

Non-Executive Report of the:  <b>Pensions Committee</b>  20 June 2019	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Neville Murton - Corporate Director, Resources	<b>Classification:</b> Unrestricted
<b>Investment and Fund Managers Performance Review for Quarter End March 2019</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment & Treasury Manager
<b>Wards affected</b>	All wards

## Summary

This report informs Members of the performance of the Pension Fund and its investment managers for the last quarter and year end 2018/19.

<b>Over the quarter to 31 March 2019 the Fund generated a positive return of c.5.5%</b>	Over the three month period to 31 March 2019, all equity markets delivered positive returns in both local currency and sterling terms, as equities rebounded from their December lows.  UK government bonds delivered positive returns as bond yields fell over the period.
<b>Eleven mandates matched or achieved benchmark set</b>	For this quarter, Eleven mandates matched or achieved returns above the set benchmark. The only mandate that did not achieve its benchmark was the bond portfolio with Insight.  Fund value was £1.561bn, with a £76m increase from the December quarter end value.

<b>The Fund's global equity investments produced strong returns over the 12 month period</b>	Over the twelve month period to 31 March 2019, the performance of global equities was mixed. Japanese equities were the worst performer, falling in both sterling and local currency terms, whilst the US market provided very strong positive returns. Gilt yields fell over the period, with UK government bonds delivering strong positive returns.
<b>Five mandates matched or achieved benchmark set</b>	Five mandates underperformed their respective benchmark. The mandates that underperformed their respective benchmarks were *LCIV BG (GE) lagged behind by -1.69%, *LCIV BG (DGF) behind by -3.78%, *LCIV RF by -4.61%, *GSAM behind by -4.93% and Insight lagged behind significantly by -10.54%.

<b>Fund is broadly in line with the strategic benchmark weight</b>	Looking at the longer term performance, the three year return for the Fund was 0.89% per annum above its benchmark return and for over five year, the Fund posted a return of 8.39% outperforming the benchmark return of 8.31% by 0.08%.  The Fund remains in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.
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\*LCIV BG (DGF) – fund manager is Baillie Gifford and investment is Diversified Growth Fund, LCIV BG (GE)- fund manager is Baillie Gifford and investment is Global Equity, LCIV RF – fund manager is Ruffer, \*GSAM – Goldman Sachs Asset Management

## **REASONS FOR URGENCY**

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider information at this meeting about the Investment and Fund Managers Performance Review for Quarter End March 2019, the Committee may also take the view that it is important that there should not be an extended period without any member oversight.

### **Recommendations:**

Members are recommended to note the contents of this report.

#### **1. REASONS FOR THE DECISIONS**

- 1.1. The report informs the Pension Committee of the performance of pension fund managers and the 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 Pension Fund so there is no alternative but to report the performance of the Fund to the Pension Committee on a regular basis,

#### **3. DETAILS OF REPORT**

- 3.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.
- 3.2. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and if considered necessary may recommend that investment managers are invited to explain further to the Pensions Committee.
- 3.3. This report informs Members of the performance of the Fund and its investment managers for the quarter end 31st March 2019.

#### **3.4. SUMMARY OF THE PENSIONS FUND INVESTMENTS**

##### **i. London Common Investment Vehicle (LCIV)**

The London CIV was formed as a voluntary collaborative venture by London Local Authorities in 2014 and has led the way in pooling of investments in the Local Government Pension Scheme (LGPS). The London CIV aims to be the investment vehicle of choice for London Local Authority Pension Funds through successful collaboration and delivery of compelling performance. The LCIV was launched in December 2015, as a fully authorised and regulated investment management company. The founding members are the London boroughs including the City of London Corporation. The LCIV has been established as a collective investment vehicle for their Local Government Pension Scheme funds. The current regulatory permission allows the London CIV to operate an Authorised Contractual Scheme Fund (the UK's version of a Tax Transparent Fund).

