**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 6.00 P.M. ON MONDAY, 27 JULY 2020**

**ONLINE 'VIRTUAL' MEETING - HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME**

**Members Present:**

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Mohammed Ahbab Hossain
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 – Mercer
Hemal Popat – Mercer

**Apologies:**

Councillor Eve McQuillan
Councillor Ayas Miah

**Others Present:**

Douglas Green – Hymans Robertson - Fund Actuary
Andrew McKearns – Hymans Robertson LLP

**Officers Present:**

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

**APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Eve McQuillan and Mr Neville Murton, Corporate Director for Resources.

Councillor Ahbab Hossain gave apologies for leaving the meeting early.

Councillor Racheal Blake gave apologies before Item 6.1, for leaving the meeting for a short period to attend the Overview and Scrutiny Committee meeting.

## 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 18th June 2020 were agreed and approved to be an accurate record of the meeting.

The amendments put forward by Mr Colin Robertson were noted and the minutes were updated accordingly.

Ms Adams put forward an amendment to item 5.2 Triennial Valuation report. She said the bullet point on page 14 of the agenda pack should be amended to state Hymans managed over 50 LGPS schemes.

<u>Matters Arising</u>
Cllr Blake asked if the action point relating to item 5.5 ‘Divestment Strategy Implementation Considerations & Sustainable Equities Investment Options’ had been followed through and requested that an update report be presented, at the next meeting of the Pensions Committee.

## 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 met on 21st July 2020 and considered some of the reports which were being considered by the Pensions Committee at this meeting. Mr Jones said the Board supported the Hymans Robertson proposals for training and development, which both CIPFA and the Pensions Regulator continue to emphasise as important. Mr Jones said he would encourage Members of the Pensions Committee to complete the questionnaire that had been circulated to them.

Mr Jones said the work of the Pensions Administration Service was commendable especially the effort made in reducing the work outstanding between March to June. Mr Jones recommended that in future the service should work with Trade Union representatives to encourage staff to join and continue their membership of the LGPS.

Mr Jones informed the Committee the Pensions Administration Remedial plan was also discussed at length in private session and he hoped the appointment of the new Pensions Communication Officer would assist in identifying risks associated with fraud. Mr Jones advised a post implementation review of the remedial action plan be undertaken approximately eighteen months after implementation.

In response to questions from Members the following was noted:

- Mr Jones said the Board felt it had seen mild improvements in the performance of Pensions Administration especially given the effort made between March and June to reduce the backlog of work. However, he was mindful of the fact that the remedial action plan depended on the recruitment of staff and said the Board felt reassured steps were being taken to recruit the necessary staff, albeit a difficult task in this specialism. Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit agreed with Mr Jones analysis.
- Ms Miriam Adams, Interim Pensions and Investments Manager confirmed both the Pensions Board and the Committee would receive quarterly updates on the implementation of the plan and the progress made.

The Pensions Committee **RESOLVED** to:

1. Note the update from the Pensions Board.

## 5. UNRESTRICTED REPORTS FOR CONSIDERATION

### 5.1 Knowledge Assessment Results and Training Plan

Mr Andrew McKearns, from Hymans Robertson LLP presented the report. He said the report detailed the results of the National Knowledge Assessment undertaken to assess the level of knowledge of members of the Pension Board and Pensions Committee. He said this was a requirement/ recommended by legislation changes and CIPFA. Mr McKearns said Members were tested in eight areas to assess their level of knowledge. Mr McKearns said overall Tower Hamlets ranked 6$^{th}$ out of 18 Funds with the Board having a higher average than the Pensions Committee. However, the expectation now was to devise and deliver a training programme to assist members further. Mr McKearns said discussion had taken place with Ms Adams, the Interim Pension and Investments Manager and in light of COVID19, the plan was to deliver the training via bitesize video clips, either before meetings or facilitate this online.

In response to questions from members the following was noted.

- Members queried the number of respondents from the Pensions Committee and said they believed more than two members had responded to the questionnaire. Mr McKearns said he would confirm this.

- Members also commented that some of the questions, especially regarding procurement did not relate to them, as this function was undertaken by the London CIV.

