No objections to the reappointment were received and therefore the Committee was asked to note Mr Gray's endorsement and reappointment.

The recognised Council Unions were also contacted to verify whether they wished to endorse the reappointment of Frank West as a co-opted member (Unions) of the Pensions Committee and his reappointment was endorsed.

At the meeting, the Committee were informed of Mr West's recent passing. Members were sad to hear this news, noting that Mr West had been conscientious in his participation and given many years of service to the Committee. They wished their condolences to be conveyed to Mr's West's wife and family.

RESOLVED

1. That the continued endorsement of John Gray as co-opted Member (Admitted Bodies) of Pensions Committee be noted.
2. That the vacancy for the position of Co-optee (Union Representative) arising from the Passing of Mr West be noted.

5.3 WM Annual Review of the Pension Fund Performance 2014/15

Ms Coventry of WM Company made her annual presentation which provided the Committee with a summary of the performance of pension funds measured by WM. The key messages conveyed related to:

- a. performance of Funds in the context of the financial environment in the period.
 - o Average returns were 32% and indicated strong performance
 - o Equities (were more volatile but) had performed better than bonds (whose yields were at historic lows)
 - o Alternatives had performed below equities
 - o Recommended that, because of their nature, investments in property should be for strategic reasons
 - o Current market trends have been to:
 - move from equities to alternatives and
 - move from UK towards overseas investments
 - move from government to corporate investments
- b. the performance of Tower Hamlets Pension Fund in the last year,
 - o Fund asset allocation has been in line with the average local authority profile
 - o Fund returned an over benchmark performance of 11.8% in the year
 - o Over 5yrs the Fund's relative return is in line with the local authority benchmark
 - o Some managers have performed above benchmark in the year, Baillie Gifford and Ruffer have added value
 - o GMO had below benchmark performance in the year but has outperformed benchmark over 3 years
 - o Alternatives have performed well in the 3 year category

- Underperforming managers over 3 and 5 years are Investec and Schroders
- c. performance relative to that of other local authorities' funds measured by WM in this period
 - in 2013 the Fund underperformed other local authorities by 1.2%
 - returns were below average in the 3-20 year category
 - TH Fund was in the lower median local authority range in relation to absolute risk .v. return. Fund has less volatile stock selection but this produces lower returns

In response to members' question the Committee was advised that:

- Underperformance was due to stock selection. The fund has more pooled multi asset investments short term, but in longer term investments bonds form the biggest assets
- The fund ranked lower in many of the rankings because of the governance budget; since time was required to proactively supervise investments. However the fund was now at £1Bn and was in a better position to gain exposure alternative types of portfolios. Members were asked to note that the approaching cash-negative position of the Fund would also have an effect.
- Noting that new public sector pensions legislation required that a predetermined/agreed funding level must be present and this might require the Council to adopt a less risk adverse approach, Mr Haines informed the Committee that the Council would be required to determine the balance of risk against contribution rate to ensure that its funding target was met.

RESOLVED

That the update be noted.

5.4 Market and Economic Update

Mr Haines, Independent Investment Advisor to the Pensions Committee gave a verbal update highlighting the following matters:

- The markets were in exceptional circumstances, due to the degrees of quantitative easing (QE) undertaken by governments. Therefore Interest rates were at levels not seen in 400 years.
- Monies created by QE have gone into financial products and property.
- There was no precedent that would indicate where markets would behave going forward.
- The Fund must consider the circumstances from the perspective of its assets and liabilities and therefore to ensure that its asset allocation is the best it can be.
- The Fund performed well in 2014/15 but its position has not improved because its liabilities have also increased. Therefore it was important to consider assets and liabilities in tandem.

- The economy was in the third stage of a deflationary cycle and Members were asked to note the approach taken by Ruffer in this regard.

Mr Haines recommended a cautionary approach going forward for the following reasons:

- Slowdown in China economic growth
- The levels of government, corporate and individual debt globally
- Interest rate normalisation

Responding to Members' questions, the Committee was informed that:

- The effects of the expected reduction in staff in the forthcoming five year period would be addressed through the triennial evaluation and accompanying review of the investment strategy
- The councils position was common to all local authorities which faced reduced staffing and there were other global models that public sector bodies could investigate.

RESOLVED

That the market and economic update be noted

5.5 Investment in London LGPS Collective Investment Vehicle (CIV)

This item was considered in closed session.

5.6 Pension Fund Investment Performance Review for Quarter End 31 March 2015

Bola Tobun, Investment and Treasury Manager presented the report which informed Members of the performance of the Fund in the preceding quarter. The following matters were noted:

- Six of the eight Fund mandates had outperformed in the quarter.
- Investec had underperformed for some time and the Investment Advisors to the Fund had recommended that trustees should consider whether they wished to sell this mandate. (Any mandate sale must be approved by the Committee as trustees of the fund.)

In order to undertake the sale of a mandate the Committee was asked to delegate authority to the Chief Financial (S151) Officer and the Fund Investment Advisor to undertake necessary decisions as directed by Members relating to fixed/bond portfolio investments. Members supported this proposal and agreed to delegate this authority.

RESOLVED

1. That the contents of the report be noted
2. That the Chief Financial (S151) Officer and the Fund Investment Advisor be authorised to undertake necessary decisions as directed by Members relating to the disposal of fixed/bond portfolio investments.

5.7 Pensions Board Update July 2015

Bola Tobun, Investment and Treasury Manager presented the report which outlined the progress of the establishment of the new pensions Board under the Public Service Pensions Act 2013. Members noted the following:

- The appointment of an employee (active Fund member) representative had been delayed because of a procedural error in recruitment. This had been rectified and the appointment had been referred to the Council's recognised unions to determine.
- There had been no nomination for an admitted bodies (employee) representative. Members suggested that in the absence of an applicant for the position, alternative scenarios be explored to ensure that the positions on the Board are filled.

