#### **INVESTMENT SUB-COMMITTEE**

Minutes of the meeting held on 5<sup>th</sup> August 2008

#### Present:

Councillor Brian Toms (Chairman) Councillors Russell Mellor, Ernest Noad and Stephen Wells

# 1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies for absence were received from Councillors Reg Adams and Eric Bosshard.

#### 2 DECLARATIONS OF INTEREST

Councillors Russell Mellor and Ernest Noad declared their personal interest in relation to the Local Government Pension Scheme. They remained in the meeting and participated fully in the discussion and voting on items.

#### 3 MINUTES

RESOLVED that the Minutes of the meeting held on 6<sup>th</sup> May 2008, excluding those containing exempt information, be confirmed.

# 4 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

# 5 PENSION FUND PERFORMANCE Report DR08079

The Sub-Committee considered a report received from the Director of Resources detailing the final investment performance of Bromley's Fund for the financial year 2007/08 and summarising data for the first quarter of 2008/09. Information was also provided on general financial and membership trends of the Pension Fund and in relation to early retirements during the year.

The total market value of Bromley's Fund had fluctuated considerably in recent years. However, since 2002/03, in spite of some periods of volatility (most recently in the first quarter of 2008), there had been a steady improvement and, as at 30<sup>th</sup> June 2008, the total value had increased to £360m. A Member who had recently been reappointed to serve on the Sub-Committee, commented

# INVESTMENT SUB-COMMITTEE 5<sup>th</sup> August 2008

on the enormous improvement in the value of the fund over the past three years which, having regard to the fluctuations of the market, he felt was commendable and reflected well on the decisions which had been taken by the Sub-Committee.

The results for the financial year 2007/08 had been reported in detail to the last meeting (Minute 30-6.5.08). Both core balanced managers, Baillie Gifford and Fidelity, operating under their new benchmarks, had recovered well after a bad year in 2006/07 and their returns were well above both benchmarks, Baillie Gifford by 4.4% and Fidelity by 3.8%. The fund as a whole was ranked in the  $5^{th}$  percentile in the local authority universe (the lowest rank being 100%) which compared with a ranking of 100% in 2006/07. The 2007/08 performance report presented by the WM Company was to be discussed later in the meeting (see Minute 6 below). However, following a very disappointing performance over the past year by Credit Agricole Asset Management (CAAM) whereby they had been 10.8% below their benchmark, the Sub-Committee had terminated (Minute 34-6.5.08) the Council's agreement with CAAM with effect from  $31^{st}$  May 2008, the final valuation of the fund of £44.98m having been distributed between Baillie Gifford and Fidelity as had been agreed by Members.

The results of the two fund managers for the first quarter of 2008/09 were set out in detail in Appendix 1 to the report of the Director of Resources. Baillie Gifford's return of -0.2% (1.6% above their benchmark) had been boosted by returns on equities for both the UK and overseas whilst Fidelity's return of -0.5% (1.7% above their benchmark) had benefited mainly from returns on UK equities. The local authority averages for the June quarter were not yet known and would be reported to the Sub-Committee's next meeting.

A Member enquired as to whether there were any known reasons for the figure for ill-health retirements in 2007/08 having been higher than the actuary's assumption. In response, the Director of Resources indicated that the details of each case would need to be considered but that the higher figure did not necessarily represent a trend and that, over the three years from 2004 to 2007, the total number of ill-health retirements very closely reflected the number which had been estimated.

RESOLVED that the report and present position be noted.

### 6 PRESENTATION BY WM COMPANY

The WM Company had submitted a detailed report for Members of the Sub-Committee analysing the performance of Bromley's Pension Fund up to March 2008. A representative of WM Performance Services attended the meeting, commented on the fund's performance results for 2007/08 and answered Member's questions thereon.

The latest year had been difficult for pension fund investors. The credit crisis which had engulfed developed markets in the second half of 2007, coupled with slow downs in the United States, Europe and Japan, had increased fears over the health of the global economy and had sent returns into negative territory. Over the year, the FTSE All Share index had fallen 8% and pension funds had fared worse at -9%. Overseas returns had been mixed, bond markets had been volatile and property had fallen into negative territory with a return of -10% for the year. However, within this difficult climate, the performance of Bromley's Pension Fund had provided a positive return whereupon the benchmark had been outperformed by 2.4%. Overall, the fund was ahead of its benchmark for the past three and five year periods. The WM representative indicated that asset allocation and stock selection had provided Baillie Gifford and Fidelity with good returns which had had a positive effect on their performance. In particular, Baillie Gifford had performed very well with its relative return from total assets being 1.7% ahead of target over three years whilst Fidelity had also performed well in this area. The WM representative commented that the performance of Baillie Gifford and Fidelity was similar to that provided for other authorities.

Members discussed with the WM representative both asset allocation and stock selection made by Baillie Gifford and Fidelity. The WM representative indicated that both fund managers' stock selection was identical with little diversification between them and that, since both performed similarly and achieved comparable results, the fund had a higher risk profile. The WM representative commented that, whilst Bromley's fund was in line with other local authorities in relation to risk level, the big difference was the lack of property investment and other alternative funds. She felt that, within the same level of risk, a possible better asset allocation could be explored in relation to property and private equity and that it would be entirely appropriate for a small pension fund like Bromley's to be looking at private equity.

Questioning whether the strengths of both fund managers were currently being fully maximised, Members considered that, in conjunction with the actuary, different return profiles and asset allocations should be explored by the officers, including property and the potential for the greater use of bonds. Mindful that there was an asset allocation risk and fund manager risk and that, whilst both Baillie Gifford and Fidelity were good equity managers they were not specialised bond managers, Members felt that the officers should also look into the possible appointment of a bond manager and a property manager. The Director of Resources indicated that these options would be taken up with the actuary at a meeting to be held in the near future whilst the WM representative would provide some modelling on asset allocations.

RESOLVED that the representative from WM Performance Services be thanked for her attendance at the meeting and presentation of the updated report.

# INVESTMENT SUB-COMMITTEE 5<sup>th</sup> August 2008

7 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000

RESOLVED that the Press and public be excluded during consideration of the items of business referred to in the following Minutes as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information

# The following summaries refer to matters involving exempt information

## 8 EXEMPT MINUTES – 6<sup>TH</sup> MAY 2008

The exempt Minutes of the meeting held on 6<sup>th</sup> May 2008 were confirmed.

#### 9 PENSION FUND – INVESTMENT REPORT

The Sub-Committee noted the reports on Investment Performance. The Director of Resources was requested to produce a report to the next meeting outlining options regarding various investment opportunities based on the issues considered at the meeting.

Chairman

The meeting started at 6:30 p.m. and ended at 8:35 p.m.