The Pensions Committee **RESOLVED** to:

a) Note the assessment report (Appendix 1);
b) Note the results including the overall ranking of the Board and Pensions Committee against other participating LGPS funds;
c) Note the suggested training plan picking out the key areas for development based on participants assessment results and the training requests; and
d) Agree the suggested training plan.

## 5.2 Admitted Body Exit Credit Policy

Mr Douglas Green, from Hymans Robertson LLP presented this report and stated the draft policy outlined on how Admitted Employers exit the fund so to ensure its determination was consistent between employers over time.

Mr Green said the pension fund had three responsibilities, as far as its finances were concerned. (1) to collect contributions from members i.e. the employers (2) to invest the monies and get a decent rate of return and (3) to pay the beneficiaries i.e. the pension holders. Mr Green said the Exit Credit Policy related to the first step.

He said changes in legislation meant an Exit Credit Policy was required. An employer may leave the fund at any time and prior to the May 2018 and March 2020 regulations, when the employer left the Fund, the Fund remained responsible for paying out to the beneficiaries. If the employer's contribution was in deficit when they left the Fund, they were required to make good the debt and if their contribution was in surplus, they would leave this behind. The new regulations mean the surplus must be paid back and as such it was important to have a risk sharing arrangement on how this is to be paid.

In response to questions from members the following was noted:

- **ACTION:** Members welcomed the draft policy but requested named individuals be removed from the policy, which should only state the job title of the role.
- In response to if the Fund had an understanding of the different employers within the Fund and their individual contribution, Mr Green said this information was readily available. If an employer ceased to be a member of the fund, they were able to tell how much they had contributed. Ms Miriam Adams added that Hymans Robertson LLP had been asked to review the current list of employers to identify who might be high risk and might potentially default on contributions. Ms Adams said they monitor cash flows and hoped to get all employers to sign up to using the IConnect database to enable better monitoring.

- **ACTION:** Councillor Blake requested the policy be rebranded with the Council logo to show it was owned by the Fund and to make clear Hymans was commissioned by the Local Authority to draft the policy. Mr Kevin Bartle, Interim Divisional Director acknowledged the observation and said this would indeed be done.

The Pensions Committee **RESOLVED** to:

1. Note and approve the draft admission employer exit credit policy in principle pending finalised guidance from MHCLG.

## 5.3 Covid -19 Contribution Deferral Policy

Mr Douglas Green, from Hymans Robertson LLP presented the Contribution Deferral Policy Statement. Mr Green said the draft policy outlined how it will make its determination in respect of deferral of employer contributions during COVID-19 lockdown and the gradual unwinding of social distancing and related restrictions.

Mr Green said the deferral policy was to assist those employers who may struggle to make contributions during this uncertain time. He said the deferral would be up to a maximum of three months, however employers were expected to ensure all contributions were made by the end of the financial year, 31st March 2021. Mr Green referred Members to pages 61 and 62 of the agenda pack and said the criteria for allowing a deferral were outlined in the policy.

In response to questions from Members the following was noted.

- It was suggested the penultimate paragraph of the policy on page 62 be rewritten to future proof the policy, especially if the pandemic continues beyond 31st March 2021. Mr Green said the policy was a temporary solution for the Covid19 emergency, however he concurred it could be proofed to say ‘and beyond’ so long as government policy permitted.
  - **ACTION**: the draft policy to be revised to future proof it should the pandemic last beyond the 31st March 2021.

The Pensions Committee **RESOLVED** to:

1. Note and approve the draft admission contribution deferral policy;
2. Agree that the period of deferral should be limited to 3 months after which extensions may be granted on a monthly basis;
3. That the total annual contributions must be paid by 31st March of the applicable year and interest may apply;
4. Delegate the decision to consider and approve requests to the S151 Officer;
5. The Committee is informed of any employer deferrals (those considered, accepted or rejected) at the earliest opportunity; and
6. For the draft policy to be updated to state ‘and beyond’ should the pandemic last beyond the 31st March 2021.

