

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 19 August 2014

Present

Councillor Simon Fawthrop (Chairman)
Councillor Alan Collins (Vice-Chairman)
Councillors Eric Bosshard, Peter Fookes, David Livett,
Russell Mellor and Keith Onslow

Also Present

Alick Stevenson, AllenbridgeEpic Investment Advisers

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Neil Reddin and Councillor Keith Onslow attended as alternate.

2 DECLARATIONS OF INTEREST

Councillors Simon Fawthrop and Eric Bosshard declared personal interests as former Members of the Local Government Pension Scheme. Councillor Russell Mellor declared a personal interest by virtue of receiving a Pension from the Local Government Scheme.

3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 11TH FEBRUARY 2014 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The Minutes were agreed.

The Director of Finance also updated Members on certain issues as follows:

Auto-enrolment – this was being phased in until 2017. It was necessary for staff to positively opt out of the Local Government Pension Scheme. In view of staff inertia to do so there were now higher numbers in the Bromley Fund.

Governance – the Government would be announcing changes to Governance arrangements for implementation from April 2015 which could impact on the role of Pensions Committees. Details were circulated previously to Members of the Sub-Committee.

London-wide Collaborative Investment Vehicle – L B Bromley was not committed at this stage to joining a proposed Collaborative Investment Vehicle (CIV) for London Boroughs.

LGPS – Opportunities for Collaboration, Cost Savings and Efficiency

Details of the response to consultation were circulated previously to Members of the Sub-Committee. The agreed view of the L B Bromley is that any proposals for a merger of funds should be taken forward on a voluntary basis.

Training – for up to date briefing on matters such as funding proposals and new governance requirements, Members were encouraged to take advantage of available training options such as the Pension Fund Trustee Toolkit produced by the Pension Regulator. The Director previously circulated details of some courses available and agreed to seek views from Members of any particular training needs. Councillor Livett suggested in-house training to reduce costs and was advised that Fund Managers had previously provided training at little or no cost. If it was possible to secure training cost effectively through other providers this would continue to be considered.

4 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

5 STATEMENT OF INVESTMENT PRINCIPLES

Report FSD14053

Members received a revised an updated version of the Pension Fund's Statement of Investment Principles following a detailed review, particularly in light of the final Fund valuation report at 31st March 2013 and the revised investment strategy agreed in 2012.

Noting that Investment Managers had been authorised to exercise voting rights on behalf of the Council, the Chairman was keen to explore how the voting rights were being exercised. For example, the Chairman was keen to ensure that fund managers would not be voting to support large pay rises in poorly performing companies. This would be raised with Fund Managers in attendance at future Sub Committee meetings.

Under asset allocation and targets and benchmarks for Fund Managers, the Chairman suggested that text for Global Equities should reflect that Baillie Gifford, Blackrock and MFS should outperform Fund liabilities in addition to the MSCI All Countries World index.

For the Diversified Growth Fund, Councillor Livett noted that Baillie Gifford had invested in certain Mexican and Romanian assets. He felt that these would not approach investment grade so presenting a high risk. Mr Stevenson suggested the assets were small and paired with other assets. He would enquire to establish why the investments were made.

RESOLVED that Report FSD14053 be noted and the revised Statement of Investment Principles set out at Appendix 1 to the report be agreed.

6 FUNDING STRATEGY STATEMENT

FSD14051

Following a detailed review in conjunction with the Pension Fund's actuary, Mercer, a revised and updated Funding Strategy Statement was provided to Members. This took account of the full triennial valuation of the Fund at 31st March 2013 and Phases 1 and 2 of the Investment Strategy.

RESOLVED that Report FSD14051 be noted and the revised Funding Strategy Statement set out at Appendix 1 to the report be agreed.

7 PENSION FUND ANNUAL REPORT 2013/14

Report FSD14055

Under the Local Government Pension Scheme (Administration) Regulations 2008, the Council was required to publish its annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2014.

The annual report, appended to Report FSD14055, had been submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC). Comments were still awaited although the auditor anticipated issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.

In accordance with the regulations, the Council would publish the Annual Report on its website by 1st December 2014.

Concerning the first paragraph at page 5 of the draft Annual Report, the final sentence of the paragraph would be amended to reflect that Councillors were eligible to join the scheme up to May 2014.

In view of the Annual Report and accounts being subject to external audit, and noting the next scheduled meeting of the Sub Committee being 2nd December 2014, it was agreed to approve the draft report and delegate approval of the draft final report to the Chairman in consultation with the Director of Finance. The draft final report would be provided to Sub Committee Members beforehand and if there were any particular concerns, a special Sub Committee meeting could be convened as necessary.

RESOLVED that:

(1) the draft Pension Fund Annual Report 2013/14 be noted and approved;

(2) following external audit comment, the draft final report be provided to Sub Committee Members;

(3) should there be any particular Member concern(s) on the draft final report, a special Sub Committee meeting be convened as necessary;

(4) if there are no Member concerns, approval of the draft final report be delegated to the Chairman in consultation with the Director of Finance; and

(5) arrangements be made to ensure publication of the final report by the statutory deadline of 1st December 2014.

8 PENSION FUND PERFORMANCE Q4 2013/14 AND Q1 2014/15

Report FSD14052

Report FSD14052 provided details of investment performance for Bromley's Pension Fund in both the 4th quarter of the 2013/14 financial year and the 1st quarter of 2014/15 (the first complete performance report since implementing Phase 2 of the revised investment strategy). Appended reports from the Fund's Investment Adviser provided further commentary on performance during the two quarters.

Information on general financial and membership trends of the Pension Fund was outlined along with summarised information on early retirements. Baillie Gifford also provided commentary on the three portfolios under their management and a view on the economic outlook.

Quarterly reports from all fund managers had been circulated to Sub-Committee Members with the meeting agenda.

A proposed timetable of attendance by fund managers at future Sub Committee meetings was proposed as follows:

2nd December 2014 – Baillie Gifford (global equities, DGF and fixed income)
24th February 2015 – Blackrock and MFS (global equities)
19th May 2015 – Fidelity (fixed income) and Standard Life (DGF)

On performance, the fund value stood at £636.1m at 31st July 2014. Although 2013/14 was a year of transition and change (some 70% of total fund assets moving from previous balanced mandates to new global equity mandates in December 2013), the Fund returned +7.6% in 2013/14 compared to the benchmark return of +6.2%. With regard to the local authority universe average for the year (+6.4%), the Fund achieved an overall ranking in the 29th percentile (the lowest rank being 100%) representing a further good year.

Medium and long-term, returns for the fund had remained particularly strong. Long-term rankings to 31st March 2014 (19th percentile for three years, 3rd percentile for five years and 2nd percentile for ten years) were very good underlining particularly strong performance in the last few years.

For the last two quarters, the total fund returned +1.6% in the June 2014 quarter and 1.5% in the March 2014 quarter. This compared to overall benchmark returns of +2.3% and 1.0% respectively. In terms of local authority average, the fund's performance in the March quarter was in the 12th percentile (local authority average data for the June quarter was not yet available and would be reported to the next meeting).

For the Global Equity Portfolios, Mr Stevenson suggested that it was too soon to make substantive comment on performance. The allocations were still "bedding in" and at least four quarters were ideally needed. Concerning the portfolio "*Blackrock Ascent Life Enhanced Global Equity Fund (pooled)*", Mr Stevenson highlighted that the Manager had reviewed the allocation of a number of equities without informing clients or explaining the change. This was taken up by Mr Stevenson and arrangements were now in place to ensure that appropriate procedures would be followed in advising clients.

Mr Stevenson also provided a brief economic commentary and market assessment for Members.

RESOLVED that:

- (1) Report FSD14052 be noted; and**
- (2) the programme of Fund Manager attendance, as set out at paragraph 3.10 of Report FSD14052, be agreed.**

**9 REVISED INVESTMENT STRATEGY - PHASE 3
(FIXED INCOME)**

Report FSD14054

Report FSD14054 provided information on alternative "protection-type" assets as part of the fixed income allocation under Phase 3 of the investment strategy and made recommendations on a way forward.

Report FSD14054 and accompanying report from Mr Stevenson provided background behind the recommendations in the report. At the meeting Mr Stevenson elaborated further explaining that the fund would most likely enter negative cash flow in fewer years than anticipated. Investing in long term assets providing inflation proofing was therefore necessary.

Referring to paragraph 3.4 of Report FSD14054, the Chairman highlighted actuary advice that the fund was likely to move to a net cash flow negative position (including investment income receipts) around 2020/21. Cllr Livett was not particularly supportive of illiquid investments in principle. However, the Chairman confirmed that a commitment to invest was not being sought at this stage highlighting the provisional time line chart for Phase 3 as presented in Mr Stevenson's report.

Referring to assets outlined in the AllenbridgeEpic report providing identifiable cash flows over longer periods, Councillor Onslow suggested that it might be prudent to await the outcome of the 2015 General Election. Alternatively, the Chairman suggested that it might be worthwhile to take decisions beforehand to avoid any risk of regulations changing.

Mr Stevenson emphasised that at this stage approval was sought to investigate returns that might be available. A proposition could then be put to the Sub-Committee. Proper consideration was necessary as control of some £60m for re-investment would be relinquished for a significant period of time. An element of certainty in returns was necessary in moving from positive to negative cash flow and inflation proofing might be seen as worthwhile for protecting assets.

RESOLVED that:

(1) the report be noted;

(2) a manager search be carried out seeking to appoint one or more managers to invest a total of up to 10% of the fund (c. £60m based on the current fund value) over the longer term in “alternative fixed interest (inflation proofing / illiquid)” assets; and

(3) the remaining balance of the 20% allocation for fixed income be managed by one (or both) of the existing fixed income managers (Baillie Gifford and Fidelity) on a global basis with an absolute return benchmark (as set out within the Statement of Investment Principles 2014).

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

It was agreed, supported by finance officers present, that the minutes published as exempt with the agenda should be publically available and no longer regarded as a Part 2 document.

As such the Chairman did not move that any Press and public present be excluded from the meeting during consideration of the item.

11 CONFIRMATION OF FORMERLY EXEMPT MINUTES – 11TH FEBRUARY 2014

The minutes were agreed.

Referring to references in the minutes to a Parallel Fund (which had been subsequently agreed by Full Council), Councillor Collins felt that the Fund should now be operating.

Members were advised that it was necessary to consider the amount for investment in the Fund. The Parallel Fund was separate to the Pension Fund; if returns for the Pension Fund deteriorate, the separate Parallel Fund could assist (together with returns from the Diversified Growth Fund).

The Chairman felt that the Parallel Fund should be funded to £10m. If the Government were to require a merger of funds, the £10m would stay with L B Bromley. The Director of Finance advised that, even with previous suggestions of a merger of funds, each Local Authority would be expected to retain its Pension Fund deficit.

The Meeting ended at 8.41 pm

Chairman