The London CIV currently manages four investment portfolios for Tower Hamlets (TH) pension fund which are listed below:

- a) **The Baillie Gifford Global Alpha Equity Fund (BG GA)** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark (Morgan Stanley Composite Index All Country (MSCI AC) World Index gross of fees over a rolling 3-5 year period). This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m and named **LCIV (BG) GA**. ***The market value of the assets as of 31 March 2019 was £345.890m.*** The portfolio outperformed the benchmark by delivering a return of 12.39% compared to a benchmark return of 9.64% over the quarter. But underperformed the one year benchmark return by -1.69%. However outperformed the three year benchmark return by 3.73% per annum and the 5 year benchmark return by 2.41% per annum.

The fund has outperformed its performance target over all periods under review, with the exception of the latest 12 month period, where the fund underperformed its target and benchmark.

Over the 12 month period to 31 March 2019 the top contributors to performance were Amazon Corporation, Anthem Inc and Advanced Micro Devices. Over the same period the top detractors to performance were Prudential, Ryanair, Zillow and Microsoft.

- b) **The Baillie Gifford Diversified Growth Fund (BG - DGF)** the original TH mandate was opened in February 2011 with a contract value of £40m. £6.409m was added to this portfolio in June 2015. The performance target for this mandate is to outperform the benchmark (3% p.a. above the 3 month London Interbank Offered Rate (LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%). This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m and named as **LCIV (BG) DGF**. A further capital contribution of £70m was paid into this portfolio on 23 August 2017. ***The market value of assets as at 31 March 2019 was £136.822m.*** For this reporting quarter, the return of this portfolio was 6.14% with relative outperformance of 5.09% above benchmark return of 1.04%. This portfolio underperformed the one year benchmark by -3.78%, but outperformed the three year benchmark return by 1.15% per annum and by 0.61% per annum over 5 years. The portfolio invests in a range of asset classes.
- c) **Ruffer LLP** manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 2 June 2015. The management of this portfolio was transferred to the LCIV on 20 June 2016 at market value of £54m and the portfolio is named **LCIV Ruffer (AR)**. A capital contribution of £70m was added to this portfolio on 23 August 2017. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above 3 month LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%. ***The value of assets under management as of 31 March 2019 was £130.574m.*** The portfolio outperformed the benchmark by delivering a return of 3.15% compared to benchmark return of 1.04% over the quarter. But underperformed the benchmark for one year by posting a return of -0.55% against a benchmark return of 4.06%. However for over 3 years the portfolio outperformed its benchmark by posting a positive return of 3.71% per annum and posting 3.72% per annum, slightly ahead the benchmark by 0.11% per annum for over 5 years period.

d) **LCIV (Multi Asset Credit) MAC Fund** – LCIV invest in CQS Credit Multi Asset Fund with an objective to return London Interbank Offered Rate (LIBOR) +4-5% per annum over a 4-year rolling period and the expected volatility for this fund is 4-6% over a 4-year rolling period. *Multi Asset Credit (MAC) – are strategies that make investments in multiple areas of credit. This involves bonds and loans from non-government issuers. Investments can be held as long or short. A long position is when the portfolio manager hold assets the manager expected to rise in price. The short position is when the manager sell assets in advance as the manager expected a fall in price. The manager also uses this long / short positions to tailor risk exposures of the portfolio.*

e) Tower Hamlets Pension Fund transferred £90m on 29 May 2018 to London CIV to invest in LCIV (CQS) MAC which was launched 31 May 2018. CQS MAC Fund had arguably been the London CIV's most successful fund launch to date. ***The portfolio had a market value of £91.8m at 31 March 2019.*** This portfolio delivered a positive return of 2.65% over the period and outperformed its benchmark by 1.29%.

True to their defensive style, over the course of 2018, the team had generally been reducing their credit risk exposure and had pivoted exposure away from the US and towards Europe. Both of these moves proved beneficial heading into the fourth quarter of 2018.

After the strength of the markets, the manager remains defensive, with large allocations to floating rate assets.

## ii. **Goldman Sachs Asset Management (GSAM)**

On 4 April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STAR II). The performance target is to outperform the benchmark (3 Month LIBOR) by 4.0% per annum net of fees over a rolling three year period. £24.5m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. ***The portfolio had a market value of £52.542m at 31 March 2019.***

The portfolio outperformed the benchmark (3 month LIBOR plus 4%) in the reporting period by posting returns of 2.66% against a benchmark return of 1.29% and underperformed the benchmark for one year to reporting period considerably by -4.93%.

The largest contributor to performance was the interest rate exposure and cross sector asset allocation exposure to corporate credit. The former benefitted from a short US interest rate position, although this was somewhat offset by their long US vs short UK inflation position. Since inception the portfolio has performed disappointingly relative to benchmark and target since inception.

## iii. **Insight Investment Management**

On 1 July 2016, the fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. £21.7m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. ***The portfolio had a market value of £46.901m at 31 March 2019.*** The performance target is to outperform the benchmark (3 Month LIBOR) by 3-4% per annum net of fees over a rolling three year period.

The portfolio underperformed the benchmark (3 month LIBOR plus 4%) in the reporting period by posting returns of -0.39% against a benchmark return of

1.29%, the portfolio also underperformed its benchmark for one year to reporting period, significantly by -10.54%.

The largest detractor to performance over the period was country allocation. This was driven by their short position on Germany versus Long US and a tactical short on Italy versus a long Spain position. Positions in high yield bonds and currency also hurt performance. The largest contributor to performance was the long position in investment grade credit, which benefitted from a narrowing of credit spreads. Insight performance has been greatly disappointing and has struggled to meet its benchmark return or target since inception.

iv. **Legal & General Investment Management (LGIM)**

Legal & General was appointed on 2 August 2010 to manage passively UK Equity and UK Index-Linked Mandates. The UK Index-Linked Mandate benchmark is FTSE A Gov Index-Linked > 5 years. A decision was made at the September 2017 Pension Committee meeting following the outcome of the Fund investment strategy review to disinvest from the passive UK Equity mandate. From an investment perspective the committee felt that it was difficult to justify the overweight position to UK Equity market since 90% of revenues in this market are global. The Fund invested the redemption proceeds of the UK equity portfolio in Passive Global Equity and Low Carbon Passive Global Equity Fund as agreed by the Committee in December 2017.

**LGIM Equity portfolio is as shown below:**

<b>Fund</b>	<b>Allocation (30% of total LBTH Fund)</b>
<b>FTSE All World Equity Index (LGIM Global Equity)</b>	16.7%
<b>FTSE All World Equity Index GBP Hedged (LGIM Global Equity Hedged)</b>	33.3%
<b>MSCI World Low Carbon Target Index GBP Hedged (LGIM LC Global Equity)</b>	50.0%

In September 2018, the UK Index Linked Gilts portfolio of £72.26m was transferred to Schroders for EPS collateralisation management and £142.4m was redeemed from the Hedged Passive Global Equity portfolio to support the Equity Protection Strategy (EPS) Collateralisation.

At 31 March 2019, the Unhedged Passive Global Equity portfolio had a market value of £82.853m; the Low Carbon Passive Global Equity portfolio had a market value of £244.708m and the Hedged Passive Global Equity portfolio had a market value of £22.795m. As expected from a tracking manager, all the portfolios matched the benchmark returns. Low carbon equities marginally outperformed normal market cap equities over the quarter.

v. **Schroder's Investment Management**

Schroder currently manage two investment portfolios for the Fund.

- a) **Property Investment** - The value of this mandate on 20 September 2004 was £90m. The performance target for this mandate is to outperform the Investment Property Databank (IPD) UK Pooled Property Fund Indices All Balanced Funds Median benchmark by 0.75% net of fees over a rolling three year period. ***The market value of assets at 31 March 2019 was £161.655m.***

The fund has performed well over all periods under review. The industrial sector continues to be the strongest positive driver of returns over recent periods.

The Schroders Real Estate Fund made no purchases over the quarter. They continue to disinvest from weaker performing funds within sectors that are poorly

aligned with their house view (the fund sold a further £0.7m from the Standard Life Pooled Pension Property Fund over the period).

- b) **Equity Protection Strategy** – In September 2018 the Fund implemented the equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings of £718m at the time with an option overlay, also establishing long synthetic equity positions of some £142m.

The equity protection strategy is designed, on average, to help protect against losses of some 15% on a portfolio of the Fund global equities, after suffering an initial 5% loss. The Fund would start experiencing losses again after equities have fallen by 20%. The exact levels of protection vary by equity region but the US is the most important one.

The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect help protect strong gains in recent years. The equity protection expires at the end of March 2020, and will need to be reviewed in Q4 2019 to consider if the current strategy simply finishes or is continued in some way.

A total value of £214.66m as constituents of £72.26m Gilts portfolio and £142.4m of equities redemption proceeds were transferred from the Tower Hamlets Pension Fund portfolios with LGIM to Schroders Bespoke Pooled Fund.

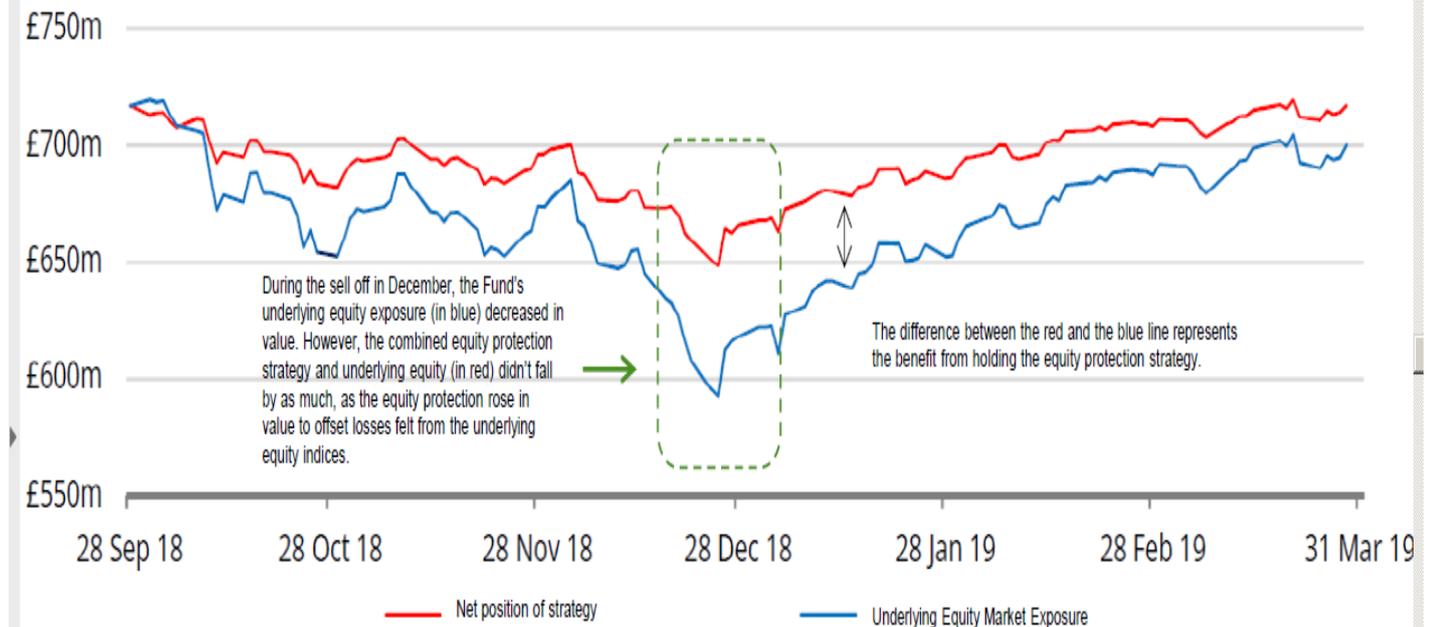
The protection contracts require daily margin movements to cover gains or losses to or against the Equity Protection Fund. The Fund must have collateral fund not less than 30% of the strategy implemented.

As at 31 March 2019 the value of the strategy was £717.3m compared to starting position of £718m in September 2018 and the net assets value of the Fund was £233.8m compared to £214.66m.

# SCHRODERS – EQUITY PROTECTION

£17.2m as at 31/03/2019 (£45.3m as at 31/12/2018)

## Strategy Performance



Since inception of the equity protection strategy, underlying equity markets have receded from their inception level as the underlying indices have devalued. The Fund's equity protection strategy has increased in value. The value of the options at 31 March 2019 was £17.2m.

