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DATE: 22 January 2020

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

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

A special meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **THURSDAY 30 JANUARY 2020 AT 7.00 PM**

Members of the Local Pension Board are also invited to attend this meeting

MARK BOWEN
Director of Corporate Services

Copies of the documents referred to below can be obtained from
http://cds.bromley.gov.uk/

A G E N D A

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

2 DECLARATIONS OF INTEREST

3 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

Questions specifically relating to reports on the agenda may be received within two working days of the normal publication date of the agenda. Please ensure that questions specifically on reports on the agenda are received by the Democratic Services Team by **5pm on Friday 24th January 2020**.

4 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 3RD AND 17TH DECEMBER 2019, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 16)

5 **PENSION FUND ASSET ALLOCATION STRATEGY REVIEW - FOLLOW UP REPORT**
(Pages 17 - 40)

6 **LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) - PENSION GUARANTEE AND RECHARGE AGREEMENTS**
(Pages 41 - 84)

7 **LOCAL PENSION BOARD ANNUAL REPORT**
(Pages 85 - 96)

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

The Chairman to move 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.

	Items of Business	**Schedule 12A Description**
9	**CONFIRMATION OF EXEMPT MINUTES - 3RD DECEMBER 2019.** (Pages 97 - 100)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
10	**PENSION FUND TRIENNIAL VALUATION** (Pages 101 - 112)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
11	**UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE ON ANY EXEMPT MATTERS**	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 3 December 2019

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)

CHAIRMAN'S ANNOUNCEMENT

Prior to the formal start of the meeting, the Chairman reported that Mr Keith Pringle the Democratic Services Officer who had supported the Sub-Committee for the last 9 years was retiring at the end of the year. Noting that he had been a great asset to the Sub-Committee, the Chairman and Members of the Sub-Committee thanked Mr Pringle for the invaluable support that he had provided and wished him well for a long and happy retirement.

36 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for lateness were received from Councillor Simon Jeal. Councillor Jefferys apologised as he would need to leave the meeting at 9.40pm.

37 DECLARATIONS OF INTEREST

Councillor Keith Onslow declared that his son was employed by Fidelity but had no involvement with the Bromley Pension Account.

38 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 27TH AUGUST 2019 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

In response to a question concerning the Manager’s return on the Baillie Gifford Fixed Income allocation, Mr Arthur confirmed that the issue had rectified itself in this quarter.

The minutes of the meeting held on 27th August 2019, were agreed and signed as a correct record.

39 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

Two questions for response at the meeting had been submitted by Gill Slater. The questions had been submitted for verbal response however Ms Slater had been unable to attend the meeting and had not provided a named alternate to put the question to the Sub-Committee. Consequently, the Sub-Committee provided a written response to the question and invited Ms Slater to submit any further supplementary questions to the next ordinary meeting of the sub-Committee (scheduled for 13 February 2020).

The questions and answers are attached at **Appendix A**.

40 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE

There was no Part 1 update.

41 PENSION FUND PERFORMANCE Q2 2019/20 Report FSD19105

Details were provided of the Fund's investment performance for the second quarter of 2019/20. Additional detail was provided in an appended report from the Fund's external advisers, MJ Hudson Allenbridge.

The market value of the Fund ended the September quarter at £1,117.7m (£1,094m at 30th June) and had since reduced to £1,102m as at 31st October 2019).

The Fund's medium and long-term returns remained very strong overall – with 8.0% for 2018/19 and 6.7% for 2017/18.

Information on general financial and membership trends of the Pension Fund was also outlined along with summarised information on early retirements. Final outturn details for the 2018/19 Pension Fund Revenue Account were included as was the second quarter position for 2019/20 and fund membership numbers. A net surplus for the Fund of around £10.1m was expected for the year.

For the Sub-Committee's meeting on 30th January 2020, it was proposed to invite MFS (global equities).

Mr John Arthur (M J Hudson Allenbridge) commented on the Fund's performance for the quarter, noting that the fund had returned 2.4% - slightly below the benchmark for the quarter. Baillie Gifford had underperformed, however MFS had outperformed and it was noted that both fund managers were outperforming over the long-term.

The Sub-Committee noted that bonds had performed well as there had been a fall in global interest rates with the EU introducing an element of quantitative easing. Equity markets had risen over the quarter. In relation to the fixed income holding, Mr Arthur noted that if there were to be an economic slowdown interest rates would remain low and quantitative easing was unlikely to work. In this event in was highly likely that there would be inflationary pressures as governments would seek to print and spend money. As a result of this it may be advisory to hold gilts in the event of an economic slowdown.

Mr Arthur confirmed that he was satisfied with the performance of all managers over the quarter. At 47% Schroders equity exposure was surprisingly high and for this reason he would arrange a meeting with the Fund Manager in order to understand the rationale. Baillie Gifford's equity performance had been exceptional in the last 3 to 5 years however it was unlikely that performance at this level could be sustained in the next 3 to 5 years.

The Sub-Committee noted that if interest rates were to increase the Fund would suffer a loss on fixed income if the investment did not reach maturity.

In response to a question concerning the negative correlation between MFS and Baillie Gifford, Mr Arthur confirmed that he could not envisage market conditions where the random performance of the two funds would correlate.

RESOLVED: That the report be noted.

42 PENSION FUND - INVESTMENT REPORT

Mr John Carnegie and Mr Paul Roberts, representatives from Baillie Gifford attended the meeting.

Mr Carnegie explained to the Sub-Committee that it had been an exciting year in the stock market and the bond market. 2019 marked the 20^{th} Anniversary of Baillie Gifford's relationship with the London Borough of Bromley and it was a relationship for which Baillie Gifford were hugely grateful. In response, the Chairman recorded the Sub-Committee's thanks to Baillie Gifford for the performance that had been delivered and the work that had been done in respect of the Bromley Pension Fund. The Director of Finance reported that Baillie Gifford's outperformance had delivered over £100m extra into the Pension Fund over the past 20 years, compared with the performance of passive funds.

An overview of the Baillie Gifford portfolio was circulated to the Committee and Mr Carnegie confirmed that the company managed two mandates on behalf of the Pension Fund – global alpha (global equities) and fixed aggregate

<u>Global Alpha</u>

The perspective taken by Baillie Gifford was one of megatrends rather than headlines with a research agenda which promoted long-term thinking. Over the past 12 months fund investment returns had increased by over 15% against a benchmark of an increase of 11%. Mr Carnegie explained that recent stock purchases had included companies involved medical equipment (such as Abiomed, Illumina, and Novocure), as well as established companies in emerging markets (such as Prudential, Reliance and Alibaba), and those involved in technological innovation (such as Axon and Microsoft). Members noted that whilst the personal IT market had experienced a period of boom in the last 10 years, the industrial market had lagged behind. Consequently, Baillie Gifford predicted a big shift towards industrial applications over the next decade or longer.

