PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 30 January 2020

Present:

Councillor Gareth Allatt (Vice-Chair, in the Chair)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys, Christopher Marlow and Gary Stevens

Also Present:

John Arthur, MJ Hudson Allenbridge
Leanne Johnston, Mercer Limited

53 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from the Chairman, Cllr Keith Onslow, and the Vice-Chairman, Cllr Gareth Allatt, took the chair.

54 DECLARATIONS OF INTEREST

There were no declarations of interest.

55 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

Two questions had been received from Gill Slater - the questions and replies are set out in Appendix A to these minutes.

56 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 3RD AND 17TH DECEMBER 2019, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meetings held on 3rd December 2019 (excluding exempt information) and 17th December 2019 be confirmed.

57 PENSION FUND ASSET ALLOCATION STRATEGY REVIEW - FOLLOW UP REPORT

Report FSD20023

As requested at its last meeting, the Sub-Committee received a follow-up report from MJ Hudson Allenbridge presenting further information and options for the future asset allocation strategy for the Pension Fund on the choice between investing in International Property Funds and in US Property Funds for the as yet unallocated 5% remaining.

John Arthur of MJ Hudson Allenbridge attended the meeting to brief the Sub-Committee. He reminded Members that the aim was to manage risk, and drew attention to the efficient frontier chart on page 3 of the report. He recommended investing in international property, rather than US property, which gave wider diversification. He explained the broad categories of property fund set out in the report – in particular Core, Core-Plus, Value-Add and Opportunistic – and suggested a Value-Add approach which, although involving more risk, would allow fund managers to invest where they saw the most value. He did not recommend investing in US or international REITS (Real Estate Investment Trusts) given their correlation with equities and the objective to seek diversification of risks.

The Sub-Committee discussed the options available. It was noted that the aim was to reduce risk, and a member commented that some of the returns suggested for property of up to 10% appeared to be too high – risky and unrealistic. Members also raised issues around the different rules in different countries, the risk of a downturn, currency risk and the need for diversification. A member raised the position of WeWork, and the risk of a bubble. John Arthur responded that the situation with WeWork was already well known, and that with property location of individual sites was always crucial. He explained that investing in buying property would not produce immediate value, as rental streams would be low until work had been undertaken to improve the property.

Some members were not supporters of investing in property, but suggested that if the Council did go for property it should reduce the risk by going through a fund. A motion to invest in REITS was moved by Councillor Stevens and seconded by Councillor Fawthrop, but this was not supported.

John Arthur advised that investing in core real estate required going through a large property house with substantial resources. However, he favoured a more entrepreneurial approach, particularly as cash-flow was not a significant requirement over the next four to five years. A member commented that the debate was too hypothetical at this stage – the Sub-Committee needed to identify a manager or a fund. Mr Arthur suggested a shortlist of managers was required.

The Committee concluded that more information was needed for the next meeting on 13th February, although the turn-around was very tight. The Director of Finance suggested that he could ask Fidelity for a briefing and they could be asked to attend. It was also suggested that Mercer be asked for their advice on this issue.

RESOLVED that

(1) The contents of the report be noted.

(2) A further report be made to the next meeting to allow members to consider the options of core, core-plus and value-add international property investment opportunities.

58 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) - PENSION GUARANTEE AND RECHARGE AGREEMENTS
Report FSD20019

The Sub-Committee considered a report seeking their agreement to sign the London Collective Investment Vehicle (CIV) Pension Guarantee and Pension Recharge Agreements, so that the scheme could be closed to new members. Nineteen boroughs had now signed, but all thirty two boroughs would need to sign.

Members agreed that additional wording should be added to the decision to ensure that the scheme remained closed to new members. It was also considered that further legal clarification was needed, including from the London CIV if possible, that the agreement was binding.

RESOLVED that

(1) The contents of the report be noted.

(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, subject to further clarification of the legal position which will be reported to the next meeting.

59 LOCAL PENSION BOARD ANNUAL REPORT
Report FSD20013

The terms of reference of the Local Pension Board required that an annual report was produced and considered by full Council each year, as well as by this Sub-Committee and the General Purposes and Licensing Committee. The report for 2019 had been approved at the Board's meeting on 22nd January 2020.

The Vice-Chairman noted that the report referred to a monthly Pensions Administration report from Liberata being provided to Board members.

RESOLVED that the contents of the Local Pension Board Annual Report for 2019 be noted.

60 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

61 CONFIRMATION OF EXEMPT MINUTES - 3RD DECEMBER 2019.

RESOLVED that the exempt minutes of the meeting held on 3rd December 2019 be confirmed.

62 PENSION FUND TRIENNIAL VALUATION

Report FSD20025

The Sub-Committee received a report on the triennial actuarial valuation of Bromley's Pension Fund, which had been carried out by Mercer Limited. Leanne Johnston of Mercer Limited attended the meeting to present her findings. The report would also be considered by General Purposes and Licensing Committee on 11th February 2020.

Since the previous valuation (31st March 2016), the fund had increased in value from £748m to £1,032.2m as at 31st March 2019, and from being 91% funded to being in surplus - Bromley's investment returns were amongst the very best in the country.

Members discussed whether the report should be published in part 1. As the final report would be published on 31st March, the Sub-Committee agreed that it should remain in part 2, but that the minutes could be in part 1.

The Sub-Committee thanked Ms Johnston for her excellent report. The Director of Finance added that Mercer had also been particularly helpful in agreeing the "gifting" of the Mears scheme to the pension fund towards meeting any future year deficits.

RESOLVED that the outcome of the 2019 Triennial Valuation report be noted.

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

The Vice-Chairman reported that the Chairman had attended the CIV meeting that morning, and would give a full update at the next meeting on 13th February.

The Meeting ended at 8.43 pm

Chairman

Appendix A

PENSIONS INVESTMENT SUB-COMMITTEE

30TH JANUARY 2020

QUESTIONS FROM MEMBERS OF THE PUBLIC

From Gill Slater

(1) The LA Pension Fund Forum Chair advises '*it is becoming increasingly clear that local authority investors must press investee companies to take all possible steps to stem the climate crisis*'. Given the 17th Dec report omits to consider the impact of fossil fuel investments on the climate, what steps are being taken in response to that advice?

The Investment Strategy Statement sets out that the Authority's primary responsibility is to secure the best returns for the fund in the interests of council tax payers and pension fund members. In April 2014 the Local Government Association published legal advice on the fiduciary duties of LGPS administering authorities confirming that the power of investment must be exercised for investment purposes and not wider purposes.

Having also considered the difficulties involved in identifying companies meeting any ethical investment criteria; the possibility of judicial review in the case of any company included in error; the difficulty and cost of monitoring any policy; the unpredictable impact on investment performance; the complications that would arise in relation to performance measurement; and the lack of support for such a policy from other employers in the fund, the authority has decided to take no action at this time in developing an ethical investment policy.

Notwithstanding this, the Sub-Committee works with investment managers over the long-term and following discussions it is evident that environmental issues are central to the value that our managers place on the investments that they make on behalf of the pension fund.

The managers employed by the pension fund dedicate considerable resources to engagement with companies favoured with investment in relation to environmental, social, and governance issues, and have a proactive approach to ensure that long term value is not eroded by unsustainable behaviours or activities which are incompatible with responsible investing. The Sub-Committee is in the process of revising its Statement of Investment Principles.

Supplementary question:
When revising the Statement of Investment it will be important to note that no oil or gas companies are close to Paris Agreement compliance to keep temperatures below 2 degrees. Will this committee investigate divestment acknowledging that investment in these companies is at odds both with the

Council's intentions of reducing carbon emissions through its net zero strategy, and with public expectation made clear, I understand, to the Environment and Community Services PDS Committee yesterday?

Reply:
The Vice-Chairman responded that the Council had considered divestment, but preferred a strategy of engagement. As a long term investor that Council did not want to do anything at variance with its own interests, and the whole subject would evolve over an investment horizon of ten years or more.

Additional Supplementary Question from Cllr Simon Jeal:
Councillor Jeal raised the issue of ESG (Environmental, Social and Governance) investment, suggesting that stewardship should be discussed.

Reply:
The Vice-Chairman responded that individual investment managers were very attuned to ESG issues, but the issue was not just about ESG – it was about good investment, which took into account ESG.

Additional Supplementary Question from Cllr Simon Fawthrop:
Councillor Fawthrop commented that divestment would be a drastic measure. He argued that not all the products of any company were equally bad – for example the plastics produced by oil companies were put to many good purposes. It was therefore important not to "throw the baby out with the bathwater" as the negative elements would diminish over time.

Reply:
The Vice-Chairman agreed with this and stated that he thought the Council had a responsible approach to ESG and was going in the right direction.

Additional Supplementary Question from Cllr Simon Fawthrop:
Councillor Fawthrop clarified that the Pension Fund had been excluded from the 2029 target when the motion had been passed by full Council.

Reply:
The Vice-Chairman agreed.

(2) Warnings regarding stranded '*stranded fossil fuel assets*' continue to flood in from 'Global investor groups' (FT Dec 2019), Switzerland's financial market supervisor (FINMA) etc. If, as minuted (17th December) the ISS is to be finalised by the end of Jan 2020, when, and on what evidence, will consideration be given to Fossil Fuel investment risks?

Reply:
Please see the response to the previous question.

Supplementary Question:
Mark Carney, Governor of the Bank of England, chairing the Financial Stability Board Task Force on Climate-related Financial Disclosures stated that a carbon budget consistent with a 2°C Paris Agreement target "would render the vast majority of reserves 'stranded'. How can informed decisions

about our pension funds be made without a detailed report to this Sub-Committee for you to consider and for the public to see?

Reply:
The Vice-Chairman responded that, taking risk management at a macro level, there were hundreds of thousands of risks. The Council's actions were responsible; it was important not to make rash value judgements which might not match up with the fiduciary duties involved in managing the pension Fund.

Additional Supplementary Question from Cllr David Jefferys
Councillor Jefferys commented that the major energy companies would be leading the way on environmental issues by investing more in offshore wind and battery technology.

Additional Supplementary Question from Cllr Simon Jeal
Councillor Jeal commented that some sectors were more exposed to climate change risk than others. He therefore suggested that MJ Hudson Allenbridge, as the Council's investment advisor, should be asked to provide an analysis of climate change risk to the Pension Fund.

Reply:
The Vice-Chairman responded that he was not drawn to this, and he was not sure that the output would be very helpful or relevant, or support the Council's fiduciary duty.

Additional Supplementary Question from Cllr Simon Fawthrop
Councillor Fawthrop suggested that if any trade union members were unhappy with the Council's investment strategy they could withdraw from the fund and invest elsewhere. He asked whether the unions had clean hands – whether their headquarters were green, and whether they had targets for becoming carbon neutral.

Additional Supplementary Question from Cllr Christopher Marlow
Councillor Marlow stated that holding shares in gas and oil companies was unlikely to affect investment in new oil or gas fields

In response to Councillor Fawthrop, Ms Slater clarified that she was not attending the meeting as a trade union representative.

The Vice-Chairman thanked Ms Slater for her questions which had sparked an interesting debate.

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