### INVESTMENT PERFORMANCE

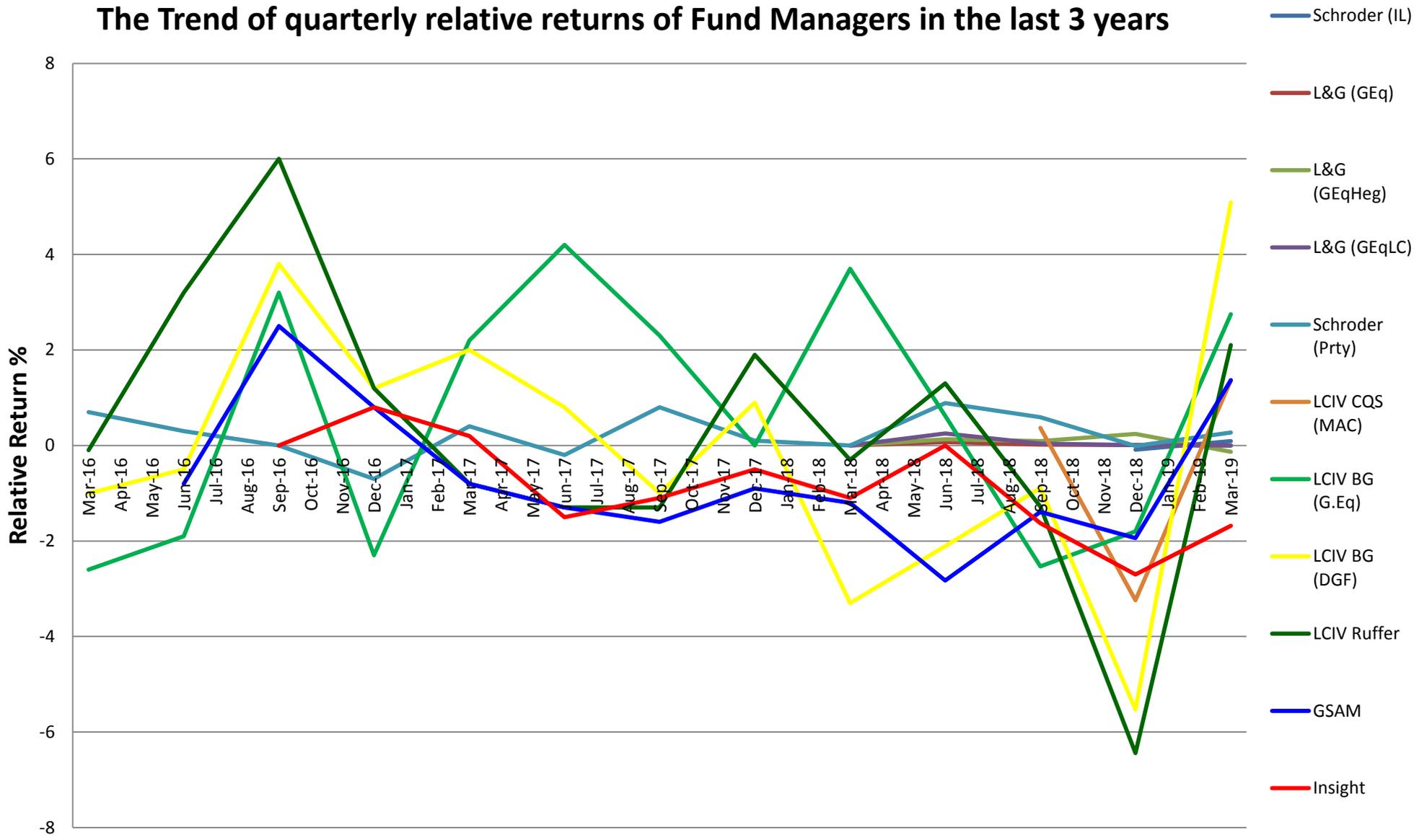
- 3.5. The overall value of the Fund at 31 March 2019 stood at £1,561.9m which is a substantial increase of £76.6m from its value of £1,485.3m as at 31 December 2018.



<b>Quarter %</b>	<b>Fund</b>	12.4	12.3	11.7	9.6	0.6	2.7	(0.4)	6.4	2.7	6.1	3.2	5.5
	<b>Benchmark</b>	9.6	12.3	11.8	9.6	0.3	1.3	1.3	6.3	1.3	1.0	1.0	6.0
	<b>Relative</b>	2.8	(0.0)	(0.1)	0.0	0.3	1.4	(1.7)	0.1	1.4	5.1	2.1	(0.5)
<b>12 month %</b>	<b>Fund</b>	8.8	5.7	5.1	10.8	6.7	0.1	(5.5)	7.0	N/A	0.3	(0.6)	6.0
	<b>Benchmark</b>	10.5	5.4	4.6	10.7	4.9	5.1	5.1	5.7	N/A	4.1	4.1	6.5
	<b>Relative</b>	(1.7)	0.3	0.6	0.1	1.8	(4.9)	(10.5)	1.3	N/A	(3.8)	(4.6)	(0.6)
<b>3 years (% p.a)</b>	<b>Fund</b>	18.1	N/A	N/A	N/A	7.0	N/A	N/A	9.5	N/A	4.8	3.7	10.7
	<b>Benchmark</b>	14.4	N/A	N/A	N/A	6.2	N/A	N/A	9.1	N/A	3.6	3.6	9.8
	<b>Relative</b>	3.7	N/A	N/A	N/A	0.8	N/A	N/A	0.4	N/A	1.2	0.1	0.9
<b>5 years (% p.a)</b>	<b>Fund</b>	14.3	N/A	N/A	N/A	9.5	N/A	N/A	10.2	N/A	4.2	3.7	8.4
	<b>Benchmark</b>	11.9	N/A	N/A	N/A	9.1	N/A	N/A	9.9	N/A	3.6	3.6	8.3
	<b>Relative</b>	2.4	N/A	N/A	N/A	0.4	N/A	N/A	0.3	N/A	0.6	0.1	0.1

3.11 The graph below demonstrates the volatility and cyclical nature of financial markets relating to the fund's investment holdings. Over the three year period shown in the graph, the outcomes are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pension liabilities are up to sixty years in the future.

# The Trend of quarterly relative returns of Fund Managers in the last 3 years



3.12 The managers, mandate and portfolios held under management are set out below. The Fund was valued at £1,562million as at 31 March 2019. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 0.67% of the total assets value, this constitutes investment in money market fund (MMF) of £6m and £4.512m working capital of the Fund.

Manager	Mandate	Value at 31st March 2019 £m	Strategic Weight of FM AUM*	Actual Weight of FM AUM	(Under)/ Over Weight Target	Date Appointed
L & G Index Linked-Gilts	UK Index Linked	0.000	0.00%	0.00%	0.00%	02-Aug-10
L & G Unhedged Global Equity	Global Equity	83.853	5.00%	5.37%	0.37%	10-Dec-17
L & G Hedged Global Equity	Global Equity	22.795	1.00%	1.46%	0.46%	10-Dec-17
L & G Low Carbon Global Equity	Global Equity	244.708	15.00%	15.67%	0.67%	10-Dec-17
Legacy portfolio	Global Equity	0.078	0.00%	0.00%	0.00%	
LCIV BG (Global Equity)	Global Equity	345.890	20.00%	22.15%	2.15%	05-Apr-07 22 Apr 2016**
LCIV BG (Diversified Growth)	Absolute Return	136.822	10.00%	8.76%	(1.24)%	22-Feb-11
LCIV Ruffer (Total Return Fund)	Absolute Return	130.574	10.00%	8.36%	(1.64)%	08-Mar-11
LCIV CQS (Multi Asset Credit)	Multi Asset Credit	91.800	6.00%	5.88%	(0.12)%	29-May-18
GSAM	Bonds	52.542	3.00%	3.36%	0.36%	04-Apr-16
Insights	Bonds	46.901	3.00%	3.00%	0.00%	01-Jul-16
Schroder	Property	161.655	12.00%	10.35%	(1.65)%	30-Sep-04
Schroder	Equity Protection Strategy	233.738	15.00%	14.97%	(0.03)%	06-Sep-18
Internal cash Management	Cash	10.512	0.00%	0.67%	0.67%	N/A
<b>Total</b>		<b>1561.866</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	

