

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 6:30 P.M ON MONDAY, 5<sup>TH</sup> JULY 2021**

**ROOM C1, 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 Kevin Brady\*  
Councillor Mufeedah Bustin\*

**Union and Admitted Bodies, Non-Voting Members Present:**

Kehinde Akintunde – GMB Representative

**Others Present:**

Mr Steve Turner\* – Mercer  
Mr Colin Robertson\* – Independent Adviser

**Officers Present:**

Miriam Adams – Interim Head of Pensions and  
Treasury  
Lilian Ajose\* – (Senior Lawyer)  
Kevin Bartle\* – (Interim Corporate Director,  
Resources and Section 151 Officer)  
Jonathan Fox – (Principal Contracts Lawyer, Legal  
Services Governance)  
Vanessa Morgridge\* – (Lawyer)  
Farhana Zia – (Democratic Services Officer,  
Committees, Governance)

\*attended virtually – online

**APOLOGIES FOR ABSENCE**

Apologies of absence were received from Mr John Jones, Independent Chair of the Pensions Board, Ngozi Adedeji, legal advisor and Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit.

**1. DECLARATIONS OF INTERESTS**

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

**2. APPOINTMENT OF VICE-CHAIR**

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

The Pensions Committee **RESOLVED** to:

1. Elect Councillor Kevin Brady as the vice-chair of the Pensions Committee for 2021-22.

**3. PENSIONS COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS 2021-22**

Ms Farhana Zia, Democratic Services Officer presented the report, asking members to note the Pensions Committee's terms of reference, membership, quorum and dates of meeting for the municipal year 2021/22.

She informed members these had been agreed at Full Council on the 19th May 2021.

The Pensions Committee **RESOLVED** to:

1. Note its Terms of reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1,2 and 3 in the report; and
2. **AGREED** to hold scheduled meetings of the Pensions Committee at 6:30 p.m.

**4. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)**

The unrestricted minutes from the meeting held on the 25<sup>th</sup> March were agreed to be an accurate record of the meeting and were approved by the Committee.

**5. PETITIONS**

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

**6. SUBMISSIONS / REFERRALS FROM PENSION BOARD**

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the submission from the Pensions Board on behalf of the Independent Chair, Mr John Jones.

She said the Board had met on the 7<sup>th</sup> June and had had an in-depth presentation and discussion with the London CIV. She said the presentation and discussion covered several topics including, governance of the CIV, manager selection and monitoring, risk management as well as ESG and engagement. Ms Adams said the Board had questioned the CIV regarding its independence as well as its audit and scrutiny arrangements. It had raised concerns relating to the CIV's policy on Israel and the Occupied Palestinian Territories and voting in line with LAPFF recommendations.

Ms Adams said an update on the Pensions Administration and LGPS was also received by the Board plus an update on the Pensions risk register.

The Board's Annual Report was circulated to all to members for information.

In response to questions from members the following was noted:

- The Chair, Cllr Kyrsten Perry expressed her thanks for the Board's involvement in hosting and questioning the London CIV and the importance of building the relationship with the CIV.
- The Board reviews the risk register on a quarterly basis, on behalf of the Pensions Committee and the Council. A number of amber items relate to Pensions Administration whereas others relate to London CIV setting up the Renewable Energy Fund. Staffing is an issue and as part of the Pensions remedial action plan efforts have been made to recruit and retain permanent staff.

The Pensions Committee **RESOLVED** to:

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

## **7. REPORTS FOR CONSIDERATION**

### **7.1 AVC Provider Update**

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided Committee members with an update on the performance of the Fund's AVC providers Utmost and Aviva.

She said under the LGPS regulations, each fund had to provide access to an AVC arrangement where Fund members can elect to pay additional contributions to further boost their retirement savings and/or provide additional life assurance. She referred members to paragraph 3.7 of the report and the proposed review of the current providers as well as the table suggesting a list of objectives and outcomes.

In response to questions from members the following was noted:

- Councillor Wood commented that he did not think the Pensions Committee had discussed AVC providers, at previous meetings. He said it would be useful if the review could say what was currently on offer as well as the options pension providers could offer scheme

participants. Ms Adams said the review would cover this plus see if the current providers are providing value for money and/or if new providers needed to be appointed.

- In reference to paragraph 3.6 of the report, Ms Adams said the 15 members had not been notified of the review as it would be prudent to report on the findings and recommendations of the review, once complete. Ms Adams said she had struggled to obtain information from the current providers which had not been provided in a timely fashion.
- Councillor Edgar suggested the review should include a sampler representation of scheme participants and their experience of the AVC providers.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report;
2. Agreed the recommendation to commission an independent review of existing AVC providers Aviva and Utmost; and
3. Agreed the Fund objectives for Additional Voluntary Contributions (AVC).

## **7.2 ESG, Voting and Engagement Quarterly Update - March 21**

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

Ms Adams referred members to page 37 of the agenda and paragraphs 3.6 to 3.10 which set out the voting activities for the quarter. She explained how voting had occurred in relation to each fund before referring to paragraph 3.11. She said there had been no voting alert variances, where managers do not vote in line with the Forum's suggested voting for companies and that there had been one alert issued by LAPFF relating to Rio Tinto. Ms Adams said proxy voting details had been received from LGIM.

The members of the Committee had no questions for Ms Adams in relation to this report.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and appendices.

## **7.3 Pensions Administration and LGPS Update**

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided members with information relating to the administration and

performance of the Fund over the last quarter as well as updates on key LGPS issues and initiatives which impact the Fund.

Ms Adams referred to the tables at paragraphs 3.1 and 3.2 and the number of active and deferred members as well as paragraph 3.5 which referred to Purgo Supply Services Limited who were admitted to the scheme on the 1st April 2021.

Ms Adams also highlighted the progress made with the Members Self Service portal, paragraph 3.9 and said excellent progress had been made with the roll out, ahead of the timetable for employees in Mulberry Place, Tower Hamlets Homes and St Paul's Trust.

In response to questions from Members the following was noted:

- Councillor Edgar asked what had been done to contact the 1,826 'frozen' members referred to in table 3.1. Ms Adams said this task had been identified as part of the remedial action plan. However, work on this had not begun due to the current resources available. She said once additional staff had been recruited it would be a job for them to check the personal information held and try to contact members to establish if they wanted a refund or not.
- Councillor Blake queried what administrative capacity the Pensions team had, given the number of tasks shown in table 3.3 had steadily increased. Ms Adams responded stating that she hoped the Members Self-Service portal would assist with the updating of individual members personal information and that the recruitment of permanent staff would also assist in reducing the number of outstanding tasks.
- Ms Adams said the number of starters shown in table at 3.3 also included staff who had been reappointed following service restructures. She said the HR payroll system did not differentiate between the two and therefore each entry had to be checked to verify if they are a new starter or not.
- In response to if Ms Adams thought this was transitory or something the team would have to carry out long-term, she said she was working with the Divisional Director of HR and had referred them to the online 'post number' app called bucket post, where more than one employee on a post number can be entered and said she had received reassurances from HR that this would be looked at in July. She said there was not a short-term fix to this but hoped employers would start to use i-connect to upload details as this would help enormously.
- In reference to paragraph 3.4 and the number of employers still not using i-connect, Ms Adams said the Pensions team had had several successes with employers coming on board to use the portal. She said the eight organisations listed at 3.4 were linked to the Council's payroll and therefore work was being undertaken to encourage them to send data via the i-connect portal.
- Mr Bartle, Interim Corporate Director for Resources added this had been a tough and difficult challenge. The Pensions audit was heavily linked with the overall auditing of the Accounts. He said Ms Adams had

worked to recalibrate the membership figures for 2018/19, 2019/20 and 2020/21 but this was a mammoth task, especially given the problems in recruiting permanent staff. He said it was such a disappointment as it would appear the system has not worked correctly since the very start. Mr Bartle said they may need to consider other approaches such as external consultants to help to resolve this issue.