Members considered the update and, since some appointments remained to be determined, agreed that the Terms of Reference be deferred until membership matters had been settled. The legal advisor agreed to investigate the matter.

RESOLVED

That the contents of the report be noted.

5.8 LGPS Governance Training

The Chair and Members, noting that a number of apologies had been received agreed that training be deferred to a later meeting to enable a greater number to participate.

RESOLVED

That the scheduled governance training be deferred

5.9 Pension Fund Business Plan and Budget for 2015/16

Bola Tobun, Investment and Treasury Manager presented the report which outlined the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund. It was noted that the plan had been approved at the meeting held on 24 February 2015.

RESOLVED

1. That the agreed work plan attached as Appendix 1 to the report be noted.

2. That the agreed revenue budget for 2015/16 attached as Appendix 2 to the report be noted.

5.10 2014/15 Local Government Pension Fund Annual Report

Kevin Miles, Chief Accountant presented the report which contained the amended draft Annual Pension Fund Report and Statement of Accounts which had been prepared under International Financial Reporting Standards. The report and statement of accounts would be audited by the Council's external auditors and returned for approval at the next meeting. The accounts showed that the Fund's investments had increased during the period 2014/2015.

RESOLVED

1. That the Pension Fund Annual Report be noted;
2. That the draft Pension Fund Statement of Accounts be noted;
3. That the Funding Strategy Statement be noted;
4. That the Statement of Investment Principles be noted;
5. That the Governance Compliance Statement be noted.

6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT


Nil items.

The meeting ended at 9.50 p.m.

Chair, Councillor Andrew Cregan
Pensions Committee

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Agenda Item 4.1

Non-Executive Report of the: Pensions Committee 17 September 2015	 TOWER HAMLETS
Report of: Zena Cooke - Corporate Director of Resources	Classification: Unrestricted
Quarterly Report - Key Pension Administration Performance Indicators: April 2015 to June 2015	

Originating Officer(s)	Anant Dodia – Pensions Manager
Wards affected	All wards

Summary

This report provides Members with the first quarterly monitoring information on the performance of the Pensions Administration Service.

This report covers the period, April 2015 - March 2015, Quarter 1, 2015/16.

Members will receive updates on Key Performance Indicators on quarterly basis.

Recommendations:

Members are recommended to note the contents of this report.

1. REASONS FOR THE DECISIONS

1.1 The report is provided for information.

2. ALTERNATIVE OPTIONS

2.1 There are no alternative options.

3. DETAILS OF REPORT

3.1 A number of key performance indicators (KPIs) are reported on quarterly basis to assess performance in key areas of work. The standards and data for Quarter 1, 2015/16 is detailed in the table below.

Key Performance Indicators from 1 April 2015 to 30 June 2015:

PROCESS	TARGET DAYS	TOTAL	WITHIN TARGET	% WITHIN TARGET	AVERAGE DAYS
Transfer In quote	10	4	3	75.00%	9.25
Transfer In actual	10	9	9	100.00%	2.22
Transfer Out quote	15	29	29	100.00%	1.17
Transfer Out actual	12	6	2	33.33%	12.33
Refund of contributions	10	53	42	79.25%	1.70
Preserved benefit	15	70	66	94.29%	9.52
Pension estimate	10	36	29	80.56%	6.56
Retirement benefits	5	107	65	60.75%	4.91

3.2 However, some new KPIs are being developed and will be reported from Q2 onwards. These are on Death benefit administration, Benefit statements and New joiners.

3.3 There has been a reduction in performance in certain areas over the past 3 months. This is largely due to new legislative changes and the authority's employment options. New procedures are in place to manage phase 2 of the Council's employment options.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 There are no specific legal implications in this report.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 There are no specific comments arising from this report.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The monitoring arrangement for the Pension Fund and the work of officers, advisors and consultants should ensure the Fund optimises the use of its resources in achieving the best returns for member of the Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Accounts provide an effective mechanism to safeguard the Councils assets and assess the risks associated with its activities.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no any Crime and disorder Reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- None

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report


- None

Officer contact details for documents:

- Anant Dodia – Pensions Manager : Telephone: 020 7364 4248

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Agenda Item 4.2

Non-Executive Report of the: Pensions Committee 17 th September 2015	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: [Unrestricted or Exempt]
Pension Fund Investment Performance Review for Quarter End 30 June 2015	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	[All wards]

Summary

This report informs Members of the performance of the Fund and its investment managers for the quarter ending 30 June 2015.

For the quarter, the Fund underperformed the benchmark by -0.5%, delivering a negative absolute return of -2.14% against benchmark return of -1.9%.

The Fund is slightly ahead its benchmark for the last twelve months to end of June 2015, the Fund returned 7.2%, and this exceeds the benchmark by 0.2%.

For longer term performance the Fund posted three year returns of 10.7% ahead the benchmark return of 10% and posted five year returns of 9.2% against benchmark return of 9.0%.

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 returns from Ruffer, Baillie Gifford (DGF), Investec and Schroder Property Funds.

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.

Recommendations:

Members are recommended to note the contents of this report.

1. REASONS FOR THE DECISIONS

- 1.1 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.

2. ALTERNATIVE OPTIONS

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

3. DETAILS OF REPORT

- 3.1 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.

- 3.2 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.

- 3.3 This report informs Members of the performance of the Fund and its investment managers for the quarter 30 June 2015.

3.4 Legal & General Investment Management

- 3.4.1 Legal & General was appointed (2 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 30 June 2015 had a market value of £221.8m. The value of the assets taken on at the commencement of the contract was £204.7m.

- 3.4.2 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.

3.5 Baillie Gifford & Co

- 3.5.1 Baillie Gifford manages two distinct mandates; global equity mandate and diversified growth fund mandate. The global equity fund had a value of £118.9m at the start of the mandate in July 2007. The market value of the assets as of 30 June 2015 was £2200.9m. 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.

