

|                                                                                             |                                                                                                             |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Non-Executive Report of the:<br><br><b>Pensions Committee</b><br><br>Thursday, 24 June 2021 | <br><b>TOWER HAMLETS</b> |
| <b>Report of:</b> Interim Corporate Director, Resources                                     | <b>Classification:</b><br>Open (Unrestricted)<br>Appendix A and B are restricted                            |
| <b>Quarterly Performance Review</b>                                                         |                                                                                                             |

|                               |              |
|-------------------------------|--------------|
| <b>Originating Officer(s)</b> | Miriam Adams |
| <b>Wards affected</b>         | (All Wards); |

Appendices A and B to this report are not for publication as they contain exempt information relating to the financial or business affairs of a particular person as defined in and paragraph 3 of schedule 12A of the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 March 2021.

### **Recommendations:**

The Pensions Committee is recommended 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).

### **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 31 March 2021.

### **SUMMARY OF THE PENSIONS FUND INVESTMENTS AT 31 MARCH 2021**

- 3.3 Over the quarter to 31 March 2021, the Fund generated a return of 2.0% which marginally underperformed the benchmark by 0.3%. On a year to date, the Fund's return of 28.2% outperformed benchmark by 6.6%. On a 3 year to date, the Fund's return of 10.3% outperformed benchmark by 2.0%.
- 3.4 Although several rebalancing exercises was undertaken during the year to 31 March 2021, continued good performance in equities has meant that the Fund remained overweight in equities at the end of the quarter. Legal and General Low Carbon Fund combine overweight at end of quarter was 3.0% above strategic asset allocation. Total equity portfolio overweight during the quarter was 4.3%, offsetting the underweight in property and bonds.
- 3.5 LCIV (Ruffer) Absolute Return fund had a strong quarter while LCIV (BG) Diversified Growth fund and LCIV (BG) Global Equities lagged their benchmark by 1.4% and 1.6% respectively. Goldman Sachs Absolute Return Bond fund lagged its benchmark by 3.8%.
- 3.6 Appendix B to this report is the detailed report prepared by Mercer.

### **Manager Ratings**

- 3.7 The table below shows Mercer Manager research review at 31 March 2021.

| Investment Manager | Asset Class           | 12m Perf | 3yr Perf | Rating | Strategy Rating Change                 | ESG |
|--------------------|-----------------------|----------|----------|--------|----------------------------------------|-----|
| Baillie Gifford    | Global Equity         | ●        | ●        | A      |                                        | 2   |
| LGIM               | Global Equity         | ●        | --       | A      |                                        | p1  |
| LGIM               | Global Equity         | ●        | ●        | A      |                                        | p1  |
| Ruffer             | Absolute Return       | ●        | ●        | A      |                                        | 2   |
| Baillie Gifford    | Multi-Asset           | ●        | ●        | B+     | Watch (W) status removed in April 2021 | 3   |
| Schroders          | Property              | ●        | ●        | A      |                                        | 3   |
| CQS                | Multi Asset Credit    | ●        | --       | B+ (W) |                                        | 3   |
| Insight            | Absolute Return Bonds | ●        | ●        | A      |                                        | 2   |
| GSAM               | Absolute Return Bonds | ●        | ●        | B+     |                                        | 3   |

|                            | 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           | --                                               | --                                 | --                      |

3.8 Appendix A to this report is the economic, market and manager report prepared by Independent Investment Adviser.

3.9 The Committee is asked to note the suggested asset allocation categorisation and request Mercer to consider this during the asset allocation review exercise.

### Libor Transition Update

3.10 The Committee was presented with a paper on Libor Transition in March 2021, since then, officers continue to liaise with custodian and investment managers affected. London CIV expects to make necessary transition in benchmark in September 2021 while Goldman Sachs expects to implement the transition in the coming months.

## 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.
- 

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

### **Linked Report**

- NONE

### **Appendices**

- Appendix A – Independent Adviser's Quarterly Report March 2021
- Appendix B – LBTH Investment Performance Quarterly Report by Mercer (not for publication)
- Appendix C – March 2021 Performance Report by Northern Trust

### **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

Tel: 0207 3644248

Email: miriam.adams@towerhamlets.gov.uk