The Pensions Committee **RESOLVED** to:

1. Note and comment on the contents of the report and appendix; and
2. Agreed the admission of Purgo Supply Services Limited to the Scheme.

#### 7.4 Training

Ms Miriam Adams, Interim Head of Pensions and Treasury presented an update on the training options available, following the results of the National Knowledge Assessments conducted by Hymans Robertson LLP in July 2020. She said the assessment covered the CIPFA Knowledge Skills Framework and Pensions Regulator's (TPR) code of Practice 14.

Ms Adams referred Committee Members to paragraph 3.5 and the suggested training programme. She said training would be provided in a bitesize format with online modules for members to complete in their own time. She also referred members to paragraph 3.6 which set out the cost of the training and said the report asked members to agree to the cost of the licences. Ms Adams explained it was vital members of the Committee and the Board completed the training as the licenses were not transferrable.

In response to questions and comments from members the following was noted:

- It was suggested that perhaps each member of the Committee could do a module each, thus ensuring there would be collective knowledge on all the aspects of training offered. However, members felt they would benefit from completing all eight modules individually.
- Members were reassured the bitesize modules were specifically designed for LGPS funds and were not generic investment fund training modules.
- Members agreed to complete the bitesize modules and concurred the length of the training at 20 minutes to half an hour, fitted best with their busy schedules.
- Members said some flexibility in the license being transferrable was required as there maybe changes to the Committee membership.

The Pensions Committee **RESOLVED** to:

1. AGREE to the Hymans Online Academy as a training option for both the Committee and Board, so long as names of Members could be switched across a licence if required; and
2. Noted the associated costs for licences per Committee and Board Member, which they would trial for a period of 12 months initially.

## 7.5 Revised Responsible Investment Policy

Mr Steve Turner from Mercer presented the update report on the Responsible Investment Policy for the London Borough of Tower Hamlets Pensions Fund. He said the policy had been updated to reflect the relevant changes and had been refreshed with the recent activity the Committee had undertaken over the last year. He said the policy focussed on the equity mandates making them 100% sustainable and also the renewable energy mandate and provided clear guidance on future mandates and reports.

The members of the Committee had no questions for Mr Turner in relation to this report.

The Pensions Committee **RESOLVED** to:

1. Note the content of the report and
2. Reviewed, commented and approved the revised LBTH Pension Fund Responsible Investment (RI) Policy 2021 and Corporate Governance & Voting Guidelines 2021

## 7.6 Quarterly Performance

Mr Colin Robertson, Independent Adviser to the Committee and Mr Steve Turner from Mercer presented the Quarterly Performance Review report. The report informed members of the performance of the Pension Fund investments and its investment managers for the quarter ending March 2021.

Mr Robertson provided the Committee with his analysis of the markets and referred to his report appended at Appendix A. He said the equity markets continued to perform strongly in Q1 of 2021 as the vaccine rollouts in the UK and US had proved to be a success. He said the forecast for economic growth in 2021 had been revised up and a huge stimulus package had been announced in the US, boosting equity markets. With respect to bonds, these had not performed well especially US Treasury Bonds and UK gilts.

Mr Robertson said an economic recovery had clearly taken hold but the risks to the outlook were not insignificant as policymakers weighed up the risks of tightening policy too soon which could lead to a recession against tightening too late and letting inflation soar. In respect to the equity markets, Mr Robertson said potential risks included higher taxation and regulation as well as increased labour costs.

Mr Robertson talked about categorising the various asset classes into 4 groupings. He explained the benefits of investment in each grouping.

Mr Robertson also referred to the comparator and target benchmarks which had been introduced by the London CIV, along with 'Peer Analysis'. He said these needed to be properly explained by the London CIV and he had asked them to do so.