- 3.5.2 The diversified growth fund mandate was opened in February 2011 with contract value of £40m. £6.409m was contributed or added to this portfolio during the month of June 2015. The market value of assets as at 30 June 2015 was £56.7m. 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%.

3.6 GMO

3.6.1 GMO manages a Global Equity Mandate which at 30 June 2015 had a market value of £273.4m. On 25 November 2014, £20.8m was redeemed from the portfolio; further £10.674 was redeemed from the portfolio on 29 May 2015 in order to keep the strategic asset allocation weight in line with the investment policy. The initial value of the assets taken on at the commencement (29 April 2005) of the contract was £201.8m.

3.6.2 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.

3.7 Investec Asset Management

3.7.1 Investec manages a Global Bond Mandate which at 30 June 2015 had a market value of £98.5m. The initial value of the assets taken on at the commencement (26 April 2010) of the contract was £97m.

3.7.2 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.

3.8 Ruffer Investment Management

3.8.1 Ruffer manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was contributed or added to this portfolio on 02 June 2015. The value of assets under management as of 30 June 2015 was £56.8m.

3.8.2 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.

3.9 Schroder Investment Management

3.9.1 Schroder manages a property mandate. The value of this mandate on 20 September 2004 was £90m. The market value of assets at 30 June 2015 was £125.6m.

3.9.2 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.

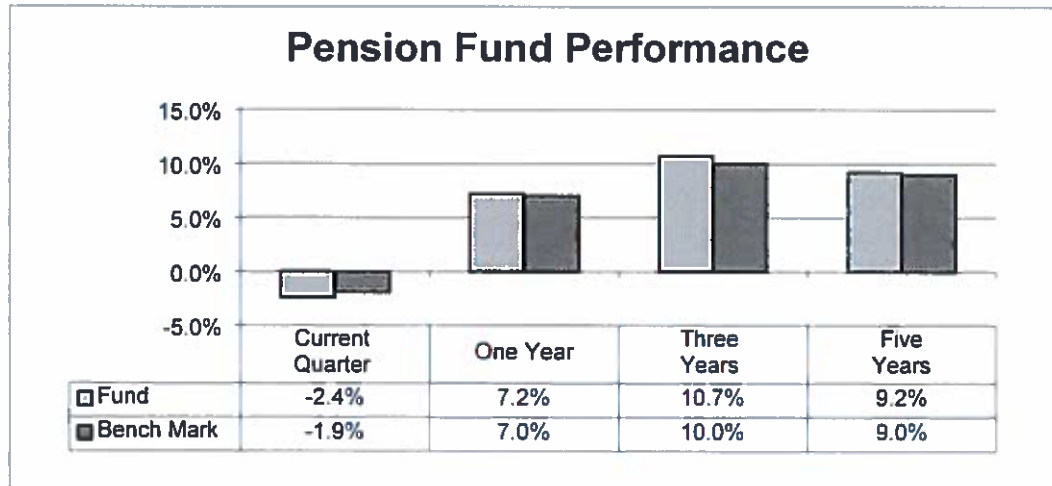
3.10. INVESTMENT PERFORMANCE

3.10.1 The Fund's overall value has reduced by £31.04m from £1,141.9m as of 31 March 2015 to £1,115.6m as of 30 June 2015.

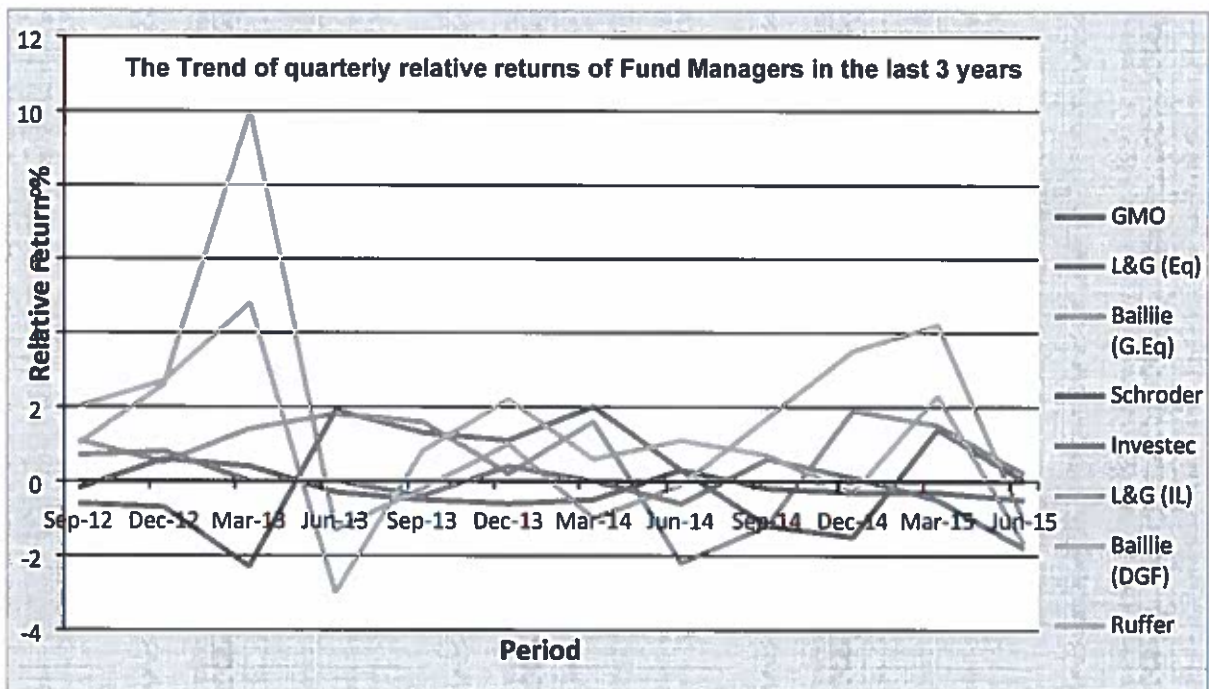
3.10.2 The fund underperformed the benchmark this quarter with a return of -2.4% compared to the benchmark return of -1.9%. The twelve month period sees the fund outperforming the benchmark by 0.2%.

3.10.3 The performance of the fund over the longer term is as set out in the chart below.

Table 1 – Pension Fund Performance



3.10.4 The graph below 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.



3.11 MANAGERS

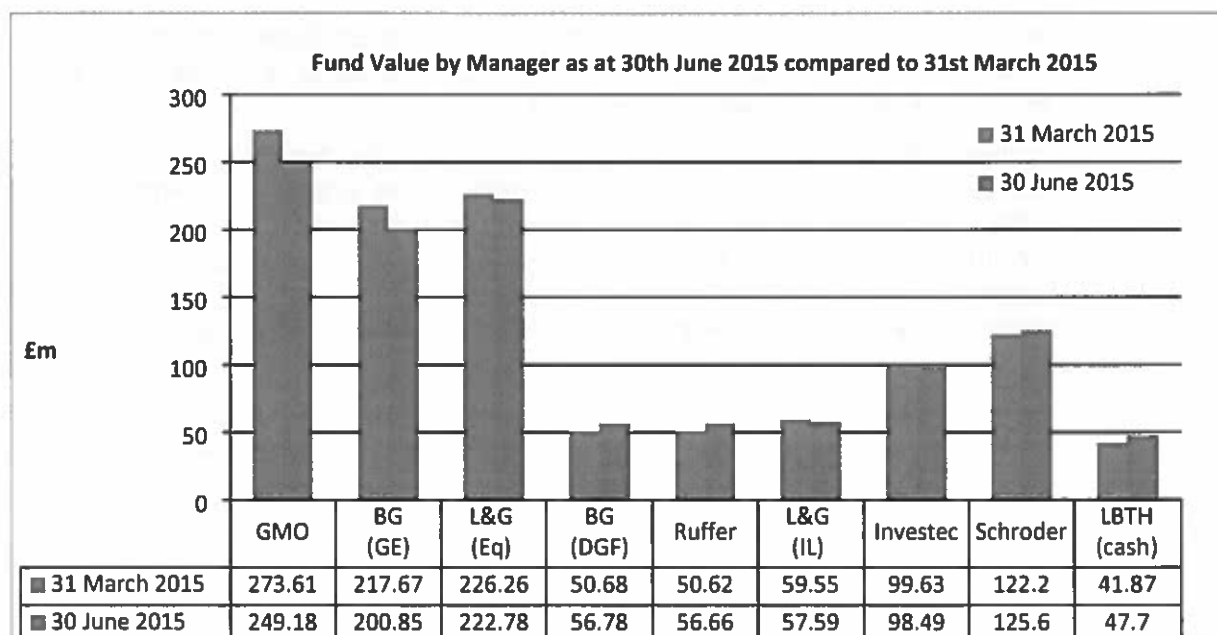
3.11.1 The Fund employs six specialist managers with eight mandates. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value £M	Target % of Fund	Actual % of Fund	Difference %	Date Appointed
GMO	Global Equity	249.2	23.0%	22.3%	-0.7%	29 Apr 2005
Baillie Gifford	Global Equity	200.9	18.0%	18.0%	0.0%	5 Jul 2007
L & G UK Equity	UK Equity	222.8	20.0%	20.0%	0.0%	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	56.7	5.0%	5.1%	0.1%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	56.8	5.0%	5.1%	0.1%	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	57.6	3.0%	5.2%	2.2%	2 Aug 2010
Investec Bonds	Bonds	98.5	14.0%	8.8%	-5.2%	26 Apr 2010
Schroder	Property	125.6	12.0%	11.3%	-0.7%	30 Sep 2004
Cash	Internal cash management	47.7	0.0%	4.3%	4.3%	
Total		1,115.6	100.0%	100.0%	0.0%	

3.11.2 The Fund was valued at £1,115.6million as at 30 June 2015. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 4.3% of the total assets value.

3.11.3 Market performance for the quarter is illustrated below by depicting the fund value by manager for this reporting quarter compared to the last quarter.



- 3.11.4 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	0.00%	-1.70%	0.50%	0.40%
Baillie Gifford Global Equities	0.20%	2.60%	3.10%	2.20%
L & G UK Equity	0.00%	0.10%	0.10%	N/A
Baillie Gifford Diversified Growth	-1.70%	1.00%	2.10%	N/A
Ruffer Total Return Fund	-1.10%	8.70%	5.70%	N/A
L & G Index Linked-Gilts	0.00%	0.00%	0.00%	N/A
investec Bonds	-1.80%	-1.90%	-1.40%	-1.90%
Schroder	-0.50%	-1.60%	-0.90%	-0.90%
Total Variance (Relative)	-0.50%	0.20%	0.70%	0.20%

- 3.12 **GMO** - From July 2014, the new strategic allocation weight has been reduced from 25% to 23%.

- 3.12.1 GMO made absolute return of -5.1% in the quarter, achieving the same return as the benchmark (-5.1%).

- 3.12.2 Global equities were up slightly over the quarter in dollar terms, however they fell in sterling terms, largely due to the appreciation of the pound, and this was the largest detractor from the portfolio's absolute return.

- 3.12.3 In relative terms, GMO's regional and sector allocation generated a modest outperformance. The underweight to North America, combined with good stock selection in that region, was the key driver of outperformance. The portfolio holds a significant overweight emerging market position, which contributed to relative returns, as did a slight overweight to Japan.

- 3.12.4 At the sector level, an overweight to Russian and Chinese financials added to returns, although this outperformance was held back by stock selection in Healthcare and Information Technology.

- 3.13 **Baillie Gifford** – the portfolio outperformed the benchmark of -5.1% over the quarter, delivering a return of -4.9% resulting in relative outperformance of 0.2%. The portfolio is relatively concentrated and seeks to generate strong absolute returns over the long-term through the use of an unconstrained bottom-up approach. The portfolio also delivered on this over the longer term, as performance remains ahead of the benchmark over 3 years and 5 years.

- 3.13.1 One of the largest contributors to performance was Royal Caribbean Cruises, Naspers, the South African pay TV and social media company. These companies have seen significant price appreciation over the past year.

- 3.13.2 Within all of its portfolios, Baillie Gifford has had a notable overweight to technology/internet retailing stocks which have benefitted returns greatly.

- 3.13.3 At stock level, contributors included China Resources Enterprise and Amazon, whilst Royal Caribbean Cruises and Ultra Petroleum detracted.

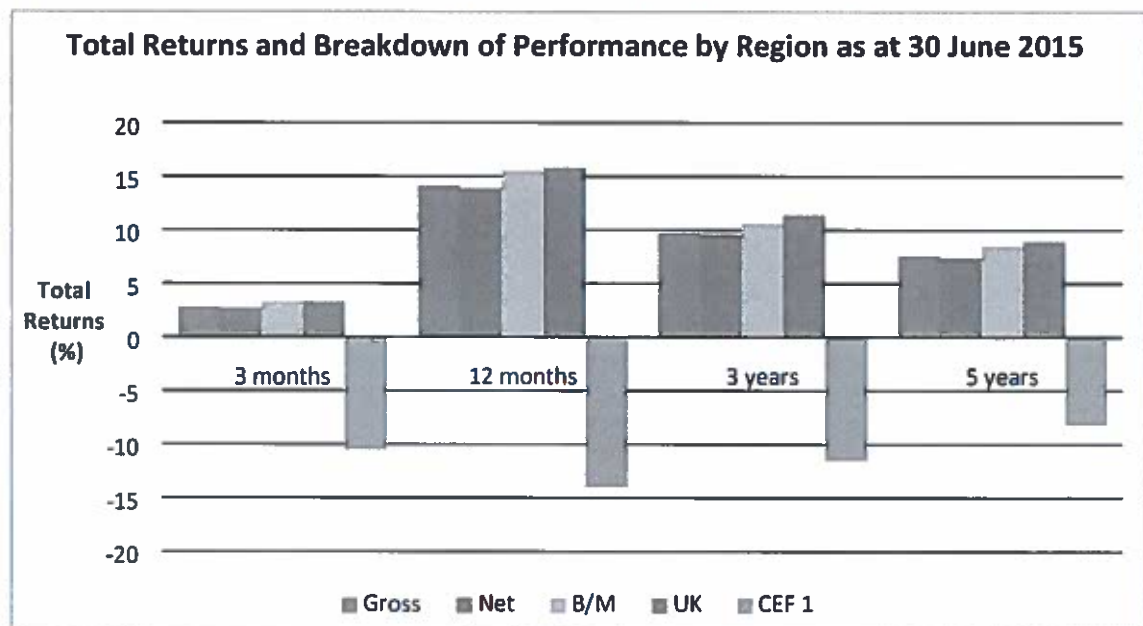
- 3.14 Legal & General - L & G (UK Equity)** – The portfolio returned -1.5% matching the index returns over the quarter.
- 3.14.1 At the annual index review there were 21 additions, including Auto Trader Group, Woodford Patient Capital, Wizz Air, Aldermore Group and DFS Furniture. Tarsus, Shires Income and Afren were among the 11 deletions.
- 3.14.2 Friends Life merged with Aviva, whilst Spirit Pub Company was acquired by Greene King. Acquisitions by foreign companies included Catlin Group by XL Group (USA); BRIT by Fairfax Financial (Canada); and Domino Printing Sciences and Optos by Brother Industries and Nikon Corp respectively (both Japan). BHP Billiton spun off its non-core assets including bauxite, alumina and manganese to create South32 (Australia).
- 3.14.3 The UK government sold down holdings in Lloyds Banking Group and Royal Mail, whilst other increases to freely available shares were made in Saga, London Stock Exchange Group, Zoopla Property, Just Eat and Pets At Home.
- 3.15 L & G Index Linked Gilts** – The portfolio returned -3.3% matching the index return over the quarter.
- 3.15.1 Contrary to the opinion polls, the Conservatives won an outright majority in the general election. RPI inflation ticked up to 1.0% year on year, primarily as wage inflationary pressures start to build. GDP came out at 2.9% year on year in June with upward revisions to the previous quarter's data mainly from construction, indicating a more robust level of recent growth
- 3.15.2 During the quarter there were auctions of 2024, 2040 and 2058 bonds and a syndication of a brand new 2046, 30-year benchmark bond. The 2020 bond fell out of the index by virtue of its remaining maturity falling below five years. These raised approximately £8.3bn for government funding
- 3.15.3 The Fund held all 21 stocks contained within the benchmark index. The Fund and index had a modified duration of 23.67 years at the end of the quarter and the real yield was -0.75% (yield curve basis).
- 3.16 Investec (Bonds)** – The portfolio delivered a return of -1.2% against a performance benchmark return of 0.6%. The primary source of underperformance over the quarter was the currency exposure where returns were adversely realised by US dollar weakness and sterling strength.
- 3.16.1 Both the interest rate exposure and emerging market debt positions also detracted from relative returns after the broader bond market sold off over the course of the quarter.
- 3.16.2 More positively, in spite of a difficult time for corporate bond markets which were impacted by the sell-off in developed market bonds and the ongoing speculation around Greece's future, our corporate bond exposure made a neutral contribution to relative returns.
- 3.17 Schroder (Property)** – The portfolio returned 2.8% over the quarter; this is 2.8% below the benchmark of 3.3% resulting in underperformance of the

portfolio. And also the longer term performance continues to lag the benchmark; with an underperformance 0.8% p.a. over the 5 years to 30 June 2015.

