# PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 8 May 2012

**Present**

Councillor Paul Lynch (Chairman)
Councillor Richard Scoates (Vice-Chairman)
Councillors Eric Bosshard, Julian Grainger, Russell Mellor and Neil Reddin

**Also Present**

Mr Alick Stevenson, Allenbridge Epic Investment Advisers

## 32 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillor Russell Jackson.

## 33 DECLARATIONS OF INTEREST

Members present declared a personal interest as members of the Bromley Local Government Pension Scheme.

## 34 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 9TH FEBRUARY 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

## 35 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

The Finance Director gave an oral update as summarised below.

EU Pensions Directive – Members were briefed on aspects of a proposed European Commission Directive on Pensions to be available late 2012. The proposed Directive was concerned with the valuation of a pension fund and its future liabilities which could significantly increase the expected cost of pension schemes resulting in a higher employer contribution. It was not possible to confirm that the Directive would apply to Local Government Pension Funds; however a number of private sector companies were concerned about the Directive and its implications.

Auto enrolment - The Council would be required to implement "auto enrolment" from March 2013. If an individual were to opt out of the scheme, it would be necessary for an employer to issue reminders to the employee to consider rejoining the scheme. There might be costs associated with an increased take up of the pension scheme. Further information was requested on the proportion of staff who had currently opted out of the scheme.

London Mutual Pension Fund – The London Pension Fund Authority (LPFA) had suggested a new London wide fund for infrastructure investment for the future as well as combining the individual Councils' pension funds into a London Wide fund. However, there was concern about cross subsidisation and more information was required to provide assurances on future returns with the full evaluation of the benefits/disbenefits awaited. There would be significant issues in implementing such changes. A final view on the London Fund had not been concluded at this stage. Mr Stevenson indicated that it was unlikely the proposal would be implemented unless Government were to take all funds on a "pay as you go" basis and provide a guarantee. There were a number of high hurdles. Each fund had a distinct liability and it was unlikely that rich funds would subsidise poorer funds. Councillor Eric Bosshard was concerned that Bromley Council Tax Payers would have to contribute to making up any fund shortfall. Councillor Julian Grainger felt that there would be so many different liability funds involved and the overall fund would be too large. He also highlighted concerns related to political considerations - there was a risk the fund could become a political matter if one party were to dominate a large deficit.

Government proposals for the Local Government Pension Scheme (LGPS) – there had been no further development on the detail of proposed legislation, compared with the previous update to the Committee; a full awaited consultation on proposals was necessary to enable legislative changes to be implemented in early 2013/14.

**RESOLVED that the Director's verbal update be noted.**

## 36 QUESTIONS FROM MEMBERS OF THE PUBLIC AND COUNCILLORS ATTENDING THE MEETING

There were no questions.

## 37 PENSION FUND PERFORMANCE Q4 2011/12

**Report RES12073**

Summary details were provided of the investment performance of Bromley's Pension Fund for the 2011/12 financial year along with general financial and membership information on the Fund and summarised information on early retirements. Further detail on investment performance was provided by the Fund's external advisers, AllenbridgeEpic, and appended to Report RES12073. The fund managers had also provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook.

The market value of the Fund rose during the March quarter to £499.5m (£462.1m as at 31st December 2011) although at 17th April 2012, the fund value had fallen to £494.5m.

Returns for both managers were ahead of benchmark in the March quarter, Baillie Gifford's return of 9.1% (2.2% above benchmark) comparing favourably with Fidelity's return of 7.5% (1.2% above).

Returns for the first three quarters of the year (to December 2011) were negative (-4.5% for both managers), but positive returns in the final quarter enabled Baillie Gifford to return 2.9% over the whole year (1.9% above benchmark), while Fidelity returned 1.4% over the whole year (1.5% below benchmark). The Fund's medium and long-term returns remained strong.

In comparing returns of the fund managers over 3, 5 and 10 years to 31st March 2012, Baillie Gifford's returns (19.9%, 7.0% and 7.3% respectively) compared favourably with those of Fidelity (16.6%, 6.2% and 6.7% respectively).

The Sub Committee's Independent Adviser, Mr Alick Stevenson, provided views on the Fund's performance during the last quarter. He outlined recent political developments in France and Greece and highlighted that the Euro was at its weakest level for three years. There were an increased number of jobs in the US but this was not quick enough for the market. Mr Stevenson highlighted that the fund had out performed against benchmark for the last quarter by 1.8% and over a three year period it had out performed against benchmark by 2.5%. Reference was also made to a strong performance from Baillie Gifford. Fidelity had provided a good performance for the last quarter but for the 12 month period, the fund had underperformed against benchmark by 1.5%. On an annualised basis over the last three years, Fidelity had outperformed its benchmark by 0.8% p.a. However, when measured against the benchmark plus the out performance target of 1.9% p.a., Fidelity had underperformed by 1.1% p.a. over the rolling three year period.

Mr Stevenson also highlighted that for Fidelity's Instl Europe (Ex UK) Fund, the Portfolio Manager had taken a small overweight position in the last quarter and had a significant amount at 13.8% invested in the UK. Mr Stevenson noted that the Manager had not commented on this in her Portfolio Review and he had asked for a copy of the Fund Prospectus to establish the extent to which Fidelity were allowed to go outside of benchmark.

In discussion, and with reference to Appendix 2 of Report RES12073, the Director highlighted an example where there had been more significant movement in UK equities between the benchmark and actual for Baillie Gifford compared with Fidelity. Mr Stevenson referred to Fidelity hugging the benchmark on all of their asset classes. Although the structures set for Fidelity had been constrained, Mr Stevenson indicated that the company had not come back to propose changing the structures/benchmark.

In considering the Pension Fund Revenue Account (Appendix 6 to Report RES12073), Councillor Bosshard felt that the level of employer contributions to the Fund was proportionately much higher than the level contributed by employees. The Finance Director referred to the proposed changes for the LGPS from April 2014 which would result in increased employee contributions. Some changes to the scheme benefits would also impact on liabilities so reducing employer contributions. There would also be an overall “capping” of employee contributions to control costs.

Mr Stevenson also briefly outlined changes to the corporate structure of the Allenbridge Group. In so doing, Mr Stevenson highlighted that Allenbridge Investment Advisers remained unchanged – there were no documentary changes and he would continue to advise.

**RESOLVED that the report be noted.**

## 38 PENSION FUND INVESTMENT STRATEGY REVIEW

**Report RES12075**

Following agreement at the Sub Committee’s previous meeting to a future investment strategy for the fund, approval was sought on detailed arrangements to implement the strategy. Further information was also provided on active versus passive management. Mr Alick Stevenson fully supported the benefits of having a 70% active allocation to global equities.

The 80%/20% split between growth seeking and protection assets would be maintained but the growth element would comprise a 10% investment in Diversified Growth Funds (DGFs) and a 70% allocation to global equities. The latter would involve elimination of the current regional weightings so providing new managers with greater flexibility to take advantage of opportunities in the world’s stock markets to help improve long-term returns. Barnett Waddingham had proposed that the global equities allocation be divided between a passive mandate (30%) and an unconstrained (active) mandate (40%).

External advice around the procurement process for the three portfolios of DGFs(10%), Global Equities (70%) and Corporate Bonds/Gilts (20%) would fall outside of AllenbridgeEpic’s responsibilities under the current agreement. It was therefore recommended that specialist procurement advisors be appointed through a mini-tendering exercise to assist in the evaluation and selection process.

In discussion it was agreed to support Recommendation 2.1 that the Global Equities allocation in the new strategy be actively managed and that reporting thresholds be agreed when the Fund/Strategy Managers are appointed.

In considering the proposed timetable for implementing the new strategy at Recommendation 2.2, Members were advised that there was no reason why Phase 3 (Corporate Bonds and Gilts) could not start toward the end of Phase

2. It was broadly agreed to support Recommendation 2.2 and the implementation timetable but with flexibility to incorporate the overlapping of Phases 1 and 2 and Phases 2 and 3 with officers coming back to Members on proposals for this.

For consideration of Recommendation 2.3, seeking approval to hold mini-tendering exercises for specialist procurement advice for Phases 1 to 3, Mr Stevenson left the room. In discussion, reference was made to the importance of performance by persons such as individual managers within a fund management organisation. Within any future contract for fund managers, it was suggested there be reference to the replacing of a highly performing individual with a person of equivalent ability. It was also suggested that the database used by a potential adviser should be the most important consideration for appointment. It was also felt that a weighting of 5 given to this in the draft specification for procurement advice for DGFs (Appendix 1 to Report RES12075) was a little low.

It was agreed to consider Recommendation 2.4 within Part 2 proceedings of the meeting.

**RESOLVED that the report be noted and:**

**(1) the Global Equities allocation in the new strategy be actively managed (paragraphs 3.3 to 3.7 of Report RES12075) with reporting thresholds agreed when the Fund/Strategy Managers are appointed;**

**(2) tendering exercises be carried out for a) a Diversified Growth Fund (DGF) (Phase 1), b) two or more global equities managers (Phase 2) and c) two corporate bond/gilt managers (Phase 3) in line with the draft implementation timetable (paragraph 3.18 of Report RES12075) which should be sufficiently flexible to incorporate overlapping of Phases 1 and 2 and Phases 2 and 3 with officers coming back on proposals for this; and**

**(3) mini-tendering exercises for specialist procurement advice for all three phases be approved and that approval of adviser(s) be delegated to the Chairman and Finance Director.**

## 39 PENSION FUND - 2011/12 AUDIT PLAN

**Report RES12074**

Members were provided with the Pension Fund Audit Plan for 2011/12.

**RESOLVED that the Pension Fund Audit Plan for 2011/12 be noted.**

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

**41 CONFIRMATION OF EXEMPT MINUTES - 9TH FEBRUARY 2012**

The Part 2 minutes were agreed.

**42 PENSION FUND - INVESTMENT REPORT**

Quarterly reports (to 31st March 2012) from Baillie Gifford and Fidelity had been circulated prior to the meeting and representatives from Baillie Gifford attended the meeting to present their investment report and answer questions.

**43 PENSION FUND INVESTMENT STRATEGY REVIEW**

**Report RES12075**

Members considered Recommendation 2.4 of Report RES12075 concerned with how the 10% allocation to the Diversified Growth Fund should initially be funded.

The Meeting ended at 9.44 pm

Chairman