

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 6.00 P.M. ON THURSDAY, 19 NOVEMBER 2020**

**ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)**

**Members Present:**

Councillor Rachel Blake – Vice-Chair in the Chair  
Councillor Helal Uddin  
Councillor Abdal Ullah  
Councillor Andrew Wood

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

Kehinde Akintunde	GMB Union Representative
Colin Robertson	Independent Advisor
Steve Turner	Mercer

**Others Present:**

John Jones	– Chair of Pensions Board
Sam Yeandle	– Mercer

**Officers Present:**

Miriam Adams	– Interim Pensions and Investment Manager
Ngozi Adedeji	– (Principal Lawyer Civil Litigation, Governance)
Kevin Bartle	– (Interim Divisional Director of Finance, Procurement and Audit)
Farhana Zia	– (Democratic Services Officer, Committees, Governance)

**APOLOGIES FOR ABSENCE**

Apologies for absence were received from the Chair of the Pensions Committee, Councillor Kyrsten Perry and Councillor Puru Miah.

**1. DECLARATIONS OF INTERESTS**

There were no declarations of pecuniary interests made by members of the meeting.

**2. APPOINTMENT OF VICE-CHAIR**

Councillor Rachel Blake put herself forward for the position of the Vice-Chair. This was seconded by Councillor Abdal Ullah and Councillor Helal Uddin.

No further nominations were made.

The Pensions Committee **RESOVLED** to:

1. Elect Councillor Rachel Blake as the Vice-Chair of the Pensions Committee for 2020-21.

The Vice-Chair was in the Chair for this meeting.

### **3. MINUTES OF THE PREVIOUS MEETING(S)**

The public and restricted minutes of the meeting held on the 22<sup>nd</sup> September 2020 were agreed and approved be to an accurate record of the meeting.

### **4. PETITIONS**

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

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

Mr John Jones, Chair of Pensions Board presented his report stating the Pensions Board had met on the 13<sup>th</sup> October 2020 and were due to meeting again on the 16<sup>th</sup> November 2020. However, the 16<sup>th</sup> November meeting had been cancelled. He said he hoped to ensure future meetings of the Board would follow the previous timetable, by meeting a few days before the Committee.

Mr Jones said the Board at its October meeting had considered some of the same reports that had been presented to the Pensions Committee. Mr Jones said it had been updated on the current position with the Pensions Administration service and the progress being made to implement the new staffing structure. He said concern had been expressed that the new staffing structure was not being implemented as quickly as intended. He said the Board were advised the Council's internal procedures accounted for some of the delays in recruitment. He said the Board fully supported the new structure and action being taken but were concerned over the problems being encountered. Mr Jones requested the Committee to review and monitor progress in implementing the new staffing structure, and to support officers in ensuring that the new structure was implemented as quickly as possible.

Mr Jones stated the other areas of discussion had been the draft Pension Accounts for 2019/20 and questions around the management expense of the Fund. He said this had to be disclosed and this was a welcomed improvement to understanding the costs of investment managers and should be reviewed on a regular basis, in the future.

Mr Jones continued stating Board Members were concerned with the Voting and Engagement arrangements of the Fund's investment. He said this related to the practice of managers and London CIV voting in accordance with Tower Hamlets policy, as recommended by the LAPFF. Mr Jones said this was an

issue the Pension Board would look at more closely in the future, to understand fully why the recommendations are not always followed through and if reasons are clearly stated when there is a divergence from the Tower Hamlets policy.

In response to questions from Members the following was noted:

- Mr Jones said when they discussed the Voting and Engagement paper, it was not clear from the columns and recommendations why the managers had departed from Tower Hamlets policy. Mr Jones said it was a case of understanding why this was, especially as London CIV would be playing a bigger role in the future of the Fund's investments. He said clearer policies and feedback was required.
- Ms Miriam Adams, Interim Pensions and Investments Manager added she had struggled to get information from the London CIV. She said they were the fund managers however behind them were investment managers which the Council no longer had direct access to. Ms Adams said previously they could ask for individual reports and as such this had been raised with the London CIV. Ms Adams said she was a member of the group looking at Responsible Investments and the issue of voter engagement as well as climate change was on the agenda. She said because the fund is a pooled fund, inevitably individual councils lose the ability to determine how votes are cast. She said the London CIV was hoping to develop critical mass in the future, on how council views are reflected in voting
  - **ACTION:** The Vice-Chair requested a report to be presented to the Pensions Board and Committee on this issue, with examples and reasons as to why and how issues are voted on.

The Vice-Chair thanked Mr Jones for his update.