3.17.1 The UK assets, which represent the vast majority of portfolio value (97%), performed in-line with the benchmark but returns were offset by the performance of Continental European Fund 1 (CEF 1). The UK assets continue to outperform over the past one, three and five year periods.

3.17.2 The Continental European Fund (3% of portfolio) produced a negative return this quarter (-10.5%), still remains a drag to total returns in aggregate over all the periods.

3.17.3 Please see below graphs which show the performance in detail.



3.18 **Baillie Gifford Diversified Growth Fund** generated a return of -0.7% for the quarter, underperformed the benchmark of 1.0% by -1.7%.

3.18.1 The fall into negative territory came over the last week of June, largely as a result of the temporary noise created around Greece.

3.18.2 The return on the Fund, in the 12 months to 30 June 2015 was 5.0%.

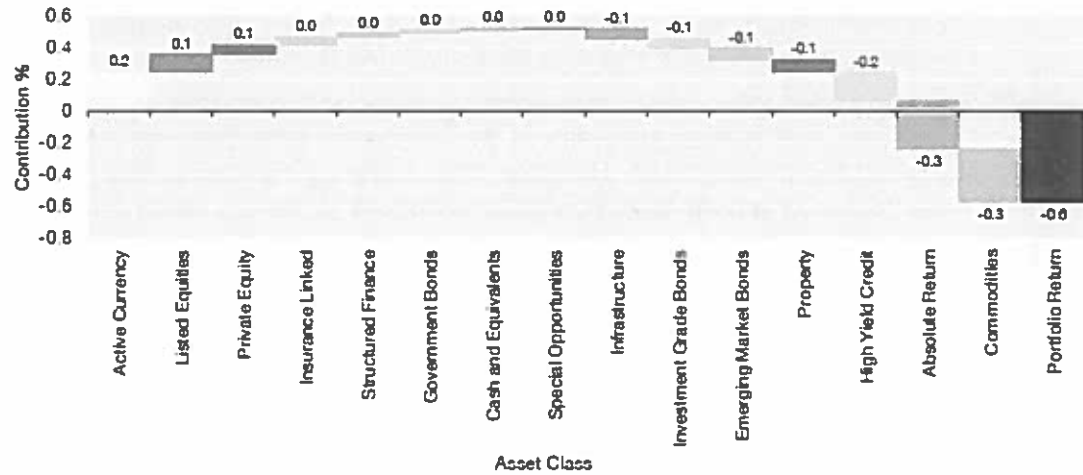
3.18.3 The largest detractor in the three months was the Fund's exposure to commodities. Prices fell, as concerns over Greece took some of the momentum out of the European market, and slower Chinese growth has dented forecasts for sales in the world's fastest growing car market. This underperformance was mitigated to some extent by the performance of active currency and listed equities.

3.18.4 The long term performance, are ahead of the benchmark. The last 12 months are ahead by 1.0% and the last 3 years by 2.2% above benchmark returns.

3.18.5 Please see below charts which illustrate contributions to performance per asset class for the quarter end and 12 months to 30 June 2015.

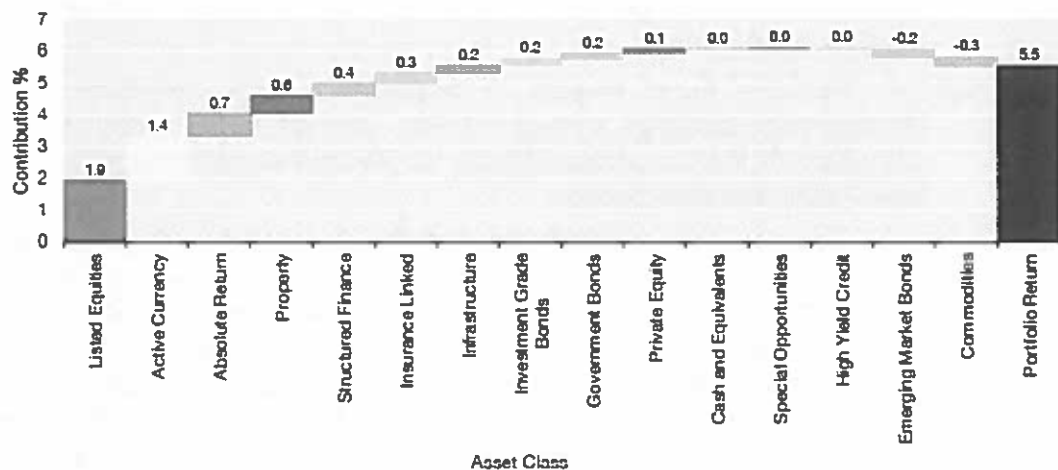
Contributions to Performance

Quarter to 30 June 2015



Ave. Weight %	0.1	18.2	1.5	4.7	13.0	0.0	9.3	0.6	4.3	6.2	10.0	3.0	16.4	8.2	4.6	100.0
Return %	0.2	0.6	4.2	1.1	0.3	-1.5	0.2	-0.9	-1.4	-1.0	-0.8	-2.5	-1.0	-3.6	-7.6	-0.6

One Year to 30 June 2015



Ave. Weight %	19.1	-0.1	8.0	2.5	13.2	4.9	4.5	6.9	1.4	1.9	7.1	0.6	12.7	12.0	5.2	100.0
Return %	8.9	1.4	8.3	28.4	2.2	6.5	4.5	2.1	6.2	7.0	0.2	1.4	-0.9	-4.2	-9.3	5.5

Sources: Statpro/Dallie Gifford, gross of fees in sterling. Totals may not sum due to rounding

3.19 Ruffer Total Return Fund (Absolute Return) – The portfolio performed discouragingly by posting a negative return of 0.5% against a target return of 0.6% over the quarter.

3.19.1 The Japanese stock market built on its gains in the first quarter as financials, and banks in particular, delivered strong returns. Mizuho, MUFJ and SMFG all rose by over 18%, whilst life assurance stocks (Dai-ichi Life and T&D) also performed well. Yen weakness offset some of the positive impact, but the fund was largely hedged back to sterling for the quarter. Signs of an improvement in Japanese corporate governance also helped.