Mr Turner from Mercer added that low carbon equities which are hedged into sterling should be reviewed as they were overweight. He said discussion in respect of property assets and rebalancing would make sense. He referred to Ruffer and said they had invested in Bitcoin which has seen a positive investment performance but had exited that market before the current downturn.

In response to questions from Members the following was noted:

- In reference to the asset allocation categories, Mr Robertson said these were highlighted with regard to the possible direction of travel for the Fund. There were risks associated with each of them and therefore the Committee would need to make decisions based on market conditions at the time.
- Mr Robertson explained that he had stated his concerns regarding the London CIV and had cautioned against them being 'unduly ambitious' given their limited resources. In some instances it was important for them to use external advisers, potentially for both manager selection and product design, He said that both Miriam Adams and himself had conversations with the CIV, asking them to take advice from experts in relation to the renewable energy fund.
- Referring to appendix 3, page 270 onwards, Councillor Wood asked for comment on the performance of the Schroder's equity protection strategy. He said there was lots of red rated performance. Mr Robertson responded stating that the report was poorly constructed and said the equity protection strategy performance ought to have been in the asset allocation section rather than in the manager performance report. This would have made it clearer that the poor equity protection strategy performance was the other side of the strong underlying equity performance. Mr Turner added that it would be useful to bring a report to the next committee meeting with a review/update on Schroder and the equity protection.
  - **ACTION:** The Pensions Committee to receive an update on the equity protection strategy and the performance of Schrodgers.

The Pensions Committee **RESOVLED** 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).

## 7.7 Pensions Committee Draft Work Plan 2021/22

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the Pensions Committee's work plan for 2021/22. She said this was a living document subject to change but reflected the reports that were coming to future meetings of the Committee.

She said training was featured on the agenda for every meeting and that it maybe useful for Members to complete the bitesize training on relevant topics prior to meetings. Ms Adams said that the September meeting would include training on the Annual Carbon Footprint.

In response to questions from members the following was noted:

- Councillor Blake asked what could be done to keep the focus on Pension Administration given the full workplan of the Committee? Mr Kevin Bartle, Interim Corporate Director for Resources said the quarterly update was provided to the Pensions Board in whose remit Pension Administration falls. However, this could be replicated for the Committee. He said the quarterly update seemed about right.
- **ACTION:** Ms Adams to examine how Members of the Pensions Committee can be updated on the progress of pension administration, so not to over burden the reporting lines and the Committee.

The Pensions Committee **RESOLVED** to:

1. Note the workplan of the Committee and the comments made on regular reporting on the Pensions Administration, situation.

## 8. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury said training had been discussed as part of item 7.4.

She said members were notified of manager conferences and events and therefore with the lockdown ending soon, there would be opportunities for members to further enhance their training and knowledge in relation to the work of the Pensions Committee.

## 9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

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

## 10. EXCLUSION OF PRESS AND 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 to the Local Government Act, 1972.”

**10.1 London Collective Investment Vehicle Multi Asset Credit Fund Review**

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the item stating the report provided members with an update on the London Collective Investment Vehicle (LCIV) Multi-Asset Credit (MAC) fund performance and the recent options proposed by the LCIV.

Mr Steve Turner from Mercer referred members to the two options stated on page 312 of the agenda pack and said Mercer would be recommending Option 1 to the Committee, to continue to invest with the LCIV MAC Fund with a 50/50 strategy between CQS and PIMCO. Mr Turner then explained why Option 1 was favoured over Option 2 and said the Committee should accept the second manager to be PIMCO. He said there would be a lot of diversification benefits to this as PIMCO would introduce additional flexibility to the LCIV MAC fund.

Mr Colin Robertson differed with the view of Mr Turner and said he believed the product was badly designed under Option 1. He said the target return of cash + 4.5% was inconsistent with a fixed benchmark, especially when at least one of the components of the fixed benchmark had a duration which might be considered long for a MAC fund. He said the investment grade decision should be made by the Pensions Committee and not by PIMCO. He said this was not a huge issue as only 1% of the entire fund would typically be invested in investment grade bonds by PIMCO but in principle this is a high-level decision which should be made by the Committee. Mr Robertson then gave an example of how Option 1 could be improved. He said he had no issues with the fund having 2 managers nor with PIMCO being the second manager.