## 6. REPORTS FOR CONSIDERATION

### 6.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings

The Vice-Chair referred members to the Pension Committee Terms of Reference, Membership, Quorum and Dates of meeting and said these were for noting following the Council AGM held on the 30<sup>th</sup> September 2020.

She said in the printed pack, Appendix 1 the terms of reference were missing however they were on the Council website. Councillor Blake said the terms of reference needed to be revised and refreshed before being brought back to the March 2021 meeting.

- **ACTION:** The Interim Pensions and Investments Manager, Ms Adams to bring the revised Terms of Reference to the March 2021 Committee meeting.

The Pensions Committee **RESOLVED** to:

1. Note the Terms of reference report and dates of meeting for the Pensions Committee and requested the updated terms of reference be presented at the March 2021 meeting.

## 6.2 Carbon Foot-Print Audit

Ms Miriam Adams, Interim Pensions and Investments Manager introduced the report and said it summarised the Fund's carbon footprint analysis, quantification of the Fund's decarbonisation progress of the listed equity portfolio of the Fund. She said the Fund had made strong decarbonisation progress since 2017 when it divested from GMO Global Equities and invested in LGIM Low Carbon Equities.

Ms Adams referred members to paragraph two of the report which detailed the reasons why investments needed to be climate friendly. In particular, she referred members to the diagram on page 35 of the agenda and said this illustrated the transition and pathways of the current policies and the direction of travel for climate change generally. Ms Adams highlighted the information at paragraph 2.2, which provided the Global and European Regulations and paragraph 2.3 which outlined the UK Government decision to declare a climate emergency and a commitment to become a carbon-neutral economy by 2050.

Reference was made to paragraph three and the next steps outlined. Ms Adams said the Committee needed to consider and agree a broad strategy in respect to a climate change strategy which was inclusive of the short-term decarbonisation targets to 2025 and 2030 and a commitment to net zero emissions by 2050.

The following comments were made by Members:

- Concern was expressed regarding the cost implication of commissioning such analysis and the impact on officer workload. Members stated this information was useful if it was to be used for decision making in the next twelve to eighteen months but feared the exercise would need to be repeated, if action was not taken in a timely way.
- The Vice-Chair, Councillor Blake said there were a few errors within the report which should be clarified for the record.
  - She referenced page 33 of the agenda (page 1 of the report) and the fourth paragraph of the summary. Councillor Blake said the sentence should read "Overall, carbon intensity (WACI) of the listed equity portfolio decreased **by** 29% ..." and not "decreased is"
  - She also referenced page 34 of the agenda (page 2 of the report) and said under paragraph 1.1 the word should read "**exception**" and not "expectations".
- Further to the corrections, Councillor Blake suggested the 3<sup>rd</sup> recommendation on page 34 of the agenda be amended to state the driver for the change was due to the Council's fiduciary duty. She suggested the

recommendation be re-worded and said the decarbonisation targets should be at least 2025 and 2030 and the commitment to zero emissions should be 2040.

The Pensions Committee **RESOLVED** to:

1. Note the contents of this report;
2. Note the reduction in carbon footprint from 2017 to 31 March 2020;
3. **In order to meet the fiduciary duty of the Council**, agreed to put in place a climate change strategy, inclusive of short-term decarbonisation targets to **at least** 2025 and 2030, and a commitment to net zero emissions by **2040** to align thinking with the Climate Emergency declared by the Council and the UK Climate Change Act 2008;
4. Agreed the adoption of the recommendations of the Task Force on Climate – Related Financial Disclosures (TCFD), to further embed climate led investment thinking. Analysis in will help the Fund to adopt and disclose according to TCFD recommendations (Metrics & Targets);
5. Agreed conducting climate change scenario analysis as per the TCFD recommendations to help the Fund to better understand climate change risks and opportunities that arise, both from the transition to a low carbon economy and physical damages; and
6. Agreed to expanding the scope in measuring climate change investment risk across the entire portfolio.

The Vice-Chair summarised the Committee would receive a further paper at the next meeting on what these changes would look like. She also questioned why the appendix was a restricted item and was informed that all Mercer papers come with a disclaimer and therefore it was restricted.

### 6.3 Independent Investment Adviser Update - Q2

Mr Colin Robertson, Independent Adviser to the Pensions Committee presented his quarterly update. He said the report had been deferred at the last meeting and therefore he would be providing an update from March to date, including quarter 3.

Mr Robertson said there had been a consistent trend since the markets collapsed at the end of March. He said equity markets were performing strongly. While the prediction for economic growth had been horrendous, actual economic growth had not been typically worse than anticipated and was sometimes better. Mr Robertson said that with news of producing an effective vaccine for COVID, equity markets were more stable.

