

Non-Executive Report of the:  <b>Pensions Committee</b>  28 November 2019	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Neville Murton, Corporate Director, Resources	<b>Classification:</b> Part Exempt – Appendix C
<b>Investment and Fund Managers Performance Review for Quarter End          September 2019</b>	

<b>Originating Officer(s)</b>	Miriam Adams, Pensions & Investments Manager
<b>Wards affected</b>	All wards

## Summary

This report informs members of the performance of the Pension Fund investments and its investment managers for the quarter ending September 2019. Details of manager and whole Fund performance is included in the performance report from Mercer attached (Appendix C). This appendix is not for publication as it contains exempt information relating to the financial or business affairs of a particular person as defined in and paragraph 3 of schedule 12A of the Local Government Act 1972.

## Recommendations

The Pensions Committee is recommended to:

- Note the content of this report;
- Note the Independent Adviser quarterly commentary (Appendix A);
- Note the PIRC reports (Appendix B); and
- Note the detailed fund performance by Mercer (Appendix C) (restricted)

### 1. REASONS FOR THE DECISION

- 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 OPTION

- 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 to those charged with governance of the Fund on a regular basis.

### 3. DETAILS OF REPORT

- 3.1 The Pension Fund Regulations require that the Council as administering authority establishes arrangements for monitoring the investments of the Fund.

- 3.2 It considers the activities of the investment managers including the CIV and ensures that proper advice is obtained on investment issues.

The Fund's investment adviser prepares quarterly detailed investment performance reports on the Fund's investment and manager performance. This report attached as Appendix informs the Committee of the performance of the Fund and its investment managers for the quarter end 30 September 2019.

### **3.3 SUMMARY OF THE PENSIONS FUND INVESTMENTS**

- 3.3.1 Over the quarter to 30 September 2019, the Fund generated a return of 1.5% and underperformed its benchmark by 0.9%. On a year to date, the Fund's return of 6.1% underperformed benchmark by 1.3%.

- 3.3.2 The Fund's LGIM global passive equities hedged portfolio outperformed benchmark by 0.2%. On a year to date perspective the portfolio outperformed benchmark by 0.8%.

LGIM global passive equities unhedged and LGIM global passive Low Carbon equities both performed at par with benchmark.

- 3.3.3 The Baillie Gifford Global Alpha fund underperformed its benchmark by 2.6% over the quarter. The fund also underperformed on a year to date basis.

- 3.3.4 The Baillie Gifford Diversified Growth Fund outperformed benchmark by 1.2% in the quarter and on a year to date outperformed benchmark by 0.6% and 0.4% outperformance on a three year to date.

- 3.3.5 Appendix C to this report is the detailed report prepared by Mercer.

- 3.3.6 The returns from the PIRC Local Authority universe which comprises of 64 funds with a value of over £193bn showed a strong equity market performance during the quarter driving the positive result of 7.5% on a year to date for the average Local Authority fund. Three year result fell to just under 9.0%.

- 3.3.7 Across the Local Authority PIRC universe, equities have been the strongest performing asset over the medium and longer term. Local authority funds that held a relatively high level of equities will have delivered returns towards the top of the range whilst those with a more defensive asset allocation have performed less well.

- 3.3.8 Members are asked to note PIRC paper (Appendix B3) on why recent complexity which has developed in LGPS strategic asset allocation over the years and the resulting impact on Fund performance.

### **4. INTERNAL CASH MANAGEMENT**

- 4.1 Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines. Cash is also held internally by LBTH to meet the

Fund's working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

- 4.2 The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2019, which is delegated to the Corporate Director, Resources to manage on a day to day basis within the agreed parameters.
- 4.3 The cash balance as at 30 September 2019, constituted £8.98m working capital cash of the Fund.

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

- 5.1 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.
- 5.2 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.

## **6. LEGAL COMMENTS**

- 6.1 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.
- 6.2 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.
- 6.3 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.
- 6.4 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.

- 6.5 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.

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

- 7.1 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.

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

- 8.1 This report helps in addressing value for money through benchmarking the Council's performance PIRC Universe of Funds.

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

- 9.1 There is no Sustainable Action for a Greener Environment implication arising from this report.

## **10. RISK MANAGEMENT IMPLICATIONS**

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

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

- 11.1 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**

- Appendix A – Independent Adviser's Quarterly Report
- Appendix B – PIRC Q2 2019 Reports

Appendix C – LBTH Investment Performance Quarterly Report (**not for publication**)

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

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

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