## 5.4 Actuarial Update, COVID-19 and Funding Risks

Ms Miriam Adams, Interim Pensions and Investments Manager introduced the report and said the report provided an illustration of the estimated development of the funding position from 31st March to 17th June 2020, as well as an understanding of the funding impact, risks and mitigation that are associated with the on-going COVID-19 pandemic.

Ms Adams referred Members to the table on page 72 of the agenda and said this gave a snapshot of how the fund was performing. The table on page 73 outlined the various assumptions and estimates which applied. Ms Adams said the quarterly monitoring of the fund served to mitigate the risks to the fund. Ms Adams cited an example of funds with university contributors and said those funds were looking to mitigate risks due to the loss of university income. The Tower Hamlets fund consisted mainly of the Council as an employer and academies however the Fund needed to be aware of contractors - such as catering and cleaning contractors - and the impact they may have on the fund.

Mr Douglas Green from Hymans Robertson LLP then provided a detailed explanation of the funding level and the snapshot taken on the 17th June 2020. He said the funding level remained unchanged at 102%. Mr Green referred to paragraph 3.5 and the graph which showed the impact Covid-19 had on the fund and said whilst there was a dip in performance, the markets had recovered. He also referred to the Risk Mitigation measures outlines at paragraph 4.1 and talked at length about how the longevity of beneficiaries is monitored. He said this was done by a third-party organisation called Club Vita. He said there had been a 10% increase in the number of deaths in England and Wales compared with the average for previous years, which they would continue to monitor. Mr Green said the long-term impact of Covid19 may have a positive impact on longevity such as improved air pollution and improved awareness of viruses as opposed to short-term impact where a global recession could lead to more deaths.

In response to questions from members the following was noted:

- Ms Adams confirmed she was aware of approximately 3-4 deaths of pension beneficiaries who were members of the Fund. She said data was being cross referenced with data held by the Department of Works and Pensions, who had delayed the release of figures in order to capture the number of deaths due to the pandemic.

The Pensions Committee **RESOLVED** to:

1. Note the whole Fund actuarial update at 31st March 2020 and 17th June 2020;
2. Note the impact of COVID-19 and funding risk; and
3. Note the risk mitigating measures.

## 5.5 Administration and LGPS Quarterly Update

Ms Miriam Adams, Interim Pensions and Investment Manager presented the Pensions Administration and LGPS quarterly update.

Ms Adams referred Members to the tables on page 80 of the agenda and said this summarised the progression of the fund over the last quarter. Ms Adams said she hoped to reduce the number of 'undecided' members by the next report to the Committee and said the 'frozen' cases would be looked at as part of the remedial action plan.

Ms Adams informed the Committee her team would take ownership for sending the starter packs to employees relating to their pensions rather than rely on the HR department. She said it would be compulsory for members to inform the Pensions Team of changes in their circumstances.

Ms Adams referred to the table at 3.2 which provided a list of the current Scheduled and Admitted bodies within the Fund and the activities undertaken by referencing the table at 3.3.

Ms Adams said the Council had signed an updated management agreement with Tower Hamlets Home, which meant the Council had agreed to cover the cost arising from pension liabilities. Ms Adams continued stating the impact of COVID19 initially gave the team an opportunity to clear some of the backlog in pension queries, although these were beginning to rise again.

In response to questions from Members the following was noted:

- In reference to paragraph 6.7 and what is done to ensure members are aware of fraud and scams, Ms Adams said the Fund could not stop people from withdrawing or transferring their pensions to another company. However, when such requests are received, the Pensions Team ensure the member is fully aware of the pension regulations and pitfalls. She said whilst her team are not financial advisors, they follow the Regulators checklist and make clear the LGPS is not liable for the loss of benefits if the company the pension has been transferred to does not fulfil its promises.

The Pensions Committee **RESOLVED** to:

1. Note the report contents.

**5.6 2020/21 Fund Liquidity and Cash Flow Forecast**

Ms Miriam Adams, Interim Pensions and Investments Manager presented the Fund Liquidity and Cash Flow forecast. Ms Adams stated the report provided an update on the Pension Funds projected cash flow forecast for 2020/21 to 2022/23. Ms Adams referred members to the table appended to the report, at page 91 and said due to a short fall a request for cash draw down had been made. She said the estimated cash drawdown of £20m from Equity Protection proceeds was being requested.

In response to questions from members the following was noted.

- Ms Adams confirmed the monies £20m would be held in money market funds, like the day to day cash of the Council. She said a further report would be presented to the Committee once the funds had been selected. Ms Adams said they did not wish to create another asset class and would look at existing funds. Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit added the funds would be vetted in line with the Treasury Management Strategy.

The Pensions Committee **RESOVLED** to:

1. Note the cash flow forecast from operational activities (appendix A); and
2. Agree to fund the projected 2021/22 and 2022/23 cash flow deficit from Equity Protection proceeds.

### 5.7 Work Plan

Ms Miriam Adams, Interim Pensions and Investments Manager presented the Committee's work plan. She said the plan outlined the items that were forthcoming to the Committee. She said the work plan was fluid and subject to change depending upon items of importance. Ms Adams said actions arising from meetings were also incorporated within the plan.

The Pensions Committee **RESOLVED** to:

1. Note the work plan for the Pensions Committee.

**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.

### 6.1 Equity Protection Strategy

Mr Colin Robertson Independent Advisor to the Committee presented his analysis of the economies and markets and said the forecast was for a deep recession. He said the second quarter figures indicated the economies had shrunk by 10 -15%. Due to the pandemic, it would possibly take a year or two for the economies to recover. Mr Robertson said some markets, such as the USA and Germany, had bounced back to where they were pre-pandemic because policy makers had taken drastic action. Central Banks were holding or cutting their interest rates to very low or negative levels and, in the UK, the fiscal policy of the Chancellor of the Exchequer meant measures had been put in place to deal with the unprecedented crisis. Mr Robertson said the last two recessions were financial in nature and were not medically driven so it was difficult to forecast what impact these policies would have on the economy especially if there was a second wave of the coronavirus. He said the likelihood of Corporate tax increasing and the global supply chains being disrupted would impact on companies and shareholders and as such the outlook for both was not good.

Mr Robertson continued saying that taking out some Equity Protection against this dire situation would be sensible, especially given how far the equity markets could fall. Mr Robertson referred to the graph on page 74 of the agenda saying the funding level could drop down to the 'worst outcomes' levels. He said at present the cost of taking out protection was not ridiculous and should be considered by the Committee.

The Committee then heard from Mr Turner, representing Mercers. Mr Turner said he concurred with Mr Robertson's assessment of the market. There was uncertainty in the market and therefore it would be sensible to take out some equity protection. Mr Turner said when equity protection was last taken out in 2018 the Council made approximately a £48M return. Mr Hemal Popat from Mercer explained the proposal saying about two-thirds of the equity exposure would be protected. Mr Popat said about two-thirds of the equity exposure would continue to have uncapped upside potential but about one third would be capped. He said they would focus on the USA and European equity markets.

In response to questions the following was noted:

- The transaction costs shown in the table at 3.9, page 8 of the supplement agenda, were on top of the management fees for the equity protection being proposed. Ms Adams said the Equity Protection would attract both management fees and transactional costs. Mr Popat referred Members to page 28 of the appended Mercer's report, which stated the management costs to be in the region of £200,000 to £250,000 per year for the proposed structure.
- In response to how the economy might recover from the fall out of COVID19, Mr Turner said this was hard to predict. He referred Members to page 17 of the Mercer's report and said the equity markets had taken a narrow "v" shape, sharp dip but due to the uncertainty it was difficult to say how the economies would recover. He said presently the equity markets had picked up however the restart of the economy and the potential threat of a second wave of COVID19 made predictions harder to make. Mr Robertson added it was about probabilities and whilst initially it was thought this would be a narrow "v"

dip, the outcomes so far indicated a longer recession is likely rather than it being short and sharp.