Mr Robertson said the real driver for equity market returns had continued to be technology and technology enabled growth stock such as Apple, Amazon and TESLA. He said this had led to 'growth' stocks outperforming 'value' stocks. He said the Council's active equity portfolio was full of this type of

stock and Ballie Gifford had outperformed their benchmark by 20% over the last year. However, Mr Robertson cautioned this would be more challenging in the future and some correction in performance might be expected, especially given this was a narrow group of stock.

Mr Robertson said there remained considerable uncertainty, because it was unclear how effective the vaccines developed would be and if individuals would take them. He said the economy was being supported by aggressive fiscal policies and these could not be sustained indefinitely. He questioned what would happen to consumer spending post government support.

With reference to bonds, Mr Robertson said these were being bought by Central Banks and therefore prices had been fairly stable. The Property market remained uncertain and therefore it was difficult to form a view on its performance from an unknown starting point.

In relation to managers, Mr Robertson said some had performed badly in the first quarter, but performance had improved. Mr Robertson expressed his concerns relating to the London CIV. He said it was positive that senior positions had been filled however more junior staff were still required. In addition, Mr Robertson said he had some reservation as to how much the London CIV could do themselves and questioned if they were being too ambitious.

In response to questions from members the following was noted:

- Mr Robertson said it was very hard to know what the true price for property was and it was difficult to sell when the price was unknown. Mr Robertson said normally property assets shouldn't be sold when the price cannot be established. On the positive side, the property portfolio does offer some inflation protection and does produce income.

The Vice-Chair thanked Mr Robertson for this update.

#### **6.4 McCloud Remedy Consultation Response**

Ms Miriam Adams, Interim Pensions and Investments Manager presented this report stating this was a deferred report from the last Pensions meeting. She said it related to the key changes being proposed by Government following a recent consultation document in response to the McCloud judgement concerning age discrimination.

Ms Adams said the courts had determined that the protections afforded to some members of the LGPS and other public service pensions schemes were age discriminatory and unlawful. Ms Adams referred members to paragraphs 3.10 onwards which set out the implications for the Tower Hamlets Fund.

Members had no questions in relation to this item.

## 6.5 Administration and LGPS Recent Update

Ms Miriam Adams, Interim Pensions and Investments Manager stated the report provided an update on the administration and performance of the Fund since the July 2020 meeting and the key recent LGPS issues and initiatives which impact the Fund.

She referred members to paragraph 4.2 and said the Council had outsourced catering and cleaning services in schools and the Pensions Team had been working alongside new employers. Ms Adams said several tenders were in the pipeline and she hoped to provide an update at the March 2021 meeting.

Ms Adams referred members to paragraph 6.1 and said the £95K cap came in effect as of 4<sup>th</sup> November 2020. She said the LGPS regulations needed to be updated. Ms Adams said this would affect high earners but also those with long service. She said ill health was not affected by the cap. Ms Adams said there were several grey areas that needed to be resolved. Ms Adams continued saying guidance was required on how to deal with this, however she had a meeting with the Actuary, to help understand the complexity of the cap.

Ms Adams then provided updates in relation to paragraph seven onwards.

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit provided an update regarding the issue with staffing, that had been highlighted by Mr John Jones, the Chair of the Pensions Board. Mr Bartle informed members the recruitment of staff had been slow and time consuming however additional members of staff had been recruited. Mr Bartle said they would share with the Committee the update that had been provided to the Pensions Board. He said he'd like to provide some comparative data looking at the progress made over the last twelve months.

- **ACTION:** Ms Adams to circulate the information relating to staffing, with members of the Pensions Committee by end of next week. i.e. 27<sup>th</sup> November 2020.

In response to questions from members the following was noted:

- Ms Kehinde Akintunde, Trade Union Representative stated the £95K cap was causing considerable anxiety amongst staff and members of the trade union, especially given the backdrop of ongoing restructuring and reviews. Ms Akintunde asked if local guidance could be provided in respect to the deferment of pensions and its impact. Ms Akintunde said the trade unions had instigated a Judicial Review against the £95k cap.
- In response, Ms Adams stated there was a distinction to be drawn between the Fund and the Council as an employer. She said from a Fund perspective it was dealing with the administration of members' pensions after the employer had made a decision whereas from an employer perspective, there was a duty to manage the impact this cap

would have on employees. She said she was aware the issue was subject to a judicial review and would be taking legal advice on the matter. Mr Bartle added the Fund and the Committee's role related to the administration side of the pension fund and whilst this would have a big impact on employees there were a whole series of questions that remained unanswered.

- **ACTION:** Ms Adams was requested to provide information and guidance on how locally the £95K cap is being administered, regardless of the role of the Pension Committee and the General Purposes Committee.
- In response to staff being TUPE to new employers, Ms Akintunde said this would be occurring in January 2021.
- Ms Adams clarified performance figures were reported at the July 2020 meeting however she would circulate again, as requested.
- **ACTION:** Ms Miriam Adams, Interim Pensions and Investments Manager to provide committee members with the performance data relating to quarter two.

