

Pensions Committee



Thursday, 23 September 2021 at 6.30 p.m.

Committee Room One - Town Hall, Mulberry Place, 5 Clove
Crescent, London, E14 2BG

Agenda

Chair: Councillor Kyrsten Perry

Members

Vice-Chair: Councillor Kevin Brady

Councillor Rachel Blake, Councillor Mufeedah Bustin, Councillor Ayas Miah, Councillor David Edgar, Councillor Andrew Wood and Kehinde Akintunde

Co-optees:

Substitutes:

Councillor Shad Chowdhury, Councillor Gabriela Salva Macallan, Councillor Puru Miah and Councillor Peter Golds

[The quorum for the Pensions Committee is 3 Members]

Further Information

Reports for consideration, meeting contact details, public participation and more information is available on the following pages.



Public Information

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Contact for further enquiries:

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Pensions Committee

Thursday, 23 September 2021

6.30 p.m.

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APOLOGIES FOR ABSENCE

1. DECLARATIONS OF INTERESTS

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Members are reminded to consider the categories of interest, identified in the Code of Conduct for Members to determine: whether they have an interest in any agenda item and any action they should take. For further details, see the attached note from the Monitoring Officer.

Members are also reminded to declare the nature of the interest at the earliest opportunity and the agenda item it relates to. Please note that ultimately it is the Members' responsibility to identify any interests and also update their register of interest form as required by the Code.

If in doubt as to the nature of an interest, you are advised to seek advice prior the meeting by contacting the Monitoring Officer or Democratic Services.

2. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

9 - 18

To confirm as a correct record the unrestricted minutes of the meeting of the Committee held on 5th July 2021.

3. PETITIONS

To receive any petitions relating to matters for which the Committee is responsible.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

5. REPORTS FOR CONSIDERATION

5 .1	Funding Update June 2021	19 - 34
5 .2	2022 Triennial Valuation Plan	35 - 40
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5 .4	Pensions Administration and LGPS Quarterly Update – June 2021, 06/09/2021 Pension Board	41 - 54
5 .5	Recap on Asset Allocation Training	
5 .6	Communication Strategy and Policy Statement, 06/09/2021 Pension Board	55 - 76
5 .7	Update on Pension Fund 2020/21	

A verbal update to be provided.

6. TRAINING EVENTS

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

8. EXCLUSION OF PRESS & PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“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.”

EXEMPT SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please post them to the Democratic Service Office, 1st Floor, Mulberry Place London E14 3BG or hold onto the papers until such time you can return to the Town Hall and dispose of the papers in the confidential bins.

8 .1	RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)	77 - 88
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To confirm as a correct record the restricted minutes of the meeting of the Committee held on 5th July 2021.

8 .2	Quarterly Performance Review	89 - 128
8 .3	ESG, Voting and Engagement Quarterly Update - June 21	129 - 168
8 .4	Equity Protection Review	To Follow
8 .5	Climate Change - Related Disclosures Appendix 1	

Next Meeting of the Committee:

Thursday, 25 November 2021 at 6.30 p.m. to be held in the Committee Room One -
Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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Agenda Item 1

DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii) Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Janet Fasan, Director of Legal and Monitoring Officer, Tel: 0207 364 4800.

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	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. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	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— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
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	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (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.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6:30 P.M ON MONDAY, 5TH JULY 2021

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

Members Present:

Councillor Kyrsten Perry (Chair)

Councillor David Edgar
Councillor Andrew Wood
Councillor Rachel Blake*
Councillor Kevin Brady*
Councillor Mufeedah Bustin*

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – GMB Representative

Others Present:

Mr Steve Turner* – Mercer
Mr Colin Robertson* – Independent Adviser

Officers Present:

Miriam Adams – Interim Head of Pensions and Treasury
Lilian Ajose* – (Senior Lawyer)
Kevin Bartle* – (Interim Corporate Director, Resources and Section 151 Officer)
Jonathan Fox – (Principal Contracts Lawyer, Legal Services Governance)
Vanessa Morgridge* – (Lawyer)
Farhana Zia – (Democratic Services Officer, Committees, Governance)

*attended virtually – online

APOLOGIES FOR ABSENCE

Apologies of absence were received from Mr John Jones, Independent Chair of the Pensions Board, Ngozi Adedeji, legal advisor and Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit.

1. DECLARATIONS OF INTERESTS

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

2. APPOINTMENT OF VICE-CHAIR

Cllr Kyrsten Perry proposed Councillor Kevin Brady for the position of the vice-chair of the Pensions Committee. The nomination was seconded by Councillor David Edgar and Councillor Wood.

The Pensions Committee **RESOLVED** to:

1. Elect Councillor Kevin Brady as the vice-chair of the Pensions Committee for 2021-22.

3. PENSIONS COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS 2021-22

Ms Farhana Zia, Democratic Services Officer presented the report, asking members to note the Pensions Committee's terms of reference, membership, quorum and dates of meeting for the municipal year 2021/22.

She informed members these had been agreed at Full Council on the 19th May 2021.

The Pensions Committee **RESOLVED** to:

1. Note its Terms of reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1,2 and 3 in the report; and
2. **AGREED** to hold scheduled meetings of the Pensions Committee at 6:30 p.m.

4. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the meeting held on the 25th March were agreed to be an accurate record of the meeting and were approved by the Committee.

5. PETITIONS

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

6. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the submission from the Pensions Board on behalf of the Independent Chair, Mr John Jones.

She said the Board had met on the 7th June and had had an in-depth presentation and discussion with the London CIV. She said the presentation

and discussion covered several topics including, governance of the CIV, manager selection and monitoring, risk management as well as ESG and engagement. Ms Adams said the Board had questioned the CIV regarding its independence as well as its audit and scrutiny arrangements. It had raised concerns relating to the CIV's policy on Israel and the Occupied Palestinian Territories and voting in line with LAPFF recommendations.

Ms Adams said an update on the Pensions Administration and LGPS was also received by the Board plus an update on the Pensions risk register. The Board's Annual Report was circulated to all to members for information.

In response to questions from members the following was noted:

- The Chair, Cllr Kyrsten Perry expressed her thanks for the Board's involvement in hosting and questioning the London CIV and the importance of building the relationship with the CIV.
- The Board reviews the risk register on a quarterly basis, on behalf of the Pensions Committee and the Council. A number of amber items relate to Pensions Administration whereas others relate to London CIV setting up the Renewable Energy Fund. Staffing is an issue and as part of the Pensions remedial action plan efforts have been made to recruit and retain permanent staff.

The Pensions Committee **RESOLVED** to:

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

7. REPORTS FOR CONSIDERATION

7.1 AVC Provider Update

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided Committee members with an update on the performance of the Fund's AVC providers Utmost and Aviva.

She said under the LGPS regulations, each fund had to provide access to an AVC arrangement where Fund members can elect to pay additional contributions to further boost their retirement savings and/or provide additional life assurance. She referred members to paragraph 3.7 of the report and the proposed review of the current providers as well as the table suggesting a list of objectives and outcomes.

In response to questions from members the following was noted:

- Councillor Wood commented that he did not think the Pensions Committee had discussed AVC providers, at previous meetings. He said it would be useful if the review could say what was currently on offer as well as the options pension providers could offer scheme participants. Ms Adams said the review would cover this plus see if the current providers are providing value for money and/or if new providers needed to be appointed.

- In reference to paragraph 3.6 of the report, Ms Adams said the 15 members had not been notified of the review as it would be prudent to report on the findings and recommendations of the review, once complete. Ms Adams said she had struggled to obtain information from the current providers which had not been provided in a timely fashion.
- Councillor Edgar suggested the review should include a sampler representation of scheme participants and their experience of the AVC providers.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report;
2. Agreed the recommendation to commission an independent review of existing AVC providers Aviva and Utmost; and
3. Agreed the Fund objectives for Additional Voluntary Contributions (AVC).

7.2 ESG, Voting and Engagement Quarterly Update - March 21

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report provided the Pension's Committee members with an overview of the stewardship activity carried out by Tower Hamlets Pension Fund's investment managers and on its behalf by the Local Authority Pension Forum (LAPFF) in quarter ending March 2021.

Ms Adams referred members to page 37 of the agenda and paragraphs 3.6 to 3.10 which set out the voting activities for the quarter. She explained how voting had occurred in relation to each fund before referring to paragraph 3.11. She said there had been no voting alert variances, where managers do not vote in line with the Forum's suggested voting for companies and that there had been one alert issued by LAPFF relating to Rio Tinto. Ms Adams said proxy voting details had been received from LGIM.

The members of the Committee had no questions for Ms Adams in relation to this report.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and appendices.

7.3 Pensions Administration and LGPS Update

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided members with information relating to the administration and performance of the Fund over the last quarter as well as updates on key LGPS issues and initiatives which impact the Fund.

Ms Adams referred to the tables at paragraphs 3.1 and 3.2 and the number of active and deferred members as well as paragraph 3.5 which referred to Purgo Supply Services Limited who were admitted to the scheme on the 1st April 2021.

Ms Adams also highlighted the progress made with the Members Self Service portal, paragraph 3.9 and said excellent progress had been made with the roll out, ahead of the timetable for employees in Mulberry Place, Tower Hamlets Homes and St Paul's Trust.

In response to questions from Members the following was noted:

- Councillor Edgar asked what had been done to contact the 1,826 'frozen' members referred to in table 3.1. Ms Adams said this task had been identified as part of the remedial action plan. However, work on this had not begun due to the current resources available. She said once additional staff had been recruited it would be a job for them to check the personal information held and try to contact members to establish if they wanted a refund or not.
- Councillor Blake queried what administrative capacity the Pensions team had, given the number of tasks shown in table 3.3 had steadily increased. Ms Adams responded stating that she hoped the Members Self-Service portal would assist with the updating of individual members personal information and that the recruitment of permanent staff would also assist in reducing the number of outstanding tasks.
- Ms Adams said the number of starters shown in table at 3.3 also included staff who had been reappointed following service restructures. She said the HR payroll system did not differentiate between the two and therefore each entry had to be checked to verify if they are a new starter or not.
- In response to if Ms Adams thought this was transitory or something the team would have to carry out long-term, she said she was working with the Divisional Director of HR and had referred them to the online 'post number' app called bucket post, where more than one employee on a post number can be entered and said she had received reassurances from HR that this would be looked at in July. She said there was not a short-term fix to this but hoped employers would start to use i-connect to upload details as this would help enormously.
- In reference to paragraph 3.4 and the number of employers still not using i-connect, Ms Adams said the Pensions team had had several successes with employers coming on board to use the portal. She said the eight organisations listed at 3.4 were linked to the Council's payroll and therefore work was being undertaken to encourage them to send data via the i-connect portal.
- Mr Bartle, Interim Corporate Director for Resources added this had been a tough and difficult challenge. The Pensions audit was heavily linked with the overall auditing of the Accounts. He said Ms Adams had worked to recalibrate the membership figures for 2018/19, 2019/20 and 2020/21 but this was a mammoth task, especially given the problems in

recruiting permanent staff. He said it was such a disappointment as it would appear the system has not worked correctly since the very start. Mr Bartle said they may need to consider other approaches such as external consultants to help to resolve this issue.

The Pensions Committee **RESOLVED** to:

1. Note and comment on the contents of the report and appendix; and
2. Agreed the admission of Purgo Supply Services Limited to the Scheme.

7.4 Training

Ms Miriam Adams, Interim Head of Pensions and Treasury presented an update on the training options available, following the results of the National Knowledge Assessments conducted by Hymans Robertson LLP in July 2020. She said the assessment covered the CIPFA Knowledge Skills Framework and Pensions Regulator's (TPR) code of Practice 14.

Ms Adams referred Committee Members to paragraph 3.5 and the suggested training programme. She said training would be provided in a bitesize format with online modules for members to complete in their own time. She also referred members to paragraph 3.6 which set out the cost of the training and said the report asked members to agree to the cost of the licences. Ms Adams explained it was vital members of the Committee and the Board completed the training as the licenses were not transferrable.

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

- It was suggested that perhaps each member of the Committee could do a module each, thus ensuring there would be collective knowledge on all the aspects of training offered. However, members felt they would benefit from completing all eight modules individually.
- Members were reassured the bitesize modules were specifically designed for LGPS funds and were not generic investment fund training modules.
- Members agreed to complete the bitesize modules and concurred the length of the training at 20 minutes to half an hour, fitted best with their busy schedules.
- Members said some flexibility in the license being transferrable was required as there maybe changes to the Committee membership.

The Pensions Committee **RESOLVED** to:

1. AGREE to the Hymans Online Academy as a training option for both the Committee and Board, so long as names of Members could be switched across a licence if required; and

2. Noted the associated costs for licences per Committee and Board Member, which they would trial for a period of 12 months initially.

7.5 Revised Responsible Investment Policy

Mr Steve Turner from Mercer presented the update report on the Responsible Investment Policy for the London Borough of Tower Hamlets Pensions Fund. He said the policy had been updated to reflect the relevant changes and had been refreshed with the recent activity the Committee had undertaken over the last year. He said the policy focussed on the equity mandates making them 100% sustainable and also the renewable energy mandate and provided clear guidance on future mandates and reports.

The members of the Committee had no questions for Mr Turner in relation to this report.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and
2. Reviewed, commented and approved the revised LBTH Pension Fund Responsible Investment (RI) Policy 2021 and Corporate Governance & Voting Guidelines 2021

7.6 Quarterly Performance

Mr Colin Robertson, Independent Adviser to the Committee and Mr Steve Turner from Mercer presented the Quarterly Performance Review report. The report informed members of the performance of the Pension Fund investments and its investment managers for the quarter ending March 2021.

Mr Robertson provided the Committee with his analysis of the markets and referred to his report appended at Appendix A. He said the equity markets continued to perform strongly in Q1 of 2021 as the vaccine rollouts in the UK and US had proved to be a success. He said the forecast for economic growth in 2021 had been revised up and a huge stimulus package had been announced in the US, boosting equity markets. With respect to bonds, these had not performed well especially US Treasury Bonds and UK gilts.

Mr Robertson said an economic recovery had clearly taken hold but the risks to the outlook were not insignificant as policymakers weighed up the risks of tightening policy too soon which could lead to a recession against tightening too late and letting inflation soar. In respect to the equity markets, Mr Robertson said potential risks included higher taxation and regulation as well as increased labour costs.

Mr Robertson talked about categorising the various asset classes into 4 groupings. He explained the benefits of investment in each grouping.

Mr Robertson also referred to the comparator and target benchmarks which had been introduced by the London CIV, along with 'Peer Analysis'. He said these needed to be properly explained by the London CIV and he had asked them to do so.

Mr Turner from Mercer added that low carbon equities which are hedged into sterling should be reviewed as they were overweight. He said discussion in respect of property assets and rebalancing would make sense. He referred to Ruffer and said they had invested in Bitcoin which has seen a positive investment performance but had exited that market before the current downturn.

In response to questions from Members the following was noted:

- In reference to the asset allocation categories, Mr Robertson said these were highlighted with regard to the possible direction of travel for the Fund. There were risks associated with each of them and therefore the Committee would need to make decisions based on market conditions at the time.
- Mr Robertson explained that he had stated his concerns regarding the London CIV and had cautioned against them being 'unduly ambitious' given their limited resources. In some instances it was important for them to use external advisers, potentially for both manager selection and product design, He said that both Miriam Adams and himself had conversations with the CIV, asking them to take advice from experts in relation to the renewable energy fund.
- Referring to appendix 3, page 270 onwards, Councillor Wood asked for comment on the performance of the Schroder's equity protection strategy. He said there was lots of red rated performance. Mr Robertson responded stating that the report was poorly constructed and said the equity protection strategy performance ought to have been in the asset allocation section rather than in the manager performance report. This would have made it clearer that the poor equity protection strategy performance was the other side of the strong underlying equity performance. Mr Turner added that it would be useful to bring a report to the next committee meeting with a review/update on Schroder and the equity protection.
 - **ACTION:** The Pensions Committee to receive an update on the equity protection strategy and the performance of Schrodgers.

The Pensions Committee **RESOVLED** to:

1. Note the content of this report.
2. Note the Independent Adviser quarterly commentary (Appendix A).
3. Note the suggested asset allocation categorisation by the Independent Adviser (Appendix A).
4. Note the performance reports and manager rating (Appendix B) and

5. Note the performance report prepared by Fund Custodian Northern Trust (Appendix C).

7.7 Pensions Committee Draft Work Plan 2021/22

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the Pensions Committee's work plan for 2021/22. She said this was a living document subject to change but reflected the reports that were coming to future meetings of the Committee.

She said training was featured on the agenda for every meeting and that it maybe useful for Members to complete the bitesize training on relevant topics prior to meetings. Ms Adams said that the September meeting would include training on the Annual Carbon Footprint.

In response to questions from members the following was noted:

- Councillor Blake asked what could be done to keep the focus on Pension Administration given the full workplan of the Committee? Mr Kevin Bartle, Interim Corporate Director for Resources said the quarterly update was provided to the Pensions Board in whose remit Pension Administration falls. However, this could be replicated for the Committee. He said the quarterly update seemed about right.
- **ACTION:** Ms Adams to examine how Members of the Pensions Committee can be updated on the progress of pension administration, so not to over burden the reporting lines and the Committee.

The Pensions Committee **RESOLVED** to:

1. Note the workplan of the Committee and the comments made on regular reporting on the Pensions Administration, situation.

8. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury said training had been discussed as part of item 7.4.

She said members were notified of manager conferences and events and therefore with the lockdown ending soon, there would be opportunities for members to further enhance their training and knowledge in relation to the work of the Pensions Committee.

9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

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

10. EXCLUSION OF PRESS AND 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 to the Local Government Act, 1972.”

10.1 London Collective Investment Multi Asset Credit Fund Review

The minute for this item is restricted.

10.2 Recap of strategic asset allocation training

Ms Miriam Adams, Interim Head of Pensions and Treasury said owing to time, the recap on the strategic asset allocation training could be covered at the next meeting of the Committee. She also said further training on asset allocation would be organised to take place before the September meeting.

Mr Turner added that the strategy required a review, to set the direction of travel for future changes that may be required.

The Pensions Committee **RESOLVED** to:


1. Receive an update on the Strategic Asset Allocation strategy at its next meeting.

10.3 RESTRICTED MINUTES OF PREVIOUS MEETING

The restricted minutes from the meeting held on the 25th March were agreed to be an accurate record of the meeting and were approved by the Committee.

The meeting ended at 8.55 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee

Non-Executive Report of the: Pensions Committee Thursday, 23 September 2021	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Open (Unrestricted)
Funding Update June 2021	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

Executive Summary

The funding update is provided to illustrate the estimated funding position from 31 March 2019 to 30 June 2021.

The projected benefit payments used in this calculation are based on the membership data and the financial and demographic assumptions used for the 2019 formal valuation and in line with the Funding Strategy Statement (FSS) dated March 2020. However, they have been updated to reflect actual pension increases since the valuation and changes in future long-term inflation expectations derived consistently with the approach in the current FSS.

The funding level is derived as a ratio of the value of the Fund’s assets to the value of its accrued liabilities. Actual benefit payments in the future will be in respect of both service accrued up to today (“past service”) and service that will be accrued in the future (“future service”). However, the funding level presented is only in respect of past service benefits.

The funding level is only a snapshot in time based on a single set of assumptions about the future and is therefore sensitive to the choice of assumptions, in particular the expected future investment return assumption.

Based on the Fund targeting an annual future investment return which has a 70% likelihood of being achieved, the past service funding position has improved from being 102% funded (surplus of £27m) to being 123% funded (surplus of £378m). The improvement has been largely driven by strong investment performance since 31 March 2019.

The Fund actuary Hymans will present to Members their outlook on funding position and risk principles.

Recommendations:

The Pensions Committee is recommended to:

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

1. REASONS FOR THE DECISIONS

- 1.1 Tower Hamlets Council as the Fund's administering authority recognises that effective risk management is an essential part of good governance.
- 1.2 The purpose of the valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due. This report is for noting.

2. ALTERNATIVE OPTIONS

- 2.1 This report serves as a monitoring tool for funding level as well as acting as a risk management tool.

3. DETAILS OF THE REPORT

- 3.1 Since the 2019 valuation, as at 30 June 2020:
 - The past service funding position has improved from a surplus of £27m (102% funded) to a surplus of £378m (123% funded). This funding position is based on the Fund targeting an annual future investment return which has a 70% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.
 - The outlook for future investment returns has worsened since the last formal valuation. As at 30 June 2021, we estimated that the Fund's asset allocation had a 70% likelihood of achieving an annual return of at least 3.7% p.a. (at 31 March 2019, the equivalent return was 4.0% p.a.).
 - The future investment return required to be notionally fully funded has fallen from 3.9% p.a. to 2.4% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 71% to 84%. Therefore, the Fund is now more likely than not to achieve the future returns needed to be fully funded.

Indicative impact of future contributions

3.2 Indicative impact on future contributions:

- **Secondary rate contributions:** the improved past service funding position will have a positive impact on Secondary rate contributions, all else being equal.
- **Future service cost (Primary rate contributions):** The cost of future benefit accrual has increased. Longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

3.3 Summary of results

Reported funding position	31 March 2019	30 June 2021
Assets (£m)	1,552	2,034
Past service liabilities (£m)	1,525	1,656
Surplus/(Deficit) (£m)	27	378
Funding level	102%	123%
Assumed future investment return	4.00%	3.70%
Likelihood of achieving this return*	70%	70%
Fully funded target	31 March 2019	30 June 2021
Funding target	100%	100%
Future investment return required to be 100% funded	3.90%	2.40%
Likelihood of achieving this return*	71%	84%

3.4 The results in this report and appendix are dependent on factors including future market conditions, the membership details and demographic trends such as longevity. The results are extremely sensitive to market conditions, in particular the future investment returns assumption and future inflation.

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications on the content of this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,

- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 All material, financial, and business risks have been considered and addressed within the report and its appendices. The actuarial report and funding strategy statement will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The performance of the Pension Fund's investments affects the required level of contributions due from employers.
- 6.2 The employers' contribution rate for the whole Fund remains at a rate of 19.9% as a result of the 2019 triennial valuation reported.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Constitution delegates to the Pensions Committee the function of setting the overall strategic objectives for the Pension Fund.
- 7.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement. This report provides the Committee with an update on the whole Fund's actuarial position at 30 June 2021.
- 7.3 When preparing, maintaining or publishing the funding strategy statement, the Council is required to make such revisions as it considers appropriate following a material change to the policy set out in the statement; any revisions must be made following consultation with such persons as the Authority considers appropriate.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Funding Position at 30 June 2021 (Appendix 1)

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:

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Tel: 0207 364 4248

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Update on funding position as at 30 June 2021

Executive summary

Since the 2019 valuation, as at 30 June 2020:

- **Past service funding position:** The past service funding position has improved from a **surplus of £27m** (102% funded) to a **surplus of £378m** (123% funded). This funding position is based on the Fund targeting an annual future investment return which has a 70% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.
- **Expected future investment returns:** The outlook for future investment returns has worsened since the last formal valuation. At 30 June 2021, we estimate that the Fund's asset allocation has a 70% likelihood of achieving an annual return of at least 3.7% p.a. (at 31 March 2019, the equivalent return was 4.0% p.a.).
- **Fully funded required rate:** The future investment return required to be notionally fully funded has fallen from 3.9% p.a. to 2.4% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 71% to 84%. Therefore, the Fund is now more likely than not to achieve the future returns needed to be fully funded.
- **Impact on future contributions (indicative)**
 - **Secondary rate contributions:** the improved past service funding position will have a positive impact on Secondary rate contributions, all else being equal.
 - **Future service cost (Primary rate contributions):** The cost of future benefit accrual has increased. Longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

Purpose and scope

This paper has been commissioned by and is addressed to London Borough of Tower Hamlets as Administering Authority of the London Borough of Tower Hamlets Pension Fund ("the Fund").

Its purpose is to provide the Fund with an update on the overall fund level funding position as at 30 June 2021 and how it compares to the position at the last formal valuation of the Fund carried out as at 31 March 2019.

Information regarding the data, assumptions, methodology and funding risks associated with the results in this paper is contained in the Appendix.

In particular it should be noted that the financial assumptions have been derived as per the Funding Strategy Statement in force as at the 31 March 2019 formal valuation of the Fund. As such, no allowance has been made for RPI reform whereby it is expected that RPI will align with CPIH from 2030 onwards. As part of the 2022 valuation, the Fund will need to consider how this announcement is reflected in the assumption made for long term CPI inflation expectations (to which the majority of benefits are linked).

Liabilities

The Fund’s liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. Future benefit payments will be in respect of both service accrued up to today (“past service”) and service that will be accrued in the future (“future service”).

To better understand the Fund’s past service liabilities, we have detailed below in Chart 1 the projected annual future benefit payments due to all members in respect of service earned up to **30 June 2021**:

- **Pensioners**: those members currently in receipt of their benefits;
- **Deferreds**: those members who have left the Fund but are yet to retire; and
- **Actives**: those members who are still participating in the Fund and accruing service.

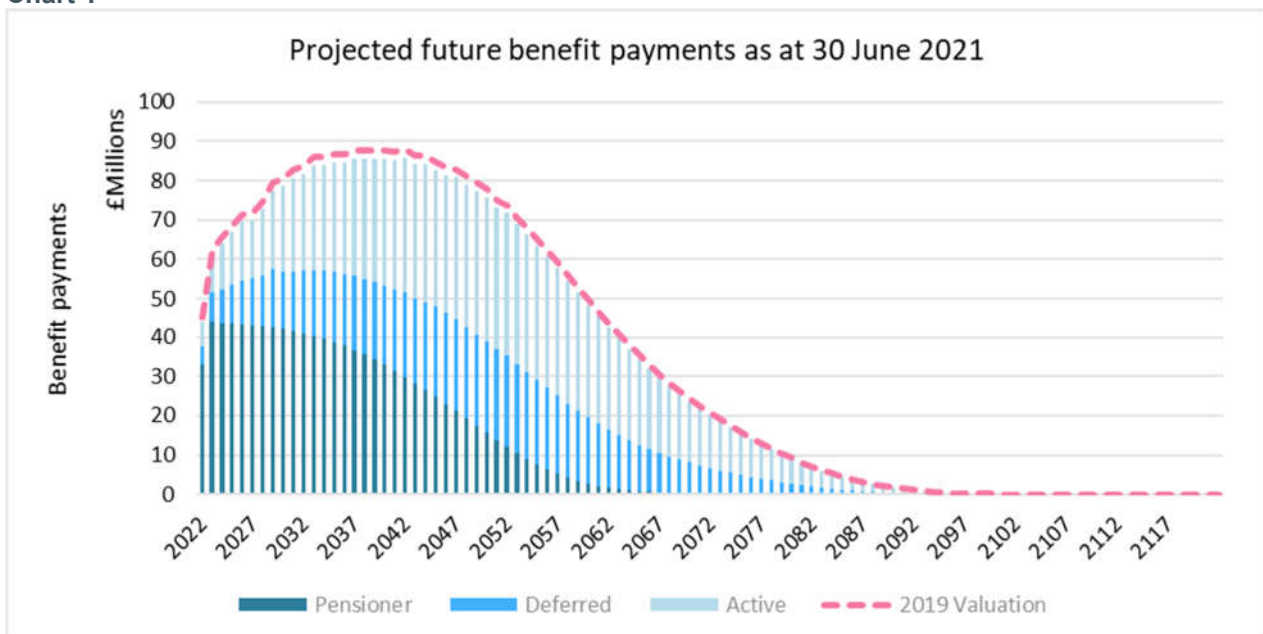
The member group classification is based on each individual member’s status as at the last formal valuation (31 March 2019) and the figures are in nominal terms.

Change since 2019 valuation

The projected benefit payments are based on the membership data and the financial and demographic assumptions used for the 2019 formal valuation and in line with the Funding Strategy Statement (FSS) dated March 2020. However, they have been updated to reflect actual pension increases since the valuation and changes in future long-term inflation expectations derived consistently with the approach in the current FSS. Actual pension increases at April 2020 and April 2021 were less than expected (1.7% vs. 2.3% and 0.5% vs 2.3% respectively) and market derived long-term inflation expectations have broadly stayed the same since 31 March 2019 (*noting that no allowance has been made for any changes resulting from RPI reform*).

