

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 20 February 2018

Present

Councillor Keith Onslow (Chairman)

Councillors Eric Bosshard, Simon Fawthrop, David Livett,
Colin Smith, Teresa Te and Angela Wilkins

Also Present

John Arthur, Allenbridge
Geoff Wright, Local Pensions Board (Observing)

24 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Cllr Russell Mellor and Cllr Richard Williams. The Leader of the Council, Councillor Colin Smith, attended as alternate for Cllr Mellor and Cllr Angela Wilkins attended as alternate for Cllr Williams.

Apologies were also conveyed on behalf of Alick Stevenson, Allenbridge, who was unwell and unable to attend the meeting. John Arthur attended for Allenbridge.

25 DECLARATIONS OF INTEREST

Cllr Smith declared an interest as a deferred Member of the L B Bromley Pension Scheme.

26 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 26TH SEPTEMBER 2017, 21ST NOVEMBER 2017, AND 14TH DECEMBER 2017 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed subject to an amendment outlined in italics below.

The item was considered by Members under Part 2 proceedings in view of the restricted nature of certain details arising from the minutes. Those matters which can be covered in Part 1 minutes are outlined below with other details covered in the Part 2 (Restricted) minutes.

A Member was concerned that draft minutes of the 26th September meeting had been seen first by the General Purposes and Licensing Committee without being seen by the Sub-Committee and that his request to see the clerk's original draft minutes had been denied, questioning why this should be the case. The Member was particularly interested to compare the clerk's

original draft minutes against later text in relation to the £32.1m sale of Blackrock global equities to cover transfer of assets/ liabilities to the Local Pensions Partnership (Bromley College merger with Greenwich Community College). The minutes indicated that the Member had hoped that poorly performing Standard Life assets (DGF) would have been sold to cover the transfer rather than global equities held by Blackrock which had subsequently improved - the minutes conveying the Member as suggesting the fund had forgone some capital appreciation in selling the global equities. The Member highlighted that he had stated rather than suggested the fund had foregone some capital appreciation and that the final draft minutes excluded a value of lost capital appreciation which he understood to have been in the order of £2.1m or £2.2m (at the time of the 26th September meeting). Having the minutes then circulated to the General Purposes and Licensing Sub-Committee without the Sub-Committee first seeing the draft minutes was, he felt, unfortunate.

For the minutes of the 26th September meeting, Members agreed that the final sentence of the fourth paragraph at Page 7 should therefore be amended to read:

“He stated the fund had forgone an estimated £2.2m capital appreciation in selling the global equities and felt this had been a wrong decision seemingly based on poor performance over a three month period.”

The Director of Finance also provided a general update for Members on certain matters.

The new Minister for Local Government, Rishi Sunak, (appointed on 9th January 2018) is interested in pooling and has an investment background.

In regard to Carillion and its liquidation, the Director indicated that three local government pension funds had invested with Carillion and 13 local authorities had outsourcing agreements with Carillion. In accordance with TUPE conditions, contracted-out staff at Carillion had protected Local Government Pension benefits, and it was expected that the deficit would need to be funded by the LGPS administering authority.

Under *The Markets in Financial Instruments Directive II (MiFID II)*, the Director reported that L B Bromley’s application to opt-up to elective professional status had been successful and had passed the relevant test.

The Director also referred to a review by GAD (the Government Actuary’s Department) on the affordability of pension funds and the proportion of employer/employee costs for funds.

Developments on specific matters related to the London Collective Investment Vehicle (CIV) were also considered under Part 2 proceedings. Details are covered in the Part 2 (Restricted) minutes under the item confirming exempt minutes of the meetings held on 21st November 2017 and 14th December 2017.

27 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

28 PENSION FUND PERFORMANCE Q3 2017/18

Report FSD18018

Details were provided of the Fund's investment performance for the third quarter of 2017/18. Additional detail was provided in an appended report from the Fund's external advisers, AllenbridgeEpic and Baillie Gifford provided commentary on its performance and economic outlook (recent developments in financial markets, their impact on the Fund and future outlook). Information on general financial and membership trends of the Pension Fund was also outlined along with summarised information on early retirements.

The market value of the Fund ended the December quarter at £998.0m and had risen further to £1,010.9m at 31st January 2018. The third quarter total fund return was 4.4% against a benchmark of 3.9%. This compared to a 4.0% average across the 60 LGPS funds in the PIRC universe.

Concerning the Markets in Financial Instruments Directive II (MiFID II) which came into force on 3rd January 2018, the Fund's status as elective professional (with all relevant counterparties, including advisers and custodian) would be kept under regular review with counterparties added or removed as necessary for the Fund's investment needs.

With the Council's ongoing commissioning programme, British Telecommunications plc and Greenwich Leisure Limited became admission body employers within the Fund from 1st November 2017. This followed transfer of the remaining ISD Service and contract award for library services. Two academies had also changed cleaning contractors from 1st January 2018 and officers were liaising with contractors on an exit valuation for the outgoing admission body and with the successor contractor in obtaining admitted body status within the L B Bromley Fund.

The following Fund Manager attendance was also proposed for future Sub-Committee meetings:

- 22nd May 2018 – MFS (global equities)
- 24th July 2018 – Fidelity (fixed income, multi-asset income and property)
- 7th November 2018 – Schroders (multi-asset income)
- 5th March 2019 – Baillie Gifford (global equities and fixed income)
- 23rd May 2019 – MFS (global equities).

Client Service Directors from Baillie Gifford attended for the item – Kenneth Barker, John Carnegie, and Paul Roberts. In view of Kenneth Barker's

impending retirement, John Carnegie was introduced as Baillie Gifford's partner representative for the L B Bromley Fund with Paul Roberts introduced as a Baillie Gifford specialist on Fixed Income.

The value of Baillie Gifford's Portfolio for the Fund (Global Alpha, Fixed Income, and Diversified Growth) stood at £492,837,299 at 31st December 2017 with Global Alpha at £383,618,920, Fixed Income at £57,818,417 and Diversified Growth at £51,399,962.

A number of questions were asked about Baillie Gifford's Global Alpha and Fixed Income performance and discussion included the positive effect of currency and foreign exchange benefits for the portfolio. On Fixed Interest (and upon request), Mr Barker offered a view that it might be preferential to invest in corporate bonds rather than gilts.

Along with good long term performance, it was a strong year for global equities with high end tech companies performing particularly well. Exceptional performance had been achieved over the past few years alongside benefits from falling sterling. Baillie Gifford looked to invest over a five-year period and they expected Global Equities to return well over the next five years.

On governance, Baillie Gifford indicated they would be prepared to veto (vote against) Directors receiving high remuneration packages for poor company performance. However, rather than vote against a package, Baillie Gifford would also want to say why a remuneration level might be wrong and warn that a similar voting outcome could lead to Baillie Gifford selling shares in the company. Baillie Gifford offered to come back with further detail and check for any votes against (such packages) when shares in a company had been sold.

The Chairman thanked Ken Barker for his contributions over the years and wished him well for retirement. In turn, Mr Barker praised L B Bromley, highlighting that Members and officers are engaged, with the Fund fully funded. The Chairman also welcomed John Carnegie and Paul Roberts to the L B Bromley Fund.

Baillie Gifford representatives left the room. Mr Arthur highlighted the Fund's good third quarter performance and strong markets. In fixed interest, returns are low but managers had achieved a good performance against benchmarks. The Fund is doing well as are the Managers.

Globally, Mr Arthur felt the U.S. economy is now "alight" although a rise in U.S. interest rates is just beginning to dampen the U.S. economy. There is a concern on over dampening and therefore a slight wobble in markets.

There is a small flame in the Japan economy and the Europe economy is alight. The UK economy is being dampened slightly through a level of uncertainty. Mr Arthur expected equities to hold their own at the present time.

A lot of Quantitative Easing (QE) had taken place to ignite economies but this had mainly occurred in developed markets. In Brazil, interest rates fell as the economy fell. Mr Arthur considered Baillie Gifford a good Fund Manager although last year was near the top of their achievement with strong performance in technology; however, something was bound to come along to upset this and Baillie Gifford's technology exposure was something to monitor. Mr Arthur thought equities would continue to rise although there was now a slightly greater level of uncertainty. A Member highlighted that last year saw the biggest ever investment to the UK regardless of Brexit.

A further Member highlighted Venezuela's serious economic difficulties and any knock-on effect for world markets. Mr Arthur thought that Venezuela's collapsing (imploding) economy is well flagged and would be surprised if Managers had exposure in the country.

RESOLVED that:

- (1) the contents of Report FSD18018 be noted; and**
- (2) the proposed timetable of fund manager attendance, set out at paragraph 3.8.1 of Report FSD18018, be agreed.**

**29 PROCUREMENT PROCESS FOR FUND MANAGER
 APPOINTMENTS**

Report FSD18020

Following the recent appointment of fund managers for Multi-Asset Income and UK Pooled Property Fund mandates, Members received a report from Allenbridge (appended to Report FSD18020) providing further details of the procurement process followed. It provided commentary on the 2015 UK Public Procurement Regulations setting out the rules under which all contracting authorities must procure public contracts above a certain value. Procurement for the recent manager selection was conducted under those rules.

Allenbridge outlined general procurement principles under the rules and provided commentary on the type of tender undertaken i.e. a Restricted Tender to procure a provider of a highly technical service such as fund management. Allenbridge also described the stages under the Restrictive Tender process and what they involved.

RESOLVED that the contents of Report FSD18020 be noted.

**30 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**

**31 CONFIRMATION OF EXEMPT MINUTES OF THE MEETINGS
HELD ON 21ST NOVEMBER 2017 AND 14TH DECEMBER 2017**

The exempt minutes of both meetings were agreed.

Under Part 2 proceedings, the Director also updated Members on specific matters related to the London Collective Investment Vehicle (CIV).

32 APPOINTMENT OF AN ACTUARY

Report FSD18017

Report FSD18017 outlined results of the tender process for actuarial services including a recommendation for award of contract which was agreed.

**33 CONSIDERATION OF RESTRICTED MATTERS ARISING FROM
MINUTES OF THE MEETING HELD ON 26TH SEPTEMBER
2017**

In considering minutes of the Sub-Committee's meeting held on 26th September 2017, matters were raised of a restricted nature which were accordingly considered under Part 2 proceedings of the meeting.

The Meeting ended at 9.52 pm

Chairman