The Pensions Committee **RESOLVED** to:

1. Note the report contents; and
2. Note that three employers are in the process of joining the scheme – Taylor Shaw Cleaning, Ridgecrest Cleaning and Atlantic Cleaning following successful joint tender process involving a number of primary and secondary schools include Ian Mikado Academy.

## 6.6 Real Estate Investment Manager Presentation

Mr Jack Bladon and Mr Patrick Bone from Schrodgers gave a presentation on the Real Estate Portfolio.

The presentation covered how the Real Estate markets were performing and the effect the pandemic has had on the market. In addition to this the presentation provided members with an update on the Real Estate portfolio managed by Schrodgers on behalf of Tower Hamlets, which is valued at £158M and is invested in various property funds; and Environmental Social and Governance (ESG) factors.

- The impact of COVID has been unprecedented. Businesses have ceased trading for the lockdown period and Landlords have had to deal with this in a pragmatic way, working with the tenants by deferring rent until next year or offering rent free periods for longer leases. Retail and Leisure sectors have been hit hard.
- The valuation of property had been difficult, with valuers adding 'material uncertainty clauses' as they could not rely on the market evidence to accurately value property. Funds were suspended and redemptions deferred in the initial months of the pandemic. However, the good news is that the 'material uncertainty' clauses have now been removed on the underlying Funds in which Tower Hamlets invests.



- The forecast for the total returns from Real Estate will be minus five to eight percent this year although there is expected to be a bounce back next year.
- The portfolio is valued at £158m based on £15bn of underlying real estate assets. Referring to the pie charts, the fund has a lot of diversification by style and manager and this is considered a benefit.
- Statistical information was shared with members regarding the performance of the underlying Real Estate funds.
- The property markets have had a turbulent year, with performance especially bad in the Retail sector. However there has been a better performance from industrials where the fund is well positioned and where the fund is looking to invest going forward.
- ESG has been incorporated into the investment process. As an investment desk they had received an internal accreditation from Schroders stating they had fully incorporated ESG into their investment process. This is achieved by meeting with their underlying managers every quarter and bi-annually asking the managers to complete a sustainability survey. An example was given of ESG in practice.

In response to questions from Members the following was noted:

- Alternatives referred to non-retail, industrials or office and included areas such as student accommodation and healthcare. These were preferred areas for investment because demand is driven by long-term demographic changes as opposed to the economic cycle.
- The distinction between warehouses and retail warehouses is that warehouses have seen strong growth especially with online shopping whereas retail warehouses, those on the outskirts of towns, whilst faring better than the High Street, have seen values fall quite aggressively.
- In terms of income return, Schroders expected this to be down by 15 to 30% this year. They said there had been a fall in income returns because of the difficulties in collecting rent in some sectors. Some areas had been resilient such as industrials and office whereas retail and hospitality had really struggled.
- In reference to performance, Schroders acknowledged they were mandated to achieve 0.75% above the benchmark and this had not been achieved in recent years. Mr Bone said that to achieve the target return they would need to take more risk and invest more in specialist and less in core funds.
- **ACTION:** Schroders to liaise with Ms Miriam Adams about their ESG plans going forward.

The Vice-Chair thanked Mr Bladon and Mr Bone for their presentation.

**7. EXCLUSION OF THE PRESS AND PUBLIC - RESTRICTED SESSION 1 (MEMBERS, COOPTEES & OFFICERS)**

The Vice-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.”

**7.1 Real Estate Mandate Review**

The minute to this item is restricted.

**7.2 Carbon Foot-Print Audit (appendix A restricted)**

The minute for this item is restricted.

**7.3 Responsible Investment (RI) and RI Accreditations**

The minute for this item is restricted.

**7.4 Sustainable Equity Investment Follow Up**

The minute for this item is restricted.

**8. TRAINING EVENTS**

Councillor Blake expressed her thanks to officers for arranging the training session held in October 2020.

Ms Adams said she had emailed new members of the Committee, offering one to one training on Pension matters and was still waiting to hear back from them.

**9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT - LCIV MAC FUND VERBAL UPDATE**

The minute for this item is restricted.

**10. EXCLUSION OF THE PRESS AND PUBLIC - RESTRICTED SESSION 2 (MEMBERS & OFFICERS)**

The Vice-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 Contract Arrangement Review**

The minute for this item is restricted.

The meeting ended at 8.59 p.m.

Vice-Chair in the Chair, Councillor Rachel Blake  
Pensions Committee