- Mr Turner explained that because the proposal was to have some of the equity exposure within the Equity Protection strategy uncapped, there was an upfront premium to pay and this attracted a £14M fee cost. He said the proposal was structured in a slightly different way so the potential of 'regret' risk would be reduced.
- In response to if the proposals being put forward had been considered by the Pensions Board, Officers said the report could be sent to the Board for their comment.
- Reservations were expressed concerning the making of a decision given the amount of money involved and the number of Members present for the meeting.
- The Chair agreed this was a big decision and whilst she appreciated the work Mercer had done, she wondered if the proposal was competitive and provided the best value for money. She asked if quotations had been obtained from other providers. Councillor Ullah said he was minded to support the proposal with the best security options rather than the cheapest available.
- Mr Turner said Schroders, the chosen provider, had come out best for the lowest fees and were compelling on quality. He said because of the existing relationship he believed they were providing a competitive fee. Mr Popat added that he did not feel pricing had changed that much in the market and said if a new provider was sought the fees would come in close to what Schroders was asking.
- Councillor Wood said he was not convinced Equity Protection of about £90M including fees was needed. He said this was a big decision to make especially as it was difficult to predict what the market would be like in 12, 18 and 24 months, He said if an option had to be chosen, he preferred option 2 rather than option 2a. He referred Members to page 26 of the Mercer report.

Discussion took place as to if a decision should be made at the meeting or if the decision could be delayed by about four weeks, in order to allow Members to fully appreciate and understand the proposal put forward. Mr Turner commented that he'd rather let Members have the time to consider the proposal fully. He noted that implementation would be six weeks after approval and as such September would be the earliest the Equity Protection would come into force. He said they would work with Schroders to try to ensure the implementation of the equity protection was done by the end of September. Mr Popat requested the Committee Members to bear in mind the US Elections and said this could impact on the US markets, going up or down.

The Pensions Committee **RESOLVED** to:

1. Defer the decision in relation to Equity Protection and **AGREED** the Chair would contact Members of the Committee and seek their views prior to 17th August 2020.

## 6.2 Sustainable Equity Review

Mr Steve Turner from Mercer presented this report. He said the divestment strategy had been discussed in detail at the last meeting and aimed to reduce the carbon footprint of the Fund by not investing in gas, oil and mining companies. He said further discussion and research had been undertaken to look at the strategy offered by Baillie Gifford and whether this would be available via the London CIV platform. Mr Turner said the London CIV had confirmed this would be available via their platform.

Mr Turner said in relation to cost the Baillie Gifford strategy provided value for money because the Fund is an existing customer and through bulk buying via the London CIV, it was offering a competitive price. Mr Turner then gave an example of how Baillie Gifford screens companies for investment. He gave the example of Ryan Air. He said they had a relatively young fleet of airplanes and were efficient and initially looked as a good company to invest in. However, when Baillie Gifford applied their additional screening, their assessment is that the company's policy does not align with the Paris agreement and therefore have removed them from the list of suitable companies to investment in.

Mr Turner recommended the Committee meet with Baillie Gifford and receive a presentation on their strategy. He said this could be compared with a presentation on another strategy such as the RBC strategy.

Mr Turner said Mercer had also looked at the strategy offered by Storebrand and whilst they had a similar approach to Baillie Gifford, there was some concern regarding the measures they were using for inputs. Mr Turner said there were also some implementation challenges as Storebrand was not on the London CIV platform.

In response to questions from Members the following was noted:

- Members welcomed the idea of inviting Baillie Gifford, RBC and Storebrand to a training meeting, for them to present their strategies, in order for Members to fully understand their strategies and see how these fitted with the Council's criteria on climate change and divestment in carbon heavy companies. Mr Robertson supported this action.
  - **ACTION:** A training session to be arranged to allow for Baillie Gifford, RBC and Storebrand to present their divestment strategies.
- In response to why Schroders had been discounted as a potential investment partner, Mr Turner said their strategy was highly concentrated in one particular sector and was more of a marketing-based strategy.
  - **ACTION:** In reference to page 108 and the 94 stocks Baillie Gifford invests with, Mercer were asked to provide a list of the companies invested in.

- **ACTION:** Councillor Blake requested that when the strategy is discussed at a future meeting, a recap on aligning the different classes and the scale of the move should also be addressed.

The Pensions Committee **RESOLVED** to:

1. Note the contents of the report and appendices.

## 7. TRAINING EVENTS

Members of the Committee stated they had not attended any training events.

## 8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

No other urgent business was discussed.

The meeting ended at 8.45 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee