

## **PENSIONS INVESTMENT SUB-COMMITTEE**

Minutes of the meeting held at 7.00 pm on 14 September 2011

### **Present:**

Councillor Paul Lynch (Chairman)

Councillors Eric Bosshard, Julian Grainger, Russell Jackson,  
Russell Mellor and Neil Reddin

### **1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS**

There were no apologies.

### **2 DECLARATIONS OF INTEREST**

Councillors Paul Lynch, Russell Mellor and Eric Bosshard declared a personal interest as Members of the Bromley Local Government Pension Scheme.

### **3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 10TH MAY 2011, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

The minutes were agreed.

### **4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

There were four matters outstanding, all from the Sub Committee's previous meeting and the position on these was summarised on the agenda front sheet.

On changes arising from the Commission headed by John Hutton into public sector pensions (minute 42 from the previous meeting) the Finance Director provided further background and a current update. There were two issues - (1) anticipated legislation restricting pension tax relief and (2) proposals to increase employee contributions so reducing employer contributions with potential savings for the Pension Fund. Changes in benefits were also proposed.

The Finance Director advised that legislation has now been implemented for restricting pension tax relief. On point (2) there are likely to be revised proposals from Government with a combination of increases in employee contributions, revisions to the scheme benefits and an "employer contribution ceiling". Issues still remain relating to a potential increase in "opt out" which

combined with overall job reductions within local authorities could have a detrimental impact on the longer term viability of pension schemes. The Government have recognised the separate nature of the Local Government Pension Scheme compared to other public sector schemes. Statutory consultation on proposals was expected to start in October/November and there would be a three year phasing in period. When details of actual proposals are published a further update would be provided to the Sub-Committee.

Members were advised that there are both high and low value pension benefits within the Fund and that it was understood there would be a limit on changes for low earners. For any modelling to assess the extent of high and low value pension benefits it would be necessary to await publication of the detail of proposals.

The Director also referred to a green paper on the state pension which seemed to favour universal pension provision which may require funding from the phasing out of the current “contracted out” national insurance which would increase employer costs.

The Director confirmed that the Local Government Pension Scheme was a statutory scheme providing no discretion for a “closed” scheme.

Concerning Pension Fund Performance (minute 43 from the previous meeting) and Investment in Property (minute 45 from the previous meeting) the Director suggested that the outlook might not be good for equities over the next five years (the fund comprised some 80% equities and 20% cash). As such he recommended that a review be undertaken of asset classes to report back to the Sub Committee in February. The review would include property and other aspects and an assessment would be brought to Members on how property could be dealt with.

**RESOLVED that a review of the Fund’s asset allocation strategy, including property and absolute return funds, be undertaken with outcomes reported to the Sub Committee in February 2012.**

## **5 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

There were no questions.

## **6 PENSION FUND PERFORMANCE**

### **Report RES11090**

The Bromley Pension Fund as a whole was ranked in the 22nd percentile of the local authority universe for 2010/11 meaning that Bromley’s fund performance in the year was in the top quartile of the 87 local authority funds

forming the local authority universe. Baillie Gifford returned 10.7% (2.3% above their benchmark), while Fidelity returned 7.1% (0.6% below benchmark). Bromley's Fund ranked in the 1st percentile over the last 3 years (i.e. the best in the whole local authority universe), in the 3rd percentile over 5 years and in the 2nd percentile over 10 years. In the first quarter of 2011/12, Bromley's Fund achieved an overall ranking of 88%.

In 2010/11 the market value of Bromley's Fund ended the year at £489.7m. As at 30<sup>th</sup> June 2011 the fund value had risen to £494.1m and at 30<sup>th</sup> August 2011 further turmoil in financial markets had caused the fund value to fall to £450.0m, a fall of 9% since the end of June.

For 2011/12 a summary of performance by the two fund managers in the June quarter was provided in Report RES11090. Baillie Gifford returned 1.1% in the June quarter (0.1% below benchmark) and their relative under-performance was attributed primarily by the WM Company to asset allocation, mainly in the Other International equities sector. Fidelity returned 0.6% in the June quarter (0.9% below benchmark) and the WM Company attributed most of their relative under-performance to stock selection, primarily in UK equities.

The following was also provided in Report RES11090 as further information for Members:

- an assessment of medium and long-term performance data with comparative returns over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 30<sup>th</sup> June 2011 and 31<sup>st</sup> March 2011;
- returns for quarter ended 30<sup>th</sup> June 2011;
- commentaries from Baillie Gifford and Fidelity on recent developments in financial markets, their impact on the Council's Fund and the future outlook (this would be a standing item in future reports to the Sub-Committee);
- a summary of early retirements by employees in the Pension Fund for the current year and in previous years;
- details of the final outturn for the 2010/11 Pension Fund Revenue Account together with an estimate for 2011/12, the actual position for the first quarter of 2011/12 and data on fund membership; and
- movements in the Fund's Market Value together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index.

A WM representative provided a Performance Review for periods ended 31<sup>st</sup> March 2011. This was based on data circulated to Sub Committee Members with the agenda – the data covering the Market Environment, Total Fund Performance versus Strategic Benchmark, Manager Performance and Total Fund Performance versus Peer Group. An Annual Performance Review of Bromley's fund from WM Performance Services for periods to the end of

March 2011 had also been circulated to Sub Committee Members with the agenda.

**RESOLVED that the report be noted.**

## **7 PENSION FUND ANNUAL REPORT 2010/11**

### **Report RES11091**

Under the Local Government Pension Scheme (Administration) Regulations 2008 the Council is required to publish the annual report and accounts of the Bromley Pension Fund for year ended 31<sup>st</sup> March 2011. The annual report (appended to Report RES11091) was submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC) in July and following external audit of the Pension Fund accounts, a final draft was submitted for audit on 13<sup>th</sup> August and no significant issues were raised. PWC's ISA 260 (International Standards for Auditing) report was also appended to Report RES11091.

In accordance with the regulations the Annual Report would be published on the Council's website by 1<sup>st</sup> December 2011.

**RESOLVED that:**

- (1) the Pension Fund Annual Report 2010/11 be noted and approved and**
- (2) upon completion of the external audit by PWC, arrangements be made to ensure publication of the Report by the statutory deadline of 1<sup>st</sup> December 2011.**

## **8 FUNDING STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES**

### **Report RES11092**

Under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 ("the Regulations") the Council is required to prepare, publish and maintain a Funding Strategy Statement (FSS) for its Pension Fund. The FSS for the London Borough of Bromley Pension Fund was previously updated in 2009 and following a detailed review a revised statement was presented for approval.

The regulations also require the Council to prepare, publish and maintain a written statement of the principles governing its decisions about Pension Fund investments. The statement known as the Statement of Investment Principles (SIP) covers the Council's approach on eight separate issues and states how the Council complies with the six good governance investment principles set

out by H.M. Treasury in its 2008 report: “*Updating the Myners’ Principles: A Response to Consultation*”. The SIP for the London Borough of Bromley was previously updated in 2010. It had been reviewed, particularly in the light of the final Fund valuation report at 31<sup>st</sup> March 2010, and a revised statement was presented for approval.

Concerning the SIP and limits imposed by the regulations reference was made to “*Any single insurance contract: 25%*” and it was requested that information on the sort of insurance contract and the reason for a 25% limit be included in the outcome of review referred to at Minute 6 above.

A suggestion was also made about the timing of investments. When the FTSE100 was at a high level e.g. 7000, the Fund’s past deficit contribution should be lower and where the FTSE100 dropped to a lower level (e.g. 5000) it was suggested that this would be a better time to invest i.e. if £15m was to be invested, taking a 5 to 10 year view and having considered the range, it was suggested that more should go in when the market was low. Less would then be needed at a future stage to reduce the deficit.

The Finance Director referred to actuaries taking a long term view. This results in the actuarial review being undertaken every three years with no interim review during periods of significant changes in performance in financial markets. A possible future issue for the Sub-Committee is that the outlook for Europe/UK is not positive compared with previous years which could have an impact on the performance of the Fund. The Director also referred to Principle 1 in the SIP (Myners review) and suggested that Members, as Trustees of the Fund, should have access to independent advice. An independent adviser to the Sub Committee would not be linked to a Fund Manager and the Director proposed that an adviser be trialled for a year with an option of terminating the appointment early if it wasn’t working. Such advice would also be helpful in regard to the review of the asset allocation strategy referred to at Minute 4 above and any investments around Property and Absolute Returns. Officers were not financial advisers and any financial advice would also assist in assessing the performance of the fund managers compared to others.

The Chairman suggested that any costs would be offset by the costs incurred in seeking advice from the Council’s actuaries, Barnett Waddingham, from whom advice is currently sought on an ad hoc basis. It was suggested that it should be possible to obtain a sample paper from any adviser free of charge which the Sub Committee could then look at. On any appointment process the Chairman would liaise with the Director and report back.

**RESOLVED that:**

**(1) the report be noted and the revised Funding Strategy Statement and the Statement of Investment Principles set out in Appendices 1 and 2 respectively of Report RES11092 be agreed; and**

**(2) the Chairman and Director would liaise on an appointment process for enlisting the services of an independent adviser to the Sub-Committee for a trial period of one year.**

## **9 ABSOLUTE RETURN FUNDS**

### **Report RES11093**

At its previous meeting on 10<sup>th</sup> May the Sub-Committee agreed that a report be provided on Absolute Return Funds.

Baillie Gifford provided a paper (appended to Report RES11093) and also indicated that their representatives would be happy to discuss Absolute Return Funds at their next scheduled attendance before the Sub Committee in November. Fidelity provided brief, generic thoughts on Absolute Return Funds (appended to Report RES11093) and Fidelity representatives outlined their thoughts further at item 12 of the meeting. Barnett Waddingham provided a more detailed report (also appended to Report RES11093) on Absolute (Target) Return Funds setting out advantages and disadvantages and indicating that their representative would be happy to discuss the matter further.

Report RES11093 explained that it would be for Members to determine if they wished to invest in Absolute Return Funds and then to consider factors such as risk appetite and manager involvement. The considerations broadly outlined in the report were as follows:

- returns were potentially attractive and less volatile;
- Absolute Return Funds were a good diversifier and flexible in that asset allocation changes could be quickly made;
- fee structures could be high and could eradicate performance benefits;
- there was less control for a local authority and a potential lack of transparency; and
- there was a heavy reliance on a manager's skill and investment acumen.

### **RESOLVED that:**

**(1) the report be noted and discussions be held with Baillie Gifford at the Sub Committee's meeting on 9<sup>th</sup> November 2011 and with Barnett Waddingham representatives in due course;**

**(2) possible discussions also be held with any new independent adviser at a later stage (Minute 12/1 records discussion with Fidelity representatives on Absolute Return Funds); and**

**(3) these discussions to inform the review of the asset allocation strategy to be reported to the February meeting of the Sub Committee (see Minute 4).**

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

**11 CONFIRMATION OF EXEMPT MINUTES - 10TH MAY 2011**

The Part 2 minutes were agreed.

**12 PENSION FUND - INVESTMENT REPORT**

Quarterly reports (to 30<sup>th</sup> June 2011) from Fidelity and Baillie Gifford had been circulated prior to the meeting and two Fidelity representatives attended the meeting to present their report and answer questions.

**13 FIDELITY FEE STRUCTURE**

**Report RES11094**

A Part 2 report was provided concerning the Fidelity Fee Structure.

Before closing the meeting the Sub Committee agreed that its next meeting would be held on **Wednesday 9<sup>th</sup> November 2011 at 7.30pm** and not Wednesday 2<sup>nd</sup> November as previously scheduled.

The Meeting ended at 9.45 pm

Chairman