In response to a question concerning whether Baillie Gifford would retain its holding in M&G following the requisition of a holding in Prudential, Mr Carnegie explained that in general a view was not taken immediately and that M&G was a smaller part of Prudential. The position was under review and consideration would be given to the best course of action.

Fixed Income

In relation to fixed income Mr Roberts explained that Baillie Gifford aspired to improve performance in this area. Bond yields had fallen as markets had been suppressed, although a limited rise in yields was expected. It was noted that positive news on the position in relation to Brexit would help the Bank of England to raise interest rates. There was investment in selective currency markets (such as Norway).

In response to a question from the Chairman, Mr Roberts explained that the expectation was that yields would be moderately higher with a gradual rise to what was described as “semi-normal levels” over the next 3 to 10 years. In relation to the weighting of fixed income investment, Mr Roberts explained that three to four years ago the weightings had been reviewed in order to increase the yield of the portfolio.

A Member queried whether oversees government bonds were hedged back to sterling, noting that if unhedged the Council’s Pension Fund may be exposed. In response Mr Roberts confirmed that the Thai bonds were hedged however as the Norwegian bonds were linked to the EU market they were not hedged.

A Member noted that it would be helpful for the Sub-Committee to be provided with a more detailed breakdown of the elements of fixed income investments to enable members to further drill down, especially in relation to investment grade. Mr Roberts noted that under separate cover Members had been provided with the performance of indices. Broadly speaking, value had been added in corporate bonds however rates and currencies had fallen behind. Noting that no volatility data had been provided, another Member suggested that this would be useful information for Members of the Sub-Committee.

In response to a series of questions concerning the predicted global growth of the middle class, Mr Carnegie confirmed that Baillie Gifford did not make economic forecasts, instead the approach was to reduce exposure to stocks that had been high in price for a prolonged period or had disproportionately increased in price. In the event of an economic downturn Baillie Gifford would also seek to place more money in funds that were predicted to more readily recover. In relation to a question about the effects of climate change on the portfolio, Mr Carnegie highlighted that insurance companies within the life and health market were less likely to be affected by the impact of changing weather patterns. When considering suitable investments for the portfolio there was a question concerning sustainability and the threat of climate change was taken very seriously by Baillie Gifford. The Chairman also confirmed that the Sub-Committee had sought assurance about the work that had been undertaken in respect of climate change.

In relation to the performance of fixed income investments, Mr Roberts confirmed that since inception performance had been positive. Baillie Gifford had concentrated its efforts on the government side of the portfolio. Lessons had been learnt and improvements had been made.

The Sub-Committee noted that there were significant opportunities in the China market making it one of the most exciting places to invest. Accordingly, Baillie Gifford had recently opened a research office in China.

The Sub-Committee also noted that the fixed income element of the Baillie Gifford portfolio was there for diversification. There was a clear role for this fixed income element if equities were to struggle.

The Chairman thanked Mr Carnegie and Mr Roberts for attending the meeting, noting the Sub-Committee's anticipation of the continuing strong performance of the investment.

43 PENSION FUND ANNUAL REPORT 2018/19
Report FSD19106

Under the Local Government Pension Scheme Regulations 2013, the Council was required to publish the annual report and accounts of the Bromley Pension fund for the year ended 31st March 2019. In accordance with the regulations, the annual report included a number of standalone documents requiring the approval of the Sub-Committee. The pension fund accounts had been audited by the Fund's external auditor – Ernst & Young LLP - and their report was included within the appendix. The Director of Finance reported that, as discussed at the previous meeting, there had been a delay in the audit of the pension fund accounts. Consequently authority had been delegated to the Director of Finance to publish the annual report, which incorporates the accounts, by the statutory deadline of 1st December 2019.

The Director of Finance raised that there is an unqualified opinion on the accounts which provides positive assurance to Members. Control issues had been raised about the use of separate and discreet company codes and separate bank accounts for reporting purposes and, in response to questions concerning addressing this, the Director of Finance advised that, in order to avoid costly manual overrides, this can only realistically be addressed by the future replacement of the Council's Oracle financial system. The intention is to implement the required separation with the financial system replacement There is a planned bid in the capital programme which will be reported to Executive in February 2020 requesting resources for the replacement of the financial system, which in its current form would no longer be supported by Oracle in two years' time. The Director of Finance advised that it was anticipated that the new financial system would be implemented in two years. Options for joint procurement with Bexley were being considered to help partly mitigate the significant costs of a replacement. There was discussion that the pension fund should make a proportionate contribution to the cost.

Members agreed that it was sensible to introduce the separation of accounting with the implementation of the replacement financial system. As such, Councillor Fawthrop proposed the following motion:

That the Committee is satisfied that processes are in place to implement a new financial system to address the known issues. The Pensions Investment Sub-Committee will be provided with regular updates and an update will be included in the next Pension Fund Annual Report. The motion was seconded by Councillor Allatt.

Councillor Jeal expressed concern about delaying any solution to the known problem in light of the fact that that implementation of replacement IT systems were often delayed/re-phased.

A vote was taken on the motion:

6 in favour
0 against
1 abstention

The motion was CARRIED.

RESOLVED:

1. **That the Pension Fund Annual Report 2018/19 be noted;**
2. **That it be noted that no changes have been made to the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Communications Policy Statement as approved by this Sub-Committee on 24th July 2019;**
3. **That it be noted that arrangements were made to ensure publication by the statutory deadline of 1st December 2019;**
4. **That the external auditor's report on the Council's pension fund accounts be noted;**
5. **That the letter of representation for the 2018/19 pension fund audit be noted; and**

6. **That the Committee is satisfied that processes are in place to implement a new financial system to address the known issues. The Pensions Investment Sub-Committee will be provided with regular updates and an update will be included in the next Pension Fund Annual Report.**

44 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

45 CONFIRMATION OF EXEMPT MINUTES HELD ON 27TH AUGUST 2019

That the exempt minutes of the meeting held on 27 August 2019, were agreed and signed as a correct record.

46 ASSET ALLOCATION REVIEW FROM M J HUDSON ALLENBRIDGE - PRESENTATION

Mr John Arthur (MJ Hudson Allenbridge) presented the outcome of the asset only Strategic Asset Allocation modelling exercise, to generate a portfolio that maximised the expected returns for the Pension Fund, for a given level of risk, within the constraints of the Portfolio.

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

Councillor Jefferys left the meeting at the start of this item. As the time was approaching 10pm the Sub-Committee resolved to extend the meeting beyond the guillotine as required by the Constitution.

