

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 6.30 P.M. ON WEDNESDAY, 13 MARCH 2019**

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

**Members Present:**

Councillor Mufeedah Bustin (Chair)  
Councillor Ehtasham Haque (Vice-Chair)  
Councillor Sabina Akhtar  
Councillor Rachel Blake  
Councillor Shad Chowdhury  
Councillor Leema Qureshi  
Councillor Andrew Wood

**Union and Admitted Bodies, Non-Voting Members Present:**

Kehinde Akintunde

**Apologies:**

Kevin Miles

**Officers Present:**

Ngozi Adediji	– (Team Leader Housing Services, Governance)
Tim Dean	– (Senior Pensions Team Leader)
David Knight	– (Senior Democratic Services Officer)
Maheen Nusrat	– Members Support Officer
Neville Murton	– Corporate Director, Resources)
Colin Robertson	– Independent Investment Advisor (Pensions Committee)
Bola Tobun	– (Investments and Treasury Manager, Resources)

**Others Present:**

Colin Robertson	– Independent Investment Advisor (Pensions Committee)
Steve Turner	– (Mercer - Senior Investment Consultant)

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

Cllr. Mufeedah-ah Bustin informed the Committee that she had a meeting with Adam Schneider from Divest Tower Hamlets during his visit at her surgery in

February and spoke to her about the campaign that Divest Tower Hamlets is currently running for divestment on pension funds.

## **2. PETITIONS**

None received.

## **3. MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 29<sup>th</sup> November, 2018 were agreed as a correct record with a few amendments outlined below. Chair be authorised to sign them accordingly.

- Cllr Blake raised the issue of a paper that was discussed at the last meeting is not being recorded in the minutes. The information discussed what other LGPS funds had said they were doing in relation to fossil fuel divestment and what was happening in practice. Steve Turner and Cllr. Andrew Woods confirmed that this was discussed at the November meeting.
- Bola Tobun (Investment & Treasury Manager) mentioned that the update on what other LGPS funds are doing is on tonight's Agenda.

### **Actions:**

- Minutes should say that the; Committee were interested in knowing in what other LGPS funds are doing in relation to fossil fuel divesting. (Amend 6.3 in previous minutes).

## **4. SUBMISSIONS / REFERRALS FROM PENSION BOARD**

The Committee received an update from John Jones, Chair of the Local Pensions Board ("the Board") meeting held on the 7<sup>th</sup> of March 2019.

The Committee noted the circulated report which outlined the following:

1. The Board received a presentation from the Local Authority Pension Fund Forum ("LAPFF") on the latest developments and recent activity. This followed on from a discussion at the previous Board meeting on how LAPFF influence company decision making and measure their effectiveness. During 2018, LAPFF issued 14 voting alerts on a range of issues covering remuneration, climate change and governance. Climate action is a high priority for 2019. LAPFF continue to engage with companies and the benefits of their approach accrue over several years. It was a very helpful presentation and reassured the Board on the work and benefits of the LAPFF;
2. The Board considered and welcomed the approach to Training and Development over the coming year, including holding further joint training sessions for both Board and Committee members. It was noted

that this was a key area of interest for the Pensions Regulator in promoting effective governance and decision making;

3. The Board also agreed its work plan for the year ahead. New changes include considering the risk register every 6 months and a monitoring report annually on investment, custodian and transaction costs. These costs have been the subject of attention nationally in recent years and a new framework for analysis and reporting has now been introduced. It was also agreed that the Board should have a separate budget to cover its annual running costs;
4. A notable amendment was the need to look at the cost of investment managers and custodian transactions. There has been a lot of national publicity on these costs and a framework is being developed for LGPS funds;
5. An update had been received on the performance of the Pensions Administration Team. The Pensions Regulator has identified data quality and record keeping as a key area of performance as it can impact directly on member benefits. The current reporting arrangements covering percentage activity need further development to include data activity, information on backlogs of work and the move to paperless reporting. Data quality is something the Pensions Regulators is very keen on. With these inclusions the report would provide more robust and complete information for the Board and Committee. It is important that the administration function is properly resourced to meet service demands and this should also be reported on a regular basis;
6. Regular reports should also be submitted to the Board on any breaches that may occur in record keeping, calculating benefits, internal controls and investment related activity. Many of these may not be material but do assist in giving a complete picture of the overall management of the Fund; and
7. Finally, 2 items were raised at the meeting to be referred onto the Committee for its attention. (i) Whether there are any implications for the Fund arising from the current review of terms and conditions across service providers for Tower Hamlets Council; and (ii) concern over the potential pension liabilities arising from staff employed at the London CIV being included in the LGPS. The Committee noted that it was being asked to consider the implications of these issues.

## **RESOLVED**

To

1. Note the report.
2. Include looking at investment and custodian transaction costs on the work plan for the Committee to review.
3. Ask that the Board reviews the investment and custodian transaction costs first and thereafter by the Committee.
4. If the London CIV disappears who will be responsible for their pension's commitments. They have not got LGPS staff and all are coming from corporate and it would be expensive for LBTH to pick up

this additional cost. The London CIV is going through their LGPS pension scheme and is asking Tower Hamlets to give them unlimited guarantee. Given that Tower Hamlets does not do that for any contractors as they are not in control of their staff, giving an unlimited guarantee is not an option.

## **5. PRESENTATIONS**

### **5.1 Presentation-Baillie Gifford on Performance, ESG and Sustainability by Baillie Gifford-20 Minutes**

The Committee noted:

- Tower Hamlets is invested in two Baillie Gifford strategies: Global Alpha and Diversified Growth;
- Global Alpha: aims to outperform by 2-3% p.a;
- Baillie Gifford's investment philosophy focuses on identifying stocks with long-term sustainable earnings growth;
- Diversified Growth has a dual objective: it aims to achieve a return of the UK Base rate+3.5% (p.a.) with volatility of less than 10%;
- There are no investment restrictions; the focus is on long-term capital growth with a low level of volatility;
- In comparing the relative carbon footprint and carbon intensity chart, Baillie Gifford pointed out that Information Technology companies do not typically come listed as high carbon emitters;
- In explaining the top largest percentage contributors to the carbon exposure in the portfolio, CRH-a building material company was highlighted as a company which has now put in place stringent carbon reduction policies;
- It was highlighted that the CEO of CRH is changing the cement industry initiative. Reduction in carbon emissions has been tied to company's KPIs as well as top level senior management's bonuses;
- It was also highlighted that over the past 5 years, the portfolio has consistently outperformed the benchmark on carbon footprint;
- A graph outlining the Diversified Growth performance showed that the fund has returned -4.8% and 4.6% over the 12 month and since inception periods respectively;
- The Global Alpha's performance over the last 12 months was -3.9% whereas since inception, it had returned 15.5% (absolute performance);
- Baillie Gifford are looking at other holdings that are not just only reducing their Carbon Emissions but also working for solutions. The examples provided were: Spotify, TESLA Albemarle, BHP Billiton and Orica;
- Baillie Gifford highlighted that carbon reduction is a visionary part of their investment process and the following actions have been implemented:
  - Internal portfolio carbon footprint analysis capabilities

- Engagement with Carbon intensive companies and non-disclosing companies.
- Employee-led Green Group for continual operational improvement
- Organisational carbon footprint measurement, management and offsetting.
- Baillie Gifford highlighted their actions in response to the Task Force on Climate-Related Financial Disclosures (“TFCD”) which the Financial Stability Board had established in 2015. The recommendations cover Governance, Strategy, Risk Management Metrics and Targets;
- Baillie Gifford is currently holding an internal review of the recommendations;
- There is a development of investment climate scenarios analysis currently in progress;
- Baillie Gifford has committed to respond publicly by 2020.
- Some examples of industry collaboration include:
  - Carbon Disclosure Project (“CPD”)
  - UN Principles for Responsible Investments (“UNPRI”)
  - Institutional Investor Group on Climate Change member.
- Baillie Gifford also emphasised that companies with significant exposure to carbon risk seldom meet their investment criteria;
- Risks include carbon pricing, environmental regulation, consumer sentiment, and disruption;
- As part of their commitment to better sustainability plans, their Governance and Sustainability team has been increased to 15, and further recruitment is still ongoing; and
- The team is diverse in experience and has a good gender balance.

Following concerns were raised by the Committee:

- What are the future climate concerns? E.g. (i) the chemicals in batteries are extremely toxic and batteries undergo a photochemical reaction as they decompose in landfills. This causes emissions of greenhouse gases; and (ii) there is a need to look at supply chains of businesses and how are they are improving efficiency;
- Why has Global Alpha underperformed this year and what is the future strategy?
  - Over a 5-year period, the expectation is to outperform the benchmark as it is a highly active portfolio.
  - There is a sizeable exposure to emerging markets.
  - The market saw an indiscriminate sell off particularly in many of the online platforms which was completely at odds with the underlying fundamental numbers those businesses were returning.
- Does Baillie Gifford meet with the Local Authority Pension Fund Forum?
  - Response: Whilst interactions with the LAPFF are through governance if there are any specific topics, companies or resolutions the LAPFF can apply direct pressure.
- Are there any examples of stocks that Baillie Gifford sold?

- Grecco: Which was a higher contributor of Carbon Emissions given they were investing in diesel instead of cleaner energy technologies.
- Do you have to put extra governance on Emerging markets?
  - E.g. Alibaba: where Jack Ma stepped down - whether that was deliberate or pushed aside by the State. The manager's spent time within China to determine the reason and discovered that it was a thoughtful action.
  - There are differences in good governance practices between developed and emerging markets
  - Appropriate governance structures differ from company to company.
- The diversity of the Governance and sustainability team does not have any representation from various ethnic/racial and religious groups.
- Baillie Gifford responded that people hired are on the basis of strict meritocracy but they would feedback the diversity concerns to their team.

Finally, it was noted that any other follow-up questions could be sent to the Baillie Gifford team via email.

Presenters Claire Phillips and Kieran Murray were thanked for their presentation.

The Chair requested for the reflections of the independent advisor Colin Robertson, who advised that, the Committee that they should judge Baillie Gifford on their long term performance and continue to monitor their progress. Baillie Gifford it was noted has proven to have a professional and highly competent investment team over the longer-term.

## **RESOLVED**

To note the Presentation.

### **5.2 Presentation: Insight on Performance & Strategy of BNY Mellon ARB Fund by Andrew Wickham, 15 Minutes**

The Committee considered the Insight presentation in detail and noted:

- The market value for the Fund's holding with Insight as at the end of December 2018 was £47 million. The Fund started investing with Insight in 2016. Insight's performance since inception has been disappointing relative to the return target, in particular, due to a challenging 2018. Insight's presenters assured that the investment management team is experienced and understand the performance expectations. They take the performance of the fund seriously.

Insight then responded to questions by the Committee about the underperformance of the fund:

- There were no changes in management or level of risks taken, or in the approach in which assets are managed. 2018 was just a bad year, in particular due to the negative impact of country decision-making. Page 11 of the presentation addresses the areas that suffered the most in 2018.
- Insight was expecting European markets to perform worse than other markets; however what actually happened was that the European markets performed relatively well. Insight had expected European bonds to underperform other markets, so this impacted on a number of their investment decisions. Insight provided a general overview of their investment positioning in 2018 and discussed what themes had worked out well and those that had not.
- In response to assuring the Committee of the potential for performance improvement, Insight highlighted the following:
  - Insight had realised that they need to increase research and expertise into the Chinese market, so they are better able to understand how the activity in that market feeds into the rest of the world. To this end, Insight is hiring an expert specifically on the Chinese market to the broader investment process and to help Insight understand the impact better;
  - Insight takes a balance of long-term versus just short-term views. Insight does not want to cut positions that it firmly believes will make their clients' money in the long run;
  - Insight still believes that the European market does not look like it will perform well;
  - It is looking at opportunities in emerging markets; and
  - Portfolio managers are looking for good ideas for better performance of the fund;
  - Insight is seeking good ideas whilst maintaining positions that are earning money. Portfolio managers are looking to invest in new trades, invest in Canada and buying other UK companies.
- In response to a query about which emerging markets Insight is investing in:
  - Emerging markets do look very attractive right now. Individual stories such as Brazil which is a market friendly market, Columbia and Russia. They are not looking at the Asian markets as they do not appear to be good value for money. Their preference is countries that are stable or improving. Emerging markets are a large portion of the fund.

**Action:**

Committee to look at Insight's presentation in detail and to consider making a decision on it's the future role in the portfolio.

**5.3 Presentation: Goldman Sachs on Performance & Strategy of STAR II BY  
Iain Lindsay, 15 Minutes**

The Committee considered the Goldman Sachs presentation in detail and noted:

- Performance for Q4 2018 was behind by 190 bps.
- Q1 of 2019 is looking promising s 17 bps ahead of objectives of the portfolio.
- Goldman Sachs hopes to see a sustained improvement in performance throughout 2019.
- The changes that have been made to recover from the losses in Q4 2018 which include:
  - Significant strides to improve interest rate management, especially with the promotion of Jonathan Bayliss as Head of Duration Team, which has been a key in improvement.
  - Currency management process has been improved, by tightening risk controls and appointing Arnab Nilim as Head of the Currency Team who joins in May of 2019.
  - The recruitment of Ashish Shah as head of the Sector allocation team.

Goldman Sachs then responded to questions by the Committee about the underperformance of the fund whether the recent performance upturn is sustainable:

- Goldman Sachs assured the Committee that they are confident for the future with new appointments referred to above and greater emphasis on research and risk management controls;
- Goldman Sachs is also involved in proactive risk management especially given the circumstances around Brexit; and
- In response to the role of the Goldman Sachs Special Situation division it was clarified that the team does not sit with Goldman Sachs Asset Management so it does not have an impact on the fund.

**RESOLVED**

- I. To note the presentation ; and
- II. For the Committee to review the performance of Goldman Sach's and Insight before making any final decisions, which was decided to be done at the end of the meeting in a closed meeting.

## **6. REPORTS FOR CONSIDERATION**

### **6.1 Investment and Fund Managers Performance Review for Quarter Ending 31st December 2018**

The Committee was presented with the Performance of the Fund Report- Quarter ending December 2018. The following points were highlighted and summarised as listed below:

- The fund went down by £75.9 million in Q4 2018, albeit it is unrealised loss but bounced back in February by £85 million.
- The equity protection strategy is performing as expected and was beneficial to performance given the equity market sell off in Q4. Page 27 highlights Managers Investment Performance Relative to benchmark as at 31<sup>st</sup> December 2018. Some of the figures outlined in the table are wrong and will be amended for next quarter.
- Page 31 represents Fund value by investment managers as at 31<sup>st</sup> December 2018 compared to 30<sup>th</sup> September 2018 and it can be seen that equity portfolios lost money due to market volatility. A request was made to publish the table in a different format using layman terms (as per table 27 and table 29) as well as to keep consistency in naming convention of organisations names.

## **RESOLVED**

To note the report.

### **6.2 Independent Advisor Report on Market Outlook and Investment Managers Performance for Quarter Ending 31 December 2018**

Colin Robertson, Independent Adviser presented the Market Outlook Update in respect of the performance of the markets and the Pension Fund investment managers for the third quarter of 2018/19.

The only update to note was that:

1. Equity markets that fell last quarter have now recovered which has benefitted the Fund. The market is very erratic - this too has had an impact on government yield bonds.

In response to concerns about Baillie Gifford's report, the following points were raised:

- The Diversified Growth Fund (DGF) is a cash plus strategy but invests in equities whilst the Multi-Asset Fund (MAC) fund also underperformed, and the Committee was advised that all 5 funds should be considered together as cash plus funds and one of them also has an equity type exposure;
- The Chair inquired about the two Absolute Return Bonds funds which had lost money and it was pointed out that these could be considered a suitable source of cash to finance a potential

investment in infrastructure due to the lower performance prospects of these funds

## **RESOLVED**

To note the Update Report.

### **6.3 Update and Implementation Plan for Tower Hamlets Pension Fund Sustainable Investment and ESG Considerations**

Bola Tobun, Investment & Treasury Manager presented the report that outlined the Funds current position on responsible investments, and considers the Environmental, Social and Governance (ESG) issues currently dominating Pension Fund investment debate. The report also considered what other LGPS funds are doing and recommends alternative ways in which the London Borough of Tower Hamlets Pension Fund can further promote the integration of ESG issues into its investment decision making and reduce carbon intensity of the fund.

It was noted that the Committee has a fiduciary duty to act in the best long-term interest of the fund members and for the Committee to do it properly, they need to recognise governance issues which the Committee had been doing for the past two years. This will could an impact on the financial performance on the Fund, and the Council are not the only employer in the fund. Therefore, whatever decision the Committee makes, some of the other employers like the academies might consider that their deficit contribution is too high and must this must be taken into consideration when considering the return from investment and is very important on balancing the liabilities, in order for LBTH to have a sustainable fund to pay the pensioners.

