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LOCAL PENSION BOARD

22nd January 2020

**4 MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETINGS
HELD ON 15TH MAY 2019, 24TH JULY 2019, 27TH AUGUST 2019, 3RD
DECEMBER 2019 AND 17TH DECEMBER 2019 (Pages 1 - 6)**

Appendices to the minutes of the meetings held on 24th July, 27th August and 3rd December 2019 are attached.

*Copies of the documents referred to above can be obtained from
<http://cde.bromley.gov.uk/>*

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Pensions Investment Sub-Committee: 24th July 2019

Questions to the Pensions and Investment Sub-Committee from Gill Slater for Written Response:

Question 1:

Can the Committee advise regarding the scope of the investigation into potential negative social and environmental impacts of investments undertaken prior to determining not to pursue an ethical investment policy, which would demonstrate that fund investments deliver 'best returns' in the fullest sense to council taxpayers and fund members?

Answer 1:

As set out in the Investment Strategy Statement, the authority has been advised that its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers and its members. The Council has decided to take no action at this time in developing an 'ethical investment' policy, having also considered:

- the difficulties involved in identifying companies meeting any ethical investment criteria;
- the possibility of judicial review in the case of any company included in error;
- the difficulty and cost of monitoring any policy;
- the unpredictable impact on investment performance;
- the complications that would arise in relation to performance measurement;
- the requirement this would imply for segregated mandates for all investment managers, potentially leading to increased management and custody costs, and

Our fund managers always look at sustainability of returns and capital values of investments and we would not want restrictions that could impact on maximising returns in the interest of fund members and keeping the cost to council tax payers low.

We look to work with, and only select, asset managers who invest over the long term. We believe in active management and as such select managers who actively engage with the companies they invest in.

We believe that by focusing on the long term we can deliver superior investment returns to the members of the Fund and hence contain the cost to Council Tax payers within the Borough. This can be evidenced by the strong returns the Fund has delivered over all timeframes, from 1 to 30 years, its strong funding position and the awards we have recently won including the LGPS Fund of the Year (assets under £2.5 billion) at the LAPF Investment Awards 2018, LGPS Investment

Performance of the Year at the LAPF Investment Awards 2017 and the Public Finance Innovation Award 2019 for Pensions, Treasury and Asset Management.

Question 2:

Will the committee review the ISS to consider all (financial and other) social and environmental risks, including the mounting awareness of Climate Change impacts and investment risk (not reflected in the FSS, ISS or the now dated actuarial valuation - Mercer 2016) are recognised and ameliorated through an ethical investment policy?

Answer 2:

I refer you to the previous reply.

Pensions Investment Sub-Committee: 27th August 2019

**QUESTIONS TO THE PENSIONS INVESTMENT SUB-COMMITTEE FOR WRITTEN
REPLY**

From Gill Slater

1. Where or when can the advice to the Council that '*its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers and its members*', the associated definition of 'best returns', and the detailed analysis of social and environmental impacts producing the ISS bulleted conclusions be provided?

Reply

The primary responsibilities of administering authorities are to deliver the returns needed to pay scheme members' pensions and protect local taxpayers and employers from high pension costs' (reaffirmed in CLG consultation, November 2012). In April 2014, the Local Government Association published legal advice on the fiduciary duties of LGPS administering authorities which said that the power of investment must be exercised for investment purposes and not for wider purposes. Any precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. The ISS reflects this.

The Sub-Committee believe in working with their investment managers over the long term and to expect those managers to invest on this timeframe (as can be seen in the average holding period for both the Funds equity managers of 5-10 years, this is well about the industry average). Because we are working consistently on this timeframe, environmental issues become fundamental to the value our managers place on the investments they make on our behalf. All the managers the Fund employs have significant resources dedicated to ESG research and adopt a proactive engagement approach with the companies they invest in on these issues. ESG is reviewed by the Trustees on an ongoing basis.

Our fund managers always look at sustainability of returns and capital values of investments and we would not want restrictions that could impact on maximising returns in the interest of fund members and keeping costs to the council tax payer low.

We believe in active management and as such select managers who actively engage with the companies they invest in. Our asset managers take their responsibilities seriously, looking to support growth and promote good decision making at companies we invest in.

The long term sustainability approach is evidenced by the superior returns achieved over 1 to 30 years, recognised through National Awards.

2. Will the Sub-Committee investigate and respond to the recognised financial risks associated with fossil fuel investments which are becoming increasingly vulnerable as the world transitions to low-carbon energy, risking very rapidly becoming 'stranded assets', at cost to taxpayers and fund members?

3. Can the Sub-Committee set out the timeframe for the review of the Investment Strategy Statement and advise how fund holders and taxpayers will be engaged in the consultation?

Replies

The Sub-Committee has agreed to progress with an asset allocation review of the pension fund investments including considering any changes necessary to the ISS and any consultation matters. The work is currently being commissioned and a timetable and more detailed arrangements will be reported to a future meeting of the Pensions Investment Sub-Committee. The Council is aware of the work being undertaken by the Scheme Advisory Board and a future consultation from Government of new Statutory Guidance which may impact on any final arrangements. This will be monitored closely by the Committee.

The Sub-Committee works closely with asset managers to help meet the ESG commitments. Currently, employers and members of the LGPS scheme can nominate members to the Local Pension Board and can more directly contribute to the development of strategies. Members of the scheme also receive an annual newsletter and the next one published will invite comments from scheme members on all aspects of the Annual Report 2018/19 which includes the ISS. The Annual Report 2018/19 is included in the public agenda which is available on the Council's website. This provides opportunity for comments and to help inform changes to the ISS.

PENSIONS INVESTMENT SUB-COMMITTEE MEETING 3RD DECEMBER 2019

QUESTIONS TO THE PENSIONS INVESTMENT SUB-COMMITTEE FOR WRITTEN REPLY

From Gill Slater

Item 6 Pension Fund Performance

1. Since BlackRock's fossil fuels have damaged the planet and their profits, the pension fund sale of these assets is welcomed, however, given the Climate Crisis, resulting in the Council's 2029 commitment, and in order to avoid the stranded fossil fuel asset risk, will the Council commit to divest from such investments?

Reply

The Authority's primary responsibility is to secure the best returns for the fund in the interests of our council taxpayers and scheme members. The council has decided to take no action at the present time which would result in any commitment to divest from such investments.

The fund managers we use are required to look at sustainability of returns as well as capital values of investments and we would not wish to restrict investment decisions that could impact on maximising returns. This would not be in the best interests of our members or council taxpayers. All of the managers we use have significant resources dedicated to ESG research and adopt a proactive engagement approach on these issues with the companies they invest in.

We focus on long term investments and continue to deliver superior investment returns as evidenced by the strong performance of the fund over all timeframes (from 1 to 30 years) and recognition through National Awards. Our strong performance has also recently been highlighted in a professional press article.

Item 8 Pension Fund Annual Report 18/19

2. Risk should be considered under the fiduciary duty, however, no reference is made to the devastating climate crisis or the trend to divest from fossil fuels (resulting in stranded assets). Can details / timetable of the asset allocation review, agreed by this committee (28.08.19) in response to divestment concerns be provided with confirmation of open consultation?

Reply

An initial draft strategy review will be considered by the Sub-Committee on 3rd December 2019. The intention is for the Sub-Committee to consider strategic

allocation rather than implementation at this stage. A special meeting has been arranged for 17th December to reflect any follow up matters, should this be required.

We are aware of the work being undertaken by the Scheme Advisory Board and a future consultation from Government of new Statutory Guidance which may impact on the fund's Investment Strategy Statement (ISS) is awaited. The current ISS is available as part of the pension fund annual report and is published in the council's website. This provides opportunity for comments on all aspects of the report, including the ISS.