The Meeting ended at 10.17 pm

Chairman

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Appendix A

PENSIONS INVESTMENT SUB-COMMITTEE MEETING 3RD DECEMBER 2019

QUESTIONS TO THE PENSIONS INVESTMENT SUB-COMMITTEE FOR WRITTEN REPLY

From Gill Slater

Item 6 Pension Fund Performance

1. Since BlackRock's fossil fuels have damaged the planet and their profits, the pension fund sale of these assets is welcomed, however, given the Climate Crisis, resulting in the Council's 2029 commitment, and in order to avoid the stranded fossil fuel asset risk, will the Council commit to divest from such investments?

Reply

The Authority's primary responsibility is to secure the best returns for the fund in the interests of our council taxpayers and scheme members. The council has decided to take no action at the present time which would result in any commitment to divest from such investments.

The fund managers we use are required to look at sustainability of returns as well as capital values of investments and we would not wish to restrict investment decisions that could impact on maximising returns. This would not be in the best interests of our members or council taxpayers. All of the managers we use have significant resources dedicated to ESG research and adopt a proactive engagement approach on these issues with the companies they invest in.

We focus on long term investments and continue to deliver superior investment returns as evidenced by the strong performance of the fund over all timeframes (from 1 to 30 years) and recognition through National Awards. Our strong performance has also recently been highlighted in a professional press article.

Item 8 Pension Fund Annual Report 18/19

2. Risk should be considered under the fiduciary duty, however, no reference is made to the devastating climate crisis or the trend to divest from fossil fuels (resulting in stranded assets). Can details / timetable of the asset allocation review, agreed by this committee (28.08.19) in response to divestment concerns be provided with confirmation of open consultation?

Reply

An initial draft strategy review will be considered by the Sub-Committee on 3rd December 2019. The intention is for the Sub-Committee to consider strategic allocation rather than implementation at this stage. A special meeting has been arranged for 17th December to reflect any follow up matters, should this be required.

We are aware of the work being undertaken by the Scheme Advisory Board and a future consultation from Government of new Statutory Guidance which may impact on the fund's Investment Strategy Statement (ISS) is awaited. The current ISS is available as part of the pension fund annual report and is published in the council's website. This provides opportunity for comments on all aspects of the report, including the ISS.

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 17 December 2019

Present:

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

Also Present:

John Arthur, MJ Hudson Allenbridge

48 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillor David Jefferys. Councillor Marlow submitted apologies for lateness.

49 DECLARATIONS OF INTEREST

Councillor Keith Onslow declared that his son was employed by Fidelity but had no involvement with the Bromley Pension Account.

50 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

The Chairman reported that two questions had been received from a Member of the Bromley Pension Fund. As this was a special meeting, questions had to relate to a specific item on the agenda. The questions received concerned the Investment strategy and consequently answers would be provided at the next special meeting due to be held on 30 January 2020, along with any other questions that may be submitted.

51 ASSET ALLOCATION
Report FSD20004

At the meeting on 3rd December 2019, the Sub-Committee considered the asset allocation strategy review carried out by the Fund's Investment Adviser, MJ Hudson Allenbridge, and the proposed changes to the strategic allocation. Members requested further information on the options being presented, specifically relating to Private Equity and US Real Estates compared with Global Property Funds. The report before the Sub-Committee provided details on a number of options available in respect of asset allocation and made a number of recommendations arising from the work undertaken by MJ Hudson Allenbridge around strategic allocation. The Sub-Committee noted that at this special meeting there was a requirement for Members to identify a suitable direction of travel in relation to strategic asset allocation.

The Sub-Committee discussed in detail the various options available and the recommendations that had been made noting that a long-term view was required. It was highlighted that, as the Pension Fund was currently fully funded, it did not make sense to increase risk substantially. Members commented that over the years one of the key strengths of Bromley's Pension Fund was the simplicity of the Portfolio, although it was recognised that there was a need for some further diversification which could be achieved through investing a small amount in real estate. It was also stressed that there should not be an over dependence on any one asset class.

The Council's investment advisor referred to any reduction in fixed income should be matched by a reduction in equities also to avoid creating a higher risk portfolio. A new asset class relating to property (TBC) should improve the return on the portfolio as well as providing greater diversity in the portfolio to assist in managing risk.

Councillor Fawthrop proposed the following option for strategic asset allocation, (for fixed income and UK property it represented the existing proportion of investments in the fund) . The proposal was seconded by Councillor Onslow. (Councillor Marlow then suggested an alternative proposal which was not put to a vote).

Equities	58%
Multi Asset Income	20%
Fixed Income	13%
UK Real Estate	4%
International Property or US Property - TBC	5%

The substantive motion, having be duly proposed and seconded, was put to a vote.

3 in favour
3 against

The motion was therefore CARRIED on the Chairman's casting vote.

The Sub-Committee noted that at the next special meeting, scheduled for 30 January 2020, Members would give detailed consideration to options in relation to the choice between investing in International Property Funds and investing in US Property Funds for the as yet unallocated 5% remaining.

RESOLVED: that

1. **The report be noted;**
2. **The following changes to the asset allocation strategy be agreed –**

Equities	**58%**
Multi Asset Income	**20%**
Fixed Income	**13%**
UK Real Estate	**4%**
International Property or US Property - TBC	**5%**

3. **A further report be presented to the special meeting of the Pensions Investment Sub-Committee on 30 January 2020 detailing the options for investing in International Property Funds compared to US Property Funds for the unallocated 5%, as well as arrangements for implementing the strategy and any procurement timescales.**

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

There were no updates provided on exempt matters however the Director of Finance provided the following Part 1 update –

The Triennial valuation would be presented to the Sub-Committee on 30 January 2020. It was expected that the valuation would confirm that the Bromley Pension Fund was fully funded and that the Council's ongoing contributions would not change. The Director of Finance confirmed that the Actuary would be in attendance at the meeting on 30 January.

The Sub-Committee also noted that there was a requirement to update the Investment Strategy Statement, following the outcome of the Triennial Valuation and informed by the Asset Allocation Review. The aim was to also do this at the end of January 2020.

The Meeting ended at 8.40 pm

Chairman

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Report No.
FSD20023

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**30th January 2020**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND ASSET ALLOCATION STRATEGY REVIEW – FOLLOW UP REPORT**		
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

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1. Reason for report

1.1 As requested at the last meeting of the Pensions Investment Sub-Committee, this follow-up report presents further information and recommends options for the future asset allocation strategy for the Pension Fund, specifically on the choice between investing in International Property Funds and investing in US Property Funds for the as yet unallocated 5% remaining.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the content of the report;

(b) agree final changes to the asset allocation strategy considering the updated proposals detailed in MJ Hudson Allenbridge's report (attached at Appendix A), and

(c) consider arrangements for implementing the strategy.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,118m total fund market value at 30th September 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,072 current employees; 5,502 pensioners; 5,828 deferred pensioners as at 30th September 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 **Asset Allocation Review – December 17th 2017**

3.1.1 At its meeting on 17th December 2019, the Pensions Investment Sub-Committee considered further information on the asset allocation options, specifically in relation to Private Equity and US Real Estates compared with Global Property Funds.

3.1.2 Members requested further information detailing the options for investing in International Property Funds compared to US Property Funds for the unallocated 5%, as well as arrangements for implementing the strategy and any procurement timescales**.**

3.1.3 A supplementary note from MJ Hudson Allenbridge will be submitted separately outlining arrangements for the procurement of the chosen type of property fund.

3.1.4 The asset allocation report considered at the 17th December meeting has been attached for reference as Appendix B.

3.2 **Asset Allocation Review – International Property Funds compared to US Property Funds**

3.2.1 MJ Hudson Allenbridge's updated report is attached as Appendix A, and provides further information.

3.2.2 Representatives from MJ Hudson Allenbridge will be present at the meeting to answer any questions on their report and proposals.

3.3 **Next Steps**

3.3.1 Subject to a decision on approval of the unallocated 5%, work will then begin on how to implement this. Members are asked to agree that a report detailing the implementation of the proposed changes be brought to the next meeting of the Sub-Committee.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 There are none directly arising from this report, however there will be procurement costs arising from any new asset investment class, which will be reported at the meeting.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	MJ Hudson Allenbridge asset allocation strategy reports (Appendices A & B)

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MJ HUDSON
Allenbridge

Strategic Asset Allocation
A Review of Options - International Property
London Borough of Bromley Pension Fund

JANUARY 2020

Background

MJ Hudson Allenbridge were mandated to conduct a review into the Fund's Strategic Asset Allocation ("SAA"), which was considered at the recent PISC meeting on 3rd December 2019. This report made a number of recommendations based on the Fund's current funding level and cash flow requirements. Of these recommendations, the committee asked for further details on two potential areas for investment and a recommendation on where, if any, assets should be sold to finance these. At a further meeting on the 17th December the committee agreed the major asset weightings for an updated SAA, as detailed in the table below and requested a report focused on an investment into International Property, particularly a comparison between accessing this asset class directly against investing in US REITs. This paper looks to cover these issues.

Summary of Recommendations

- To alter the current SAA to include a new investment of 5% of the Fund into International Property to be financed by reducing the allocation in the existing SAA to global equities by 2% and Fixed Interest by 3%. The intention of the move is to further diversify the Fund whilst not reducing the targeted return. Detail of the proposed SAA is given in the table below.
- To rebalance the Fund towards the new SAA. Because the Fund is currently over weight Global Equities against the existing SAA, the entire money for the new International Property investment could be taken from global equities. Alternatively, a full rebalancing towards the new SAA could be undertaken.

MJ Hudson Allenbridge would recommend accessing International Property via a Global Property manager using a value-add strategy (explained later) and most commonly accessed via a close-ended fund of 10-15-year duration with leverage of around 50%.

Asset Class	Existing SAA	Recommended SAA	Existing TAA (30/09/19)	Assets transitioned (Estimated)
Global Equities	60%	58%	63.75%	-£64m
Investment Grade Fixed Income	15%	12%	13.20%	-£13m
Multi-Asset Income	20%	20%	18.75%	+£14m
UK Property	5%	5%	4.30%	+£7m
International Property	n/a	5%	n/a	+£56m

The transition figures in the last column are based on the Funds value at 30/9/19 and will be updated for asset movements in the fourth quarter when these figures are available.

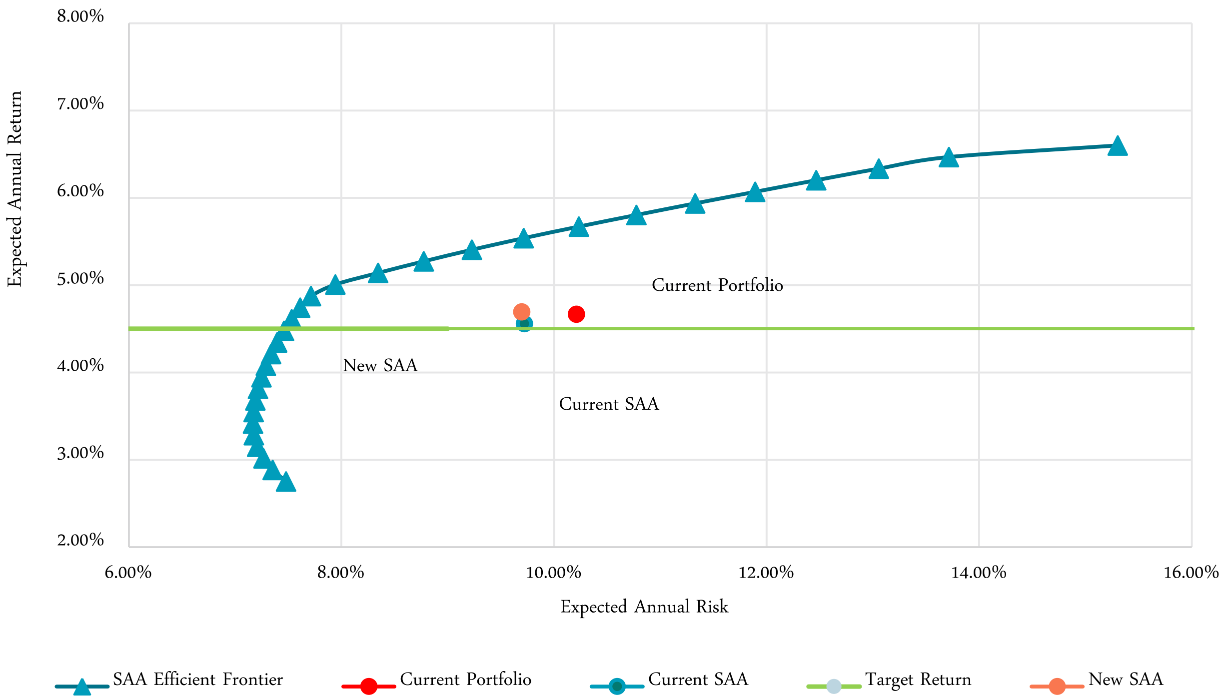
In reality, the Committee manages the Tactical Asset Allocation (TAA) which can differ from the SAA to reflect shorter term investment views and will alter as assets move in value over time. Whilst I would not put too much weight on anyone's ability to call short term market moves, in the interest of simplicity, it may be worth realising £13m from the Baillie Gifford Fixed Interest portfolio (currently valued at £63m) and ony £57m from the two global equity portfolios and not to finance the £7m into UK property at the current time but leave this asset class marginally underweight against the new SAA with global Equities correspondingly overweight.

We would note that International Property as an asset class is illiquid and, as such, it will take time to deploy the capital. Current investments will therefore need to be realised as and when required, unless there is a sufficient reason to pre-fund any purchases. We would also note that these changes involve investing into more complex asset structures, which will increase the governance burden and cost in terms of manager fees for the Fund. However, we believe the resulting SAA would add to the diversification of the Fund and better position it to deliver the required investment return and cash flows into the future.

SAA Modelling

As before, this was conducted via a mean variance optimisation model developed by MJ Hudson Allenbridge using return and volatility data from the forecasts of a number of asset managers, including those used by the Fund.

The efficient frontier shown in the chart below is the same as that used in the initial SAA report constraining global equities to a minimum of 50% of total assets but otherwise allowed to allocate freely to all asset classes.



The dots on the chart correspond to the following options:

1) Existing SAA
2) TAA as at 30/9/19
3) Proposed SAA

The current TAA is substantially overweight equities against the existing SAA and as such a rebalancing back to the existing SAA does much to reduce risk at minimal cost to forecast returns.

You will note that the risk and return of the new proposed SAA are very similar to the existing SAA suggesting limited advantage in making this move. Whilst this may be true from a modelling perspective, this quantitative approach does have its limitations, in a partial reliance on past data and, as such, we would still recommend making this change. In particular, increasing the Fund's exposure to real assets (those that should keep their value in real terms) is a consideration given some concern over a recovery in inflation over the medium term.

Our modelling calculates a Value at Risk (VaR) figure for each portfolio, this calculation uses the volatility assumptions for each asset class and the weightings of each proposed asset allocation to calculate the potential loss of value from a 2 standard deviation market event in any one-year period. This equates to a one year in twenty event. Please note that because these figures are based on historic data the one certainty will be that the figures will be wrong but they do act as an indication of the potential scale of downside risk.

The table below details the forecast return, risk and VaR for the existing SAA, proposed SAA and current TAA portfolios.

Portfolio	Return	Risk	VaR(£)
Existing SAA	4.56%	9.7%	£128m
Recommended SAA	4.69%	9.7%	£126m
Current TAA	4.67%	10.2%	£136m

Rebalancing back to the existing SAA would mean investing more into the Fund’s two existing Fixed Interest portfolios. Given the very low level of current yields in these portfolios and low return assumptions we do not recommend this as a course of action. It is because of this and a desire to reduce the concentration of the Fund’s risk in equities that an alternative asset class in being recommended.

International Property

This asset class provides a good forecast investment return with some diversification from Global Equities and strong cashflow characteristics.

Whilst property will always be affected by the state of the global economy and, as an illiquid asset, can see a marked fall in value in turbulent market conditions, each individual property, by its nature, is driven primarily by local factors. Property has no known price mechanism unless it is in the process of being traded, relying on valuers to make an informed but somewhat subjective decision on the value for the majority of the time. Because of this and the inherent illiquidity of the asset class, all property investment should be considered as a long-term commitment.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia 18.4%	Canada 3.7%	UK 3.5%	UK 15.1%	Canada 15.5%	Canada 14.2%	USA 11.4%	UK 17.8%	Australia 14.0%	Australia 11.9%
France 17.8%	Germany 2.8%	Germany 2.0%	USA 14.8%	USA 14.5%	USA 10.8%	Canada 10.7%	USA 11.2%	UK 13.1%	France 7.8%
Canada 15.9%	Australia 0.1%	Canada -0.3%	Canada 11.2%	Australia 10.3%	Australia 9.5%	UK 10.7%	Australia 10.6%	USA 12.1%	Germany 7.8%
USA 14.4%	France -0.9%	France -1.4%	France 10.0%	France 8.4%	France 6.3%	Australia 9.6%	Japan 7.8%	France 9.0%	Japan 7.6%
Japan 11.3%	Japan -0.9%	Australia -2.4%	Australia 9.4%	UK 7.8%	Germany 4.2%	Japan 6.0%	Canada 7.3%	Japan 9.0%	USA 7.5%
Germany 4.5%	USA -7.4%	Japan -6.1%	Germany 4.2%	Germany 5.3%	Japan 3.6%	Germany 5.2%	France 6.3%	Germany 8.1%	Canada 5.7%
UK -3.4%	UK -22.1%	USA -17.5%	Japan 0.6%	Japan 3.2%	UK 3.4%	France 5.1%	Germany 6.0%	Canada 8.0%	UK 3.9%

The table below shows the investment returns for various property markets over the 10 years to 2016.

This chart is for illustrative and discussion purposes only. Returns are shown in local currency. Source: MSCI, Pension Real Estate Association data as of 31 December 2016.

Whilst there will be wide variation around the average figure for each market, the table does show that each market has its own performance cycle reflecting more local, country specific factors. However, the low level of returns across all property markets in 2008/9 illustrates that each property market will be influenced by the global economic outlook.

Whilst investment into UK Commercial Property is often seen as a ‘core’ or ‘core-plus’ strategy, we would recommend investing into International Property via a ‘value-add’ strategy. This specifically targets the acquisition of assets to which the manager can add value, either by improving the quality or quantity of the rental book. This increases the focus on the local, idiosyncratic nature of each property, adding further diversification and avoids the investor making a long-term commitment to a specific geographical region which may enter a period of poor investment returns not foreseen at the present time. It is also difficult to find an institutional property manager who has truly global resources to cover all markets on a buy and hold basis. ‘Value-add’ does not mean taking on greenfield development risk but could involve a property requiring an element of investment post-acquisition, in order to get the best rental value going forward.

Regarding investing in the US or internationally, we would recommend the latter. As can be seen from the table, market returns will differ by country and thus having the flexibility to invest where the best medium (3-5 years) return is forecast should help maximise returns.

Whilst the US on its own encompasses a wide variety of individual, local, property markets, it will be influenced by the overall economic outlook for that country’s economy. The US is later in the economic cycle than the rest of the world, having recovered earlier from the Global Financial Crisis of 2008/9 and seems to have a relatively high level of political uncertainty at present. Whilst the US may be a beneficiary of a global trade war, we are not convinced that a major breakdown in global trade is the new reality, more that global trade relations will remain more fractious even if President Trump reaches an accord with China in the run up to the US presidential elections next year. The era of outsourcing to low labour cost countries may now have passed its peak, as the level of added complexity from a global supply chain outweighs the cost savings.

There are a number of asset managers offering Global property mandates with a ‘Value-add’ approach, these funds tend to work with a gearing level of around 50% and are close-ended with initial investment periods followed by the return of capital over the ensuing harvesting period.

Broad categories of Property fund

Commercial property can be broadly grouped into four main categories depending on the type of asset and security of the cash flows. It is also possible to invest in a fund of funds or one targeting real estate debt. Most property funds will target one of these groupings to make up the majority of their fund and thus appeal to a particular type of investor. All real estate funds are likely to include an element of debt (leverage), either at the fund level or at the individual property level:

1) Core

The least risky category. Core real estate investments are fully operational buildings with high levels of occupancy usually in prime locations. Such buildings require minimal investment and management from the owner, only needing day-to-day upkeep and rent collection. The rental income from these investments generate stable ongoing cashflows. The expectation is for the assets to be held over the long term with properties revalued at least annually by an independent valuer. The price of these properties is likely to move in line with other similar assets and as such the valuer can ascribe a value to each property with some certainty. As a rough guide, at sale you would expect the realised sale price to be within 10% of the valuer’s estimates under most market conditions. Bromley’s existing investment via the Fidelity fund into UK commercial property is predominately of this type.

2) Core-Plus

Slightly riskier than the above, core-plus assets are similar to core assets but the nature of the cashflows may be slightly less predictable – for example the asset could have a low occupancy level at the time of acquisition or there may be some minor investment and alteration needed to improve the asset. Because of this, the asset can be bought at a price potentially below market and hence generate an above market capital return over the time needed to improve the property. The valuation of each property is slightly less ‘known’ as there may not be other properties nearby in a similar condition or with the same opportunity to add value and so the valuer will act with an element of caution. Again, each property would be independently valued annually but the valuer may not give much value to the potential improvement in the property until this has been completed and the resulting higher rental levels achieved.

3) Value-Add

Value-add assets require substantial investment from the new owner and are considered riskier as a result. Such assets could be partly vacant or run-down at the time of acquisition; an unusual or unique purchase from a distressed seller or require change of use permits and so need a well-executed investment strategy to achieve the targeted value. Yields may be lower due to high vacancy rates and the majority of the returns will come from capital growth once the required investments have been made. Again, the independent valuer is unlikely to take into account the potential of the asset until remedial work has been completed and higher rental income achieved.

4) Opportunistic

Opportunistic property assets cover the widest variety of situations and therefore values have greatest uncertainty but can provide the greatest upside and, with each property having its own specific dynamics, the most idiosyncratic risk and least correlation to the global property market. For example, it could be purchasing a building that isn't fully constructed and then managing the asset all the way through to eventual letting and onward sale. Alternatively, these assets could be the amalgamation of a number of smaller adjacent assets where the combination is worth more than the sum of the parts.

5) **Fund of Funds**

A fund of funds (FoF) will offer exposure to multiple property managers and strategies as well as a far greater number of underlying assets than a direct vehicle would but come with additional costs due to the dual layer of fees charged by the FoF manager and the underlying managers. Typical total expense ratios for management fees for such strategies come to around 3% per annum before a performance related fee is also applied at both levels. Fee structures are difficult to compare effectively between FoF managers because they often charge different levels of fees depending on the type of transaction (primary, secondary, co-investment, etc.) and don't know the final composition of the portfolio and what kind of fees they can negotiate with underlying funds in advance. We would regard this as an expensive way of accessing the asset class albeit one that can provide instant access and immediate diversification within the asset class.

6) Real Estate Debt

Most real estate assets are acquired with a degree of debt in the transaction. Therefore, some managers invest with both equity and debt into target assets whilst there are some that just focus on debt. Real estate debt has the advantage of greater security against the asset but has consequentially lower returns. We do not see the returns from investing only in real estate debt as sufficiently attractive to justify an allocation on their own merit at the current time.

My recommendation to invest via a value-add fund rather than a core or core-plus fund may appear slightly at odds with the requirements of the Bromley Fund in that it is relying more on manager ability to add value and is higher risk without the security of a strong cash flow and yield.

This is partly due to the late stage of the economic cycle we are in which is reducing the number of under-priced assets and partly because I am not convinced that any manager can truly cover the global property market in the depth required to select strong assets in each individual property market (i.e. each major city in each major developed country). I would rather use a manager who has strong contacts with local property agents and can react to opportunities as they arise. They are not driven by a benchmark weighting to each property market or by the view that an individual property market is good value but rather by their appraisal of each individual asset.

Liquidity

As you move from core to opportunistic property funds the focus moves from yield to total return. Hence a core fund is more suitable for an investor looking for a regular income, albeit total return is likely to be lower. It is important to remember though that this income is not instantaneous as portfolios in new closed-ended funds take several years to build. There will be the 'J-curve' effect where capital is called during the investment period and little/no income is paid out before investments start to mature and the fund can return income to investors. During this initial period, investors will be covering acquisition costs, hence the 'J-curve' of a short period of negative returns as the portfolio is being acquired.

To mitigate this problem, the alternative is to invest in an open-ended fund rather than closed-ended. I.e. purchasing shares in a fund with a fully invested portfolio already in place. The advantages of this are that income is accrued immediately and these funds are supposedly more liquid than a closed-ended fund enabling investors to divest at short notice. However, to meet this liquidity requirement, such funds hold considerably more cash and even then, redemptions could be suspended if the fund is unable to sell assets fast enough to meet redemption requests. This has happened to various funds twice recently in the UK market alone – once immediately after the 2016 Brexit referendum and then in late 2019 due to further uncertainty around Brexit negotiations.

Another important factor to consider is the base currency of the fund. For example, commitments and calls could have to be made in dollars/euros rather than sterling, leaving an investor exposed to the currency risk over several years unless the fund has the ability to also receive and hedge sterling commitments.

Portfolio of US Real Estate Investment Trusts (REITs)

A REIT is an incorporated investment trust which holds a portfolio of property assets and distributes a high proportion of its income to shareholders (a minimum of 90% for a UK REIT). As an investment trust it is a closed-ended fund and so does not suffer the illiquidity issues of an open-ended fund. The shares trade at a discount or premium to the underlying NAV (Net Asset Value) depending on investor demand. REITS are available in most developed property markets and there are a number of credible managers who offer global REIT funds (20 or so we believe).

Given the above, a manager selection mandate would still be required although the costs of this may be slightly below that of a direct property mandate due to the simplicity of the approach and relatively small number of credible providers.

Regarding management costs, a REIT fund looks cheap as the management fees only relate to the management of the portfolio of REITs and most often do not cover the underlying cost of managing the individual properties within each REIT which is born within the REIT fund. This gives a low level of transparency on costs and challenges the commonly held view that REIT funds have low management charges.