The following recommendations were noted:

1. To continue being a member of LAPFF.
2. To look at alternative ways as outlined on page 225 of the report.
3. At the previous meeting, the Committee had discussed about going forward with the LCIV's infrastructure fund. However, it was noted that this a broadly diversified fund, with a minimum target to be 25% invested in Renewable Energy. The Committee noted that it may prefer for a potential allocation to Infrastructure to be fully focused on Renewable Energy

In response to the Committee questions:

- It was noted that it would take 3 to 4 years to build up a target allocation to Infrastructure;
- There is a new guidance on LGPS asset pooling on page 246 of the report. Points to think about being how much choice you would have within the CIV, as this guidance is also statutory;
- In response to understanding the process, and whether the Fund has no choice but to invest within the CIV, the Committee was informed that in order to get the right products from the CIV, the Committee

needs to know its own direction and strategy and if not investing in the CIV, then the Committee is ignoring statutory government guidance. The best way to do this is within the CIV by convincing the CIV to make available funds that suit its long-term strategy.

**RESOLVED:**

- The Committee needs to properly review and consider its long-term investment strategy, and consider the timings then on when to make the changes. Need to review the Fund's Investment Strategy Statement along with the Actuarial Valuation at the Committee in September; and
- To adopt a move to increase the allocation to low carbon equities (from 15% to 20% of total assets) and give further consideration to the merits of investing in Renewable Energy and how this could be achieved.

#### **6.4 Pension Scheme Administration Update**

Tim Dean, Pensions Team Leader presented a report that covered the activities and performance of the Pensions administration team.

The Committee noted that:

- The Local Pensions Board has suggested including future reports to focus on volume of work done.
- It was also suggested that reports include items that are required to be reported to regulator. Complaints and breaches too should be included in the report.

**RESOLVED**

- I. To note the report.

#### **6.5 LGPS (Local Government Pension Scheme) Current Issues and Updates**

The Committee received a report that provided an update on general developments in LGPS arena and also the Scheme Advisory Board's Key projects relating to the governance and administration of the LGPS scheme.

The Committee was informed that:

- The draft of the Ministry of Housing, Communities and Local Government's (MHCLG) guidance on LGPS Asset pooling is to be completed by end of March;
- The Investment & Treasury team will email the key elements of the guidance to Committee in due course;
- The Government is not putting any specific targets for infrastructure.

**ACTIONS**

- A joint response submission for the MHCLG guidance by the Pensions Board and Committee to be submitted at the end of March.
- To think about point 3.1.6 on page 247 when drafting the investment strategy.

**RESOLVED**

To note the report

**6.6 Pensions Committee Work Plan, Pension Fund Business Plan and Budget for 2019/20**

The Committee indicated that it was interested in understanding the variance of £300,000 and asked for an update.

**Actions:**

- The Investment & Treasury Manager to update Committee on the £300,000 variance.
- To have a draft investment strategy statement prepared by June, but to have a version to approve in September after the actuarial report.

**6.7 Training & Development Plans For Tower Hamlets Pension Fund Committee and Board Members For 2019/20**

The Committee received a report that provided an update on the Training and Development Plan for 2019/20.

**RESOLVED**

To note the report and that the Committee provide the Investment & Treasury Manager with a list of their training needs.

**7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT**

Nil Items

**8. EXCLUSION OF THE PRESS AND PUBLIC**

The Chair moved and it was

**RESOLVED**

That press and public be excluded from the remainder of the meeting in that under the provisions of section 100 of the Local Government (Access to Information) Act 1985 the press and public should be excluded the remainder of the meeting for the consideration of Section Two business on the grounds it

contains information defined as exempt in Part One, Paragraph 3, Schedule 12 A to the Local Government Act 1972, which relates to information relating to the financial or business affairs of any particular person including the authority holding the information.

**9. INVESTMENT AND FUND MANAGERS PERFORMANCE REVIEW FOR  
QUARTER ENDING 31ST DEC 2018**

The Committee considered the Investment and Fund Managers Performance in closed session.

**The meeting ended at 8.55 p.m.**

**Chair, Pensions Committee**