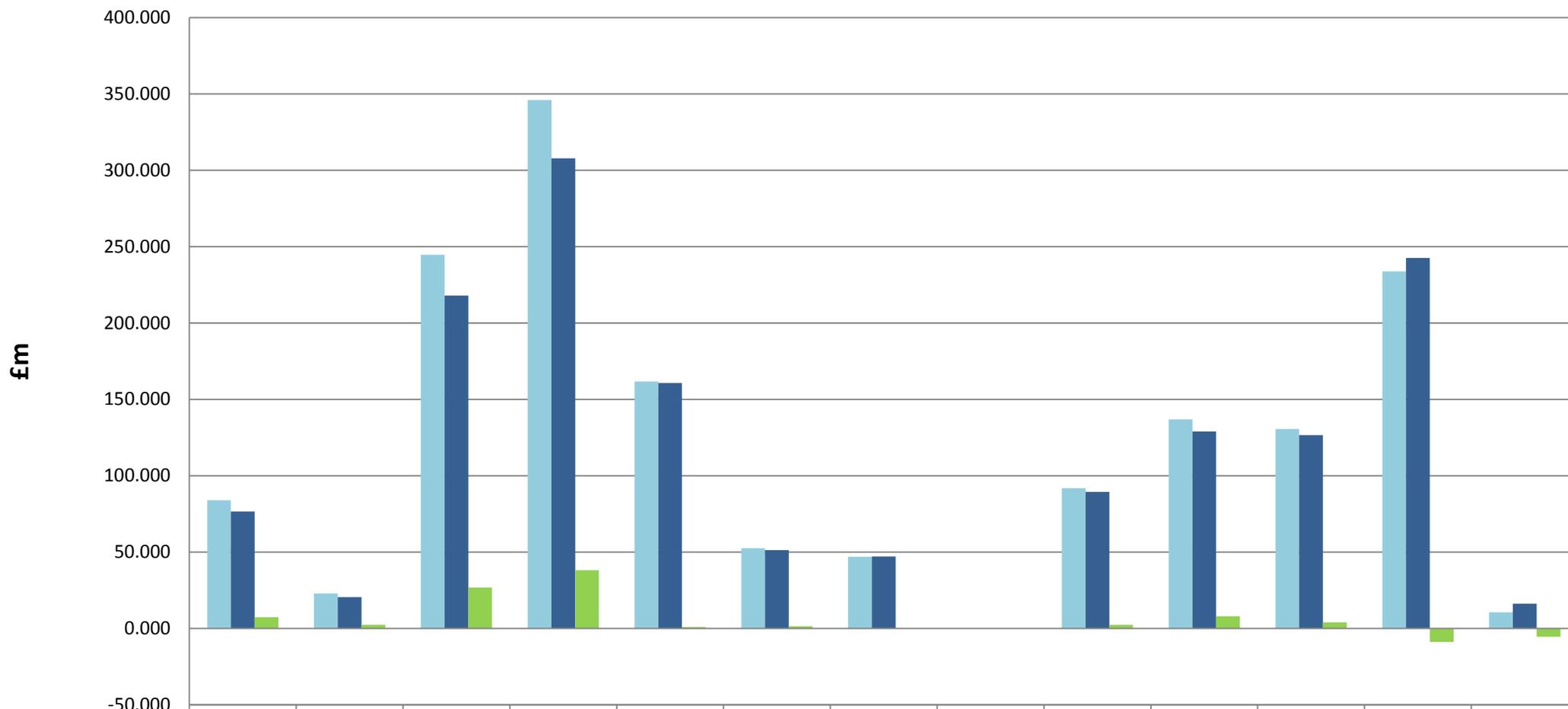
\* FM AUM is Fund Asset under Management with a Fund Manager

\*\*The date asset ownership was transferred from LBTH Pension Fund to LCIV for management under the pooling arrangements.

3.13 The Committee agreed in February 2018 to pursue an equity protection strategy, in view of the significant and unexpected gains in global equity markets since the 2016 actuarial valuation. The aim of this is to protect the funding gains and reduce the risk of funding level deterioration which would otherwise result in an increased pension contribution requirement.