There is also the question of whether REITs perform as well as direct property funds. Over the longer term the answer is that they do reflect the performance of the underlying assets. Over the shorter term, however, because they are traded, closed-ended funds, they will be more volatile and more closely correlated with the performance of the equity market they are listed on. As an example, the correlation between a US REIT and the US equity market is usually around 0.6-0.8 over a one year period, i.e. if the US market raises 10% the US REIT rise 6-8% purely due to the rise in the US equity market with any further performance, positive or negative, relating to the attractiveness of the property assets held within the REIT.

In some markets, such as the US, REITS are not required to publish a NAV, this reduces transparency. The price is set purely by investor supply and demand with the REIT price trading at a premium or discount to the assumed NAV at any one time. At present it would seem that most US REITS are trading at a premium to their assumed NAV. This is not surprising given the strong US equity market over recent years and the late stage of the economic cycle. European REITs look to be trading on small discounts on average.

Similar to the issue above with fund base currencies, investing in US REITs would expose Bromley to the sterling-dollar risk unless they went for a hedged mandate (with its associated hedging costs) or were comfortable with investing unhedged.

I am not recommending investing via a US REITS or Global REITS fund because:

- I do not believe they provide the same level of diversification compared to a direct property fund given their higher correlation to equity markets which is the major component of the Bromley Fund. Diversification from equities is a major part of the rational for this investment decision.
- I am not convinced that they offer a cheaper investment vehicle than direct property, it is more that they are less transparent and more of the fees are hidden.
- I do not see the US market as more attractive than other global property markets and given the strength of the US economy over the recent past see it as potentially later in the economic cycle. I would prefer to invest via a global property mandate rather than purely US.

- Whilst we are forecasting a return of 5% over the long term on International Property which is similar to Global Equities, I would hope a value-add international property fund of the type detailed above to be able to achieve a higher return, potentially towards 10% per annum, I do not see the same potential for a holding in US REITS.

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APPENDIX B

MJ HUDSON
Allenbridge

Strategic Asset Allocation
A Review of Options
London Borough of Bromley Pension Fund

DECEMBER 2019

Background

MJ Hudson Allenbridge produced a report into the Fund's Strategic Asset Allocation ("SAA"), which was considered at the recent PISC meeting on 3rd December 2019. This report made a number of recommendations based on the Fund's current funding level and cash flow requirements. Of these recommendations, the committee asked for further details on two potential areas for investment and a recommendation on where, if any, assets should be sold to finance these. This paper looks to cover these issues.

Summary of Recommendations

To alter the SAA by a divestment of 5% from Investment Grade Credit and 5% from Global Equities and a reinvestment into a 5% weighting in International Property and 5% into Private Equity ("PE").

To rebalance the Fund towards the new SAA.

MJ Hudson Allenbridge would recommend accessing International Property via a Global Property manager using a value-add strategy (explained later) and most commonly accessed via a close-ended fund of 10-15-year duration with leverage of around 50%.

Investing in up to 5 PE funds to provide sufficient diversification by fund type, investment area and vintage, again via a close-ended fund using an element of leverage. Different approaches to investment are described later.

Asset Class	Existing SAA	Recommended SAA	Existing TAA (30/09/19)	Assets transitioned (Estimated)
Global Equities	60%	55%	63.75%	-£90m
Investment Grade Fixed Income	15%	10%	13.20%	-£35m
Multi-Asset Income	20%	20%	18.75%	+£15m
UK Property	5%	5%	4.30%	n/a
International Property	n/a	5%	n/a	+£55m
Private Equity	n/a	5%	n/a	+£55m

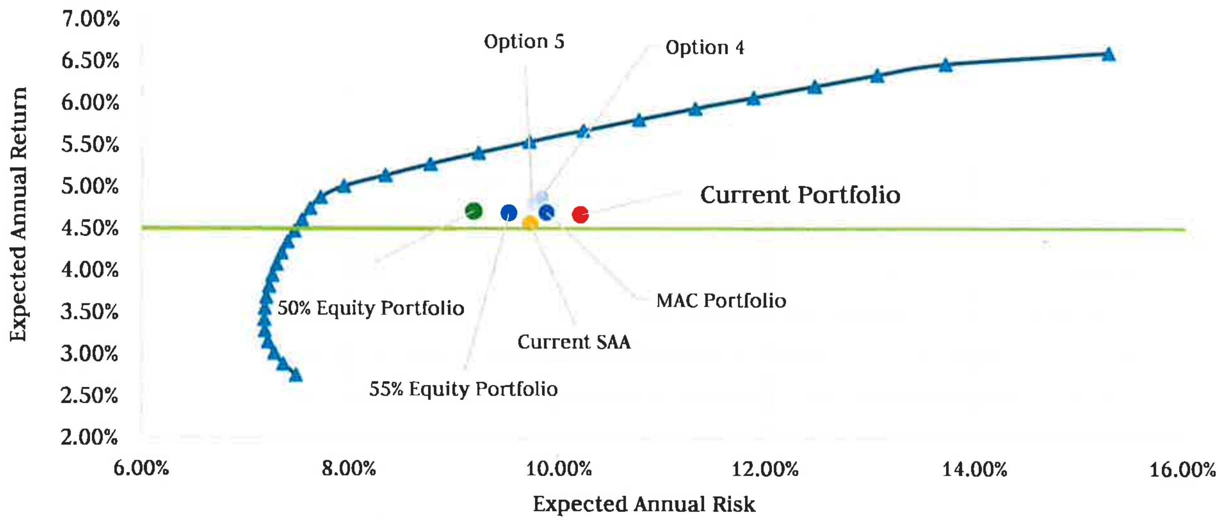
In reality, the Committee sets the Tactical Asset Allocation, which can differ from the SAA to reflect shorter term investment views. Whilst I would not put too much weight on these, in the interest of simplicity, it may be worth realising the entire Baillie Gifford Fixed Interest portfolio, currently valued at £63m, and slightly less Global Equities to finance the new investments. This would leave the Fund approximately 1.7% underweight Fixed Interest and correspondingly 1.7% overweight Global Equities against the new SAA.

We would note that the new asset classes are illiquid and, as such, it will take time to deploy the capital. Current investments will therefore need to be realised as and when required, unless there is a sufficient reason to pre-fund any purchases. We would also note that these changes involve investing into more complex asset structures, which will increase the governance burden and cost in terms of manager fees for the Fund. However, we believe the resulting SAA would add to the diversification of the Fund and better position it to deliver the required investment return and cash flows into the future.

SAA Modelling

As before, this was conducted via a mean variance optimisation model developed by MJ Hudson Allenbridge using return and volatility data from the forecasts of a number of asset managers, including those used by the Fund.

The efficient frontier shown in the chart below is the same as that used in the initial SAA report constraining global equities to a minimum of 50% of total assets but otherwise allowed to allocate freely to all asset classes.