Mr Turner countered saying that the design and construction of the fund had been looked at and advice had been taken. He said looking at the degree of materiality, the investment group credit exposure would be 14%, which is less than 1% of the total assets. He said if that 14% exposure moved above 25%, then they would have a serious conversation and would challenge the LCIV.

Mr Kevin Bartle, Interim Corporate Director for Resources added that on balance the diversification benefits and the fact PIMCO is considered as a strong manager should be viewed as a positive. He said the Committee ought to consider Option 1 as per the recommendation with two managers but also

ensure there were checks and balances that further managers were not added to the Fund. He said it was vital for the Committee to work with the London CIV to ensure this.

In response to questions and comments from members the following was noted:

- Councillor Edgar asked if the structure of the fund could be changed. Mr Robertson responded saying this depended on the CIV being receptive to discussions. He said that he believed that one of the two options being offered would need to be selected.
- Councillor Blake asked if Option 1 was adopted what was the timeline to remain in the fund and what were the potential risks? Mr Turner responded saying the biggest risk would be a rise in interest rates as that would imply the bonds purchased by PIMCO would fall in value. However, PIMCO would vary their allocation and are known to be aggressive in lowering and/or raising allocation as required. For example, corporate bonds had performed well during the pandemic but on several occasions diversification into corporate bonds would not have been beneficial. He said there had to be an element of trust that PIMCO would make good active asset allocation decisions. He said part of the rationale to support this was the fact that they have the right skills in that area. Mr Turner continued stating that despite the slight flaw in the design of the fund, his view overall was that the lower fees, the ESG credentials and additional diversification meant the fund would benefit by choosing Option 1.
- Discussion took place on whether Option 1 had to be voted on and if chosen could reasons be given to state the Committee's concerns. Mr Turner said a vote was required however Councillor Blake stated that she did not believe this to be the case. She referred members to page 312 and read the following sentence. "The London CIV is asking Partner funds to indicate which is their preferred option... as soon as is practical." Councillor Blake said following the debate she was happy to support Option 1.
- Councillor Wood said his preference was Option 1 with the 50/50 split between CVS and PIMCO. He also asked that future reports contain a glossary explaining acronyms used.
- Councillor Edgar stated that the points raised by Mr Robertson were valid concerns and that these should be raised with the London CIV.

The Pensions Committee **RESOVLED** to **AGREE** in part of the recommendations put forward in the report.

1. Note the LCIV proposals for Partner Funds.
2. Note the comments and concerns received from the Independent Adviser to the Fund and note the Pensions Committee had a live

discussion relating to the design and structure of the Fund. The Committee requested the Corporate Director of Resources write to the CIV to express their concerns;

3. Consider the recommendation from Mercer that the Committee agree the portfolio change to move to the new 50/50 strategy with CQS and PIMCO:  
and
4. Delegate final decisions to the Corporate Director of Resources (S151) Officer in conjunction with the Chair of the Committee.

## 10.2 Recap of strategic asset allocation training

Ms Miriam Adams, Interim Head of Pensions and Treasury said owing to time, the recap on the strategic asset allocation training could be covered at the next meeting of the Committee. She also said further training on asset allocation would be organised to take place before the September meeting.

Mr Turner added that the strategy required a review, to set the direction of travel for future changes that may be required.

The Pensions Committee **RESOLVED** to:

1. Receive an update on the Strategic Asset Allocation strategy at its next meeting.

## 10.3 RESTRICTED MINUTES OF PREVIOUS MEETING

The restricted minutes from the meeting held on the 25<sup>th</sup> March were agreed to be an accurate record of the meeting and were approved by the Committee.

The meeting ended at 8.55 p.m.

Chair, Councillor Kyrsten Perry  
Pensions Committee