

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.00 P.M. ON THURSDAY, 18 JUNE 2020

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

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Mohammed Ahabab Hossain
Councillor Eve McQuillan
Councillor Abdal Ullah
Councillor Andrew Wood

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde	GMB Union Representative
John Jones	Chair, Pensions Board
Colin Robertson	Independent Advisor
Steve Turner	Mercers
Sam Yeandle	Mercers

Apologies:

Councillor Ayas Miah

Others Present:

Barry Dodds	– Actuary
Jonathan Gooding	– Deloitte
David McConnell	– Deloitte
James Ross	– Deloitte

Officers Present:

Kevin Bartle	– Interim Divisional Director of Finance, Procurement and Audit
Neville Murton	– (Corporate Director, Resources)
Ngozi Adedeji	– (Team Leader Housing Services, Governance)
Miriam Adams	– Interim Pensions and Investment Manager
Farhana Zia	– Senior Committee Officer

1. DECLARATIONS OF INTEREST

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

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on the **28th November 2019 and 18th February 2020** were **AGREED** subject to the following amendments;

Minutes of 28th November 2019

Mr Colin Robertson, Independent Adviser to the Pensions Committee requested several changes be made to the minutes of the 28th November 2019.

In relation to **item 5.3 “Report on Fund Liquidity”** the amendments related to the body of the text, to say the following:

5.3 Report on Fund Liquidity

The Committee received the report of Miriam Adams (Interim Pension and Investment Manager) on Fund Liquidity.

The Committee were in agreement to sell part of the Baillie Gifford equity holding in order to reduce the exposure to the level of the strategic benchmark and so reduce the fund’s risk profile. The Committee instructed finance officers to contact the London CIV on their behalf to initiate the process.

While this would produce cash in the short term, how cash could be produced on an ongoing basis was also discussed. There was a suggestion that the fund could benefit in the medium / long term if the fund’s investment managers paid out the dividends / income from the portfolios they managed rather than retaining the dividends / income in the portfolios. It was agreed that in the first instance it would be best to take income from the CQS MAC and Schroders property portfolios. Officers were asked to contact the LCIV to find out if there was an option to do this.

The Committee agreed that the cash flow appendix on page 97 of the pack was useful and requested the document be presented to the Committee on an annual basis including figures on income received.

ACTIONS:

1. Senior officers to contact the London CIV to sell Baillie Gifford.
2. Senior officers to contact the London CIV to find out if the CQS fund could pay out dividends.
3. Officers to add Pension Fund Cash Flow Forecast to the committee forward plan to be reviewed on an annual basis.

RESOLVED:

1. To note the estimated cash flow deficit of £13m from operational activities (Appendix A).
2. Approve the recall of £2m dividend and rental from Schroders into the LBTH Pension Fund bank account to help meet the cost of in-year liabilities.
3. To approve the sale of Ballie Gifford equity investments amounting to £11m.

In relation to **item 5.5 “The investment Consultancy and Fiduciary Management Market Investigation Order 2019”**, Mr Robertson proposed the third point under the actions the Committee resolved should read:

The Committee **RESOLVED:**

3. Note the legal requirement for trustees of occupational pension **schemes** (including the LGPS) to set objectives comes into effect from 10 December 2019

And lastly, Mr Robertson proposed the minute relating to **item 7.1 “Investment and Fund Managers Performance Review for Quarter End September 2019”**, the body of the text be amended, to say the following:

7.1 Investment and Fund Managers Performance Review for Quarter End September 2019

The Committee noted the report of Neville Murton (interim corporate director of resources) and Miriam Adams (Interim Pensions Manager), on the Investment and Fund Managers Performance Review for Quarter Ending September 2019.

The Independent Advisor highlighted key points from his quarterly commentary. These included:

- Equity markets have gone up by 23% (S&P 500) and 27% (NASDAQ) in 2019 so equity markets are vulnerable against a background with plenty of scope for bad news. The problem is that it can be argued that other asset classes notably bond markets appear even less attractive.
- The fund’s equity weighting should be no greater than the strategic equity benchmark. Funds with a cash plus return target such as diversified growth funds can provide a suitable home until other asset classes become more attractive.
- Infrastructure was recommended as an asset class to invest in without delay.
- The Baillie Gifford equity fund had performed poorly this quarter, underperforming its benchmark by 1.5% over the last year, and had continued to underperform. This could be

attributed to Ballie Gifford's philosophy for managing the fund which focuses on longer term themes such as disruptive technology which results in holding growth stocks as opposed to value stocks. The manager cannot be expected to suddenly change their investment style so it could be a case of waiting out the period of underperformance in the belief that longer term returns would be good, as they have been in the past.

- It should be noted that the London CIV do not offer a 'value' fund and that the LCIV Sustainable Equity Fund has some similarities with the Ballie Gifford equity fund.
- Resourcing at the London CIV appeared to be in crisis and it was facing difficulties retaining or attracting suitable staff. The chief investment officer had resigned within weeks of joining the CIV and one of two senior manager researchers was due to depart at the end of 2019. There were also concerns about the quality of monitoring reports which showed a limited ability to look beyond what they are being told by managers.

The Committee expressed concern at the report that the London CIV was experiencing a resources crisis. The independent advisor advised against new ventures with the CIV until the resourcing issues had been resolved.

The Chair reported that previously the CIV advised that they had a limited demand for and supply of green investment funds but if there was demand they would be able to start research in the area. Since then she had met with Councillor Mark Engleby at Lewisham Council and they had formed a group of councils that would be interested in a green fund. Councillors in the group had received verbal confirmation from CIV officers that they were willing to look into starting a green option. However, given the independent advisors report, the Chair said there appeared to be a mixed signal on the London CIV's capability to manage.

It was advised that it would be best to formally contact the CIV with regards to starting a green fund and await a response. The Chair and Senior Officers to draft a letter to the CIV with regard to an update on a green fund.

ACTION:

1. The for Chair and Senior Officers to write to the Chair of the CIV informing them a group of councils are interested in a green fund and a request for options to be presented in the new year.

The Committee **RESOLVED** to:

1. Note the content of the report.
2. Note the Independent Advisor's quarterly commentary report.
3. Note the PIRC reports
4. Note the detailed fund performance by Mercer

Minutes of 18th February 2020

Attendance

That it should be noted **Ms Kehinde Akintunde**, GMB Union Representative, was in attendance, at the meeting of the 18th February 2020.

Pension Board update

Mr John Jones, Chair of the Pensions Board asked the minute for the 18th February 2020 be amended to reflect that the Pension Board had raised concerns regarding the pension administration of the Pension Fund over several years, prior to the matter being referred to the Pensions regulator. The Chair, Councillor Perry acknowledged this to be the case and said several conversations had taken place between herself and Mr Jones on the matter.

2.1 Equity Protection Strategy

Discussion took place as to whether a decision was made regarding the Equity Protection Strategy and what had been agreed in respect to letting this run off and expire. Mr Kevin Bartle, Interim Division Director for Finance, Procurement and Audit said there was one item on the agenda where this would be discussed further.

The Chair, Councillor Perry asked that it be **NOTED** that she telephoned all committee members, after the meeting of the 18th February whereby it was unanimously **AGREED** that the first stage of the strategy would be let to run and expire.

The Pensions Committee **RESOLVED to AGREE** to the above amendments to the minutes of the 28th November 2019 and the 18th February 2020.

3. PETITIONS

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

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Mr John Jones, Chair of the Pensions Board presented his report stating the Pensions Board had met on the 16th March, just before the pandemic lockdown and were gravely concerned regarding the current position in relation to the Pensions Fund. Mr Jones said there was considerable frustration amongst Board members about the lack of progress made in resourcing the team and said the Board had signalled this several times over the last year and half.

Mr Jones said he was pleased to hear a remedial action plan was being discussed at the meeting and hoped this would help improve the situation. Mr

Jones reported the Board had also heard from the Chief Internal Auditor about the scope of the internal audit to be undertaken, which he saw has a positive step.

The Chair, Councillor Kyrsten Perry, on behalf of herself and the Committee thanked Mr Jones for his report, and said the issues raised had been highlighted by Mr Jones several times. She said it was fair to say that the work undertaken by the Interim members of staff, both Mr Kevin Bartle and Ms Miriam Adams showed the enormity of the task ahead.

There were no questions for Mr Jones, from Committee Members.

The Committee **RESOLVED** to **NOTE** the update from the Pensions Board.

5. REPORTS FOR CONSIDERATION

5.1 2019/20 Pension Fund Audit Plan

Ms Miriam Adams, Interim Pensions and Investments Manager introduced the report and stated the report detailed the external auditors Deloitte's, audit plan for the auditing of the Pension Fund for 2019/20.

Mr Johnathan Gooding, a partner from Deloitte was joined by his colleagues Mr David McConnell and Mr James Ross, who were overseeing the audit plans for 2018/19 and 2019/20 respectively. Mr Gooding explained both audit plans were running concurrently due to the delay experienced in producing the financial accounts for 2018/19.

Mr Gooding explained the audit plan took into consideration the materiality and significant risk to the auditing of the Pension fund and the impact COVID-19 would have on the audit. Mr Gooding said operational difficulties had been overcome by remote working practices but accounting implications, such as the ability to value assets were an issue.

Mr James Ross, then addressed the Committee and said the materiality had been calculated at 1% of the net assets. Mr Ross said the materiality was subject to review once the draft financial reports were available with a complete net asset figure. Hence the plan was subject to change. Mr Ross continued stating the management override of control is a significant risk and is a presumed risk which must be considered in all audit plans. Mr Ross said the details of how the audit plan would mitigate against this were set out on page 11 (page 17 of the supplement agenda) of the report. Mr Ross said Covid-19 had already had an impact on the investment portfolio of the Pension Fund due to the volatility in the market. In particular, the pandemic had made the valuation of property investing more challenging.

Mr Ross referred Members to the draft timetable on page 6 of the report and said this was reliant on information provided by Officers in the Council. Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit

added every effort would be made to meet the target set however the team was facing pressures, notwithstanding the pandemic, which a later report to the committee would be examining in relation to the Pension Administration and remediation plan.

