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DATE: 26 January 2021

PENSIONS INVESTMENT SUB-COMMITTEE

Wednesday 27 January 2021

Please see the attached minutes marked "to follow" on the agenda.

4 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 1 DECEMBER 2020, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION
(Pages 3 - 8)

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

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below 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.

	Items of Business	Schedule 12A Description
10	**CONFIRMATION OF EXEMPT MINUTES - 1ST DECEMBER 2020** (Pages 9 - 12)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Copies of the documents referred to above can be obtained from http://cds.bromley.gov.uk/

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 6.00 pm on 1 December 2020

Present:

Councillor Keith Onslow (Chairman)
Councillor Gareth Allatt (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys, Christopher Marlow and Gary Stevens

Also Present:

John Arthur, MJ Hudson Allenbridge

88 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

All Members were present – there were no apologies for absence.

89 DECLARATIONS OF INTEREST

There were no declarations of interest.

90 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 13 FEBRUARY, 28 JULY AND 15 SEPTEMBER 2020, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meetings held on 13th February, 28th July and 15th September 2020 (excluding exempt information) be confirmed.

91 QUESTIONS BY MEMBERS OF THE PUBLIC

One question had been received from Gill Slater regarding agenda items 3 – (Minutes) and 7 (Pension Fund Performance - Appendix 5) -

> As offered by the Sub-Committee on 28th July 2020, can the Advisor provide information as to which of the funds involve fossil fuel investments and the extent of that investment? (This information is not apparent from the report in Appendix 5.)

The Sub-Committee noted that the Pensions Advisor had provided a Fossil Fuels Report which had been published with the agenda papers.

92 LONDON CIV

The Chairman welcomed Brian Lee (Chief Operating Officer), Jason Fletcher (Chief Investment Officer), Cameron McMullen (Client Relations Director), and

Stephanie Aymes (Client Relations Manager) from the London CIV to the meeting. Jason Fletcher, led the Sub-Committee though a presentation on the CIV, beginning by stating that although Bromley had no investments with the CIV it was a valued member and they hoped Bromley would be more involved in the future. Pooling was set up to deliver improved performance, provide a broader range of investment opportunities, deliver cost savings to clients and provide transparent reporting and oversight. He also covered the funding model, the latest staff appointments, procurement of an investment tool to select and monitor fund managers and the development of an investment governance document which would be shared soon with all client funds and advisors.

The CIV was aiming to add value across the investment lifecycle – Design, Select, Manage, Sell. He highlighted manager selection, manager monitoring, fund monitoring and key turning points in the markets. The CIV had fifteen funds; eight were equities funds while the other were global markets funds. Since inception, the average fund had out-performed their benchmarks – the best performer was the Baillie Gifford Global Alpha Growth Fund which Bromley was also invested in. This had thirteen investors, and there were discussions with Baillie Gifford and investors about making the fund more Paris-aligned. It was possible that two streams could be set up within the fund, if there was demand for different approaches. All reports on funds were available on the client portal. There were plans to launch three new funds over the next four months, and a further two in the next six months.

In response to questions from Cllr Stevens, Mr Fletcher confirmed that the CIV was neutral on Paris-aligned funds, but was responding to client demand and to the issue being raised by Baillie Gifford. Mr Fletcher also gave further details about the staffing of his team – he had filled two posts since joining, expected to recruit to two new roles in the new financial year and was keen to convert contractors to permanent employees and reduce key-person risk. Mr Lee confirmed that the staffing position was stable and recruitment was in line with budget plans.

Councillor Jefferys asked about the CIV's vision for five to ten years ahead, and how the CIV viewed clients with a more passive attitude to investment. Mr Fletcher responded that he intended to launch more alternatives and that although he preferred to take an active approach the CIV would be providing for all its investors.

Cllr Fawthrop asked whether the CIV was subject to Freedom of Information regulations, particularly in respect of the agreements behind the setting up of the CIV. Mr Lee confirmed that the CIV was subject to Freedom of Information regulations. Mr Fletcher stated that he was fully committed to transparency particularly around costs. Cllr Fawthrop queried whether funds were really performing well, but Mr Fletcher stated that this was on a pound for pound basis and the majority of the funds had out-performed their benchmark as well, particularly the larger funds. Cllr Fawthrop suggested that the funds ported in appeared to be doing well, whereas funds set up by the CIV were not performing so well. Cameron McMullen added that the CIV was working in

collaboration and through seed investment groups. He also emphasised that a range of policies were available to client funds and investors through the portal.

Cllr Jeal asked about managing the demands of Councils as both shareholders and clients, whether there were measures in place to maintain scale to deliver savings as more funds were added and assets spread more widely, and whether the CIV model could sit alongside what Bromley already did in terms of receiving regular monitoring reports, scrutinising fund managers and selecting new fund managers. Mr Lee responded that the CIV had strong governance processes with quarterly shareholder committees and two additional meetings each year that were not investment focussed, maintaining the separate roles of investors and shareholders. Mr Fletcher explained that the smaller funds with less economies of scale were in private markets where there were great opportunities. He accepted that all pools were struggling with reporting, but the CIV would work closely with fund managers to make reports useful. The CIV was hoping to bring fund managers in similar areas together to speak against each other, and all clients would have access to these sessions. The aim was to give more access to more managers. Mr McMullen clarified that where the Sub-Committee interviewed a fund manager there would need to be a CIV representative present to deal with issues such as fees. Cllr Fawthrop suggested that there had to be a cost involved for the CIV in attending, which ultimately would be passed to clients – CIV representatives stated that this would not be a separate invoice but would be borne within the overall fees. Cllr Jeal also asked whether the opportunity to take money out of an investment through the CIV would apply to all investments. Mr Lee stated that this was correct, and was set out in the prospectus - the Council could redeem in cash or in specie.

The Director of Finance asked about the timeframes that might be involved in the termination of a fund, and what factors, apart from performance, would be considered - for example if differing approaches to Paris/ESG issues led to a fund manager being removed that Bromley wanted to retain, could Bromley's investment stay within the CIV or would there be additional transfer costs for Bromley to take it back? Mr Fletcher responded that historically, funds might be on enhanced monitoring for up to six months as a means of trying to guide them back to good performance. Where there were more drastic events then action might need to be taken much more quickly. As well as performance, a number of issues were taken into account and RAG rated, including strategy and demand, resources, risk management, responsible investment, compliance, operational issues and transparency. Cost transparency mattered, and making use of cost information.

The presentation continued in part 2.

93 PENSION FUND PERFORMANCE Q2
Report FSD20090

The Sub-Committee received a summary of the investment performance of Bromley's Pension Fund in the 2nd quarter of 2020/21. More detail on

investment performance was provided in a separate report from the Fund's external adviser, MJ Hudson Allenbridge (Appendix 5 to the report). The report also contained information on general financial and membership trends of the Pension Fund and summarised information on early retirements. An additional Fossil Fuel Report appendix was circulated from the Investment Advisor.

John Arthur of MJ Hudson Allenbridge introduced the report and confirmed that the fund was performing well, with returns at 9% per annum over the last 23 years, which was above inflation and actuarial expectations. All the managers were performing as expected, with Baillie Gifford driving much of the out-performance. During the quarter, £40m had been removed from Baillie Gifford and re-invested into Multi-Asset Investment Funds – it was important to keep the portfolio balanced.

The Chairman referred to the additional liabilities resulting from the McCloud judgement and the information on cost transparency in the report. He reminded Members that it was important to challenge very good performance as well as poor performance, and Baillie Gifford would be invited to attend the next meeting as the normal round of updates was resumed.

Responding to a question about the prospects for the UK Property Fund, Mr Arthur commented that there appeared to be a change in what tenants required from their property, particularly from office space. Offices were likely to be less densely occupied with more space for meetings and the interaction that would support innovation. The old definitions of prime and sub-prime would have to be challenged and property managers would have to adapt to this in the office sector as well as in retail. The Fidelity UK Property Fund was well-placed, but at a point of high risk. There was a good selection of properties with little exposure to retail, including no Debenhams or Arcadia properties. Across the industry, retailers were paying about 50% of rents at present, but Fidelity were receiving about 93% of rent against an expected 98%. Four properties were being refurbished, which should allow them to take advantage of current trends and drive good returns once new tenants were found.

In terms of the general outlook, Mr Arthur saw continuing conflict and gridlock in the US system, and a rocky start to 2021 given the impact of Covid-19, but he expected a strong recovery, leading to a reversion to a low-growth, low inflation regime. A significant rise in inflation was a relatively low probability over the next three to four years, but if it did happen this would undermine both fixed interest and equity portfolios. Inflation above 3.5-4% could see a fall of 20-30% in fixed interest and a 20% fall in equities. How the industry dealt with spending on climate change was also a major issue. The fund should not be complacent, but should continue to monitor inflation and challenge itself and re-balance where necessary.

The Chairman suggested that, in the light of the current position, the three-year cycle of reviewing asset allocation might have to be re-visited. He also noted that the cash-flow position was on target.

RESOLVED that the report be noted.

94 PENSIONS ADMINISTRATION
Report FSD20093

The Sub-Committee considered a report providing information on the forthcoming changes to the Local Government Pension Scheme and how these would impact on the Pension Fund's administration, which was split between Liberata and in-house officers. The issues to be addressed included a number of new regulatory requirements and the impact of the McCloud judgement and the £95k cost cap. The report also covered the proposed member self-service portal (which would be reported to Members in the new year) and issues such as improving data governance. The result of these issues was that additional resources were required for pensions administration.

The Chairman agreed that, in view of the large number of issues, resources needed to be considered very carefully. He confirmed that any additional resources would have to be found from within the Pension Fund, and not the Council's General Fund.

Councillor Fawthrop stated that he was not convinced that additional resources were needed - the risks were not identified, the scope of the additional work was not set out and there were no targets. He felt that there were other solutions that did not involve employing more people. The Vice-Chairman argued strongly that more resources were needed in the Finance Team; other Members were also convinced of the need for more resources, but sought additional details including whether the additional resources were needed for one-off projects or ongoing work, and how additional costs from Liberata could be limited and benchmarked.

The Director of Finance confirmed that the McCloud judgement in particular resulted in additional complication which led to greater risk – this was both retrospective and on-going. There would continue to be rigour in terms of ensuring that the Liberata contract offered value for money for Bromley.

The Sub-Committee agreed to cover the cost aspects of the report further in part 2.

RESOLVED that

(1) The ongoing and proposed changes to the Local Government Pension Scheme and the impact that these changes will have on fund administration at the Council be noted.

(2) The updated assessment of resourcing needs for pension administration, including the changes outlined for the outsourced (Liberata) and client-side (Council) arrangements be noted.

(3) It is agreed that the Director of Finance will discuss the finalised resource requirements with the Sub-Committee Chairman and Vice-Chairman, with the outcome reported to the Sub-Committee, and subject to a cost limit being agreed in part 2.

(4) The Council's proposed approach concerning the implementation of the £95k Exit Cap be noted.

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

RESOLVED that the Press and public be excluded during consideration of the items of business referred to below 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

96 CONFIRMATION OF EXEMPT MINUTES - 13 FEBRUARY AND 15 SEPTEMBER 2020

The exempt minutes from the meetings held on 13th February and 15th September 2020 were confirmed.

97 LONDON CIV (PART 2)

The Sub-Committee continued their presentation from London CIV representatives.

98 PENSIONS ADMINISTRATION

The Sub-Committee continued its consideration of pensions administration.

99 TERMINATION POLICY - MINIMUM RISK BASIS

The Sub-Committee approved changes to the Council's Termination Policy.

The Meeting ended at 9.53 pm

Chairman

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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