3.14 The graph below illustrates the portfolio value movement of each mandate for this quarter compared to the last quarter. The volatility of the equity markets can be seen with all the Fund equity portfolios depicting the unrealised losses of the fund for the reporting period except the equity protection strategy mandate with unrealised gains of £28m.

## Fund Value by Manager as at 31 March 2019 compared to 31 December 2018



	L&G (uGEq)	L&G (hGEq)	L&G (LCEq)	LCIV BG (G.Eq)	Schroder Prop	GSAM	Insight	Legacy	LCIV CQS (MAC)	LCIV BG (DGF)	LCIV Ruffer	Schroder EPS	LBTH (Cash)
Value at 31/03/2019	83.853	22.795	244.708	345.890	161.655	52.542	46.901	0.079	91.800	136.823	130.574	233.734	10.512
Value at 31/12/2018	76.498	20.416	217.965	307.769	160.743	51.183	47.086	0.080	89.433	128.911	126.591	242.591	16.072
Gain/(Loss) of Value	7.355	2.379	26.743	38.121	0.912	1.359	(0.185)	(0.001)	2.367	7.912	3.983	(8.857)	(5.560)

## **INTERNAL CASH MANAGEMENT**

- 3.15 Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.
- 3.16 The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2018, which is delegated to the Corporate Director, Resources to manage on a day to day basis within the agreed parameters.
- 3.17 The cash balance as at 31 March 2019, constituted £10m in money market funds and £512k working capital cash of the Fund.

## **ASSET ALLOCATION**

- 3.18 The current benchmark of asset distribution and the fund position at 31 December 2018 are set out below:

<b>Asset Class</b>	<b>Benchmark as at 21 September 2017</b>	<b>Fund Position as at 31 March 2019</b>	<b>Variance as at 31 March 2019</b>
Global Equities	50.0%	54.6%	4.6%
<b>Total Equities</b>	<b>50.0%</b>	<b>54.6%</b>	<b>4.6%</b>
Property	12.0%	10.4%	(1.6)%
Pooled Bonds	6.0%	6.3%	0.3%
UK Index Linked	6.0%	5.0%	(1.0)%
Alternatives	26.0%	23.0%	(3.0)%
Cash	0.0%	0.7%	0.7%
<b>Total Equities</b>	<b>100.0%</b>	<b>100.0%</b>	

- 3.19 The constituents of alternatives in the above table are 10% allocation to Ruffer total return fund, 10% in Baillie Gifford diversified growth fund and 6% in CQS multi asset credits fund. The Global Equities include 9% allocation of Schrodgers Synthetic Equities which mainly constitute pooled bond funds and UK government bonds of less than 3-year maturity to be used as collateral to cover margin requirements under the protection contracts.
- 3.20 The table above indicates the Fund is overweight by 0.7% in Cash and 4.6% in Global Equities, Property underweight position of 1.6%, and Alternatives is underweight by 3%. The overweight position of the global equities is due to the Fund investments in equity Protection Strategy. Officers are arranging rebalancing of portfolios between June and July 2019.
- 3.21 Asset allocation is determined by a number of factors including:-
- The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.
  - The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

- iii) The deficit recovery term. Most LGPS funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

3.22 Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 This is a noting report which fulfils the requirement to report quarterly performance of the Pension Fund investments portfolio to the Pensions Committee. There are no direct financial implications arising from this report, however the long term performance of the pension fund will impact upon pension contribution rates set by the Committee.

#### **5. LEGAL COMMENTS**

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 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.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2. A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1. This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1. There is no Sustainable Action for A Greener Environment implication arising from this report.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1. Any form of investment inevitably involves a degree of risk.
- 9.2. To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1. There are no crime and disorder reduction implications arising from this report.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- [None]

#### **Appendices – The below appendices are available for members on request**

- Appendix 1 – Northern Trust Performance Review Report
- Appendix 2 - LCIV Sub-Funds Quarterly Report
- Appendix 3 – GSAM Investment Review for the Quarter
- Appendix 4 – Insight Investment Review for the Quarter
- Appendix 5 – LGIM Investment Review for the Quarter
- Appendix 6 – Schroders Property Investment Review for the Quarter

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

#### **List of “Background Papers” used in the preparation of this report**

#### **Officer contact details for documents:**

- Bola Tobun Investment & Treasury Manager x4733