In response to questions from Members the following was noted:

- In response to if a systems audit be undertaken given the issues experienced in relation to the administration of the Pensions Fund, Mr Bartle said there were no plans to do so, but this could be added to the internal audit, the Council's Audit team would be undertaking imminently.
- Mr Gooding clarified the external audit plan would be focussing on the financial statement of accounts, in relation to the pension fund and would not be commenting on the wider issues identified by the Pensions Board. He said under the Value for money conclusion, weakness identified in process could be highlighted there.
- Mr Bartle gave further reassurances the issues highlighted by the Pensions Board would be addressed by the Internal Audit that had been commissioned.

The Pension Committee **AGREED** to

NOTE the Audit planning report from Deloitte that related to the Tower Hamlets Pensions Accounts as set out in appendix A.

5.2 Triennial Valuation

Mr Barry Dodds, from Hymans Robertson presented the Triennial Valuation report. He said the valuation report had been discussed at previous meetings of the Committee. He explained a valuation process is gone through every three years, to establish the appropriate contributions rates for all the employers within the Fund. The main employer in the Fund is the Council who holds the majority of the liability and assets for the fund, but increasingly there are new employers such as contractors and academies who also need to make contributions. Mr Dodds said the valuation is to check the overall health of the fund i.e. the solvency levels of the fund. Mr Dodds said that at previous meetings the assumptions used and how these relate to the funding strategy statement had been discussed, and as such this valuation report was a report to note, in that the regulations required submission of the valuation to occur by the end of March 2020.

Mr Dodds went through the report explaining how the valuation report had been derived at and referred members to various pages within the report. In particular, the graph at page 41 and table on page 42 of the agenda. He said the graph showed the differing funding levels that one would have, based on different assumption levels. Mr Dodds referred Members to pages 54 and 55

which gave a breakdown of each employers' contribution and said that prior to the report being finalised, the impact of COVID-19 was also taken into consideration. Mr Dodds said it was decided that because the employers involved were long-term employers, a knee-jerk reaction wasn't required in terms of contribution rates and therefore further changes to the valuation report were not made, other than to say COVID-19 had been considered. He referred members to page 56, point 6 of the report.

Mr Dodds also referred to the Funding Strategy Statement that was attached to the supplement agenda. He said the Funding Strategy Statement set out how each employer would be treated during the membership of the fund. He said the McCloud judgement, which dealt with age discrimination would lead to retrospective changes being made to the LGPS scheme. Mr Dodds referred Members to the table on page 34 of the supplement agenda which showed the 'likelihood of achieving the target' and said in view of the judgement a buffer had been created to deal with any adjustments that would need to be made.

In response to questions from Members the following was noted:

- Councillor Wood said it was fantastic that £339M had been achieved in investment returns and wondered if this was due to decisions made by the Committee and Board or the rising markets. He asked Hymans if they had achieved this success with other clients and funds it administered? Mr Dodds responded stating that Hymans managed about 6-7 LGPS schemes and each had seen a 20-30% jump in investment returns. He said the Council's LGPS had achieved 35%, so it was quite an achievement.

The Committee **RESOLVED** to:

1. Note the whole Fund and individual employer valuation results as set out in Appendix 1;
2. Note the final Funding Strategy Statement as set out in Appendix 2; and
3. Note and adopt the actuarial valuation report and results which were signed by the actuary on 31st March 2020.

5.3 Proposed Changes to Retail Price Index

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit advised the Committee, that when this report was put forward in March 2020, the view of the independent and professional advisors, was that it would be a good to start to make changes to the RPI however circumstances have changed and therefore it is requested this report is withdrawn from the meeting.

Members of the Committee were asked if they were happy to withdraw the report and move onto the next item on the agenda. Councillor Ullah asked the Chair if the reasons for the withdrawal had been discussed with her, to which

she responded they had been. As such, the Committee Members unanimously decided to move on to the next item.

The Committee **RESOLVED** to:

AGREE to the withdrawal of the report.

EXCLUSION OF PRESS AND PUBLIC

The Chair **Moved** and it was:

RESOLVED:

That in accordance with 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 contained information defined as exempt or confidential in Part 1 of Schedule 12A to the Local Government, Act 1972.

The remaining items on the agenda, items 5.4 to 5.7 were discussed in private session. It was noted the following attendees left the virtual meeting at this point: Mr Jonathan Gooding, Mr David McConnell, Mr James Ross and Mr Barry Dodds.

5.4 Performance Review and Portfolio Updates

The minutes for this item are restricted.

5.5 Divestment Strategy Implementation Considerations & Sustainable Equities Investment Options

The minutes for this item are restricted.

5.6 LCIV Update and Appointment of Shareholder Representative

The minutes for this item are restricted.

5.7 Administration Remediation Plan

The minutes for this item are restricted.

6. TRAINING EVENTS

Members of the Committee stated that due to the current circumstances with the pandemic, they had not attended any training course however had taken part in a Webinar.

The Chair asked members to contact Ms Adams, if they had any specific training need in relation to the work of the Pensions Committee.

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

No other urgent business was discussed.

The meeting ended at 9.10 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee