

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSION BOARD

HELD AT 10.00 A.M. ON MONDAY, 22 MARCH 2021

ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)

Members Present:

John Jones (Chair)	(Independent Chair)
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
David Stephen Thompson (Member)	(Representing Retired/Deferred Pension Fund Members)
Roger Jones (Member)	(Head of Revenues)
Annette McKenna (Member)	Pensions Board Member representing Admitted Bodies Employers

Others Present:

Joe Peach	Aon
Josh Tipper	Aon

Officers Present:

Kevin Bartle	– (Corporate Director, Resources and S151 Officer)
Ngozi Adedeji	– (Principal Lawyer Civil Litigation, Governance)
Paul Rock	– (Head of Internal Audit, Anti-Fraud and Risk)
Miriam Adams	– (Interim Head of Pensions and Treasury)
Farhana Zia	– (Democratic Services Officer, Committees, Governance)

1. APOLOGIES

Apologies for absence were received from Councillor Abdal Ullah (Councillor representative - Pensions Fund Employers) and Nneka Oroge (Trade Union Representative)

2. DECLARATIONS OF INTERESTS

There were no declaration of pecuniary interests made by members of the Board.

3. UNRESTRICTED MINUTES

The Board agreed the minutes from the 13th October 2020 meeting to be a correct and accurate record of the meeting.

4. SUBMISSIONS FROM FUND MEMBERS

There were no submissions made by fund members.

In response to questions from the Board the following was noted:

- David Thompson asked what channels of communications were used to alert Fund Members that they could raise questions and queries with the Board.
- Miriam Adams, Interim Head of Pensions & Treasury responded stating at present there were no means of communication in place other than the Annual Benefit statement, to allow for signposting or messages. She said a tailored website to communicate with present and past members of the Pension Fund, was being worked on and she envisaged this would help in clearer communication with members.

5. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

The Chair stated he had attended the Pensions Committee meeting of 19th November 2020 and had submitted a written report conveying the views of the Board Members, in relation to the voting and engagement report.

Mr Jones said he would be attending the next meeting of the Committee, 25th March 2021 to report on the Board's discussion arising from this meeting.

6. REPORTS FOR CONSIDERATION

6.1 Investment Strategy Training

The Pensions Board received a training presentation from Joe Peach and Josh Tipper from Aon, a professional services firm providing a broad range of risk, retirement and health solutions. They provided an oversight relating to the investment strategy, in terms of what the strategy should include, the setting of objectives and the timeline for achieving this. The presentation also highlighted the importance of producing an Investment Strategy Statement and the Pension Board's relationship with the Pensions Committee and the London CIV.

The main points arising from the presentation were:

- With the pooling of funds, the selection and monitoring of managers fell to the London CIV rather than the Pensions Committee and Board.
- The Investment Strategy should be a long-term policy which should be reviewed every three years to ensure it is fit for purpose.
- The Investment Strategy aim should be to eliminate the gap in funding. The Tower Hamlets LGPS is in the enviable position of being 100% fully funded. Therefore, it ought to be thinking of what is required to maintain this position.

- The Investment Strategy aims to keep in balance the investment returns and contributions made. For example, aiming for higher investment return and lower contributions today, may mean there is a higher risk of not achieving the desired returns in the future.
- The Strategic Asset Allocation, Medium Term Allocation and Manager Selection underpin the Investment Strategy. Key decisions relating to the long and medium-term goals will affect the outcome of returns achieved.
- In respect to risk and return there is a trade-off between the two. Diversification helps in optimising this risk and there is no 'riskless' return. Risks should be considered within the framework of liabilities.
- A chart showing the risk and return showed risks which were higher risk assets and those considered to be lower-risk assets.
- The factors to consider before investing in an asset class were explained to the Board Members.
- An overview was given regarding CIV's and how the asset pools have been set up. London CIV had a fund supermarket approach and had more discretion as to which managers to invest with.