- 3.19.2 Option protection - long-dated index-linked bonds were considered to be a core protection. Therefore, in view of their strong recent performance and correspondingly low yields, the portfolio held appropriate interest rate protection to offset the risk of a back-up in bond yields.
- 3.19.3 Sterling strength - The unexpectedly clear cut outcome to the UK general election, and further progress in the domestic economy, saw the pound rise against most currencies. However, the currency headwind was much reduced due to earlier moves to cut portfolio exposure to the US dollar and the yen.
- 3.19.4 UK index-linked bonds - with bond yields globally rising off record lows, bond prices fell across the board. The long duration of the portfolio's index-linked bonds exaggerated the correction in prices, having previously been a benefit in the first quarter.
- 3.19.5 The long term performance, are ahead of the benchmark. The last 12 months are ahead by 8.5% and the last 3 years by 5.5% above benchmark returns.

3.20 Internal Cash Management

- 3.20.1 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 cash flows requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.
- 3.20.2 The Pension Fund invests in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2015, which is delegated to the Corporate Director of Resources to manage on a day to day basis within set parameters.
- 3.20.3 The cash balance as at 30 June 2015, was £47.7m. This constitutes £15m internal cash flow balance from 2013/14 and £7.7m internal cash balance as at 30 June 2015, plus £20.8m realised around November 2014 from rebalancing exercise and crystallising of equity gains by redeeming 2% of total fund position from GMO portfolio. A further 1% was redeemed from GMO portfolio in June 2015, and £4.2m from this proceed was added to the internal cash balance, that is cash awaiting investment into fixed income mandate.
- 3.20.4 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.

3.21 ASSET ALLOCATION

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

The benchmark asset distribution and the fund position at 30 June 2015 are as set out below:

Table 4: Asset Allocation

Asset Class	Benchmark	Fund Position as at 30 June 2015	Variance as at 31 June 2015
UK Equities	24.0%	23%	-1.0%
Global Equities	37.0%	39%	2.0%
Total Equities	61.0%	62%	1.0%
Property	12.0%	11.0%	-1.0%
Bonds	14.0%	9.0%	-5.0%
UK Index Linked	3.0%	5%	2.0%
Alternatives	10.0%	9.5%	-0.5%
Cash	0.0%	4.5%	4.5%
Currency	0.0%	0.0%	0.0%
Total Equities	100.0%	100.0%	

3.21.1 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 2014.

Asset allocation is determined by a number of factors including:-

- 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.
- 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.
- 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.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The comments of the Corporate Director Resources are incorporated in the report

5. LEGAL COMMENTS

5.1 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 should cover the following matters:

- (a) the advisability of investing money in a wide variety of investments; and
- (b) 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.

- 5.2 The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.
- 5.3 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.
- 5.4 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.
- 5.5 When reviewing the Pension Fund Investment Performance, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.
- 5.6 The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

- 5.7 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.
- 5.8 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.]
- 6. ONE TOWER HAMLETS CONSIDERATIONS**
- 6.1 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.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.
- 7. BEST VALUE (BV) IMPLICATIONS**
- 7.1 This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.
- 8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**
- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.
- 9. RISK MANAGEMENT IMPLICATIONS**
- 9.1 Any form of investment inevitably involves a degree of risk.
- 9.2 To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
- 10. CRIME AND DISORDER REDUCTION IMPLICATIONS**
- 10.1 There are no crime and disorder reduction implications arising from this report.
-

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

Investment Managers Quarterly reports for the managers; Investec, GMO, Schroder, Baillie Gifford, LGIM and Ruffer)
WM Quarterly Performance Review.

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

Investment Managers Quarterly reports (Investec, GMO, Schroder, Baillie Gifford, LGIM and Ruffer)

WM Quarterly Performance Review.

Officer contact details for documents:

- Bola Tobun Investment & Treasury Manager x4733

Agenda Item 4.3

Non-Executive Report of the: Pensions Committee 17 th September 2015	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: [Unrestricted or Exempt]
Training and Development For Members	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	[All wards]

Summary

This report sets out the need for a training and development programme for members of the Pensions Committee.

The report explains the requirement for good governance of the Pension Fund and the framework of legislation, regulation and guidance which the Fund must comply with and that therefore there is a need for a formal training programme for Members and Observers of the Pensions Committee.

The report also refers to the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010). (referred to elsewhere in this report as the "CIPFA knowledge and skills framework (2010)" This provides a framework for the training and development of Elected Members and other representatives on public sector pension scheme decision making bodies such as the Tower Hamlets Pensions Committee.

Recommendations:

Members are recommended to agree:

- (a) That the CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) is adopted as the basis for its training and development programme
- (b) That a proposed schedule of training and development is prepared and presented at the next meeting of the Pensions Committee.

1. REASONS FOR THE DECISIONS

- 1.1 Governance is defined as the action, manner or system of governing. Good governance is vital and is promoted in the context of a pension scheme/fund by having Members and Observers on the decision making body who have the ability, knowledge and confidence to challenge and to make effective and rational decisions. The "CIPFA knowledge and skills framework (2010)" provides a framework for the training and development of members/observers with the objective of improving knowledge and skills in all relevant areas of the activity of a Pensions Committee.

2. ALTERNATIVE OPTIONS

- 2.1 The Committee could continue to base its approach to training on the Training Policy approved by the former Pensions Committee. The adoption of the CIPFA knowledge and skills framework (2010) however indicates that the Committee is following national guidance on the content of training for Committee Members and Observers.

3. DETAILS OF REPORT

- 3.1 The Local Government Pension Scheme operates within a statutory and regulatory framework which includes the Superannuation Act 1972 and various statutory instruments including the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The department for Communities and Local Government (CLG) which is the government department responsible for the Local Government Pension scheme and CIPFA have also issued codes and guidance in respect of the scheme. The CLG Local Government Pension Scheme Governance Compliance Statements Statutory Guidance (2008) sets out nine principles for the governance of schemes including training.
- 3.2 In 2000 the government commissioned a review of investment management in the United Kingdom led by Paul Myners (now Lord Myners). Arising from Paul Myners' report the government issued a set of ten investment principles in 2001. In 2002 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1988 were amended to require Local Government Pension Scheme Funds to report against these "Myners" principles.
- 3.3 In 2007 the government reviewed the "Myners" principles and in 2008 published a new set of six investment principles. These have now been reviewed and amplified in the context of the Local Government Pension Scheme by a group involving the department for Communities and Local Government, CIPFA and other stakeholders.
- 3.4 Principle 1 of the six revised "Myners" Principles is "Effective decision making" which states that in the context of the Local Government Pension Scheme it

should be ensured that “decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation”; and that “ those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of *interest*.”

3.5 EXISTING TRAINING AND DEVELOPMENT FOR PENSION FUND COMMITTEE MEMBERS AND OBSERVERS

- 3.5.1 The former Pensions committee agreed a Training Policy. Since the approval of the Training Policy, training has been provided in the form of presentations to the entire Committee and through opportunities for individuals to attend training courses such as those provided by the Local Government Employers organisation.
- 3.5.2 The training provided by the Tower Hamlets and other Local Government Pension Funds in recent years has improved the knowledge and skills of those who serve on decision making bodies responsible for the Local Government Pension Scheme.
- 3.5.3 However there has been a lack of an agreed definition of the knowledge and skills that those who serve on such decision making bodies require. This deficiency has however now been addressed by the local authority accountancy body CIPFA in one of its publication “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010). (referred to elsewhere in this report as the “CIPFA knowledge and skills framework (2010)”

3.6 THE CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

- 3.6.1 As the CIPFA knowledge and skills framework states a great deal of work has been done in recent years to address the provision of training to those who serve on decision-making bodies. However in the absence of any detailed definition of what knowledge and skills are actually required to carry out a particular role, it is difficult to ascertain whether training is truly effective.
- 3.6.2 Therefore in an attempt to determine the right skill set for Pensions Committee Members/Observers CIPFA has developed a technical knowledge and skills framework which is intended to have two primary uses:
- As a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs
 - As an assessment tool for individuals to measure their progress and plan their development
- 3.6.3 There are six areas of knowledge and skills CIPFA has identified as the core technical requirements relating to those involved in decision making. They are:
- Pensions legislative and governance context
 - Pensions accounting and auditing standards
 - Financial Services procurement and relationship management

- Investment performance and risk management
 - Financial markets and products knowledge
 - Actuarial methods, standards and practices
- 3.6.4 The main issues covered in each of the six areas listed above are set out in Appendix 1.
- 3.6.5 At present the status of the CIPFA knowledge and skills framework is persuasive rather than mandatory. However CIPFA states that it understands the CLG is considering whether to amend the Local Government Pension Scheme (Administration) Regulations to require funds to include in their Annual Report a statement on whether they have adopted the CIPFA knowledge and skills framework as a basis for the training and development of those involved in pension scheme finances. In the interim the CIPFA Pensions Panel recommends that, as demonstration of good practice, users of the framework make a voluntary disclosure in their pension scheme Annual Reports that covers:
- How the framework has been applied
 - What assessment of training needs has been undertaken
 - What training has been delivered against the identified training needs
- 3.6.6 To help organisations achieve the standards set down in the framework, CIPFA is in the process of developing a repository of knowledge sources and knowledge and skills self-assessment tool to provide a web based tool for testing and extending the knowledge of an individual.
- 3.6.7 A very short training session to ensure that all Members and Observers of the Pensions Committee have an understanding of the roles, responsibilities and statutory documents will be held at this (17 September 2015) meeting of the Committee.
- 4. COMMENTS OF THE CHIEF FINANCE OFFICER**
- 4.1 The comments of the Corporate Director Resources are incorporated in the report
- 5. LEGAL COMMENTS**
- 5.1 Whilst there are no immediate legal consequences arising from this report it is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge.
- 6. ONE TOWER HAMLETS CONSIDERATIONS**
- 6.1 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.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 This report helps in addressing the required knowledge and skills needed for Members to understand the duties and responsibilities of a trustee and how best to fulfil these effectively, efficiently and in accordance with regulatory requirements.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Any form of decision making process inevitably involves a degree of risk.
9.2 To gained adequate knowledge necessary to make appropriate decisions in minimising risk associated with roles and responsibilities.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS
COMMITTEE MEMBERS

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector, CIPFA (2010)

Investment decision making and disclosure in the Local Government Pension Scheme, A Guide to the Application of the Myners Principles, CIPFA (2009)

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- Bola Tobun Investment & Treasury Manager x4733

APPENDIX 1

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

Core technical areas and areas of knowledge

Legislative and governance framework

- ☐ General pensions framework
- ☐ Scheme-specific legislation for LGPS
- ☐ Pensions regulators and advisors
- ☐ Constitutional framework for pension fund committees within administering authorities
- ☐ Pension scheme governance

Accounting and auditing standards

- ☐ Accounts and Audit regulations
- ☐ Role of internal and external audit

Procurement of financial services and relationship management

- ☐ Procurement requirements of UK and EU legislation
- ☐ Supplier risk management

Investment performance and risk management

- ☐ Monitoring of investment performance
- ☐ Performance of advisors
- ☐ Performance of the Pensions Committee
- ☐ Performance of support services

Financial markets and investment products

- ☐ Investment strategy
- ☐ Financial markets
- ☐ Regulatory requirements regarding investment products

Actuarial methods, standards and practices

- ☐ Valuations, funding strategy and inter-valuation monitoring
- ☐ Ill-health and early retirement
- ☐ Admitted bodies
- ☐ Outsourcing and bulk transfers