

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 13 February 2020

Present:

Councillor Keith Onslow (Chairman)
Councillor Gareth Allatt (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys,
Christopher Marlow and Gary Stevens

Also Present:

John Arthur, MJ Hudson Allenbridge

64 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

65 DECLARATIONS OF INTEREST

There were no declarations of interest.

66 QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received.

67 MINUTES OF THE SPECIAL MEETING HELD ON 30TH JANUARY 2020

The minutes of the meeting on 30th January 2020 were not yet available.

68 PENSION FUND PERFORMANCE Q3 2019/20 Report FSD20027

The Sub-Committee received a summary of investment performance of Bromley's pension Fund for the third quarter of 2019/20. A separate report from MJ Hudson Allenbridge was included at appendix 5 to the report.

RESOLVED that the report be noted.

69 PENSION FUND INVESTMENT STRATEGY STATEMENT

Report FSD20028

The Sub-Committee considered the proposed new Investment Strategy Statement (ISS) for the Pension Fund under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and a

revised Funding Strategy Statement (FSS) to reflect the outcome of the 2019 actuarial valuation.

Members discussed and made comments and suggestions on a number of issues covered in the documents, including risk assessment and the London CIV. In particular, Councillor Simon Jeal proposed adding "...however in exceptional circumstances..." in section 6 (e), but Members considered that the text was carefully drafted and should remain as written. The Director of Finance offered to circulate the proposed changes to Sub-Committee Members before the final changes were made.

Councillor Simon Fawthrop asked to be provided with a list of admitted bodies that were in deficit, and the amount of deficit.

RESOLVED that

- (1) The Investment Strategy Statement at Appendix 1 be approved.**
- (2) The Funding Strategy Statement at Appendix 2 be approved.**
- (3) Any final changes to these documents be undertaken by the Director of Finance with the agreement of the Chairman and Vice-Chairman.**

**70 PENSION FUND ASSET ALLOCATION STRATEGY REVIEW -
FOLLOW UP REPORT**
Report FSD20029

At the Sub-Committee's previous meeting it was agreed that more information on options for investing in international property should be sought from Fidelity and Mercers for the remaining 5% of the fund that was unallocated. Although Mercer had provided a briefing which had been circulated, Fidelity were not able to assist. John Arthur had therefore arranged for an external fund manager, Christoph Butz of Franklin Templeton Investments, to attend the meeting.

Mr Butz distributed a brochure summarising his presentation. He began by emphasising that with property there was a low correlation to traditional assets, and pricing was very varied and specific, with no two assets the same. This led to opportunities particularly for capital appreciation, even in adverse markets. With local real estate markets moving independently there was also natural diversification. There was a balance of risk to return, from core assets, to core plus, value added and opportunistic. Typically, core plus or value added assets might have one or more problems – it was important to identify the problems that could be overcome. A pipeline of assets needed to be established, buying property from owners who were not able or willing to invest. By identifying property where the quality and quantity of cash-flow could be improved it was possible to reduce exposure to market forces.

Mr Butz answered questions from the Sub-Committee. He commented that there was no clear and substantial difference between core plus and value-

added assets, and Franklin Templeton targeted both. He described the process of selecting assets in some detail - typically, about 600 transactions might be considered initially, but only 10-15 would be carried through. It was important to focus on value, carry out due diligence and avoid assets that you did not understand. Franklin Templeton used an active risk management tool through the entire investment process. There was no pre-set fund limit, and investment was typically over a ten year period. The strategy had to be flexible enough to exploit a range of opportunities. It was based on buying assets where the purchase price could be improved on by 20-30% before the asset was recycled. In response to further questions, Mr Butz stated that while the macro position was important, much of the focus had to be on bottom-up consideration of individual assets that could be improved. Strategy had to be more than doing what worked in the past.

The chairman thanked Mr Butz for his very clear and helpful presentation.

When Mr Butz had left the meeting Members continued to discuss what approach the Council should take. Members considered that it was important to see a range of potential fund managers – this procurement had to be based on finding the right team which was both stable and dynamic, and with global resources and expertise. It could not be decided just on numbers.

John Arthur left the meeting while the Sub-Committee briefly moved into part 2 to discuss the procurement route.

RESOLVED that

- (1) The report and the presentation from Franklin Templeton be noted.**
- (2) Final changes to the asset allocation strategy be agreed.**
- (3) Procurement of an investment manager for international property be conducted by MJ Hudson Allenbridge.**

**71 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) -
PENSION GUARANTEE AND PENSION RECHARGE
ARRANGEMENTS**
Report FSD20030

The Sub-committee received a report seeking formal agreement to sign the London Collective Investment Vehicle (VIV) Pension Guarantee and Pension Recharge Agreements, having considered the legal advice provided in the part 2 agenda.

RESOLVED that

- (1) The content of the report be noted, including the advice from the Director of Corporate Services to ensure that robust safeguards are in place in finalising the guarantee and recharge agreements.**

(2) It is agreed that the guarantee and recharge agreements be signed on the basis that the LGPS scheme is closed to new starters and remains closed.

72 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**

73 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) - PENSION GUARANTEE AND PENSION RECHARGE ARRANGEMENTS - APPENDIX C

The Sub-Committee gave formal agreement to signing of the London Collective Investment Vehicle (CIV) Pension Guarantee and Pension Recharge Agreements.

74 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE ON ANY EXEMPT MATTERS

The Sub-Committee received an update from the Chairman.

The Meeting ended at 9.54 pm.

Chairman