

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6:30 P.M. ON THURSDAY, 25TH NOVEMBER 2021

**COUNCIL CHAMBER, 1ST FLOOR, TOWN HALL, MULBERRY PLACE,
5 CLOVE CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Kyrsten Perry (Chair)

Councillor David Edgar
Councillor Andrew Wood
Councillor Rachel Blake*
Councillor Mufeedah Bustin*
Councillor James King*
Councillor Ayas Miah*

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde* – GMB Union Representative

Apologies:

Others Present:

Barry Dodds	– Actuary
Jonathan Gooding*	– Deloitte
John Jones	– (Independent Chair – Pensions Board)
James Ross*	– Deloitte
Colin Robertson*	– Independent Adviser
Steve Turner*	– Mercer
Lambert Leduc*	– Mercer
Daniel Kanaris*	– AON
Andrew Grigson*	– PGIM
Paul Dennis -Jones*	– PGIM
Andrew Davey*	– CBRE Investment Management
Ben Fruhman*	– CBRE Investment Management
Alice Wilcox*	– CBRE Investment Management

Officers Present:

Miriam Adams	– Interim Head of Pensions and Treasury
Ngozi Adedeji	– (Principal Lawyer Civil Litigation, Governance)

Kevin Bartle*	– (Interim Corporate Director, Resources and Section 151 Officer)
Nisar Visram*	– (Director of Finance, Procurement & Audit)
Farhana Zia	– (Democratic Services Officer, Committees, Governance)

*attended virtually - online

1. DECLARATIONS OF INTERESTS

There were no pecuniary declarations of interest declared at the meeting by members.

2. ELECTION OF VICE-CHAIR

Cllr Kyrsten Perry proposed Councillor David Edgar for the position of the vice-chair of the Pensions Committee. The nomination was seconded by Councillor Rachael Blake and Councillor Wood.

The Pensions Committee **RESOLVED** to:

1. Elect Councillor David Edgar as the vice-chair of the Pensions Committee for the remaining meetings of the municipal year 2021-22.

3. MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the meeting held on 23rd September were agreed to be an accurate record of the meeting and were approved by the Committee.

4. PETITIONS

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

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Mr John Jones, Independent Chair of the Pensions Board presented his report on behalf of the Pensions Board.

Mr Jones stated the Board had a useful discussion concerning the risk register. He said Board Members remained concerned about the red-rated risks. Mr Jones said AON were conducting their governance review to see how the Fund measured up to the Pensions Regulator's code of practice and had attended the Board meeting as well as the Committee meeting as part of their work.

Mr Jones said similar concerns relating to resources were being experienced across other LGPS and this was an on-going issue. Referring to the Pensions Administration and LGPS update, which formed the restricted agenda, Mr Jones said the backlogs needed to be addressed.

Lastly, Mr Jones referred to the Hymans Training and said feedback had been provided to Ms Adams on the modules, which overall provided good content and were comprehensive.

In response to questions from members the following was noted:

- Councillor Edgar referred to point 4 and the Iconnect system. He asked how much of a priority was it for the Council to roll this out. Ms Adams responded stating the Iconnect system and the Members Self-Service Portal had both been rolled out. She said the up take for the self-service portal had achieved 20% and the issues concerning Iconnect related to employers providing basic details of employees. She said she would further pursue this once she has resources to chase.

The Chair, Councillor Kyrsten Perry thanked Mr Jones for the update provided.

The Pensions Committee **RESOLVED** to:

1. Note the report of the Pensions Board and the issues raised therein.

6. REPORTS FOR CONSIDERATION

6.1 2022 Triennial Valuation Assumptions

Mr Barry Dodds, from Hymans Robertson LLP provided a training session on the 2022 Valuation assumptions for the Triennial Valuation due in March 2022. Mr Dodds stated the timeline for the valuation was covered at the last meeting and the purpose of the training session was to provide members with information on how the valuation is conducted. Mr Dodds referred members to the slides on pages 17 to 38 of the agenda pack and went through the slides explaining the factors that are taken into consideration.

In response to questions from members the following was noted:

- Inflation will be factored into the assumptions made. External sources such as the financial markets would be considered along with internal modelling. A combination of sources will be used.
- In reference to Page 34, and the blue and red areas marked, Councillor Wood asked if there was a big difference between the life expectancies of current employees and those who have retired and moved away from London. Mr Dodds answered that he didn't know specifics for the Fund's membership on where they typically move after retirement and there may be differences in life expectancies dependent on locations pre and post retirement he did not know the answer, but he would check with Club Vita to see if they were able to provide some

information on members changing locations post-retirement look at where the concentration of the membership is. It may be that anecdotal evidence suggests There is the assumption that retirees would move out of London and may enjoy a better lifestyle.

