

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.00 P.M. ON TUESDAY, 18 FEBRUARY 2020

COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Eve McQuillan
Councillor Ayas Miah
Councillor Andrew Wood

Union and Admitted Bodies, Non-Voting Members Present:

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Other Councillors Present:

Apologies:

Councillor Mohammed Ahbab Hossain
Councillor Abdal Ullah

Others Present:

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Officers Present:

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1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

There were no declarations of pecuniary interests.

2. REPORTS FOR CONSIDERATION

2.1 Pensions Committee - Equity Protection Strategy

The Committee received a report on recommendations for equity protection. Kevin Bartle (Divisional Director of Finance, Procurement and Audit) introduced the report. He summarised that in 2018 a decision was made by the Pension Committee to implement an equity protection strategy because a

valuation was approaching and market conditions were performing favourably enough to implement a strategy for good value.

It was noted that the equity protection strategy was due to expire in March 2020 and the committee would have to make a decision on whether it wanted to renew the protection or allow the protection to naturally roll off because it had fulfilled its purpose.

In addition, if the committee decided not to renew the protection strategy, it would have to decide on how to handle its equity exposure on the gilts held with Schroders. The following options were presented for consideration:

1. Send equities back to Legal & General for investment according to the previous arrangement.
2. Invest in low carbon equities at Legal & General
3. Maintain exposure at Schroders for a short period whilst considering alternative options.

Officers explained that markets were rallying due to the recent US-China trade deal and a cut to FED rates. They said the existing equity protection had hit its cap and was no longer benefiting the Fund. It was noted that equities tended to fare better in the long term and remain low in the short term.

In order to help inform the decision, the Committee received a presentation from Steve Turner (Investment Consultant Mercers) on approaches to equity risk management, a market view and a summary of the funds existing protection strategy.

Options presented to the Committee included:

- An asset based solution – this was not recommended.
- Static Hedging – this was a fixed term protection structure, equities would be protected up to a certain percentage.
- Dynamic Hedging – this was explained to be similar to static hedging but rolled on. The protection level would change if markets went up. Officers said this was extremely complicated and would not recommend it.

Members asked why the valuation date was significant. Officers explained that the valuation was a financial health check to see if there was enough money to make pay outs in a crisis situation. A valuation was a legal requirement and had to be carried out every three years.

Officers advised that if the Committee wished to implement a protection strategy, it would be best to do it now as the cost for protection would be lower in the current more stable market.

It was noted the cost of the existing equity protection and benefits would be published on 18 March 2020.

The Chair summarised that the Committee's most feasible options were to either let the protection roll off or initiate a static hedging approach.

Mercers advised that from an investment perspective, a protection strategy was prudent but was not an immediate concern. They suggested that a review on equity protection be put into the Business Plan eighteen months before the next valuation period. However, if the Committee were to decide to continue with a protection strategy, it would be best to implement it now when markets were stable. Equity protection rates tended to increase during times of market instability.

The Chair moved to vote on the decision. Members unanimously resolved to allow the current equity protection to expire. They requested quarterly performance monitoring reports on the Fund's equity exposure. It was agreed that the first performance monitoring report would come to the Committee in November 2020.

With regards to the decision on gilts managed by Schroders, the Committee were presented with two options:

- The first choice was to transfer equity exposure on gilts back to Legal and General to handle as they had been previously dealt with.
- The second option was to invest in sustainable equities or equities supportive of a transition to a low carbon economy. Schroders had a product the Committee could explore.

Mercers explained that it was important to maintain market exposure so the 'do nothing' approach was not advised.

Members asked if it was possible to move money to Legal and General and then move it again to a preferred low carbon investment. Officers said it was possible but not recommended because it would incur having to pay a second transfer fee.

Members said they preferred to invest in sustainable equities. They instructed Mercers to have a discussion with Schroders on sustainable investment options. The Committee requested a briefing paper from Mercers on sustainable or low carbon equities for the next meeting on 19 March 2020.

Mercers requested some extra time to research and draft the briefing paper. The Chair agreed the report could be published late using 'Chair's urgency', citing that consultants required the additional time for research.

ACTION: For Mercers to provide a report on sustainable equity options for the 19 March 2020 Pension Committee.

ACTION: To produce quarterly equity exposure reports. The first report to come to the Committee in November 2020.

A Member suggested reviewing the amount of investment in the CIV at a future meeting.

RESOLVED:

1. To note the paper from Mercers

2. To note there was no link to the next actuarial valuation date
3. To let the equity protection strategy run off and expire
4. To instruct Mercers to liaise with Schroders on a sustainable equity option for equity on gilts and report at the 19 March 2020 meeting of the Committee.

3. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

There was no other urgent business discussed.

The meeting ended at 7.21 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee