

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6:30 P.M. ON THURSDAY 23RD SEPTEMBER 2021

**ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Kyrsten Perry (Chair)

Councillor Rachel Blake
Councillor Andrew Wood
Councillor Mufeedah Bustin*

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde* – GMB Union Representative

Apologies:

Councillor Kevin Brady
Councillor David Edgar

Others Present:

Barry Dodds* – Actuary
John Jones* – (Independent Chair) Pensions Board
Hemal Popat* – Mercer
Colin Robertson* – Independent Investment Advisor
(Pensions Committee)
Steve Turner* – Mercers - Senior Investment
Consultant
Lambert Leduc* – Mercer

Officers Present:

Miriam Adams – Interim Head of Pensions and
Treasury
Ngozi Adedeji* – (Principal Lawyer Civil Litigation,
Governance)
Hitesh Jolapara* – (Interim Divisional Director, Finance,
Procurement & Audit)
Farhana Zia – (Democratic Services Officer,
Committees, Governance)

*attended virtually – online

1. DECLARATIONS OF INTERESTS

There were no pecuniary declarations of interest declared at the meeting by members.

2. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the meeting held on the 5th July 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

3. PETITIONS

No Petitions relating to the matters for which the Committee is responsible had been received by the Officer.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Mr John Jones, the Independent Chair of the Pensions Board presented his submission on behalf of the Pensions Board.

Mr Jones stated the Board met on the 6th September and received a presentation from LGIM on their approach to ESG. He said the presentation covered climate related issues and their approach and action in getting companies to comply. He said voting was also discussed particularly voting in line with the Fund's policies.

Mr Jones said a full discussion took place on the Pension Administration and LGPS update report and it was encouraging to see the number of tasks outstanding falling and the progress made in relation to the recruitment of staff.

Mr Jones said the risk register for the Pension Fund had been reviewed and some amendments had been suggested. He praised the communication strategy and said this was welcomed by the Board. He said the Board had suggested the strengthening of some actions such as encouraging feedback from staff.

Members of the Committee had no questions from Mr Jones.

The Chair, Councillor Perry thanked Mr Jones for the updated provided.

The Pensions Committee **RESOLVED** to:

1. Note the report of the Pensions Board and the issues raised therein.

5. REPORTS FOR CONSIDERATION

5.1 Funding Update June 2021

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report and stated that the funding update provided an illustration of the estimated funding position from 31st March 2019 to 30th June 2021.

Ms Adams said the projected benefit payments used in the calculation were based on the membership data and financial and demographic assumptions used for the 2019 formal valuation. She said this was in line with the Funding Strategy Statement (FSS) dated March 2020.

Mr Barry Dodds from Hymans Robertson LLP then provided Committee members with a detailed explanation of the funding position as of 30th June 2021. He referred members to page 26 of the agenda pack and explained the liabilities the Fund could incur based on future benefit payments. Mr Dodds then referred to the Fund's assets and the chart on page 27 of the agenda. He said that as of 30th June 2021, based on the Fund's asset allocation, it was estimated that there was a 70% likelihood of achieving an annual return of at least 3.7% per annum. Mr Dodds said the outlook for future investment returns had worsened since the last formal valuation.

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

- The Chair, Councillor Perry stated that the funding level looked incredible for the last few years. She said the investments had been good, despite the pandemic but wondered if this was normal? If things go wrong, say a fluctuation of ½ or 1 percent in the estimated long term return, could this have a big impact on funding? Mr Dodds agreed with Councillor Perry saying these were unusual times but gains and losses were market related so no one can predict the outcome. He said climate change, politics, and the longevity of people in the Fund would impact the funding position of the Fund.
- Asked if deaths from the pandemic had been taken into account for the triennial valuation, Mr Dodds said they were working closely with ClubVita who were analysing data in relation to the impact Covid-19 had had on the Fund. However, from early indications the impact had been small.

The Pensions Committee **RESOLVED** to:

1. Note the contents of the report; and
2. Note that any investment decisions taken which fail to provide the desired returns will impact estimated funding levels.

5.2 2022 Triennial Valuation Plan

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report stating that the LGPS regulations required the administering authority to complete an actuarial valuation of their Pension Fund on a three-year cycle. She said the next valuation was due as at 31st March 2022.

Ms Adams said the report set out the high-level summary timetable for the valuation and referred members to paragraph 1.1 and 1.2 of the report as well as the timetable on page 36 of the agenda pack, at paragraph 3.6.

In response to questions from members the following was noted:

- Mr Barry Dodds confirmed that behind the timetable presented at paragraph 3.6 sat a very detailed plan, with contingency built in, in case there was slippage in the timetable.
- Ms Adams said a considerable amount of work was required for the valuation, some of which had already been started. She said in terms of resources the team at present was under resourced however she was recruiting staff and hoped to deliver the valuation on time.

The Pensions Committee **RESOLVED** to:

1. Review and approve the March 2022 Triennial valuation process and Timetable.

5.3 Climate Change - Related Disclosures

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report stating this was a summary of the Fund's first report complying with the Task Force for Climate Related Financial Disclosures (TCFD). She said the report supported the Fund's strategic investment objectives, with a particular focus on how it will fulfil its role as a responsible investor.

Ms Adams said the appendix was part of the restricted agenda however the main report was in the public domain. She said this was a key milestone for the committee as very few London Boroughs had achieved the same success as the London Borough of Tower Hamlets Pension Fund.

Mr Steve Turner from Mercer added that compliance with TCFD was not mandatory although consultation on LGPS pointed to compliance being expected shortly. He said this was the first report on the disclosure objectives, as previously the committee had received information on the carbon footprint. He said the matrix provided detailed information on the total emissions and implications of different temperature changes for the portfolio.

In response to questions from members the following was noted:

- The Chair asked if the temperature changes cited in the report were based on land and water and how the 3.2 degrees increase in the implied temperature rise of the listed portfolio was derived. In response Mr Turner stated that the analysis had been derived using scope 1 and scope 2 emissions data. He said calculating temperature rises was complex and therefore it was hard to predict their accuracy. However, the Tower Hamlets fund invested in funds such as the equities fund managed by Baillie Gifford which was Paris-aligned and therefore the Committee could be more confident the fund would achieve its targets. He said previously WACI data had been used to measure carbon

emissions, but more progress was required by all parts of society, companies and investors, to see improvements in climate change financial disclosure.

The Pensions Committee **RESOLVED** to:

1. Consider and approve the 2020-21 TCFD report (Appendix 1); and
2. Continue to enhance its approach to Climate Risk.

5.4 Pensions Administration and LGPS Quarterly Update – June 2021, 06/09/2021 Pension Board

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the Pensions Administration and LGPS Quarterly update provided information relating to the administration and performance of the Fund over the last quarter as well as an update on the key LGPS issues and initiatives which impact the Fund.

She said several new employers had joined the scheme. The majority were from the contract services, cleaning and catering outsourcing, which had been taking place since 2017. Ms Adams referred members to the tables at paragraphs 3.1 and 3.2 and said considerable progress had been made with the backlog of work as well as workflows referred to in paragraph 3.6. Ms Adams said the annual benefit statements had been despatched to most members save for approximately 250 where there was either incomplete or missing data. She said the Pensions Team were continuing to work with employers, referred to in paragraph 3.10 and the senior officers were considering the recommendation made by the external auditor to refer this to the Pensions regulator.

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

- Councillor Blake stated the outstanding tasks list had been significantly reduced and said this progress ought to be recognised by the members of the Pensions Committee.
- **ACTION:** Committee members wholeheartedly agreed with this statement and asked Ms Adams to express to staff their appreciation of the hard work they had assumed in reducing the number of outstanding tasks.
- In relation to paragraph 3.10, Ms Adams clarified some of the employers were using the Council's in-house payroll system and therefore it was also the Council itself that was being recommended to be reported to the regulator. Mr Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit stated that the recommendation made by the auditors was noted and it was for the Council to self-report to the regulator.

The Pensions Committee **RESOVLED** to:

1. Note and comment on the contents of this report and appendix
2. Note the following admissions to the Tower Hamlets Pension Fund:
 - Age UK East London
 - Juniper Ventures Limited
 - Olive Dinning Limited
 - Cyril Jackson Academy, Boleyn Trust Academy and Age UK Limited.
3. Note admission of University School Trust (Multi Academy Trust MAT) is in respect of Cyril Jackson School.
4. Note the exit of Tower Trust Multi Academy Trust and move of Schools managed by the Trust - The Clara Grant Primary School to Boleyn MAT Newham and Stepney Green Mathematics and Computing College to Mulberry Academy Trust (MAT) Tower Hamlets.
5. Note that Clara Grant Primary School although moving under the management of Boleyn Trust Newham have requested to remain in the Tower Hamlets Pension Fund.

5.5 Recap on Asset Allocation Training

Mr Steve Turner, from Mercer provided a recap on the asset allocation training held on the 15th September 2021. He said the session was split into two parts, with the first one looking at additional modelling of straw man portfolios, including different allocations to equities. He said previously there had been discussion as to whether to reduce this from 50% to 45% or 40% of the overall portfolio.

He said 11 strawman were looked at and the outcome of each showed that there was not a big difference in the fund's total return and risk across the 11 strawman. He said this was a good thing as it showed the Fund could broadly maintain the same level of expected return. He said there was a variation of 0.2% in return across the different strategies. He said the benefit of reducing equities meant greater diversity, less reliance on equities and potentially investing in assets that are more reliable, with predictable cash-flows linked to inflation. Mr Turner said members at the training session narrowed down the straw man portfolios to two strategies in addition to the current one.

Mr Turner continued stating that the second part of the training session focussed on a deep dive into three alternative asset classes which were private debt, long lease property and affordable housing, The key characteristics of each had been looked at, so members had a better understanding of each asset class.

Mr Colin Robertson, Independent Adviser, said that the characteristics of the fund as a whole, for example the sensitivity to inflation, needed to be taken into account in deciding which asset classes to add. Also, one needed to consider the potential managers for each new asset class and the current valuations of the asset classes.

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

- Councillor Wood stated he was unsure of the Private Debt asset class and said he'd want more information on this before committing to this asset class. However, he agreed with the reduction of equity exposure. Mr Turner stated more time could be spent on Private Debt before decisions are made to invest in it.

The Chair thanked Mr Turner for the recap on asset allocation. She said he should continue his investigations without committing the fund.

5.6 Communication Strategy and Policy Statement, 06/09/2021 Pension Board

Ms Miriam Adams, Interim Head of Pensions and Treasury said the Communications Strategy and Policy Statement was the responsibility of the Pensions Board and was part of their terms of reference. However, following the successful launch of the self-service Pensions portal and the imminent launch of the Pensions website, a communications strategy had been developed with the aid of Hymans LLP. She referred members to page 59 of the agenda pack and said the idea was to build on the success of the website and ensure there was a regulatory framework on how the Fund communicates with its stakeholders, with clear objectives ensuring information on pensions is accessible to all. She referred to the detailed table starting on page 64 and said this showed how the Pensions Team would be communicating with different stakeholders.

In response to questions from members the following was noted:

- In reference to page 63 of the agenda and Freedom of Information requests, Councillor Wood asked what type of FOI requests were received. Ms Adams responded saying the nature of FOI requests varied, from organisations/media outlets compiling pensions data, to lobby groups enquiring where investments had been made (this was particularly enquired about during the recent Israel/Palestinian conflict), to individuals seeking information on their pensions and/or spouses' pensions.

The Pensions Committee **RESOLVED** to:

1. Note the Communication Strategy and Policy Statement (Appendix1); and
2. The Committee's feedback on the Communications Strategy presented at the meeting.

5.7 Update on Pension Fund Accounts 2020/21

Ms Miriam Adams, Interim Head of Pensions and Treasury and Mr Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit provided a verbal update in relation to the Pension Fund Accounts 2020/21. Mr Jolapara explained the external auditors had provided them with a list of queries that would require investigation and resolution before the accounts can be signed off. He said up until last week, there were no outstanding queries.

Ms Adams added that some of the queries raised had been previously answered and therefore they were seeking further clarity from the external auditors on the list they had issued. She said she would be meeting with them tomorrow to discuss the list they had provided.

In response to questions from members the following was noted:

- There were twelve queries that had been raised by the Auditors, some of which had been previously answered. Further clarity on how big the issues were would be provided once they had met with the external auditors.

The Pensions Committee **RESOLVED** to:

1. Note the verbal update and asked the Chair of the Pensions Committee be updated on the progress made.

6. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury informed Committee Members that the registration forms for the online learning academy had been sent out to all members of the Committee and she encouraged members to join and complete the sessions. Ms Adams said a monthly report would be sent to her by the providers showing the progress made by members. Ms Adams said the online academy was in addition to regular training provided to the Committee and the Board.

Members of the Committee had no questions for Ms Adams.

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

There was no urgent business to be discussed by the Committee.

8. EXCLUSION OF PRESS & PUBLIC

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 of the Local Government Act, 1972.”

8.1 RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The restricted minutes from the meeting of 5th July 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

8.2 Quarterly Performance Review

The minute for this item is restricted.

8.3 ESG, Voting and Engagement Quarterly Update - June 21

The minute for this item is restricted.

8.4 Equity Protection Review

The minute for this item is restricted.

8.5 Climate Change - Related Disclosures Appendix 1

The Committee members noted the restricted appendix in relation to item 5.3 on Climate Change – Related Disclosures.

The meeting ended at 21:21

Chair, Councillor Kyrsten Perry
Pensions Committee