- In reference to Page 32, and Climate risks, Councillor Edgar asked what types of things were considered for the valuation. Mr Dodds responded stating that other than the asset and investment side of the Fund, they would test the robustness of the current funding strategy to ensure it is robust to the impact of various different potential global responses to climate risk responsive to global market movements and change in relation to climate change.
- In reference to the map of page 34, Mr Dodds confirmed information from postcodes, lifestyle factors questionnaires, club cards and the level of pensions/salary income were factors that were considered to inform life expectancies of the membership.

The Chair, Councillor Kyrsten Perry thanked Mr Dodds for his helpful session on the factors which inform the Triennial Valuation.

6.2 Pension Fund Account Audit Report

Mr Jonathan Gooding, from Deloitte provided a verbal update in relation to the Pension Fund Account Audit Report. He said the report related to the 2018/19 and 2019/20 accounts. He said that due to the Pension Fund account audit being linked to the main Financial Statement of Accounts, the opinion in relation to the pension fund would not be provided until such time as the main accounts had been fully audited. Mr Gooding said he was hopeful these would be presented to the Audit Committee meeting in January 2022.

Mr Gooding continued stating there were several duties that Deloitte were required to perform to ensure this consistency. He said the ISA260 report would include work relating to materiality and the assessed risks. He said the risk 'management override of control' was a presumed risk and this risk was consistent with other local authorities. Mr Gooding continued saying detailed testing of journal entries and data analytics were used to ensure entries were not indicative of fraud and said the valuation of investments were also assessed. He said the work on the 2018/19 accounts was substantially complete, with the 2019/20 accounts being well progressed. Mr Gooding said they had made findings, and these would be reported to the Audit Committee.

In response to questions from members the following was noted:

- Councillor Wood asked about funding and what had not been considered in reference to appendix 1. Mr Ross replied saying the report was still in draft stage and preliminary findings had been discussed and revised. He said the difference in valuation was £1.8M which was 0.2% of the overall liability.
- The Chair thanked Deloitte for their work and said she appreciated the time, effort and resource given to correct the accounts of previous years. She said it was good to hear the accounts were on the cusp of being finalised. Mr Bartle added his thanks for the work done by

Deloitte and the Pensions Team. He said the council had faced a huge challenge in rectifying the previous years accounts and was grateful they were almost at the finishing line.

The Chair, Councillor Kyrsten Perry thanked Deloitte for their update.

6.3 Asset Allocation Training Recap - Affordable Housing

Mr Steve Turner from Mercer introduced the asset allocation training and said this was to provide members with training and information. He said the Committee was not being asked to decide about the asset class. Mr Turner said two managers were present who would be making a presentation on their funds.

The Committee then heard from Mr Andrew Grigson and Mr Paul Dennis-Jones from PGIM. They presented slides showing the benefits of investing in the affordable housing asset class and described the features of their fund. They said there was a variety of rental homes to invest in, from social housing to private rented sector. Mr Dennis-Jones said there was opportunity to invest long-term in the locality of Tower Hamlets, if that was something the Pensions Fund wanted to do, or it could diversify its investment and invest more broadly.

In response to questions from members the following was noted:

- Cllr Blake stated the term used to describe the types of households under social or S.106 types was inaccurate and said these were interchangeable. She said it was a concern that such terminology was being used. She said this was inaccurate and therefore should be changed.
- In response to what were the barriers to investing in this asset class and why the Pension Fund should invest via an investment Fund rather than go directly to a Housing association, Mr Dennis - Jones said looking at the London market, homes were mostly pre-sold or bought up by housing associations. He said building contractors had an existing relationship with housing associations which excluded others from getting involved. In addition, there was debate as to if Funds should compete with housing association over limited stock.
- In response to what the likely risks were and the returns achieved for properties of older stock, which could entail maintenance issues or fire safety issues such as cladding, Mr Dennis-Jones said a lot of the Pension funds liked investing via a Fund or a pooled Fund, as it cannot be seen who has invested. He said their fund focussed on new build, low rise stock, which had been underwritten for a ten-year period.
- Mr Dennis-Jones said it was up to the Pension Fund as to whether they wanted to invest locally or in another region. Both options were available with their funding strategy.

The Committee then received a presentation from CBRE Investment Management. Ms Alice Wilcox, Mr Andrew Davey and Mr Ben Fruhman provided an overview of the affordable housing market, sharing slides on affordable housing, the data that informed their fund and the benefits of investing via an investment fund and/or pooled fund. They said if the Committee was interested in investing locally there were options available, such as being part of the main fund but also establishing a 'side-car' investment designed specifically for Tower Hamlets.

In answer to questions from members the following was noted:

- In reference to the last slide, Councillor Bustin asked how the fund invests in just the social housing element of the asset? Mr Davey responded saying they had purchased a complete single block within the tower blocks shown on the slide.
- Councillor Blake asked what advice they would give to Pension Funds looking to invest in their locality and if this was a good idea. Mr Davey responded saying this carried some geographical risk. However, if as suggested by Ms Wilcox, the 'side-car' option was taken, then this would ensure the risk is diversified as some of the funds would be pooled in the main portfolio.
- In respect to investing with Registered Providers and the risk to returns due to their financial circumstances, Mr Andrew Davey said the aim of the fund would be to manage that risk and to consider an alternative if required, to mitigate the risks.
- Mr Ben Fruhman added that there were some very good Registered Providers who had found themselves in financial difficulties due to debt liabilities. He said the aim would be to help the Registered Providers by providing them with equity with a shared risk approach.

The Chair thanked the presenters from PGIM and CRBE Investment for their presentations.

Mr Steve Turner from Mercer summed up the presentations made by the two Fund managers and said this was for training and education purposes. He said this asset class would be a good financial investment for the Fund, with a 5-6% return per annum achievable. He said it also would have a good social impact, as the investment would be in social housing.

Mr Turner said both Investment Funds introduced different approaches to accessing the market. He said investing in a diversified fund would be the most straight forward way of investing in this asset class. However, if a more targeted approach was required this would be viable but would be more complicated and it would involve more work for officers and the committee.

The Chair thanked Mr Turner for arranging the training and said the Committee was not being asked to decide yet.

6.4 Risk Management Policy and Quarterly Updates on Risk Register

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report provided an update on changes made to the Fund's Risk Register and Risk Management Policy. She said the Risk Management Policy set out the aims and objectives of how risks would be assessed and managed. The policy was compliant with the directives of the Pensions Regulator and CIPFA. There would be continuous monitoring of risks. Additional risks such as climate change had been added to the register.

Ms Adams said the policy would be discussed and presented to the Pensions Committee on an annual basis, with the Pensions Board being responsible for reviewing the risk register every quarter. She said the costs relating to the risks were wholly the responsibility of the Pension Fund.

In response to questions from members the following was noted:

- Councillor Wood stated the main risk faced was the recruitment and retention of Pension staff. He said this should be made more explicit in the report especially as this was the main concern of members of the Committee and Board. Ms Miriam Adams responded stating all that could be done to recruit staff was taking place and said the issue of recruiting staff was being experienced across the LGPS's, even those with shared services. She said she had been given permission to headhunt staff. This risk would remain on the risk register until such time the recruitment of staff was complete.

The Pensions Committee **RESOLVED** to:

1. Approve the Risk Management Policy (Appendix 1); and
2. Note and comment on the detailed Risk Register (Appendix 2)

6.5 ESG, Voting, Engagement and Stewardship Update

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report provided an overview of the stewardship activity carried out by Tower Hamlets Pensions Fund's investment managers and on its behalf by the Local Authority Pensions Forum (LAPFF) in the quarter ending September 2021.

She said this was a regular report presented to the Committee. There had not been significant activity this quarter compared to other quarters. The impact of pooling meant the fund loses direct control over voting with the London CIV and LAPFF being responsible for voting. Ms Adams referred members to paragraph 3.3 onwards and said this detailed the engagement that had taken place. She also referred to appendix 1 and 2 which provided further detail.

In response to questions from members the following was noted:

- In reference to COP26, page 61 of the agenda, Councillor Edgar asked to what extent had companies risen to the challenge of accelerating the end of use of fossil fuels. Ms Adams responded stating there was a lot

of awareness on the table and many companies were reporting on TCFD -Task Force on Climate-related Financial Disclosures as well as reducing their carbon emissions.

- In reference to page 45, paragraph 3.10 Councillor Bustin asked if the 'no votes' affected the voting outcome for the remaining three companies shown in the table. Councillor Bustin asked if the voting rights being restricted was an issue. Ms Adams said these are pooled funds and as such the Fund did not have direct ownership of the stocks. She said the London CIV would vote on their behalf. She said she had raised with London CIV the issue of restricting electronic voting and said she was awaiting a response. Ms Adams said she would report back to the Committee the reason for this unusual practice.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and appendices

7. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury asked members of the Committee how they were finding the training modules and if any member had experienced any issues with logging in to the sessions.

She asked members to get in touch if they were experiencing any issues.

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

There was no urgent business to be discussed by the Committee.

9. EXCLUSION OF PRESS & PUBLIC

The 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 of the Local Government Act, 1972."

9.1 RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The restricted minutes from the meeting of 23rd September 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

9.2 Pensions Administration and LGPS Quarterly Update

The minute for this item is restricted.

9.3 London Collective Investment Vehicle Changes

The minute for this item is restricted.

9.4 Quarterly Performance Review

The minute for this item is restricted.

9.5 Decarbonisation Target Setting

The Chair, Councillor Kyrsten Perry proposed that this item be deferred to the next meeting of the Pensions Committee, owing to time.

- Councillor Blake recommended the paper be more ambitious in its target setting and said she looked forward to seeing a revised report at the next meeting of the Committee.

The Pensions Committee **RESOLVED** to:

1. Defer the report on Decarbonisation target setting to the next meeting of the Pensions Committee in March 2022.

The meeting ended at 9.25 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee