PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 24 February 2015

Present:

Councillor Simon Fawthrop (Chairman)
Councillor Alan Collins (Vice-Chairman)
Councillors Eric Bosshard, David Livett, Russell Mellor and Neil Reddin FCCA

Also Present:

Councillor Peter Fookes and Alick Stevenson and Patricia O'Loughlin.

24 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Richard Williams.

25 DECLARATIONS OF INTEREST

Councillor Russell Mellor declared a personal interest by virtue of receiving a pension from the Local Government Pension Scheme.

Councillor Eric Bosshard declared a personal interest as a former Member of the Local Government Pension Scheme.

Councillor Simon Fawthrop declared a personal interest as a former Member of the Local Government Pension Scheme

26 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 2ND DECEMBER 2014 AND 3RD FEBRUARY 2015 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes of the meetings held on 2nd December 2014 and on 3rd February 2015 (excluding exempt information) were agreed.

The Director of Finance gave a brief update on matters concerning the CIV-Collective Investment Vehicle. Three London Boroughs had not yet joined the CIV and this number was expected to reduce to two, including Bromley. The cost of joining the CIV was previously £25k, but now the cost was expected to rise to £75k; negotiation of fees with fund managers was expected to provide compensatory savings.

The concern for LBB in joining the CIV was that LBB may be entering into an agreement with other boroughs that were not as financially stable as LBB, and that this could be disadvantageous. There were also concerns as to what may happen in the future, subsequent to joining the CIV.

The Director of Finance informed the Committee that plans to join the Local Pension Board had recently been finalised at Full Council.

27 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions from members of the public attending the meeting.

28 PENSION FUND PERFORMANCE Q3 2014/15

The report summarised the investment performance of Bromley's Pension Fund in the third quarter of 2014/15. Members heard that the fund ended the December 2014 quarter with a total valuation of £693.9m, but that by the end of January 2015, the valuation had risen to £714.9m. The Sub Committee were pleased to learn that not only had the value of the Fund increased recently, but also that the medium to long term results had been consistently strong over a long period.

The Committee examined a table of rankings (percentiles) with respect to local authority pension schemes. It was noted that LBB's position in the rankings was generally very good. For the three year period 01/01/12--31/12/14, the LBB Pension fund was ranked in the 4th percentile, and for the one year period from 01/01/14 to 31/12/14, the Fund was ranked in the 9th percentile. These rankings were very good.

The Committee noted the section of the report dealing with financial implications, and the fact that for the first three quarters of 2014/15, a net surplus of £2.5m had been achieved. There was a query from a Member concerning what would be done with this, and he was assured that the money would stay within the Pension Fund. The Committee also noted that membership of the Pension Fund had increased by 646 since 1st April 2014.

The Director of Finance provided an update on an interim actuarial valuation for the fund which would be circulated separately to Members of the Sub-Committee. Although there had been a very good performance on investments which exceeded the actuarial previous assumptions, the cost of liabilities had increased by a greater amount, and he referred to low 10 year gilt yields which influenced the calculation of liabilities.

RESOLVED that the Pension Fund Performance report be noted.

29 PENSION FUND - INVESTMENT REPORT

Simon Betteley (Client Director) and Richard Mathieson (Senior Investment Strategist) presented on behalf of Blackrock. Having completed a first year of working for LBB as Pension Fund managers, they came to discuss performance, economic outlook, and prospects.

The Committee were informed that with respect to asset allocation, the value of the equity fund managed by Blackrock as at 31 December 2014 was £139,283,178; however a more recent valuation of the fund as at 9th February 2015, valued the fund at £143,959,425.

The Committee were informed that the equity fund was the "Ascent Life Enhanced Global Equity Fund" and that over the last twelve months the fund had seen a gross increase in value of 14.31%. Blackrock were of the opinion that the equity markets were largely responsive and directed by central bank policy. They felt that the value of the fund had increased dramatically in the year and were very positive. They were however, expecting that a period of volatility would follow any rise in interest rates. Blackrock expected a small rate rise this year.

Blackrock commented on quantitative easing in the Japanese markets, combined with low interest rates. They were of the opinion that the US and UK economies would exhibit tight control by the central banks, but that in Europe and Japan controls would be looser; this they felt would cause a period of volatility. Broadly stated, the Blackrock presentation was divided primarily into three areas, the investment process; performance and research.

The Blackrock presentation emphasised SAE—Scientific Active Equity Global Platform, and Blackrock's links with the IT community in San Francisco where their main HQ was based. The SAE global equity software technology enabled Blackrock to harness the latest technology and internet search data to process 200 different data feeds for over 4,000 stocks in over 40 countries on a daily basis. The main types of stock that Blackrock would invest in were:

- stocks underpinned by attractive fundamentals
- stocks supported by positive sentiment and market activity
- stocks with positive exposure to macro themes

Blackrock referred the Committee to their SAE Global equity strategy performance which had provided consistently good results over the last five years. The Committee were informed that the strategy performance was well above target, and that the three and five year information ratio was ranked as the top percentile relative to peer groups.

Blackrock proceeded to provide some further detail on the fund performance, before looking in more detail at their "Overweight" and "Underweight" positions. Blackrock had high regard for the US semi-conductor markets, US Energy markets, the Japanese domestic market, and markets where companies were involved in exporting to the Eurozone; in these sectors they held "Overweight" positions. Conversely, they held "underweight" positions in the Eurozone Domestic markets, US Consumer Markets and the Global Materials markets.

A Member asked if consideration was given in their financial modelling software to exposure to foreign exchange movements, and how much profits may be affected by movements in the foreign exchange markets. Blackrock responded that risk would be seen in their financial models, and that they expected very little risk from currency fluctuations.

Blackrock elaborated that they adopted a systematic modelling approach that took into consideration:

- Long term growth
- Changing country competitiveness
- Demographics
- Political risk and uncertainty
- Fluctuations in FX markets
- Policy and rates
- Changing growth expectations
- Consumer behaviour

Alick Stevenson (Allenbridge Epic) advised the Committee that he would draft a report on the effect that exchange rates would have on transactions and profits, and that he would have this ready for the Committee at their next meeting.

A Member asked if the financial modelling had forecasting capability. The response to this was yes, by looking backwards with a common sense overview by a fund manager.

The Vice Chairman spoke concerning the matter of investing globally and FX rates and commented that it was obvious that the fund had to invest overseas and that FX was simply part of an inevitable process. Blackrock reassured that trades would only take place when profits outweighed the cost of the trade.

The Chairman thanked Simon Betteley and Richard Mathieson for their interesting and detailed presentation.

A presentation was also given by MFS Investment Management, on the management and performance of the Global Value Equity portfolio that they were managing for the LBB Pension Fund. The presentation was given by Ben Kottler, CFA (Institutional Equity Portfolio Manager), and David J Holding (Director, Relationship Management).

The Committee were referred to the Executive Summary on the presentation, which noted that the total value of the fund as at 31st December 2014 was £139,225,593. The Committee were updated that as at 23rd February 2015, the fund's value had increased to approximately £146.5m.

MFS referred the Committee to the data on the presentation concerning Performance Drivers—these were divided into Sectors and Stocks. The

Committee noted that the main contributors in terms of sectors were Industrials and Financials, and that the main detractors were in Telecommunications Services. As far as specific stocks were concerned, there were three main contributors, and these were the Lockheed Martin Corporation, Cvs Health Corporation and the Kao Corporation. The main detractor in terms of stocks was Apple Inc.

MFS explained to the Committee that stock selection was their main driver, and they felt that they had a competitive edge in this sector. They reaffirmed that their most productive areas of stock selection were in the sectors of Industrials and Financials. In terms of the effect of foreign exchange rates, their view was that this had a short term effect only, and that the impact was slightly negative over the course of the last year. MFS were of the opinion that it was difficult to see how Apple could sustain their recent growth levels. MFS referred the Committee to the fifth highest contributor by stocks, and that was the German company Deutsche Wohen Ag. This was a company that specialised in the German residential property market, and MFS was anticipating a property boom in Germany in the coming year.
MFS expected that the Lockheed Martin Corporation would continue to do well, with a strong US economy, and continued support for the US defence industry.

A Member enquired if the philosophy of MFS was to change stocks frequently, or if they held a longer term view. The response was that MFS held a longer term view of stock holding, and would normally have a holding period of six years—they were focused on longer term strategies, and were paid on the basis of three and five year investment returns.

The Committee noted the region and country weights of exposure, and regional exposures in terms of revenue. In terms of regional/country exposure, 54.8% of the portfolio was held in North America, 19.4% in Europe (excluding the UK), 11.0% was held in Japan and 10.4% in the UK. In terms of exposure by revenue, 42.6% was in North America, 21.6% in developed Europe, 12.6% in Japan and 19.1% in emerging markets.

A Member enquired about the effect of FX rates on transactions. MFS responded that this did not have a significant impact, and that the most important issues were good business sense and good stock picking. It was normally the case that trading outside of the UK was beneficial.

The Director of Finance asked if MFS felt that the current performance of the Fund was sustainable. MFS responded in the affirmative, based on the fact that markets were growing and recovering; MFS felt that in the current climate global equities were good value. It was noted that on the day of the meeting the FTSE was at an all-time high. MFS commented that there had been a lack of volatility in the markets for a while, which was for them a bit of a concern. MFS would have preferred a bit more volatility, as it normally meant that when volatility did occur, it could be drastic. MFS commented that if investment conditions got tough, that would be when their approach to investing would be proved.

A Member asked what was meant by "capture ratio". The answer to this was that the capture ratio was the extent to which MFS captured the market move in any given circumstance.

A Member asked if MFS were "positioning for a downside". MFS responded by stating that they were always in a position to deal with a downside in market forces based on their policy of making sound business decisions and investing in good quality businesses. They felt comfortable and well diversified, with investments currently in 109 companies.

The Chairman enquired as to the voting policy of MFS at the shareholder meetings of companies that they invested in. The Chairman asked why it appeared that MFS always seemed to vote in favour of the proposed remuneration packages of Chief Executives. The Chairman was keen to see value for money. MFS responded that it was not always the case that they supported all the remuneration packages of Chief Executives or CEOs. They highlighted the case of Oracle, where MFS voted against the remuneration package of the Chief Executive Officer.

The Chairman concluded by thanking Ben Kottler and David Holding for attending and for making a very informed and detailed presentation to the Pensions and Investment Sub-Committee.

RESOLVED that:

1. **The Pension Fund Investment Reports from Blackrock and MFS be noted**

2. **Alick Stevenson (Allenbridge Epic) to draft a report on the effect that exchange rates have on transactions and profits, and that this be presented to the Committee at their next meeting**

30 REVISED INVESTMENT STRATEGY - PHASE 3

Alick Stevenson and Patricia O'Loughlin attended on behalf of the Fund's advisers, Allenbridge Epic. Their recommendation was to undertake a gradual move in capital from Fidelity's fixed income holding in the UK Aggregate Bond Fund to the Fixed Income Diversified Alpha (FIDA) Fund.

AllenbridgeEpic had recommended the transfer of funds for various reasons, and these included the fact that they felt that the FIDA Fund was liquid, unconstrained and would mean that LBB would not be tied to just investing in Government Bonds. AllenbridgeEpic advised the Committee that it was not worth investing in Government Bonds at the moment as the returns were too low. AllenbridgeEpic stated that the FIDA Fund was a low volatility fund with a strong capital presentation; the money could be transferred over quickly at no cost.

A Member urged caution on the basis that not enough information was available on risk, and where the existing money in the new Fund had been invested. Alick Stevenson responded that if this information was required, he would have to do some research and bring the answer back to the next Committee meeting. Mr Stevenson then noted some information on the report concerning the FIDA fund, and managed to provide the Committee with some information concerning where the exiting monies had been invested. It seemed to be the case that most of the money in the FIDA Fund was invested in derivatives; the Committee were not happy with this because of the risk of financial loss. The Vice-Chairman recommended that the matter be put on hold, and looked at again at the next meeting, when more detail could be provided. Martin Reeves (Principal Accountant) informed the Committee that Fidelity were due to attend the next meeting of the Pensions and Investment Sub Committee on the 19th May. This being the case, the Committee decided to postpone any decision concerning the FIDA Fund until speaking to Fidelity at the next meeting.

Mr Stevenson was requested to contact Bailey Gifford to see what other products they had in comparison with Fidelity.

RESOLVED

(1) that the Revised Investment Strategy Phase 3 report be noted

(2) that Baillie Gifford continue to manage the fixed income portfolio under their existing aggregate Bond Fund

(3) that Fidelity be invited to the next meeting, where more detail on the FIDA Fund could be provided

(4) that Mr Stevenson from AllenbridgeEpic contacts Bailey Gifford to see what other products they have in comparison with Fidelity.

31 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

32 CONFIRMATION OF EXEMPT MINUTES OF THE MEETING HELD ON 2ND DECEMBER 2014

The exempt minutes of the meeting held on December 2nd 2014 were agreed.

Resolved that the exempt minutes for December 2nd 2014 could now be made public.

The Meeting ended at 10.00 pm.

Chairman