

**LONDON BOROUGH OF TOWER HAMLETS
MINUTES OF THE PENSION BOARD
HELD AT 10.00 A.M. ON THURSDAY, 19 SEPTEMBER 2019
ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

John Jones (Chair)	(Independent Chair)
Steve Hill (Member)	(Head of Benefits Services, Resources)
Councillor Asma Islam (Member)	(Mayoral Advisor for the Community and Voluntary Sector)
Nneka Oroge (Member)	(Trade Union Representative)
David Stephen Thompson (Member)	

Officers Present:

Kevin Bartle	– Divisional Director of Finance, Procurement and Audit
Miriam Adams	– Interim Pensions and Investment Manager

Apologies were received from John Gray and Annette McKenna

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

No declarations of disclosable pecuniary interests were received at the meeting.

2. UNRESTRICTED MINUTES

The minutes of the last meeting were agreed and approved as a correct record.

3. SUBMISSIONS FROM FUND MEMBERS

No submissions were received at the meeting from Fund Members.

4. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

Noted report had been submitted and was well received by the Committee.

5. REPORTS FOR CONSIDERATION

5.1 INVESTMENT AND FUND MANAGERS PERFORMANCE REVIEW FOR QUARTER END JUNE 2019

The Board received a report that considered the latest performance data for the Fund. The main points of the discussion are set out as follows:

The Board noted that:

- Over the quarter to 30 June 2019, the Fund generated a return of 2.9% and underperformed its benchmark by 0.4%;
- The Fund's global equity investments produced strong returns over the quarter and twelve month period to 30 June 2019;
- Although the Baillie Gifford Global Alpha fund had outperformed its benchmark by 1.6% over the quarter. The performance of the Absolute Return Fixed Income managers continued to disappoint, in particular Insight;
- The Baillie Gifford Diversified Growth Fund has been put on watch;
- 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;
- As at 30 June 2019, the Fund was 5.6% overweight in equities and 3.1% underweight in Diversified Growth Fund;
- There was no change in asset allocation during the quarter;
- The returns from the PIRC Local Authority universe which comprises of 64 funds with a value of £193bn showed a strong equity market performance during the quarter driving the positive result of 3.8% for the average Local Authority fund.

As a result of discussions on this report the Board **RESOLVED** to note the:

- content of this report;
- detailed fund performance by Mercer (Appendix A refers);
- Independent Adviser quarterly commentary (Appendix B refers); and
- PIRC Local Authority Universe performance indicators (Appendix C refers)

5.2 QUARTERLY LAPFF VOTING AND ENGAGEMENT UPDATE

The Board received and noted an update on voting activities cast by its investment managers as well as Local Authority Pension Fund Forum (LAPFF) recommendations on the voting and engagement. The main points of the discussion are summarised as follows:

The Board:

- Noted that the exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets;
- Noted that the Fund a member of the Local Authority Pension Fund Forum (LAPFF), which exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest;
- Noted that as member of the LAPFF the Fund casts its votes at investor meetings in line with LAPFF voting recommendations;
- Noted there is a strong appetite for a "green fund" within the London Collective Investment Vehicle (LCIV) for London Local Authorities (LLA).

- Was informed that the Fund currently delegates the exercise of its voting rights to its external equity managers, who are asked to comply as far as possible with the Fund's voting policies. However, with the move to a pooled structure continues to impact this arrangement as voting rights are exercised at pool level rather than fund level; and
- Noted that the Fund is working with other London funds as well as the pool itself to ensure that in the future it is able to effectively express its views through the exercise of voting rights through the LCIV.

As a result of discussions on the report the Board **RESOLVED** to:

1. Note the contents of this report;
2. Request more information from the London Collective Investment Vehicle (LCIV) on their approach at a future meeting; and
3. That it only required the LAPFF quarterly engagement report in future without the associated back ground information.

5.3 LGPS COST CAP UPDATE, MCCLOUD CASE AND ACTUARIAL VALUATION

The Board received a report that provided a summary of the history of the Local Government Pension Scheme (LGPS) cost cap in public service pensions and recent developments regarding judgement on the Judges and Fire Fighters cases generally referred to as McCloud case. The report also covered proposed changes to triennial actuarial valuation process and recent developments to investment cost transparency. The main points of the discussions are summarised below:

The Board:

- Noted that the management of costs is key to the longevity of the LGPS and affordability for employers;
- Noted the latest Local Authority Pension Fund Forum (LAPFF) voting and engagement update;
- Was reminded that with regards to the pension costs control mechanism ceiling (or cap) on costs to the employer. The "employer costs cap" as introduced by the Public Service Pensions Act 2013 was to target and control future spending on public service pensions;
- Noted that the employer costs cap also includes a "cost floor";
- Was advised that the idea of the costs control mechanism was to keep costs between the above-mentioned target floor and ceiling;
- Noted that if the ceiling or floor should be breached, then there is a consultation to allow the scheme manager, employers and members to agree the steps needed to bring costs back within target. These steps might include changes to future benefit accrual, or to employee contributions;
- Was informed that since the construction of the cost cap there has been unexpected slowdown in UK longevity improvement. This slowdown in longevity meant that pension payments would not be for as long as initially envisaged;
- Noted it was unclear as to the long term impact of the McCloud case on the LGPS and if the Supreme Court would grant the Government leave to appeal.

Therefore, the approach to valuation would be as set out in the current regulations.; and

- Was advised that if the Court of Appeal's judgment should stand, then the Treasury had provisionally estimated the potential cost impact to be around £4 billion a year.

As a result of discussions on this report the Board **RESOLVED** to:

- Note the contents of this report.

5.4 REVIEW OF RISK REGISTER

The Board received a report and appendices that (i) set out the Risk Management Policy and the approach to internal controls for the London Borough of Tower Hamlets Pension Fund; (ii) included the Risk Register of the Pension Fund. Accordingly. The Board:

- Reviewed the Risk register and agreed that at each Board meeting they would cover each of the areas in the document in depth over the 4 meetings each year, as well as address any red flag issues that arise during the year.
- Indicated that it wished to see the document improved by introducing a RAG (Red; Amber & Green) traffic light system to (i) highlight areas of concern; (ii) avoid any randomness; and (iii) show where there have been effective mitigations.
- Wanted (i) to see clear objectives for each indicator; (ii) to see a review them on a weekly or monthly basis; (iii) make sure they are actionable; and (iv) the indicators to fit the changing needs of the Fund.

Accordingly, the Board **RESOLVED** to recommend the Risk Register to Pensions Committee for approval.

5.5 DRAFT PENSION FUND ANNUAL REPORT AND ACCOUNTS

The Board received a report that provided an update on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2018/19 attached as Appendix 1 to the report. The discussion on the report may be summarised as follows:

The Board noted that:

- There is a statutory requirement to prepare Pension Fund Annual Report and Accounts; and
- The Pension Fund Accounts are subject to the normal audit of accounts process, which was currently in progress as it forms part of the overall external audit programme for the Council.

Accordingly the Pensions Board **RESOLVED** to:

- Note the contents of the report and the Draft Annual Report for 2018/19 as set out in Appendix A of this report.

5.6 LOCAL PENSION BOARD UPDATED LBTH PENSIONS BOARD WORK PLAN FOR 2019/20

The Board received a report that outlined key decision making for, and management of, the Fund that has been delegated by the London Borough of Tower Hamlets (the Council) to a formal Pension Fund Committee, supported by officers of the Council and advisers to the Pension Fund. The Corporate Director, Resources is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters.

It was noted that:

- The Pension Board has been in place since April 2015 to assist in (i) securing compliance of Fund matters; and (ii) ensuring the efficient and effective governance and administration of the Fund;
- The work of the Board in assisting the Scheme Manager is broad and extensive, therefore understanding what the remit for the Board is undoubtedly complex;
- The report outlined the amendments to the LBTH Pensions Board work plan as approved in March 2019.

Accordingly, the Pension Board **RESOLVED** to

- a) note the contents of this report;
- b) note the pension board terms of reference attached as Appendix 1; and
- c) agree the updated work plan attached as Appendix 2 to this report.

5.7 PENSIONS ADMINISTRATION QUARTERLY UPDATE- QUARTER END JUNE 2019

The Board received a report that provided information relating to the administration of the Fund over the last quarter as well as performance and update on key issues and initiatives which impact upon the Pensions administration team. The main points of the discussion on the report is summarised as follows:

The Board:

- Was pleased to see that a more comprehensive and complete report has now been developed on pensions administration performance and the key issues affecting the service. This is to be welcomed;
- Reiterated previous concerns about the monitoring information provided to the Committee and the Board on Pensions administration;
- Was reminded that (i) the Pensions Regulator has identified data quality and record keeping as a key area of performance as it impacts directly on member benefits; and (ii) they had previously recommended that the pension's administration monitoring report should be updated to provide more robust and complete information;
- Commented that the report is clear that there are issues to address in order to reduce back logs and develop a more effective service; and

- Indicated that it is important that progress is monitored closely and reported to the Board and Committee, and that sufficient resources are made available to achieve this.

As a result of discussions on this report the Pensions Board **RESOLVED** to note the report contents.

6. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

The Board received and noted the agenda for the Pension Committee meeting scheduled for 24th September, 2019.

7. MEMBER TRAINING

The Board considered the training and development needs for members. Accordingly the Board **RESOLVED** that:

- In addition to the regular presentations and discussions at Board meetings, members will be asked on an individual basis to identify gaps in their skills and knowledge so these can be addressed.

8. ANY OTHER UNRESTRICTED BUSINESS WHICH THE CHAIR CONSIDERS TO BE URGENT

Nil items

The meeting ended at 12.29 p.m.

**Chair, John Jones
Pension Board**