In response to questions from members the following was noted:

- There are different asset classes, and some are riskier than others however the reward for this is a higher return. The Investment Strategy should contain a blend of high-risk assets, and lower risk diversified assets such property.
- In reference to the slide on risk and return and which component/ asset class was the most vulnerable from the global pandemic, Mr Peach stated the risk and return chart was showing the long-term projection of assets, their risk and possible returns. He said whilst the pandemic is a short-term risk, he expected markets to normalise over the long-term.
- Referring to the chart, the Chair asked why 'infrastructure' was placed in the higher returns area. Mr Peach explained that this was in reference to private equity being locked for a period of ten to fifteen years and covered a wide range of areas, such as green field development whereas brown field development is considered as income generation and would be closer to the property asset area on the chart.
- With respect to income generation, Mr Peach explained when considering the investment strategy, it was important to consider private equity and infrastructure asset classes as these would give a higher return. He said income generation was possible from bond assets such as property debt, multi-asset credit and private debt where the investment was locked in for a short period of time. He said it was important to look at other areas which the Board/Committee had not considered before.
- It was stated the chart showed the net of fees growth and when investing this ought to be taken into consideration as some asset classes attract a higher fee.
- In relation to what interest the Pensions Regulator had taken concerning the open benefit scheme like the LGPS and the high level

of equity investments, Mr Peach said historically the regulator had not got itself involved with the LGPS and the level investments made.

- Mr Gray asked if the Chair of the Pensions Committee could attend a future Board meeting to speak about the governance and monitoring role they undertake in relation to the London CIV and comment on the effectiveness of their performance.
- **ACTION:** The Board members concurred the Chair of the Pensions Committee ought to attend a future Board meeting to explain the governance and management monitoring role they undertook as part of the London CIV's performance. The Board also agreed to invite the London CIV to a future meeting as well, separately to the one attended by the Chair of the Pensions Committee.
- **ACTION:** The Chair requested the slides from the presentation be circulated to the Board members.

The Chair thanked Mr Peach and Mr Tipper for their presentation.

6.2 Investment Strategy Statement (ISS) 2021 report

Ms Miriam Adams, Interim Head of Pensions and Treasury stated most of the points had been covered by the presentation however wanted to highlight that when the Investment Strategy Statement was being prepared, the actuarial valuation carried out in 2019 made an assumption the Fund would maintain an equity portfolio of 50% and that the investment return would be approximately 3.9% per annum. She said despite the pandemic the market was bouncing back, and the equities market was recovering. Ms Adams said the year to date figures showed that as a local authority it was performing above other London Boroughs with a -0.4% average compared to -0.48% average for other London Boroughs. Ms Adams said the three-year average was at 3.8% and the blip experienced with the pandemic had been made up.

Ms Adams stated the Pensions Committee members would be receiving training on the 22nd April in relation to the Responsible Investment and said this would be the basis of reviewing and re-drafting the Responsible Investment policy.

In response of questions from members the following was noted:

- The Board welcomed and recognised the performance the Fund had made.
- In response to if the policy had been reviewed as per paragraph 3.5 of the report Ms Adams responded stating the Investment Strategy Statement had last been reviewed in 2019; however due to significant changes to the policy this was being brought back to the Board and the Committee.
- **ACTION:** Ms Adams said she would speak to the Chair of the Pensions Committee about Board Members attending the Responsible Investment training on the 22nd April.

The Pensions Board **RESOLVED** to:

- note the recommendations being made to the Pensions Committee who were to consider this matter at their meeting of 25th March 2021:

The Pensions Committee is recommended to:

1. Note the content of this report.
2. Approve the Investment Strategy statement as set out in Appendix 1 which includes a Statement of Commitment with the UK Stewardship Code.
3. Agree to set a separate date for training and drafting of the Responsible Investment Policy and Climate Change Policy.

6.3 Fund liquidity 2020/21 to 2022/23 report

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report provided an update on the Pension Fund's projected cash flow forecast for 2020/21 to 2022/23. She said the Fund was projecting a £20.335m cash balance including the £20m drawn down from the proceeds of equity protection which the Pensions Committee agreed in July 2020 for operational use and projected shortfalls identified in 2021/22 and 2022/23. Ms Adams said no further shortfalls were forecast for the next two financial years.

In response to questions from Members the following was noted:

- Appendix A of the report set out the three-year forecast for the fund. The plan was to pick up on issues and identify where there might be shortfalls. Part of the proceeds received from the equity protection had been used to balance future cashflow of the Fund.
- In respect if the strategy would need to identify sources of income, in three-years' time Ms Adams said a report had been presented to the Pensions Committee regarding which assets to liquidate first if this was required. She said the existing mandate had been turned around so that instead of just reinvesting the money into equities the mandate required a returns dividend

The Pensions Board **RESOLVED** to:

- note the recommendations being made to the Pensions Committee who were to consider this matter at their meeting of 25th March 2021:

The Pensions Committee is recommended to:

1. Note the cash flow forecast from operational activities (Appendix A)

6.4 Employer Internal Dispute Resolution Procedure

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report provided the Board with the Policy for Scheme Employers to follow should disputes arise. Ms Adams said a similar policy was available for scheme members in respect to pensions related disputes with their employers and the Fund.

In response to questions from Members the following was noted:

- The Chair, Mr Jones asked the policy made clear the timescales in which queries and complaints would be resolved and requested an annual report be presented to the Board and Committee on the number of cases arising and dealt with.

The Pensions Board **RESOVLED** to:

1. note the contents of this report.
2. note and comment on the Procedure for scheme employers to follow in respect of internal disputes with the scheme (Appendix 1).

6.5 Risk Register Quarterly Update December 2020

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the report and asked the Board to note the changes to the Fund's risk register appended at Appendix 1. She said the risk register set out the risks and how these would be mitigated against. She said two new risks AG10 and AG11 had been introduced to include the recommendations identified by the 2019/20 Internal audit. Mr Adams referred members to paragraphs four of the report, which provided detail on the revisions made to the risk register.

In response to questions from the members the following was noted:

- The Chair welcomed the improvements made to the risk register, as per the Board's recommendation and the RAG ratings. Mr Thompson suggested the final column of the register should state the timescales and have SMART objectives. He said the cover report should focus on the red and amber ratings stating the issues and if they were moving adversely.
- In reference to page 56, FI-9 Ms Adams said these were historic employers, with two or three employees and as such she did not know if they had provided a bond or guarantee, in the event they cease to exist. She said all new employers were being asked for this assurance and sometime in the future, depending on renewals to the Fund, this could be raised with employers. Mr Gray suggested a plan was needed to ensure employers had provided a bond.

The Pensions Board **RESOLVED** to:

1. Note and comment on the Pension Fund Risk Register; and
2. Note amendments to existing risks listed in section 4 of this report.

6.6 Review of Fund manager and Custodian Internal Control 2019/20

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report presented the findings of the review of the adequacy of internal control measures in place by the fund managers that hold the Fund's assets in management. She said officers had reviewed the available AAF 01/06 and SSAE3402(which signifies that a service organisation has had its control

objectives and control activities examined by an independent accounting and auditing firm). She said the review of the reports and bridging letters had identified no significant changes in the internal control environment for the period 1st April 2019 to 31st March 2020.

Ms Adams said the Fund Mangers' internal control reports had been audited and approved by external auditors and from the reports issued they were satisfied that adequate controls were in place for the managing and reporting of the Fund's assets.

In response to questions from Member the following was noted:

- Ms Adams said internal controls were to be reported on, once every two years.
- Mr John Jones requested the Board see the internal control report annually.

The Pensions Board **RESOLVED** to:

1. Note the report contents; and
2. Note the current position for London CIV

7. EXCLUSION OF THE PRESS AND PUBLIC - RESTRICTED SESSION

The Chair **MOVED** and it was:

RESOLVED:

"That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972."

7.1 Investment Strategy Statement (ISS) 2021 report

The minute for this item is restricted.

7.2 Voting and engagement update report

The minute for this item is restricted.

7.3 Pensions Admin Internal Audit report

The minute for this item is restricted.

7.4 Administration and LGPS Quarterly Update

The minute for this item is restricted.

8. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

The Board noted the agenda for the forthcoming Pensions Committee of 25th March 2021 and the draft workplan for the Committee for municipal year 2021/22.

9. ANY OTHER BUSINESS CONSIDERED URGENT BY THE CHAIR

The Chair asked Board Members to note the provisional dates of meeting for the Board for municipal year 2021/22.

- Monday, 7th June 2021
- Monday 6th September 2021
- Monday, 8th November 2021 and
- Monday 7th March 2022.

There was no other urgent business discussed.

The meeting ended at 12.33 p.m.

Chair, John Jones
Pension Board