The pink line on Chart 1 below shows the total projected annual future benefit payments as they were at 31 March 2019. **The impact of lower than expected pension increases has resulted in a slight reduction in the projected benefit payments as at 30 June 2021.**

Chart 1



Asset Values and Projected Asset Returns

As at 30 June 2021, the Fund’s asset value was £2,034m, increased from £1,552m at the last valuation. The Fund’s assets are there to pay all the member benefits accrued to date. **The investment return since March 2019 has been c32%.**

At 30 June 2021, we estimate that the Fund’s asset allocation has a 70% likelihood of achieving an annual return of at least 3.7% p.a. (at 31 March 2019, the equivalent return was 4.0% p.a.). **Therefore, the outlook for future investment returns has worsened since the last formal valuation.**

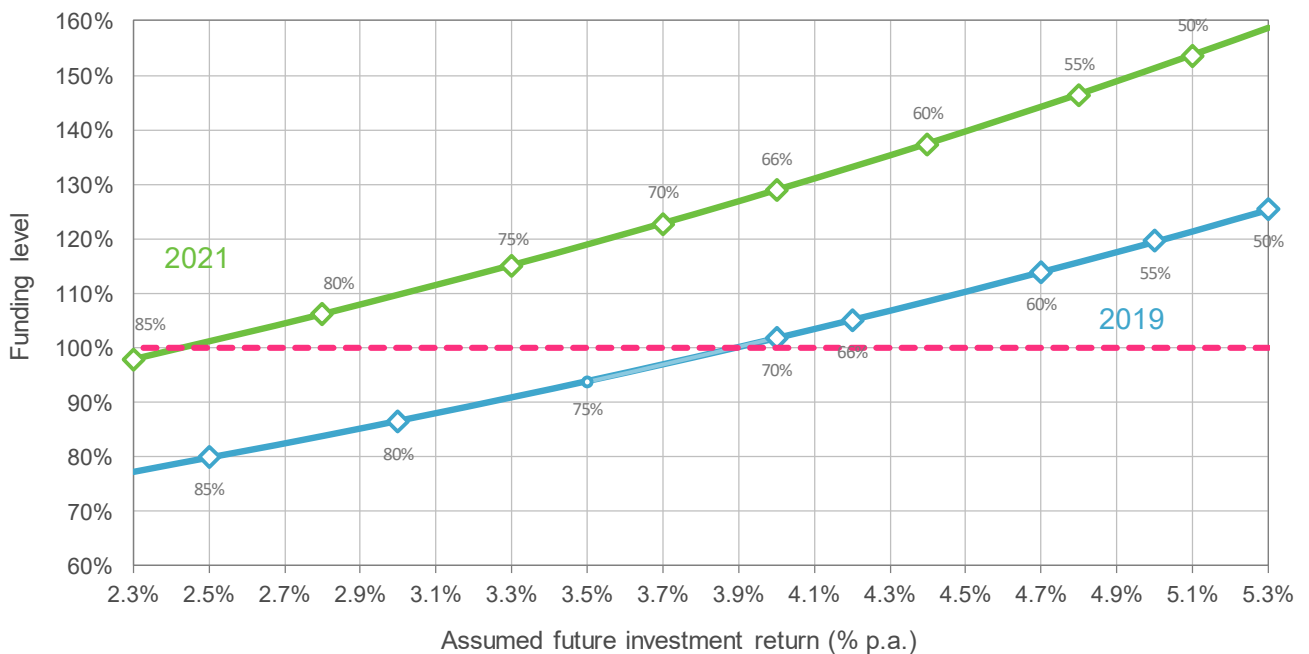
Funding Level

The funding level is derived as the ratio of the value of the Fund’s assets to the value of its accrued liabilities. Actual benefit payments in the future will be in respect of both service accrued up to today (“past service”) and service that will be accrued in the future (“future service”). However, the funding level presented is only in respect of **past service** benefits.

The funding level is only a snapshot in time based on a single set of assumptions about the future and is therefore sensitive to the choice of assumptions, in particular the expected future investment return assumption.

Chart 2 below shows how the funding level varies with the future investment return assumption at 30 June 2021 (green line). For comparison, we have also shown the results of the same analysis as at 31 March 2019 (blue line). Along each line we have highlighted points which show the likelihood of the Fund’s assets achieving the corresponding assumed future investment return. The likelihoods are those that were estimated at the relevant date i.e. 31 March 2019 or 30 June 2021.

Chart 2



Points to note

- From this chart, we can see that regardless of the investment return assumption used, there has been an improvement in the funding position at 30 June 2021 compared to the 2019 valuation, reflecting an increase in assets held today per pound of benefit to be paid out in future.

- Based on the Fund targeting an annual future investment return which has a 70% likelihood of being achieved, the past service funding position has improved from being 102% funded (surplus of £27m) to being 123% funded (surplus of £378m). The improvement has been largely driven by strong investment performance since 31 March 2019.
- The outlook for future investment returns has worsened since the last formal valuation. At 30 June 2021, we estimate that the Fund's asset allocation has a 70% likelihood of achieving an annual return of at least 3.7% p.a. (at 31 March 2019, the equivalent return was 4.0% p.a.).

Fully funded required rate of return

The future investment return required to be notionally fully funded has fallen from 3.9% p.a. to 2.4% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 71% to 84%. Therefore, the Fund is now more likely than not to achieve the future returns needed to be fully funded.

Indicative impact on future contributions

The LGPS Regulations require employer contribution rates to be broken down into:

- the Primary contribution rate – defined as the actuarial cost of new benefits being earned by current employees (active members) expressed as a percentage of pensionable pay; and
- the Secondary contribution rate – any adjustment to the primary contribution rate (such as additional contributions to repair any deficits).

Employer contributions are reviewed and certified every 3 years at formal valuations. The next formal valuation of the Fund will be at 31 March 2022. Therefore, the impact on employer contributions described below is purely indicative based on the funding update at 30 June 2021. Any changes in markets before the next formal valuation will affect these projections.

As set out in the previous section, due to strong investment returns over the period since the last formal valuation, the past service funding position has improved. However, whilst this may give a positive outlook for those employers looking to cease from participating in the Fund in the near future, most employers are in a different position. Many employers such as the Unitary Authorities will remain in the Fund over the longer term and will, instead, be interested in the outlook for contribution rates to be certified as part of the 2022 valuation.

Secondary rate contributions

Secondary rate contributions are paid by employers to target a funding position over an agreed time horizon (as detailed in the Fund's FSS). Employers have their own funding plans within the Fund with varying funding positions and time horizons.

It can be inferred that the improved past service funding position at 30 June 2021 is likely to have a positive impact on Secondary rate contributions at the next valuation for the average employer, all else being equal.

Of course, any changes in funding position (and any impact on contributions rates) will be varied across the Fund's employers and is dependent on each individual employer's membership.

Primary rate contributions

As discussed above, the past service funding position has improved. However, being 100% funded in a scheme like the LGPS which is both open to future accrual and new entrants, is not the endgame. For the average fund, two-thirds of the benefit payments made over the next 50 years will be in respect of benefits yet to be earned. This will include benefits earned by existing members (new accrual) and benefits earned by new members who

begin service in the LGPS after the valuation date (new joiners). The assets held today only cover past service benefits – we still need to fund those benefits yet to be earned.

Given the relatively strong funding position of the LGPS as a whole, the majority of LGPS employer contribution rates are currently in respect of the Primary Rate (payment towards future accrual of new benefits). In fact, the average LGPS employer contribution rate is 22.9% of pay, of which 18.6% of pay is in respect of the Primary Rate. Therefore, when looking ahead to the 2022 valuation, as well as focussing on whether the funding position is 100%, we need to also consider the factors that may affect the cost of future benefit accrual.

As at 30 June 2021, longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

The increased cost of future accrual will lead to increased Primary contribution rates. For the average employer any increases in Primary contribution rates may be partially (or wholly) offset by reductions in Secondary contribution rates.

Other factors to consider

Even targeting 100% funding, there is still around a c16% chance that future investment returns would not be sufficient to fully fund all the accrued benefits. In addition to this investment risk, there are other major risks that are likely to be of important focus at the 2022 valuations, in particular life expectancy and climate change. We would recommend that these risks are analysed, understood and managed.

Interaction with investment strategy

The results in this paper focus on the Fund's funding strategy which is required to include a margin of prudence to ensure security of member benefits.

However, as discussed earlier, within the figures above there is still significant investment risk. Although the fund is notionally more than fully funded as at 31 June 2021, due to the large exposure to equities and other growth assets, it is likely that the Fund (and its employers) will experience volatility in their funding position.

Given that the ratio of employers' accrued liabilities and assets compared to payroll is higher than it has been in the past, there is a lower tolerance for a change in the assets or liabilities before it feeds through to contribution rates. Furthermore, the current pressures on employers' finances have resulted in a much lower ability to afford contribution rate increases. Therefore, the investment strategy should be considered alongside the funding strategy to manage investment risk and reduce volatility in funding positions (which would otherwise lead to such rate increases).

Managing investment risk is typically achieved by "de-risking" the investment strategy and can be achieved in a number of different ways, these are summarised below. Note that de-risking can often be achieved within the Fund's current manager structure.

- Cut the investment risk – this would involve selling growth assets and purchasing protection assets e.g. selling equities and purchasing gilts. Although gilts are priced high (at the moment), so too are equities.
- Diversify the investment risk – this would involve increasing the allocation to asset classes which pay an alternative risk premium to equities, such as property, infrastructure and private debt. The income associated with the return on these assets could also be used to help manage the Fund's cashflow requirements
- Hedge the investment risk – implement strategies that involve derivatives or fixed income assets to explicitly hedge specific risks.

In considering the options available to the Fund on managing investment risk, the focus should be on simplicity and delivering the best outcomes for the lowest cost. In particular, as mentioned above, de-risking the past

service position still leaves a greater cost relating to future service: a de-risked investment strategy may well result in higher Primary contribution rates albeit with lesser volatility. These are long-term balances which need to be carefully struck.

Funding versus accounting assumptions

The actuarial assumptions adopted by the Fund for funding purposes are different to those prescribed for preparation of accounting disclosures. In particular, the funding discount rate (future investment return) assumption is currently much higher than the discount rate prescribed for accounting purposes. All else being equal, this places a much higher value on pension liabilities when using accounting assumptions compared to the funding assumptions. This means that, for the average LGPS employer, their accounting balance sheet will be much worse than their funding position.

It is important to note that cash contribution requirements are set by the Fund with reference to the employers' funding positions only, the accounting position does not affect the cash contributions that an employer needs to pay to the LGPS.

Summary of results

Reported funding position	31 March 2019	30 June 2021
Assets (£m)	1,552	2,034
Past service liabilities (£m)	1,525	1,656
Surplus/(Deficit) (£m)	27	378
Funding level	102%	123%
Assumed future investment return	4.00%	3.70%
Likelihood of achieving this return*	70%	70%
Fully funded target	31 March 2019	30 June 2021
Funding target	100%	100%
Future investment return required to be 100% funded	3.90%	2.40%
Likelihood of achieving this return*	71%	84%

Sensitivity of results

The results in this report are dependent on factors including future market conditions, the membership details and demographic trends such as longevity. Changes in each of these factors can have a material impact on the results. I have not sought to quantify the impact of any changes other than the below. If further information about the sensitivity of the results to different data or assumptions is required, this can be provided on request.

The results are extremely sensitive to market conditions, in particular the future investment returns assumption and future inflation. The approximate impact of a 0.1% change in either assumption (i.e. lower investment returns or higher inflation) is noted below.

0.1% change in future investment return (or inflation) assumption	
Increase in liabilities (%)	2%
Impact on funding position (£m)	£27m loss

Important caveats

There are many moving parts and as such the following caveats apply to these results:

- the funding position and cost of future benefit accrual may change when an allowance is made for RPI reform and the resulting impact on future inflation expectations;
- the impact on the rates of different employers will vary depending on their membership profile;
- the various judgements relating to McCloud and Goodwin will impact employers differently (the above analysis doesn't make any allowance for these matters); and
- any change to market conditions and the outlook for future returns will impact contributions requirements.

Next steps

The paper has been provided for information purposes only and does not seek to propose any changes to the Fund's funding or investment strategy. The indicative contribution rate impact should not be taken as suggestions for rates that will payable at the next formal valuation or advice that contribution rates need to be amended before the next valuation.

Reliances and limitations

This paper has been prepared for London Borough of Tower Hamlets as Administering Authority of the London Borough of Tower Hamlets Pension Fund for the purpose described above. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100 (Principles of technical actuarial work)
- TAS300 (Pensions)

This report together with the formal valuation report for the Fund (issued March 2020) and the Fund's Funding Strategy Statement set out the aggregate of my advice.

Prepared by:-



Barry Dodds FFA

27 August 2021

For and on behalf of Hymans Robertson LLP

Appendix

Assumptions and methodology

Liabilities

All demographic and financial assumptions underlying the benefit projections are as per the 31 March 2019 formal valuation with the exception of the future inflation assumption (which affects the rate of future pension increases, CARE revaluation and salary increases).

Further details about the assumptions can be found in the 2019 formal valuation report dated March 2020.

The future long-term inflation assumption used in the benefit projections as at 30 June 2021 is 2.3% p.a..

Therefore, as at 30 June 2021 we have assumed that:

- Future pension increases are 2.3% p.a.
- Future CARE pot revaluation is 2.3% p.a.
- Future salary increases are 2.50% p.a.

These are unchanged from those at 31 March 2019.

The benefit projections assume that membership experience since 31 March 2019 has been in line with the assumptions made. At a whole fund level, this assumption is reasonable to make and, for the purpose of this paper, we do not expect this to result in a material inaccuracy.

We have also allowed for additional benefit accrual between 1 April 2019 to 30 June 2021. This allows comparison with the Fund's asset value as at 30 June 2021.

To calculate the expected future investment returns, we have used our proprietary Economic Service Scenario ("ESS") model, and the same methodology used at the last formal valuation. Further details about the ESS model, and the calibration of the model as at 31 March 2019, can be found in the 2019 valuation formal report dated March 2020.

The calibration of the model as at 30 June 2021 is detailed below. The following figures have been calculated using 5,000 simulations of the ESS, calibrated using market data as at 30 June 2021. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields for at that time horizon. Only the overall Fund portfolio returns are shown, however similar information for separate asset classes is available on request.

	Annualised total returns								Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
	Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	CorpMedium A						
5 years	16th %ile	-0.3%	-3.3%	-2.6%	-4.0%	-3.7%	-3.5%	-3.0%	1.9%	-2.6%	0.8%	-2.4%	0.6%
	50th %ile	0.4%	-0.4%	0.0%	4.2%	4.3%	2.4%	-0.1%	3.4%	-1.7%	2.4%	-1.5%	1.7%
	84th %ile	1.2%	2.6%	2.6%	12.0%	12.0%	8.8%	2.7%	5.0%	-0.8%	3.9%	-0.6%	2.9%
10 years	16th %ile	0.0%	-2.7%	-1.3%	-1.0%	-1.1%	-1.3%	-1.3%	1.7%	-1.9%	0.8%	-1.8%	0.9%
	50th %ile	1.0%	-0.7%	0.1%	4.7%	4.8%	3.1%	0.4%	3.3%	-0.6%	2.5%	-0.6%	2.3%
	84th %ile	2.2%	1.5%	1.5%	10.5%	10.6%	7.9%	1.9%	5.0%	0.6%	4.1%	0.6%	4.0%
20 years	16th %ile	0.6%	-2.2%	0.0%	1.3%	1.3%	0.7%	0.3%	1.1%	-0.7%	0.7%	-0.7%	1.3%
	50th %ile	1.9%	-0.5%	0.8%	5.7%	5.7%	4.1%	1.4%	2.7%	1.0%	2.2%	1.0%	3.2%
	84th %ile	3.5%	1.3%	1.6%	10.2%	10.1%	8.0%	2.4%	4.3%	2.7%	3.8%	2.7%	5.6%
	Volatility (Disp) (1 yr)	0%	7%	7%	16%	16%	14%	8%	1%		1%		

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.3% (1.3%) to 1.0% (3.2%).

Assets

The asset value as at 30 June 2021 has been provided to us by the Fund. To derive the level of likelihood associated with certain level of expected future returns, we have used the ESS model as described above and the Fund's current strategic asset allocation:

% allocation	
Global equity	50.0%
Diversified growth	20.0%
Absolute return bonds	12.0%
Property	12.0%
Index linked gilts (long)	6.0%
Total	100%

Model limitations

The models used to calculate the results in the paper make some necessary simplifying assumptions. I do not consider these simplifications to be material and I am satisfied that they are appropriate for the purposes described in this report.

Funding Risks


Please see the FSS for details of the funding risks that apply to the future ability of the Fund to pay all members' benefits. These include, but are not limited to:

- Market risks – these include investment returns being less than anticipated or liabilities increasing more than expected due to changes in market conditions underlying the financial assumptions (e.g. inflation or pay increases above that assumed etc.).
- Demographic risks – these include anything that affects the timing or type of benefits (e.g. members living longer than anticipated, fewer members opting into the 50/50 option, etc.).
- Regulatory risks – the LGPS is a statutory scheme. There is a risk that central Government legislation could significantly change the cost of the scheme in future.

In particular, the benefit structure of the LGPS is currently under review as a result of the consultation on the McCloud and Sargeant judgement, HM Treasury's and Scheme Advisory Board's cost-sharing valuations as well as the recent outcome of the Goodwin tribunal. Benefit changes as a result of these issues may materially affect the value of benefits earned by members both in the past and future. I have made no direct allowance for these changes and may need to review my calculations once the outcomes are known.

- Administration and Governance risks – failures in administration processes can lead to incorrect actuarial calculations. For example, where membership data is not up to date (e.g. leaver forms not being submitted in a timely matter) material inaccuracies in respect of the level of deficit and contributions may occur at future valuations.

- Resource and Environmental risks – i.e. risks relating to potential resource constraints and environmental changes, and their impact on Fund employers and investments: such risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Fund, I have not explicitly incorporated such risks in this advice. The Administering Authority may wish to seek direct advice on these risks.

Non-Executive Report of the: Pensions Committee Thursday, 23 September 2021	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Open (Unrestricted)
2022 Triennial Valuation Plan	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Executive Summary

The Local Government Pension Scheme (LGPS) Regulations require administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. The next valuation date is 31 March 2022.

The purpose is to value the assets and liabilities of each individual employer and the pension fund as a whole with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the deficit recovery period.

Recommendations:

The Pensions Committee is recommended to:

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

1. REASONS FOR THE DECISIONS

- 1.1 This report summarises the plan for the valuation which has been discussed with the scheme actuary, Hymans Robertson. Further background to the valuation process will be provided in the presentation by Hymans at the Committee training session in November 2021.
- 1.2 The Triennial valuation is calculated as at 31 March 2022 and will set the contribution and the deficit recovery plan from April 2023 to March 2025. At the 2019 valuation the Tower Hamlets Pension Fund had a funding level of 102%, and a 20 years' recovery period to be fully funded.

2. ALTERNATIVE OPTIONS

2.1 There is no alternative to this report.

3. DETAILS OF THE REPORT

- 3.1 Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 requires an administering authority to obtain an actuarial valuation of the assets and liabilities of its pension fund every three years. The next valuation will be as at 31 March 2022. The results of each valuation must be reported to the authority within twelve months of the valuation date.
- 3.2 To carry out the valuation, the actuary must confirm the total value of the Fund's assets as at the valuation date. The asset value is normally taken from the Fund's audited statement of accounts.
- 3.3 The actuary must also estimate the present value of the Fund's liabilities i.e. the pension benefits which are due to the members of the Fund and their spouses, partners and other beneficiaries as defined by the LGPS Regulations. The process uses the relevant data from the Fund's administration system and financial accounts, together with demographic and financial assumptions (e.g. life expectancy, incidence of ill health retirements, inflation and interest rates, returns on investments) to calculate the liabilities. If the Fund's assets exceed its liabilities, there is a funding surplus as at the valuation date; if the liabilities exceed the assets there is funding deficit.
- 3.4 The actuary will advise the contribution rates that will be required from Fund employers in order to meet the costs of pension benefits accruing in the future. Any funding surplus or deficit for an individual employer will be repaid or recovered either through an adjustment to the contribution rate, or as monetary amounts due each financial year.
- 3.5 The key governance document for the valuation is the Fund's Funding Strategy Statement (FSS). Each LGPS administering authority is required by the LGPS Regulations to prepare, publish, and maintain a FSS. The FSS sets out the processes by which the authority aims to meet the Fund's pension liabilities, complying with the regulatory requirements to maintain stable contribution rates whilst ensuring the solvency and long-term cost efficiency of the Fund. It includes the authority's approach to matters such as notional apportionment of Fund assets to each employer, and recovery of funding deficits. The FSS is normally reviewed during the valuation process in consultation with the Fund actuary and employers. Approval of the FSS falls within the remit of the Pensions Committee.

Valuation Process and Timetable

3.6 The Fund officers have already started planning for the 2022 valuation in conjunction with the Fund's Actuary. The table below shows the summary agreed timetable of the valuation process.

	Event	Responsible	Completed by
1	Pre valuation meeting: Initial discussions on key project milestones issues including valuation timetable	Actuary/Fund	28 July 21
2	Agree comPASS modelling scope	Fund/Actuary	29 Jul 21
3	Report to Pensions Committee informing the valuation process and the timetable	Fund	23 Sept 21
4	Discuss proposed assumptions	Fund/Actuary	1 Nov 21
5	comPASS modelling carried out	Actuary	30 Nov 21
6	Report to Pensions Committee informing the valuation assumptions and training	Fund	25 Nov 21
7	Report to Committee informing the comPASS results	Fund	10 Mar 22
8	Produce final positions for outstanding admission agreement employers and populate the Hub	Hymans	1 Mar 22
9	Review and update Hymans employer database	Actuary/Fund	6 Jun 22
10	Create new employer opening positions /populate Hub & spreadsheet	Hymans	13 Jun 22
11	Report to Committee Valuation progress	Fund	June 22
12	Valuation data submitted to Hymans Robertson	Fund	18 Jul 22
13	High level data validations & reconciliation	Actuary	25 Jul 22
14	Review of and respond to data queries	Fund	1 Aug 22
15	Clean data sign off	Actuary	8 Aug 22
16	Enrichment of data with VitaCurves	Actuary	8 Aug 22
17	Discuss whole fund results with officers	Fund/Actuary	22 Aug 22
18	Draft whole fund results prepared	Actuary	29 Aug 22
19	Report to Committee whole fund results	Fund	Sept 22
20	Discuss employer results in detail (incl review of investment strategy allocation)	Actuary/Fund	2 Oct 22
21	Investigation into any data issues raised by employer results analysis	Fund	17 Oct 22
22	Update employer results post discussion	Actuary	31 Oct 22
23	Prepare draft FSS	Actuary/Fund	22 Aug 22
24	Issue employer results and FSS for consultation	Fund	14 Nov 22
25	Report to Committee draft FSS and ISS	Fund	Nov 22
26	Employer forum	Fund/Actuary	28 Nov 22
27	Individual employer surgeries	Fund/Actuary	12 Dec 22
28	Close FSS employer consultation	Fund	12 Dec 22
29	Review FSS consultation responses	Fund	Dec 22
30	Draft final FSS	Fund	30 Jan 23
31	Confirmation of all employer contribution rates	Fund	6 Mar 23

32	Report to Committee Final FSS, Rates adjustment certificate, Revised investment strategy based on the agreed Funding strategy	Fund	Mar 23
33	Sign off valuation (Rate adjustment certificate)	Actuary	31 Mar 23
34	Copy valuation report to Scheme Advisory Board	Fund	1 April 23

3.7 The draft Funding Strategy Statement will be presented to the Committee in November 22 and final after consultation in March 23. The Fund Actuary has been invited to present the initial valuation results at the Fund’s Employers Forum on 28 November 22.

Section 13 Report on 2022 Valuation

3.8 Under the Public Service Pensions Act 2013, the Ministry of Housing, Communities and Local Government (MHCLG) is required to commission a Page 22 “Section 13” valuation following each Triennial Actuarial Valuation. The aim is to look at the valuation results for each LGPS fund and check whether, in their opinion, the various Funds have carried out their valuations in a way that:

- Is compliant with the LGPS Regulations
- Is not inconsistent with other Funds
- Will ensure solvency
- Will ensure long-term cost efficiency.

3.9 Officers will report to Committee once the final Section 13 report on the 2019 valuation is published by the Government Actuary’s Department (GAD).

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications in this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon the Fund's financial position. Therefore, a prudent approach is crucial in minimising the key risks involved in managing the Pension Fund.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The comments of the Corporate Director of Resources have been incorporated as required, throughout this report.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund as at 31 March 2022, and as at 31st March every third year thereafter.

- 7.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement.

- 7.3 When reviewing the funding strategy statement, the Council is required to have regards to:

a) the CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement; and

b) the Council's statement of investment principles/Investment Strategy Statement.

The review of the funding strategy statement has been undertaken by the Fund Actuary and Fund officers with reference to a and b above as required.

- 7.4 When performing its functions as administrator of the LBTH pension fund, 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).

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:

Miriam Adams, Interim Head of Pensions & Treasury Ext 4248

Email: miriam.adams@towerhamlets.gov.uk

Non-Executive Report of the: Pensions Committee Thursday, 23 September 2021	 TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources	Classification: Open (Unrestricted)
Pensions Administration and LGPS Quarterly Update – June 2021	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

Executive Summary

To provide Members with information relating to the administration and performance of the Fund over the last quarter as well as update on key LGPS issues and initiatives which impact the Fund.

Recommendations:

The Pensions Committee is recommended 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.

1. REASONS FOR THE DECISIONS

- 1.1 This Committee need to receive this report on a regular basis to discharge its duty.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report.

3. DETAILS OF THE REPORT

ADMINISTRATION UPDATE

- 3.1 Scheme Membership on 30 June 2021. A core part of running the pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated in addition to dealing with new members joining and members leaving the scheme. This activity is carried out in house. The team also deals with employer related issues, including new employers and cessation. Membership figures reported in March 21 have slightly moved since reported due to the ongoing data cleansing work.

Membership Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	7,283	7,986	315	6,754	1,826
% of Membership	30.16	33.07	1.30	27.79	7.50
Change from last quarter	16	-4	27	54	16

Membership Category	At 31/03/20	+/- Change (%)	30/06/21
Active	7,263	0.2	7,283
Deferred	7,992	-0.1	7,986
Pensioner (incl spouse & dependant members)	6,693	0.8	6,754
Undecided	306	9.4	315
Frozen	1,826	0.9	1,826
Total	24,080	11	24,164

3.2 The table below shows tasks completed and outstanding on 30 June 2021.

Task type	Tasks Outstanding 31/03/21	New Tasks	Tasks Closed	Tasks Outstanding 30/6/21
Transfer in quotes	12	56	57	11
Transfer Out quotes	21	30	40	11
Employee estimates	23	75	94	4
Retirement quotes	21	172	173	20
Preserved benefits	23	108	109	22
Opt out	6	92	95	3
Refund Calculations	22	138	157	3
Refund Payments	22	74	89	7
Death in payment or in service	45	152	181	16
Actual Transfers In	9	26	27	8
Actual Transfers Out	13	18	25	6
Others	55	334	367	22
Starters	82	152	201	33
Leavers	32	209	213	28
Total Tasks	386	1636	1828	194

3.3 The above tables excludes most tasks received via the 2 pensions in boxes which are currently actioned immediately without logging them to avoid further delay to existing backlog.

3.4 The setting up of workflows for tasks was included in the Pensions Administration remediation plan presented to Committee in June 2020. Since then, the team has engaged with Heywood, the pensions administration software provider to set up workflows for majority of tasks thereby enabling staff to follow the same processes, minimising errors and monitor performance.

3.5 The use of workflow system now enables the team to benchmark its tasks against CIPFA suggested targets. The table below shows performance of completed cases for newly set up workflows on 30 June 2021.

The Head of Pensions and Treasury meets with officers within the team weekly or fortnightly to review their tasks lists. This is expected to be passed on to the Pensions Admin Manager and Team Leaders once all posts have been recruited to.

3.6 Additional workflows to be set up include before December 2021 are:

- Optout
- Transfer in actual
- Transfer out actual
- Bank account change
- Bacs return

- AVC
- APC

3.7 The table below shows performance against CIPFA suggested timelines.

Description	Altair Workflow Ref	CIPFA Target (Days)	April	May	June
			% Within Target	% Within Target	% Within Target
Retirements					
Voluntary	AHEARLYA	15	80.0	50.0	92.3
Redundancy	AHREDUNA	15	100.0	100.0	100.0
Medical	AHIHRETA	15	-	100.0	100.0
Late	AHLATERA	15	75.0	80.0	100.0
Flexible	AHFLEXRA	15	-	100.0	100.0
Deferred into Payment	AHDBPAYA	15	47.4	70.6	53.3
Transfers					
Transfer In - Quotes	AHTVIQ	10	20.0	69.2	70.6
Transfer Out - Quotes	AHTVOQ	10	46.2	28.6	43.8
Transfer In - Actual	IFAIN03 & TVIN03	0	workflow to be developed		
Transfer Out - Actual	IFAOUT02 & TVOUT02	0	workflow to be developed		
Refunds					
Refund Calculations	AHRFNDF	10	53.2	83.3	91.5
Refund Payments	AHRFNDA	10	65.8	79.0	92.6
Estimates					
Voluntary	AHBENEST & AHEARLYQ	15	89.1	79.6	97.1
Redundancy	AHREDUNQ	15	100.0	75.0	92.3
Medical	AHIHRETQ	15	100.0	100.0	75.0
Late	AHLATERQ	15	50.0	100.0	71.4
Flexible	AHFLEXRQ	15	100.0	100.0	100.0
Deferred into Payment	AHDBPAYQ	15	57.1	44.4	97.2
Deferred					
Deferred Calculations	AHDEFLV	30	73.3	87.2	97.0
Opt Out					
Opt Out	OPTOUT	2	workflow to be developed		
New Starters					
New Starters	AHNEWST	40	100.0	100.0	100.0
Nominations					
Nomination Changes	AHNOMIN	10	100.0	75.0	50.0
Address					
Address Changes	AHADDRES	15	96.2	98.3	96.2
Bank Account					
Bank Account Change	BANK-01	0	workflow to be developed		
General Enquiry					
General Enquiry	AHMEMBER	10	77.1	64.7	73.0
Deaths					
Death Cases - General	AHDEATH	15	75.0	67.7	81.4
Monthly Average			68.4	79.7	85.2

Annual Benefit Statement Update

- 3.8 Annual Benefit statements for deferred and actives have all been despatched for print. Statements have been posted to 6,634 active scheme members. Employers have also been informed.

Several active members will not receive their ABS statement on 31 August due to ongoing payroll data issues. These are:

- 129 members with date joined before 31 March 2021 without complete CARE pay records
- 128 members with incomplete or missing data

Scheme members who joined the scheme after 31 March 2021 will not receive a statement for the 2020/21 financial year.

All statements have been issued on the understanding that pay and scheme member data details provided by employer payroll or providers are correct.

EMPLOYER UPDATES

- 3.9 Employers with active members on 30 June 2021.

Administering Authority	Scheduled Bodies
London Borough of Tower Hamlets	Attwood Academy (Ian Mikardo School)
Admitted Bodies	Canary Wharf College
Compass Contract Services Limited	City Gateway
East End Homes	East London Arts & Music
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)	London Enterprise Academy
Greenwich Leisure Limited	Letta Trust (Stebon and Bygrove Schools)
One Housing Group (formerly Island Homes)	Mulberry Academy
Tower Hamlets Community Housing Limited	Paradigm Trust (Culloden, Old Ford and Solebay Primary Schools)
Vibrance (formerly Redbridge Community Housing Limited)	Sir William Burrough
Wettons Cleaning Limited	St. Pauls Way Community School
Mediquip	Tower Hamlets Homes Limited
Atlantic Cleaning	Tower Trust (Clara Grant and Stepney Green Schools)
Purgo Supplies Services Ltd	Wapping High School
Juniper Ventures Ltd	
Olive Dining	

- 3.10 As at the time of writing of this report all data for June 2021, 3 employers (East London Arts & Music, Paradigm Trust and LEA maintained school Bowden House) have yet to upload data for June 2021.

The pensions team currently extract and upload monthly payroll data for the employers listed below. The team is currently working on reviewing data in readiness for Annual Benefit Statements due on 31 August 21.

The focus remains to get the following employers, LEA schools and their payroll provider to onboard the uploading of monthly employee payroll data to the i-Connect pensions portal.

The Pension Fund auditor Deloitte requested the Fund report this regulatory breach to the Pensions Regulator

- Mulberry Academy Trust
- Tower Hamlets Council
- Tower Trust
- St Pauls Way Trust
- Tower Hamlet Homes
- East End Homes
- Bowden House School
- Cayley School

Admission of New Employers

- 3.11 Age UK East London, Juniper Ventures Limited and Cyril Jackson Academy were admitted to the Fund. Cyril Jackson school joined University School Multi Academy Trust with start date 1 September 2021.

Cessation of Employers

- 3.12 Schools in Tower Trust Multi Academy Trust (The Clara Grant Primary School and Stepney Green Mathematics and Computing College) will be moving to Boleyn MAT in Newham and Mulberry Trust MAT in Tower Hamlets in September. The Clara Grant Primary School although joining the management of Boleyn Trust will remain in the Tower Hamlets Pension Fund.

LGPS UPDATES

HMRC and Normal Minimum Pension Age (NMPA)

- 3.12 On 20 July 2021, Her Majesty's (HM) Treasury published their response to the Consultation on implementing the increase to the normal minimum pension age (NMPA). On the same day, HMRC published a policy paper and draft legislation. The draft legislation will be part of the next Finance Bill and will amend the Finance Act 2004. The legislation increases the NMPA from 55 to 57 on 6 April 2028 and provides for protected pension ages.

The changes will not affect members who:

- are retiring due to ill health
- have a protected pension age
- are members of the firefighters, police and armed forces public service schemes.

Though the Finance Act 2004 will provide for protected pension ages, it will be up to MHCLG and SPPA whether, in the Scheme's rules, to allow LGPS members to receive payment of benefits between 55 and 57.

If a member qualifies for a protected pension age in a pension scheme and transfers those benefits (not under a bulk transfer) into a different scheme which also contains a protected pension age (including individual and bulk transfers), the member will retain their protected pension age in the receiving scheme.

The retained protection will, however, not apply on other benefits the member has in the receiving scheme: the transferred-in benefits will need to be ringfenced. Bulk transfers were already covered in the original consultation and there will be a window to allow individuals to join pension schemes which offer a protected pension age lasting up to 5 April 2023.

McCloud Updates

- 3.13 The recently introduced Public Service Pensions and Judicial Offices Bill to Parliament makes provision to rectify the unlawful age discrimination identified by the McCloud judgement. For the LGPS, the Bill confirms which members will be in scope and what service is 'remediable'. This clarity will allow for LGPS legislation to be changed to implement the McCloud remedy. The Bill is now awaiting its second reading in the House of Lords on 7 September 2021.

The table below summarises the current status of the McCloud project plan last submitted to Committee in March. The delay in receipt of legislation affects project delivery.

This table summarises the Fund's McCloud implementation project.

Summary McCloud Implementation Project Plan – Phase 1		
Task	Mar 21 Status	Current Status
Start planning early	Oct-20	complete
Understanding of broad technical requirements	Feb-21	complete
Consider use of 3 rd party provider	April 21	complete
Identify stakeholders	May 21	Complete July 21
Identify workstream for McCloud*	May 21	n/a Heywood service
Locate historic data held inhouse	Jul-21	Outstanding
Receive LGPS regulations and guidance*	Jun-21	Expected Sep/Dec 21
Understand detailed technical requirements from LGPS Regulations and guidance*	Jul- 21	Expected Dec 21
Establish initial possible data set	May-21	Complete
Analyse data set for membership in scope*	Sep-21	Nov 21
Commence employer engagement to ensure receipt of member data when required	Jun-21	Sept 21
Attend Head Teachers meeting		Sept 21
Identify scheme members who may be affected	Nov-21	Expected Jan 22
Establish delivery format	Apr-21	Complete
Member communication	May 21 to Mar 22	On going
Analyse data received from employers and establish how to deal with non-compliance	July 21 – Jan 22	

*Status dependent on LGPS legislation issued

Exit Credit Judgement

3.14 On 27 May 2021, a High Court judgement on exit credits found in favour of

MHCLG and upheld the retrospective effect of the LGPS (Amendment) Regulations 2020. The judge noted that 'there were compelling public interest reasons for making the regulations retroactive' and that 'the aim of avoiding windfall payments and protecting the pension funds was legitimate'. The judgment included clarification over how this discretion may be applied and will set a precedent for other cases. The full judgment in relation to this case can be found online.

The revised Pension Fund Funding Strategy Statement presented to Committee in March 2021 was drafted in line with how the judgement has now been made i.e., that the ultimate discretion is with the Fund as to if any, exist credit is paid out.

Public Sector Exit Payments Update

- 3.15 On 2nd July 2021, MHCLG published a summary on exit payment data for 2019/20 and 2020/21. Further publication by MHCLG is to follow. The summary published outlines that the exit payment paid in 2020/21 averaged at around £26,000 across local authorities (including the pension strain). It is expected that this data will be considered as part of the wider review of the cap on exit payments.

Member Self Service (MSS) Roll Out

- 3.16 The implementation of Member Self Service (MSS), the pensions portal to enable scheme members access their records, update home address, nominations and telephone numbers has commenced.

The team commenced roll out via a phased roll out approach, starting with scheme members in Mulberry Place with email addresses on the pensions systems. This was followed by larger employers like Tower Hamlet Homes and St Pauls Way Trust School Academy.

Annual Benefit statements for 2020/21 will include a note to deferred and active scheme members informing them of MSS roll out, this will enable the team target scheme members whose employers do not provide email address details via monthly payroll upload.

Amendment to Scheme Pay rules

- 3.15 On 19 July the Public Service Pensions and Judicial Bill began its passage through Parliament. The Bill is intended to bring about changes to the Judicial schemes. Chapter 3 of Part 1 is relevant to the LGPS and, if enacted, would confirm the remedy as being from 1 April 2014 to 31 March 2022 and allow for benefits for that period to be paid as final salary benefits, for those members in scope. The Bill has passed the first stage in the House of Lords and is due for a second reading on 7 September.

Disclosing climate risk (TCFD)

- 3.16 Since announcement of DWP's final regulations on mandatory TCFD reporting for private sector pension schemes, MHCLG is expecting to release its consultation on mandatory TCFD reporting for LGPS funds in October of this year. The requirements are expected to be similar to the DWP's final regulations, with funds required to report under the framework by the end of the 2022/23 financial year.

The Pensions Committee agreed in November 2020 to commence TCFD reporting. The first report is received by the Committee in September 2021.

Shifting the UK's tax year

- 3.17 The Office of Tax Simplification (OTS) has published a document setting out the scope of a high-level review and analysis of the benefits, costs and wider implications of changing the date of the end of the UK tax year for individuals from the current 5 April. Options being considered include 31 March and 31 December.

While there would no doubt be significant disruption in making the adjustment to a quarter end, in the longer term it is expected any such simplification should be beneficial for both individuals and organisations. It is expected that the OTS report will be published later this year.

Staffing Update

- 3.18 Three permanent pensions officers have been appointed. Two of which are existing agency staff. Work is undergoing to advertise for 3 senior pensions officers (2 x FTC and 1 Permanent) and 1 team leader.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific equalities implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising from the contents of this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the Fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration functions of the pension fund and updates on the LGPS generally.

7.2 When carrying out its functions as the administering authority of its pension fund, 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).

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

<https://ri.lgpsboard.org/items>

Officer contact details for documents:

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Monthly Data Submission at June 2021 Position

Employer Name	Employer Code	Employer Type	Monthly Data Provided by	Data Submitted to Date
City Gateway	00025	Scheduled Body	Employer/payroll provider	30/06/2021
Canary Wharf College	00021	Scheduled Body	Employer/payroll provider	30/06/2021
East London Arts & Music	00030	Scheduled Body	Employer/payroll provider	31/03/2021
Paradigm Trust	00033	Scheduled Body	Employer/payroll provider	31/05/2021
Ian Mikardo Academy	00029	Scheduled Body	Employer/payroll provider	30/06/2021
LETTA Trust	00028	Scheduled Body	Employer/payroll provider	30/06/2021
London Enterprise Academy	00023	Scheduled Body	Employer/payroll provider	30/06/2021
Sir William Burrough Academy	00018	Scheduled Body	Employer/payroll provider	30/06/2021
Tower Trust	00031	Scheduled Body	Employer/payroll provider	31/05/2021
Wapping High School	00024	Scheduled Body	Employer/payroll provider	30/06/2021
Atlantic Cleaning Services	00131	Scheduled Body	Employer/payroll provider	30/06/2021
Compass Contract	00001	Admitted Body	Employer/payroll provider	30/06/2021
Gateway (Bethnal Green & Vic)	00007	Admitted Body	Employer/payroll provider	30/06/2021
Greenwich Leisure Limited	00029	Admitted Body	Employer/payroll provider	30/06/2021
Juniper Catering St Saviours	00040	Admitted Body	Employer/payroll provider	30/06/2021
Juniper Cleaning St Saviours	00041	Admitted Body	Employer/payroll provider	30/06/2021
Medequip	00035	Admitted Body	Employer/payroll provider	30/06/2021
Olive Dining	00043	Admitted Body	Employer/payroll provider	30/06/2021
One Housing (Toynbee Island)	00011	Admitted Body	Employer/payroll provider	30/06/2021
Purgo Supply Cyril Jackson	00039	Admitted Body	Employer/payroll provider	18/06/2021
Purgo Supply St Paul's	00042	Admitted Body	Employer/payroll provider	19/06/2021
REDBRIDGE CHL (Vibrance)	00004	Admitted Body	Employer/payroll provider	30/06/2021
THCH (Closed Scheme)	00003	Admitted Body	Employer/payroll provider	30/06/2021
THCH (Open Scheme)	00008	Admitted Body	Employer/payroll provider	30/06/2021
Wettons Cleaning Services Ltd	00034	Admitted Body	Employer/payroll provider	11/06/2021
Olga Primary School	00128	Administering Authority	Employer/payroll provider	30/06/2021
Bishop Challinor Catholic Federation of Schools	00129	Administering Authority	Employer/payroll provider	30/06/2021
Bowden House	00130	Administering Authority	Employer/payroll provider	31/03/2021
Cayley Primary School	00027	Administering Authority	Employer/payroll provider	30/06/2021
LEA Schools using payroll provider EPM	00010	Administering Authority	Employer/payroll provider	30/06/2021
LBTH Internal Payroll				
Tower Hamlets LBC	00001	Administering Authority	Extract by pensions team	30/06/2021
Itres (Fortnightly Payroll)	00001	Administering Authority	Extract by pensions team	04/07/2021
Central Foundation	00001	Administering Authority	Extract by pensions team	30/06/2021
East End Homes	00006	Admitted Body	Extract by pensions team	30/06/2021
Mulberry Academy	00026	Scheduled Body	Extract by pensions team	30/06/2021
St Pauls Way Trust Academy	00019	Scheduled Body	Extract by pensions team	30/06/2021
Tower Hamlets Homes	00013	Scheduled Body	Extract by pensions team	30/06/2021

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Non-Executive Report of the: Pensions Board Monday, 6 September 2021	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Open (Unrestricted)
Communication Strategy and Policy Statement	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

Executive Summary

The terms of reference for the Pensions Board includes consideration of the effectiveness of communication with employers and members including the Communication Strategy as part of the Pensions Board’s functions.

Recommendations:

The Pensions Board is recommended to:

1. Note the Communication Strategy and Policy Statement (Appendix 1)
2. That the Board feedback on the Communications presented at the meeting.

1. REASONS FOR THE DECISIONS

- 1.1 The Pension Fund maintains a Communication Policy Statement which reflects:
 - the Local Government Pension Scheme (LGPS) Regulatory requirement to maintain a Statement concerning how the Pension Fund communicates with its broad range of stakeholders (members, representatives of members, prospective members and Scheme employers).
 - the Pensions Regulator’s Code of Practice 14 which refers to necessary communications and their content.

- 1.2 By reviewing communications on a regular basis, the Board will be fulfilling their role in considering the effectiveness of communications with employers and members and any future activities, compliance with the Communication Policy Statement, Regulations, Guidance or best practice and assisting with its knowledge and understanding of the Scheme

2. ALTERNATIVE OPTIONS

- 2.1 There is no alternative to this report. Not producing and reviewing the Communication Policy for the Pension Fund potentially exposes the Fund and Council to action by the Pensions Regulator.

3. DETAILS OF THE REPORT

- 3.1 The Communication Plan included as Appendix A outlines the Fund's planned communication activities and how the communication referred to within the Communications Policy Statement have been delivered in practice.
- 3.2 The Communications Policy is one of the four statutory statements that the Fund is required to have in place. It sets out the Fund's policies of information and publicity about the Scheme to members, representatives of members and scheme employers.
- 3.3 The revised Policy has been updated to capture General Data Protection Regulations and details how members can access the personal information the Fund holds about them.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implication arising from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 The administering authority is required by legislation to prepare, maintain and publish a written statement setting out its policy concerning communications with members and scheme employers.
- 5.3 The mitigated risks associated with this report has been captures in the Fund's risk register as G4 Policies not in place or being monitored and AG5 Communications are inaccurate, poorly drafted, overly complicated, irrelevant, too technical or insufficient in some other manner.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 There are no direct financial and resourcing implications arising of this report and appendix. Ongoing communication costs will be contained within the administration budget.

7. COMMENTS OF LEGAL SERVICES

- 7.1 Section Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires the administering authority to have a communication policy and strategy for communicating with its members and scheme employers. The attached strategy shows compliance with the law.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
-
- State NONE if none.

Appendices

- Communication Policy and Strategy (Appendix 1)

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

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

List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:

Miriam Adams, Interim Head of Pensions and Treasury Ext 4248

Email: miriam.adams@towerhamlets.gov.uk



The London Borough of Tower Hamlets Pension Fund

Appendix 4

Communications Strategy Statement

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APPENDIX A – COMMUNICATION PLAN

Introduction

This is the communication strategy for the Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets (the Administering Authority). Communication is at the heart of everything the Fund does and has a dedicated communication team in place to help the Fund meet its current and future communication challenges. This Policy provides an overview of how the Tower Hamlets Pension Fund will communicate with its full range of stakeholders. An effective communication strategy is vital for the Fund to meet its objective of providing a high quality and consistent service to the stakeholders.

The Fund has over 35 employers with contributing members and a total membership of over 22,000 scheme members, which are split into the categories below and with the approximate numbers of members in each category:

Type of membership	Type of Membership
Active scheme members	7,230
Deferred scheme members	7,993
Pensioner members	6,698

The policy outlines the Fund's strategic approach to communications. This Policy should be read in conjunction with the Communication Plan which is detailed in Appendix A of this document.

Vision

Everyone with any interest in the Fund should have readily available access to all the information that they require.

Regulatory framework

The policy has been produced in accordance with regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013. The regulation requires that:

1. An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:
 - a) scheme members (active, deferred, retired and dependant)
 - b) representatives of scheme members
 - c) prospective scheme members
 - d) scheme employers
2. In particular the statement must set out its policy on:
 - a) the provision of information and publicity about the scheme
 - b) the format, frequency and method of distributing such information or publicity

- c) the promotion of the scheme to prospective scheme members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

Stakeholders of the Fund

The Fund has a varied audience of stakeholders with whom it communicates, including:

- Scheme members (active, deferred, pensioner and dependant members)
- Prospective scheme members
- Scheme employers
- Pension Fund staff
- Pension Fund Committee
- Local Pension Board
- Union Representatives
- London Collective Investment Vehicle (LCIV)
- External bodies:
 - Her Majesty's Revenue & Customs (HMRC)
 - Ministry of Housing, Communities and Local Government (MHCLG)
 - Trades Unions
 - Pension Fund Investment Managers, Advisers and Actuaries
 - Pension Fund Custodian
 - The Pensions Regulator (tPR)
 - The Scheme Advisory Board (SAB)
 - The Local Government Association (LGA)
 - Department of Work and Pensions (DWP)
 - Pension Officers Groups
 - Pensions and Lifetime Savings Association (PLSA)
 - Chartered Institute of Public Finance and Accountancy (CIPFA)
 - The Local Authority Pension Fund Forum (LAPFF)

Key objectives

To ensure that Fund delivers clear, timely and accessible communication with a broad range of stakeholders. To achieve this, the Fund will:

- Communicate information about the Scheme's rules and regulations in an effective, friendly and timely manner to the different groups of stakeholders.
- Communicate information about the investment decision made by the Fund.
- Inform customers and stake holders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the Fund.
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders;
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.

- Seek continuous improvement in the way the Fund communicates.

Branding

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform to the branding of the Council.

Accessibility

The Fund is committed to ensuring communications are accessible to all stakeholders and is committed to develop further use of electronic means of communicating through e-mail and internet site (including a Member Self Service Portal). Wherever possible, responses are sent to stakeholders by electronic means. However, more traditional methods of communications will continue to be offered as required.

The Fund also make sure that communications are easy to understand through use of Plain English accreditation and readability scores in line with Council policy.

Investment Communication

The Fund has seen an increase interest in its investments from Scheme Members, Scheme Employers and the wider public. The Fund maintains a large portfolio of assets, which it uses to pay out LGPS benefits when they become due. This is made up of pension contributions paid in by Scheme Members and Scheme Employers, and also any investment income and capital growth. To reduce risk, the Fund diversifies its investments across a wide range of assets both in the UK and Global market.

Responsible Investment

As a responsible investor the Fund Environmental, Social and Governance (ESG) issues are fundamental to the Fund's investment strategy. The Fund has focused communications to stakeholders about its investments. The Fund will regularly report to Scheme Employers and Scheme Members about its investments and the Fund's approach to ESG issues.

Freedom of Information

Anyone has a right under the Freedom of Information (FOI) Act to request any information held by the Fund which is not already made available. FOI requests will be dealt with openly and swiftly. Requests should be made in writing to the Freedom of Information Officer at the address at the end of this document

A fee may be charged and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high.

Communication Channel

The table below shows the Fund main method of communication with different stakeholders.

Stakeholder	Communication	Key message /Objectives
Active members	<ul style="list-style-type: none"> • Annual benefit statements • Biannual Newsletters • Member self service • Website • Pensions team telephone line • Scheme Literature • Calculation and costings (e.g. estimates) • Presentations – face to face / online via Microsoft Teams • Promotion on internal systems, e.g. the Bridge • Active Member surveys 	<ul style="list-style-type: none"> • Your pension is a valuable benefit. • Your employer contributes to help you save for your retirement. • You need to make sure you're saving enough for retirement • To improve your understanding of how the LGPS works. • You understand the impact of any changes in legislation. • To advise scheme members of their rights and benefits. • To make pensions information more readily available. • To answer member's queries regarding their benefits • To give you more ways that you can contact us or get information. • To provide a method for members to give feedback.
Deferred members	<ul style="list-style-type: none"> • Annual benefit statements • Annual Newsletter • Member self service • Website • Telephone helpline • Scheme Literature • Calculation and costings (e.g. estimates) 	<ul style="list-style-type: none"> • Your pension is a valuable benefit • You are saving enough for retirement • You keep in touch with the Fund e.g. provide us with address changes • How the LGPS works now, and the impact of any changes in legislation • Understand the implication of transferring out of the scheme • To improve understanding of how the LGPS works • We will update you of any changes
Pensioner members	<ul style="list-style-type: none"> • Member self service • Pensions Increase letters 	<ul style="list-style-type: none"> • You keep in touch with the Fund e.g. provide us with address

	<ul style="list-style-type: none"> • P60 • Calculation and costings (e.g. estimates) • Website • Telephone helpline • Annual newsletter • Pensioner member Survey 	<ul style="list-style-type: none"> • changes • We are here to help with any questions you might have. • The LGPS is still a valuable part of your retirement package • How your funds are invested. • To improve understanding of how the LGPS works. • The impact of any changes in legislation. • The impact in the larger pension community (e.g. Brexit.)
Dependent members	<ul style="list-style-type: none"> • Member self service • Payslip • P60 • Calculation and costings (e.g. estimates) • Website • Telephone helpline 	<ul style="list-style-type: none"> • You keep in touch with the Fund e.g. provide us with address and bank changes. • We are here to help with any questions you might have. • The LGPS is still a valuable part of your retirement package. • The impact of any changes in legislation.
Scheme employers	<ul style="list-style-type: none"> • Ad hoc email alerts • Quarterly newsletters • Website • Webinars • Telephone helpline • Scheme information and guides • Annual Employer survey 	<ul style="list-style-type: none"> • You need to be aware of your responsibilities regarding the LGPS • Your employer contributes to help you save for your retirement. • You understand the impact of any changes in legislation • To improve relationships • Continue to improve the accuracy of data being provided to us
Potential Scheme Members including Opt Outs	<ul style="list-style-type: none"> • Website • Telephone helpline • Scheme information and guides 	<ul style="list-style-type: none"> • You understand the impact of any changes in legislation • Your employer contributes to help you save for your retirement. • The LGPS is still one of the best pension arrangements available • Increase understanding of how the scheme works and

		<p>what benefits are provided</p> <ul style="list-style-type: none"> •To improve take up of the LGPS
Pension Fund Staff	<ul style="list-style-type: none"> •Team meeting •1:1 / Appraisals •Training & development •Training Matrix •Ad hoc meetings •Monthly newsletter 	<ul style="list-style-type: none"> •Ensure staff are kept up to date with important information •regarding the service, the employing authority and the wider world of pensions as a whole •Management to feedback to staff regarding their individual progress •For staff to feel a fully integrated member of the team
Pension Fund Committee and Local Pension Board	<ul style="list-style-type: none"> •Committee/Board Papers •Trainings •Minutes •Presentations 	<ul style="list-style-type: none"> •Ensure members are kept up to date with important information regarding the Fund. •Monitor success against the agreed measures
External bodies	<ul style="list-style-type: none"> •Response to enquiries and consultations 	<ul style="list-style-type: none"> • Respond to enquiries/statutory requirements
Union Representatives	<ul style="list-style-type: none"> • Response to enquiries •Ad hoc meetings •Training & development • Scheme information 	<ul style="list-style-type: none"> • Respond to enquiries •Ensure Union Representatives remains as Pensions Committee member

Communicating with members

There are 3 categories of scheme member:

- Active members who are contributing to the Scheme.
- Deferred members who have left the Scheme, but have not yet accessed their pension benefits.
- Pensioner members who are in receipt of their LGPS benefits from the Fund.

The Fund recognises that communication with each category requires a different, specific approach and therefore uses a variety of methods to communicate with members.

To ensure members are able to access services easily, we employ a range of media to educate them about the LGPS and their pension benefits, delivered in a clear and easily understood way to ensure that members can make informed decisions about their benefits.

- Website - The Fund's dedicated Pensions website will go live in October 2021. www.towerhamletspensionfund.org/, which has general information about Tower Hamlets Pension Fund and about being a member of the LGPS. There are also scheme forms and guides available to copy or print.
- Telephone Helpline - We provide a helpline service for all our members to use if they need to contact us by telephone or email. There is a dedicated helpline for members to call [0207 364 4251](tel:02073644251).
- General Correspondence – The Fund provide a generic email address which enables members to email their queries. The emails are picked up and passed to the relevant member of staff pensions@towerhamlets.gov.uk
- Member Self Service - Members can access their pension account using the My Pension Portal. This is a secure area that allows members to see the personal details Fund holds about them. They can also update personal information. Contributing and deferred members can view their annual pension statements and pensioner members can view their pension payment information. There are also scheme forms and guides available to copy or print.
- Visits to our office - Members are welcome to visit our offices if they prefer to speak to us face to face. Ideally, members should make an appointment in advance so we can make sure that someone is available to see them. The Fund remains in operation during this time and members can contact us at the address at the end of this document
- Annual Benefit Statements – The Fund issues an Annual Benefit Statement (ABS) to all active members, showing the pension they have built up to the previous 31st March. They are subject to the members Scheme Employer

providing timely year end information to the Pensions Administration Team. The ABS are available for members to view on Member Self Service Pension Portal.

- Presentations / Roadshows / Drop in Sessions available to active scheme members.
- Newsletters - The Fund issues periodic newsletters to Members to update them on topical Pensions matters and changes.
- Pay advices, Pension Increase letters and P60s - We issue pay advices to pensioner members every March, April and May.

Communicating with Pension Fund Staff

The Fund recognises that its staff are its greatest resource and that they are kept informed about the Fund's aims to deliver a quality and accurate service. This is achieved via use of email, internal meetings, as well as internal and external training events on specific topics.

The Fund communicates with staff in a number of ways.

- Performance conversations— the Fund managers ensure that Fund staff have Performance Conversations at least twice yearly, these establish clear objectives and any necessary support that staff members and the team need. Staff members also meet with managers on a monthly basis (1-2-1).
- Training - Staff regularly attend LGA and CIPFA training as appropriate, and receive inhouse training from actuary, fund managers and via a dedicated Training Officer. Professional courses, such as CIPP are also offered on request. These are recorded via a staff skills matrix. Ad hoc training courses are produced as the LGPS regulations change.
- Staff Feedback on Fund Communications - Staff are encouraged to report back on any feedback given to them by other stakeholders.
- Weekly update – senior managers send weekly emails to keep staff updated on current issues.
- LGA bulletins - senior managers circulate monthly LGA bulletins to all staff to ensure staff are kept up to date with current LGPS issues.
- Team meetings – the Head of Pensions & Treasury meets with all staff on a monthly basis to keep staff updated on current issues including legislative issues.
- Quarterly Newsletters - keep staff updated on current LGPS legislation changes, new staff and those leaving and upcoming training courses, etc.

Communicating with the Pension Fund Committee and Local Pension Board

The administering authority, London Borough of Tower Hamlets, has established a Pensions Committee including elected Councillors to discharge the functions of the Council in governing and administering The Tower Hamlets Pension Fund. The Pensions Committee is the decision-making body for the Fund, and this includes responsibility for setting the Fund's investment strategy, appointing investment managers, and approving Fund budget, business plan and policies.

The Council also established Local Pension Board in 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS.

The Pension Fund Committee and Local Pension Board communicate by:

- Committee and Board meetings - Members of the Pensions Committee and Local Board meet at least quarterly to discuss Pensions issues, following which the Local Board may make suggestions and recommendations, and the Pensions Committee may make decisions.
- Fund officer reports - Members of the Pensions Committee and Local Board receive monitoring reports from Fund staff. This includes the Fund's internal managers delivering reports and presentations to members at Committee and Board meetings.
- Investment Manager Reports – Members receive quarterly investment reports from the Fund officers, investment adviser and independent investment adviser on the performance of the Fund's investment.
- Training – An annual training plan is presented to Pensions Committee and Local Board to approve. Members receive regular training to ensure they have the knowledge and capacity to carry out their roles.
- Quarterly Update - Members of the Pensions Committee and the Local Board receive update from Interim Head of Pensions & Treasury on London CIV and Pension Administration.

Communicating with external bodies

The Fund engages proactively communicates with a number of external bodies. These include:

- London Collective Investment Vehicle Pool, Pension Fund Investment Managers, Advisers and Actuaries – The Fund has regular meeting with:
 - London Collective Investment Vehicle (LCIV) and Independent Fund managers who make investments on behalf of the Fund.
 - Investment Advisers who provide help and advice on the investment strategy of the Fund.

- Fund Actuary to discuss Funding levels, employers' contributions and valuation of the liabilities of the Fund.
- Pension Fund Custodian - The Fund's Custodian is Northern Trust, who ensures the safekeeping of the Funds investment transactions.
- Pensions and Lifetime Savings Association (PLSA) - The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.
- Local Authority Pension Fund Forum (LAPFF) - LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including London CIV Pool. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.
- Mercer - The Fund had also Mercer as its Investment adviser.
- The Fund has appointed – Colin Robertson as its Independent Investment adviser.

Communicating with union representatives

The Fund's objective is to foster closer working relationships with union representatives. In doing so the Fund will ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme. To facilitate this, a union representative is Co-Optee a member of the Pensions Committee.

Data Protection

The Pension Fund has a duty to protect personal information and will process personal data in accordance with the Data Protection Act 1998 and any amendments to the act. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund , for example the Fund's Actuary or AVC provider.

Review

The policy will be reviewed annually and updated sooner if the communications arrangements or other matters included within it merit reconsideration.

Further Information

If you have any queries about this Communications Policy please get in touch:

Pension Services
3rd Floor
Town Hall
Mulberry Place
5 Clove Crescent

London, E14 2BG
0207 364 4248
pensions@towerhamlets.gov.uk

If you have any Freedom of Information requests, please send them to:

Freedom of Information Officer
Information Governance
Town Hall
Mulberry Place
Clove Crescent
London, E14 2BG
020 7364 4161
foi@towerhamlets.gov.uk

Appendix A – Communication Plan

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
Send a notification of joining the LGPS to a Scheme Member – Contractual Enrolment	Electronic	Within 30 working days of receiving new starter information	2 months from date of joining the scheme	E-mail or Letter to Home Address where email not known.	New Members
Send a notification of joining the LGPS to a scheme member – Automatic Enrolment/Re-Enrolment	Various	Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	Employer	New Members
Inform a member who left the Scheme of their leaver rights and options	Electronic	Within 40 working days from receipt of leaver information.	As soon as practicable and no more than 2 months from date of notification (from employer or from scheme member)	E-mail or letter to Home Address where email not known	Members leaving the scheme
Obtain transfer details for transfer in, and calculate and provide quotation to member	Paper Based or Electronic	Within 20 workings days from date of request	2 months from date of request	Letter to Home Address or Member Self Service	Active Member
Provide details of transfer value for transfer out, on request	Paper Based or Electronic	Within 20 workings days from date of request (CETV estimate or Divorce), unless there has already been a request in the last 12 months	3 months from date of request (CETV estimate)	Letter to Home Address, Member Self Service or IFA	Deferred Member

Provide a retirement quotation on request	Paper Based or Electronic	Within 15 working days from date of request	As soon as practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	Letter to Home Address or Member Self Service	Active and Deferred Member
Notify the amount of retirement benefits	Paper Based or Electronic	Within 15 working days from receipt of all information	1 month from date of retirement if on or after Normal Pension Age (NPA), or 2 months from date of retirement if before NPA	Letter to Home Address or Member Self Service	Active and Deferred Member
Calculate and notify dependant(s) of amount of death benefits	Paper Based or Electronic	Initial letter sent no more than 5 days from date of becoming aware of death, and notification of benefit letter sent no more than 10 days from receiving correctly completed forms.	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. Personal representative)	Letter to Dependants Home Address	Dependant Member
Provide all Active and Deferred members with an Annual Benefit Statement (ABS) Member Self Service or Statement to Home Address	Paper Based or Electronic	By 31 August each year	By 31 August each year	Member Self Service or Statement to Home Address	Active and Deferred Member
Provide Pension Saving Statement to eligible members	Paper Based or Electronic	By 6 October each year	By 6 October each year	Letter to Home Address or Member	Active Member

				Self Service	
General Member Enquiries	Paper Based or Electronic	Within 15 working days		Email or Letter to Home Address	All Members
Pensions Increase Letters	Paper Based or Electronic	By 30 April each year	By 30 April each year	Member Self Service or Letter to Home Address	Pensioner Member
Pensioner P60s (HMRC requirement)	Paper Based or Electronic	By 31 May each year	By 31 May each year	Member Self Service or Letter to Home Address	Pensioner Member
Member Scheme Guide	Paper Based or Electronic	Always Available Online (Link also in New Starter Pack)	Within 2 months of request	Fund Website or Member Self Service	All members
Active Member Newsletters	Paper Based or Electronic	Spring newsletter by 1 April (in line with Annual Updates) and Autumn newsletter by 31 August (in line with ABS)		Member Self Service or Letter to Home Address	Active Member
Deferred Member Newsletters	Paper Based or Electronic	By 31 August in line with ABS		Member Self Service or Letter to Home Address	Deferred Member
Pensioner Member Newsletters	Paper Based or Electronic Paper Based or Electronic	By 30 April in line with Pension Increase Letter		Member Self Service or Letter to Home Address	Pensioner Member

Presentations/Roadshows	Paper Based or Electronic	Twice per year per or as required		Via Fund	Active Member
Drop In-Sessions	Face to Face	As requested, up to a maximum of 2 per year per Fund		Via Fund	Active Member
Material Alterations to Basic Scheme Information	Electronic	As soon as possible and within 3 months after the change takes effect	A soon as possible and within 3 months after the change takes effect	E-mail or letter to Home Address	All Members
Employer Training	Face to Face/Microsoft Teams	As requested		Via Fund	Scheme Employer
Employer Guides	Electronic	Online/On request		LGPS Regs Website	Scheme Employer
Briefing papers	Electronic	As and when required	As and when required	Email or Face to Face meetings	Union Representatives
Employer Newsletter	Electronic or Paper Based on Request	Half Yearly Newsletters		E-mail to Fund Contacts	Scheme Employer
Member, employer or third-party enquiries	Incoming via post	Workflow cases created based on enquiry type and associated SLA		Telephone Email	All Groups
Member Self Service	Electronic, Paper Based or Face to Face	Promotional events and campaigns to be discussed and agreed to promote sign up to Member Self Service.		Various	Active and Deferred Members
ISA19/FRS102 Accounting Reports	Electronic	Annually		E-mail	Scheme Employer

Annual General Meeting	Microsoft Teams/Face to Face	Provide availability to promote MSS at the AGM		Via Fund	All Groups
Pension Fund Report and Accounts	Electronic	Annually		E-mail	All Groups
Website					All Groups
Pensions Team Helpline					All Groups
Pensions Administration Strategy	Electronic	Always available (reviewed at least every 3 years)		E-mail	Scheme Employer
Pension Fund Valuation Report	Electronic	Triennially		E-mail	Scheme Employer

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6:30 P.M ON MONDAY, 5TH JULY 2021

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

Members Present:

Councillor Kyrsten Perry (Chair)

Councillor David Edgar
Councillor Andrew Wood
Councillor Rachel Blake*
Councillor Kevin Brady*
Councillor Mufeedah Bustin*

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – GMB Representative

Others Present:

Mr Steve Turner* – Mercer
Mr Colin Robertson* – Independent Adviser

Officers Present:

Miriam Adams – Interim Head of Pensions and Treasury
Lilian Ajose* – (Senior Lawyer)
Kevin Bartle* – (Interim Corporate Director, Resources and Section 151 Officer)
Jonathan Fox – (Principal Contracts Lawyer, Legal Services Governance)
Vanessa Morgridge* – (Lawyer)
Farhana Zia – (Democratic Services Officer, Committees, Governance)

*attended virtually – online

APOLOGIES FOR ABSENCE

Apologies of absence were received from Mr John Jones, Independent Chair of the Pensions Board, Ngozi Adedeji, legal advisor and Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit.

1. DECLARATIONS OF INTERESTS

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

2. APPOINTMENT OF VICE-CHAIR

Cllr Kyrsten Perry proposed Councillor Kevin Brady for the position of the vice-chair of the Pensions Committee. The nomination was seconded by Councillor David Edgar and Councillor Wood.

The Pensions Committee **RESOLVED** to:

1. Elect Councillor Kevin Brady as the vice-chair of the Pensions Committee for 2021-22.

3. PENSIONS COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS 2021-22

Ms Farhana Zia, Democratic Services Officer presented the report, asking members to note the Pensions Committee's terms of reference, membership, quorum and dates of meeting for the municipal year 2021/22.

She informed members these had been agreed at Full Council on the 19th May 2021.

The Pensions Committee **RESOLVED** to:

1. Note its Terms of reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1,2 and 3 in the report; and
2. **AGREED** to hold scheduled meetings of the Pensions Committee at 6:30 p.m.

4. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the meeting held on the 25th March were agreed to be an accurate record of the meeting and were approved by the Committee.

5. PETITIONS

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

6. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the submission from the Pensions Board on behalf of the Independent Chair, Mr John Jones.

She said the Board had met on the 7th June and had had an in-depth presentation and discussion with the London CIV. She said the presentation and discussion covered several topics including, governance of the CIV, manager selection and monitoring, risk management as well as ESG and engagement. Ms Adams said the Board had questioned the CIV regarding its independence as well as its audit and scrutiny arrangements. It had raised concerns relating to the CIV's policy on Israel and the Occupied Palestinian Territories and voting in line with LAPFF recommendations.

Ms Adams said an update on the Pensions Administration and LGPS was also received by the Board plus an update on the Pensions risk register.

The Board's Annual Report was circulated to all to members for information.

In response to questions from members the following was noted:

- The Chair, Cllr Kyrsten Perry expressed her thanks for the Board's involvement in hosting and questioning the London CIV and the importance of building the relationship with the CIV.
- The Board reviews the risk register on a quarterly basis, on behalf of the Pensions Committee and the Council. A number of amber items relate to Pensions Administration whereas others relate to London CIV setting up the Renewable Energy Fund. Staffing is an issue and as part of the Pensions remedial action plan efforts have been made to recruit and retain permanent staff.

The Pensions Committee **RESOLVED** to:

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

7. REPORTS FOR CONSIDERATION

7.1 AVC Provider Update

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided Committee members with an update on the performance of the Fund's AVC providers Utmost and Aviva.

She said under the LGPS regulations, each fund had to provide access to an AVC arrangement where Fund members can elect to pay additional contributions to further boost their retirement savings and/or provide additional life assurance. She referred members to paragraph 3.7 of the report and the proposed review of the current providers as well as the table suggesting a list of objectives and outcomes.

In response to questions from members the following was noted:

- Councillor Wood commented that he did not think the Pensions Committee had discussed AVC providers, at previous meetings. He said it would be useful if the review could say what was currently on offer as well as the options pension providers could offer scheme

participants. Ms Adams said the review would cover this plus see if the current providers are providing value for money and/or if new providers needed to be appointed.

- In reference to paragraph 3.6 of the report, Ms Adams said the 15 members had not been notified of the review as it would be prudent to report on the findings and recommendations of the review, once complete. Ms Adams said she had struggled to obtain information from the current providers which had not been provided in a timely fashion.
- Councillor Edgar suggested the review should include a sampler representation of scheme participants and their experience of the AVC providers.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report;
2. Agreed the recommendation to commission an independent review of existing AVC providers Aviva and Utmost; and
3. Agreed the Fund objectives for Additional Voluntary Contributions (AVC).

7.2 ESG, Voting and Engagement Quarterly Update - March 21

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report provided the Pension's Committee members with an overview of the stewardship activity carried out by Tower Hamlets Pension Fund's investment managers and on its behalf by the Local Authority Pension Forum (LAPFF) in quarter ending March 2021.

Ms Adams referred members to page 37 of the agenda and paragraphs 3.6 to 3.10 which set out the voting activities for the quarter. She explained how voting had occurred in relation to each fund before referring to paragraph 3.11. She said there had been no voting alert variances, where managers do not vote in line with the Forum's suggested voting for companies and that there had been one alert issued by LAPFF relating to Rio Tinto. Ms Adams said proxy voting details had been received from LGIM.

The members of the Committee had no questions for Ms Adams in relation to this report.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and appendices.

7.3 Pensions Administration and LGPS Update

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided members with information relating to the administration and

performance of the Fund over the last quarter as well as updates on key LGPS issues and initiatives which impact the Fund.

Ms Adams referred to the tables at paragraphs 3.1 and 3.2 and the number of active and deferred members as well as paragraph 3.5 which referred to Purgo Supply Services Limited who were admitted to the scheme on the 1st April 2021.

Ms Adams also highlighted the progress made with the Members Self Service portal, paragraph 3.9 and said excellent progress had been made with the roll out, ahead of the timetable for employees in Mulberry Place, Tower Hamlets Homes and St Paul's Trust.

In response to questions from Members the following was noted:

- Councillor Edgar asked what had been done to contact the 1,826 'frozen' members referred to in table 3.1. Ms Adams said this task had been identified as part of the remedial action plan. However, work on this had not begun due to the current resources available. She said once additional staff had been recruited it would be a job for them to check the personal information held and try to contact members to establish if they wanted a refund or not.
- Councillor Blake queried what administrative capacity the Pensions team had, given the number of tasks shown in table 3.3 had steadily increased. Ms Adams responded stating that she hoped the Members Self-Service portal would assist with the updating of individual members personal information and that the recruitment of permanent staff would also assist in reducing the number of outstanding tasks.
- Ms Adams said the number of starters shown in table at 3.3 also included staff who had been reappointed following service restructures. She said the HR payroll system did not differentiate between the two and therefore each entry had to be checked to verify if they are a new starter or not.
- In response to if Ms Adams thought this was transitory or something the team would have to carry out long-term, she said she was working with the Divisional Director of HR and had referred them to the online 'post number' app called bucket post, where more than one employee on a post number can be entered and said she had received reassurances from HR that this would be looked at in July. She said there was not a short-term fix to this but hoped employers would start to use i-connect to upload details as this would help enormously.
- In reference to paragraph 3.4 and the number of employers still not using i-connect, Ms Adams said the Pensions team had had several successes with employers coming on board to use the portal. She said the eight organisations listed at 3.4 were linked to the Council's payroll and therefore work was being undertaken to encourage them to send data via the i-connect portal.
- Mr Bartle, Interim Corporate Director for Resources added this had been a tough and difficult challenge. The Pensions audit was heavily linked with the overall auditing of the Accounts. He said Ms Adams had

worked to recalibrate the membership figures for 2018/19, 2019/20 and 2020/21 but this was a mammoth task, especially given the problems in recruiting permanent staff. He said it was such a disappointment as it would appear the system has not worked correctly since the very start. Mr Bartle said they may need to consider other approaches such as external consultants to help to resolve this issue.

The Pensions Committee **RESOLVED** to:

1. Note and comment on the contents of the report and appendix; and
2. Agreed the admission of Purgo Supply Services Limited to the Scheme.

7.4 Training

Ms Miriam Adams, Interim Head of Pensions and Treasury presented an update on the training options available, following the results of the National Knowledge Assessments conducted by Hymans Robertson LLP in July 2020. She said the assessment covered the CIPFA Knowledge Skills Framework and Pensions Regulator's (TPR) code of Practice 14.

Ms Adams referred Committee Members to paragraph 3.5 and the suggested training programme. She said training would be provided in a bitesize format with online modules for members to complete in their own time. She also referred members to paragraph 3.6 which set out the cost of the training and said the report asked members to agree to the cost of the licences. Ms Adams explained it was vital members of the Committee and the Board completed the training as the licenses were not transferrable.

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

- It was suggested that perhaps each member of the Committee could do a module each, thus ensuring there would be collective knowledge on all the aspects of training offered. However, members felt they would benefit from completing all eight modules individually.
- Members were reassured the bitesize modules were specifically designed for LGPS funds and were not generic investment fund training modules.
- Members agreed to complete the bitesize modules and concurred the length of the training at 20 minutes to half an hour, fitted best with their busy schedules.
- Members said some flexibility in the license being transferrable was required as there maybe changes to the Committee membership.

The Pensions Committee **RESOLVED** to:

1. AGREE to the Hymans Online Academy as a training option for both the Committee and Board, so long as names of Members could be switched across a licence if required; and
2. Noted the associated costs for licences per Committee and Board Member, which they would trial for a period of 12 months initially.

7.5 Revised Responsible Investment Policy

Mr Steve Turner from Mercer presented the update report on the Responsible Investment Policy for the London Borough of Tower Hamlets Pensions Fund. He said the policy had been updated to reflect the relevant changes and had been refreshed with the recent activity the Committee had undertaken over the last year. He said the policy focussed on the equity mandates making them 100% sustainable and also the renewable energy mandate and provided clear guidance on future mandates and reports.

The members of the Committee had no questions for Mr Turner in relation to this report.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and
2. Reviewed, commented and approved the revised LBTH Pension Fund Responsible Investment (RI) Policy 2021 and Corporate Governance & Voting Guidelines 2021

7.6 Quarterly Performance

Mr Colin Robertson, Independent Adviser to the Committee and Mr Steve Turner from Mercer presented the Quarterly Performance Review report. The report informed members of the performance of the Pension Fund investments and its investment managers for the quarter ending March 2021.

Mr Robertson provided the Committee with his analysis of the markets and referred to his report appended at Appendix A. He said the equity markets continued to perform strongly in Q1 of 2021 as the vaccine rollouts in the UK and US had proved to be a success. He said the forecast for economic growth in 2021 had been revised up and a huge stimulus package had been announced in the US, boosting equity markets. With respect to bonds, these had not performed well especially US Treasury Bonds and UK gilts.

Mr Robertson said an economic recovery had clearly taken hold but the risks to the outlook were not insignificant as policymakers weighed up the risks of tightening policy too soon which could lead to a recession against tightening too late and letting inflation soar. In respect to the equity markets, Mr Robertson said potential risks included higher taxation and regulation as well as increased labour costs.

Mr Robertson talked about categorising the various asset classes into 4 groupings. He explained the benefits of investment in each grouping.

Mr Robertson also referred to the comparator and target benchmarks which had been introduced by the London CIV, along with 'Peer Analysis'. He said these needed to be properly explained by the London CIV and he had asked them to do so.

Mr Turner from Mercer added that low carbon equities which are hedged into sterling should be reviewed as they were overweight. He said discussion in respect of property assets and rebalancing would make sense. He referred to Ruffer and said they had invested in Bitcoin which has seen a positive investment performance but had exited that market before the current downturn.

In response to questions from Members the following was noted:

- In reference to the asset allocation categories, Mr Robertson said these were highlighted with regard to the possible direction of travel for the Fund. There were risks associated with each of them and therefore the Committee would need to make decisions based on market conditions at the time.
- Mr Robertson explained that he had stated his concerns regarding the London CIV and had cautioned against them being 'unduly ambitious' given their limited resources. In some instances it was important for them to use external advisers, potentially for both manager selection and product design, He said that both Miriam Adams and himself had conversations with the CIV, asking them to take advice from experts in relation to the renewable energy fund.
- Referring to appendix 3, page 270 onwards, Councillor Wood asked for comment on the performance of the Schroder's equity protection strategy. He said there was lots of red rated performance. Mr Robertson responded stating that the report was poorly constructed and said the equity protection strategy performance ought to have been in the asset allocation section rather than in the manager performance report. This would have made it clearer that the poor equity protection strategy performance was the other side of the strong underlying equity performance. Mr Turner added that it would be useful to bring a report to the next committee meeting with a review/update on Schroder and the equity protection.
 - **ACTION:** The Pensions Committee to receive an update on the equity protection strategy and the performance of Schrodgers.

The Pensions Committee **RESOVLED** to:

1. Note the content of this report.
2. Note the Independent Adviser quarterly commentary (Appendix A).
3. Note the suggested asset allocation categorisation by the Independent Adviser (Appendix A).
4. Note the performance reports and manager rating (Appendix B) and

5. Note the performance report prepared by Fund Custodian Northern Trust (Appendix C).

7.7 Pensions Committee Draft Work Plan 2021/22

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the Pensions Committee's work plan for 2021/22. She said this was a living document subject to change but reflected the reports that were coming to future meetings of the Committee.

She said training was featured on the agenda for every meeting and that it maybe useful for Members to complete the bitesize training on relevant topics prior to meetings. Ms Adams said that the September meeting would include training on the Annual Carbon Footprint.

In response to questions from members the following was noted:

- Councillor Blake asked what could be done to keep the focus on Pension Administration given the full workplan of the Committee? Mr Kevin Bartle, Interim Corporate Director for Resources said the quarterly update was provided to the Pensions Board in whose remit Pension Administration falls. However, this could be replicated for the Committee. He said the quarterly update seemed about right.
- **ACTION:** Ms Adams to examine how Members of the Pensions Committee can be updated on the progress of pension administration, so not to over burden the reporting lines and the Committee.

The Pensions Committee **RESOLVED** to:

1. Note the workplan of the Committee and the comments made on regular reporting on the Pensions Administration, situation.

8. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury said training had been discussed as part of item 7.4.

She said members were notified of manager conferences and events and therefore with the lockdown ending soon, there would be opportunities for members to further enhance their training and knowledge in relation to the work of the Pensions Committee.

9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

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

10. EXCLUSION OF PRESS AND 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 to the Local Government Act, 1972.”

10.1 London Collective Investment Vehicle Multi Asset Credit Fund Review

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the item stating the report provided members with an update on the London Collective Investment Vehicle (LCIV) Multi-Asset Credit (MAC) fund performance and the recent options proposed by the LCIV.

Mr Steve Turner from Mercer referred members to the two options stated on page 312 of the agenda pack and said Mercer would be recommending Option 1 to the Committee, to continue to invest with the LCIV MAC Fund with a 50/50 strategy between CQS and PIMCO. Mr Turner then explained why Option 1 was favoured over Option 2 and said the Committee should accept the second manager to be PIMCO. He said there would be a lot of diversification benefits to this as PIMCO would introduce additional flexibility to the LCIV MAC fund.

Mr Colin Robertson differed with the view of Mr Turner and said he believed the product was badly designed under Option 1. He said the target return of cash + 4.5% was inconsistent with a fixed benchmark, especially when at least one of the components of the fixed benchmark had a duration which might be considered long for a MAC fund. He said the investment grade decision should be made by the Pensions Committee and not by PIMCO. He said this was not a huge issue as only 1% of the entire fund would typically be invested in investment grade bonds by PIMCO but in principle this is a high-level decision which should be made by the Committee. Mr Robertson then gave an example of how Option 1 could be improved. He said he had no issues with the fund having 2 managers nor with PIMCO being the second manager.

Mr Turner countered saying that the design and construction of the fund had been looked at and advice had been taken. He said looking at the degree of materiality, the investment group credit exposure would be 14%, which is less than 1% of the total assets. He said if that 14% exposure moved above 25%, then they would have a serious conversation and would challenge the LCIV.

Mr Kevin Bartle, Interim Corporate Director for Resources added that on balance the diversification benefits and the fact PIMCO is considered as a strong manager should be viewed as a positive. He said the Committee ought to consider Option 1 as per the recommendation with two managers but also

ensure there were checks and balances that further managers were not added to the Fund. He said it was vital for the Committee to work with the London CIV to ensure this.

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

- Councillor Edgar asked if the structure of the fund could be changed. Mr Robertson responded saying this depended on the CIV being receptive to discussions. He said that he believed that one of the two options being offered would need to be selected.
- Councillor Blake asked if Option 1 was adopted what was the timeline to remain in the fund and what were the potential risks? Mr Turner responded saying the biggest risk would be a rise in interest rates as that would imply the bonds purchased by PIMCO would fall in value. However, PIMCO would vary their allocation and are known to be aggressive in lowering and/or raising allocation as required. For example, corporate bonds had performed well during the pandemic but on several occasions diversification into corporate bonds would not have been beneficial. He said there had to be an element of trust that PIMCO would make good active asset allocation decisions. He said part of the rationale to support this was the fact that they have the right skills in that area. Mr Turner continued stating that despite the slight flaw in the design of the fund, his view overall was that the lower fees, the ESG credentials and additional diversification meant the fund would benefit by choosing Option 1.
- Discussion took place on whether Option 1 had to be voted on and if chosen could reasons be given to state the Committee's concerns. Mr Turner said a vote was required however Councillor Blake stated that she did not believe this to be the case. She referred members to page 312 and read the following sentence. "The London CIV is asking Partner funds to indicate which is their preferred option... as soon as is practical." Councillor Blake said following the debate she was happy to support Option 1.
- Councillor Wood said his preference was Option 1 with the 50/50 split between CVS and PIMCO. He also asked that future reports contain a glossary explaining acronyms used.
- Councillor Edgar stated that the points raised by Mr Robertson were valid concerns and that these should be raised with the London CIV.

The Pensions Committee **RESOVLED** to **AGREE** in part of the recommendations put forward in the report.

1. Note the LCIV proposals for Partner Funds.
2. Note the comments and concerns received from the Independent Adviser to the Fund and note the Pensions Committee had a live

discussion relating to the design and structure of the Fund. The Committee requested the Corporate Director of Resources write to the CIV to express their concerns;

3. Consider the recommendation from Mercer that the Committee agree the portfolio change to move to the new 50/50 strategy with CQS and PIMCO:
and
4. Delegate final decisions to the Corporate Director of Resources (S151) Officer in conjunction with the Chair of the Committee.

10.2 Recap of strategic asset allocation training

Ms Miriam Adams, Interim Head of Pensions and Treasury said owing to time, the recap on the strategic asset allocation training could be covered at the next meeting of the Committee. She also said further training on asset allocation would be organised to take place before the September meeting.

Mr Turner added that the strategy required a review, to set the direction of travel for future changes that may be required.

The Pensions Committee **RESOLVED** to:

1. Receive an update on the Strategic Asset Allocation strategy at its next meeting.

10.3 RESTRICTED MINUTES OF PREVIOUS MEETING

The restricted minutes from the meeting held on the 25th March were agreed to be an accurate record of the meeting and were approved by the Committee.

The meeting ended at 8.55 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee

Non-Executive Report of the: Pensions Committee Thursday, 24 June 2021	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Open (Unrestricted) All Appendices to this report are restricted
Quarterly Performance Review	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Appendices 1 and 2 to this report are not for publication as they contain exempt information relating to the financial or business affairs of a particular person as defined in paragraph 3 of schedule 12A of the Local Government Act 1972.

Executive Summary

This report informs Members of the performance of the Pension Fund investments and its investment managers for the quarter ending June 2021.

Recommendations:

The Pensions Committee is recommended to:

1. Note the content of this report.
2. Note the Independent Adviser quarterly commentary (Appendix 1).
3. Note the performance reports and manager rating (Appendix 2)

1. REASONS FOR THE DECISIONS

- 1.1 The report informs the Pensions Committee of the performance of Pension Fund managers and 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 Fund so there is no alternative but to report the performance to those charged with governance of the Fund on a regular basis.

3. DETAILS OF THE REPORT

- 3.1 The Pension Fund Regulations require that the Council as administering authority establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers including the London CIV and ensures that proper advice is obtained on investment issues.
- 3.2 The Fund's Investment Adviser prepares quarterly detailed investment performance reports on the Fund's investment and manager performance. This report includes a performance update at 30 June 2021.

SUMMARY OF THE PENSIONS FUND INVESTMENTS AT 31 MARCH 2021

- 3.3 Over the quarter to 30 June 2021, the Fund generated a return of 4.1% net of fees marginally underperformed the benchmark by 0.1%. On a year to date, the Fund's return of 17.2% outperformed benchmark by 2.2%. On a 3 year to date, the Fund's return of 10.7% outperformed benchmark by 2.0%.
- 3.4 Fund market value including operational cash balances at quarter end was £2.036bn (March 21 £1.959bn).
- 3.5 Absolute Return funds Goldman Sachs and Insight lagged their benchmark during the quarter. Schroders Real Estate fund also lagged behind its benchmark by 0.1%.

Equity Overweight

- 3.6 Although the Fund was overweight in equities at the end of the quarter much of this overweight was used to fund the additional collateral purchase required for Equity Protection in August.

Manager Changes

- 3.7 During the quarter, LCIV (BG) Global Equity fund was transferred to the new LCIV (BG) Global Alpha Paris-Aligned Equity fund. Schroders Synthetic Equity matured on 31 March 21, was invested in LCIV (RBC) Sustainable Equity fund. LCIV Renewable Energy fund was accepted during the quarter with investments initially funded from operational cash.

Manager Ratings

- 3.8 The table below shows Mercer Manager research review at 30 June 21.

Manager Ratings

Investment Manager	Asset Class	12m Perf	3yr Perf	Rating	Strategy Rating Change	ESG
Baillie Gifford	Global Equity	--	--	A		2
RBC	Global Equity	--	--	B+		1
LGIM	Global Equity	●	--	A		p1
LGIM	Global Equity	●	●	A		p1
Ruffer	Absolute Return	●	●	A		2
Baillie Gifford	Diversified Growth	●	●	B+		3
Schroders	Real Estate	●	●	A	ESG rating changed from 3 to 2 in June 2021	2
LCIV	Renewable Energy Infrastructure	--	--	N		N
CQS	Multi-Asset Credit	●	●	B+	Watch (W) status removed in August 2021	3
Insight	Absolute Return Bonds	●	●	B+		2
GSAM	Absolute Return Bonds	●	●	B+	Rating changed from A to B+ in August 2021	3

Mercer does not rate LGIM Passive Low Carbon Equity strategy, Rating shown is for the LGIM Passive Global Equity strategy.

	Active Funds, Target Specified	Active Funds, Target Not Specified	Passive Funds
● Meets criteria	Target or above performance	Benchmark or above performance	Within tolerance range
● Partially meets criteria	Benchmark or above performance, but below target	--	--
● Does not meet criteria	Below benchmark performance	Below benchmark performance	Outside tolerance range
● Not applicable	--	--	--

Manager ESG Ratings

- 3.9 Mercer upgraded ESG rating for Schroders Real Estate fund in June. CQS watch was removed in August, the manager has been active in respect of ESG and recently announced that they are to become a signatory of the Net Zero Asset Managers Initiative.
- 3.10 Appendix B to this report is the detailed report prepared by Mercer.
- 3.11 Appendix 1 to this report is the economic, market and manager report prepared by the Independent Investment Adviser. Managers have been contacted to provide responses on issues raised in the report.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implications arising from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,

- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 Any form of investment inevitably involves a degree of risk.
- 5.3 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that arrangements for financial management are properly scrutinised.
- 6.2 This is a noting report which fulfils the requirement to report quarterly performance of the Pension Fund investments portfolio to those charged with governance. There are no direct financial implications arising from this report, however the long-term performance of the Pension Fund will impact employer pension contribution rates set by the Committee.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.
- 7.2 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.
- 7.3 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.
- 7.4 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.

- 7.5 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.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Independent Adviser's Quarterly Report March 2021 (not for publication)
- Appendix 2 – LBTH Investment Performance Quarterly Report by Mercer (not for publication)

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

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

- NONE

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Agenda Item 8.3

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