The dots on the chart correspond to the following options:

1) MAC portfolio – Move 5% from Investment Grade Credit to a Multi-Asset Credit portfolio (taking higher credit risk)
2) 55% Equity portfolio, as above but including a further 5% switch from Global Equity to International Property
3) 50% Equity, as above but including a second 5% switch from Global Equity to PE and Infrastructure
4) 5% reduction in Global Equity and Investment Grade Credit switched into PE and International Property
5) 5% reduction in Global Equity and Investment Grade Credit switched into PE and existing portfolios of Multi-Asset Income and UK property

As can be seen from the chart, both new options 4 and 5 do little to reduce risk compared to the current SAA, but do improve forecasted investment returns. The reason for this is that the Fund's current holding in Investment Grade Fixed Income is a low return but diversifying asset, which is negatively correlated with Global Equities (the majority of the Funds existing assets). Reducing the Fixed Interest element in the Fund reduces the level of diversification, as the potential replacement assets (PE/International Property/UK Property/Multi-Asset Income) have a higher forecasted return but are more correlated to Global Equities.

Whilst this is true, over the long-term we would regard either of the two new options (4 and 5) as acceptable outcomes and be particularly supportive of option 4 as the outcome of the SAA review. This is due to the outlook for Investment Grade Bonds as low return assets, . If the Committee wishes to reduce risk along with improving forecasted investment return, we would continue to recommend reducing the current 5% allocated to PE down to 2.5% and adding an allocation of 2.5% to Infrastructure. The more stable returns and the element of inflation linkage available from investing in infrastructure would be risk reducing for a majority equity and return focused fund such as the London Borough of Bromley Pension Fund.

International Property

This asset class provides a good forecast investment return with some diversification from Global Equities and strong cashflow characteristics.

Whilst property will always be affected by the state of the global economy and, as an illiquid asset, can see a marked fall in value in turbulent market conditions, each individual property, by its nature, is driven primarily by local factors. Property has no known price mechanism unless it is in the process of being traded, relying on valuers to make an informed but somewhat subjective decision on the value for the majority of the time. Because of this, and the inherent illiquidity of the asset class, all property investment should be considered as a long-term commitment.

The table below shows the investment returns for various property markets over the 10 years to 2016.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia 18.4%	Canada 3.7%	UK 3.5%	UK 15.1%	Canada 15.5%	Canada 14.2%	USA 11.4%	UK 17.8%	Australia 14.0%	Australia 11.9%
France 17.8%	Germany 2.8%	Germany 2.0%	USA 14.8%	USA 14.5%	USA 10.8%	Canada 10.7%	USA 11.2%	UK 13.1%	France 7.8%
Canada 15.9%	Australia 0.1%	Canada -0.3%	Canada 11.2%	Australia 10.3%	Australia 9.5%	UK 10.7%	Australia 10.6%	USA 12.1%	Germany 7.8%
USA 14.4%	France -0.9%	France -1.4%	France 10.0%	France 8.4%	France 6.3%	Australia 9.6%	Japan 7.8%	France 9.0%	Japan 7.6%
Japan 11.3%	Japan -0.9%	Australia -2.4%	Australia 9.4%	UK 7.8%	Germany 4.2%	Japan 6.0%	Canada 7.3%	Japan 9.0%	USA 7.5%
Germany 4.5%	USA -7.4%	Japan -6.1%	Germany 4.2%	Germany 5.3%	Japan 3.6%	Germany 5.2%	France 6.3%	Germany 8.1%	Canada 5.7%
UK -3.4%	UK -22.1%	USA -17.5%	Japan 0.6%	Japan 3.2%	UK 3.4%	France 5.1%	Germany 6.0%	Canada 8.0%	UK 3.9%

This chart is for illustrative and discussion purposes only. Returns are shown in local currency. Source: MSCI, Pension Real Estate Association data as of 31 December 2016.

Whilst there will be wide variation around the average figure for each market, the table does show that each market has its own performance cycle reflecting more local, country specific factors. However, the low level of returns across all markets in 2008/9 illustrates that each property market will be influenced by the global economic outlook.

Whilst investment into UK Commercial Property is often seen as a 'core' or 'core-plus' strategy, we would recommend investing into International Property via a 'value-add' strategy. This specifically targets the acquisition of assets to which the manager can add value, either by improving the quality or quantity of the rental book. This increases the focus on the local, idiosyncratic nature of each property, adding further diversification, and avoids the investor making a long-term commitment to a specific geographical region which may enter a period of poor investment returns not foreseen at the present time. It is also difficult to find an institutional property manager who has truly global resources to cover all markets on a buy and hold basis. 'Value-add' does not mean taking on greenfield development risk but could involve a property requiring an element of investment post-acquisition, in order to get the best rental value going forward.

Regarding investing in the US or internationally, we would recommend the latter. As can be seen from the table, market returns will differ by country and thus having the flexibility to invest where the best medium (3-5 years) return is forecast should help maximise returns.

Whilst the US on its own encompasses a wide variety of individual, local, property markets, it will be influenced by the overall economic outlook for that country's economy. The US is later in the economic cycle than the rest of the world, having recovered earlier from the Global Financial Crisis of 2008/9, and seems to have a relatively high level of political uncertainty at present. Whilst the US may be a beneficiary of a global trade war, we are not convinced that a major breakdown in global trade is the new reality, more that global trade relations will remain more fractious even if President Trump reaches an accord with China in the run up to the US presidential elections next year. The era of outsourcing to low labour cost countries may now have passed its peak, as the level of added complexity from a global supply chain outweighs the cost savings.

There are a number of asset managers offering Global property mandates with a 'Value-add' approach, these funds tend to work with a gearing level of around 50% and are close-ended with initial investment periods followed by the return of capital over the ensuing harvesting period. The structure of these funds is not dissimilar to that of PE and, as such, is covered in more detail in the next section.

Private Equity - A brief history

PE investing involves the acquisition and subsequent sale of private companies. The genesis of PE as an institutional asset class can be traced back to the creation of the American Research and Development Corporation (ARDC) in 1946[1] and the creation of Small Business Investment Companies (SBIC) by the US government in 1958 to provide funds for privately-owned and operated venture capital investment firms in the form of long-term debt and equity investments to high-risk small businesses. From the 1960s to the late 1980s, Venture Capital ("VC") was the predominant form of PE with the rise of technology companies. Through the 1980s, PE moved away from solely start-ups to providing finance to more established businesses. Initially this was in the form of expansion capital to help existing businesses achieve their growth plans or in the form of conventional Management Buyouts ("MBOs") where owners were able to transfer their ownership to incumbent management teams. The late 1980s saw the rise of the Leveraged Buyout ("LBO") where acquisitions of large public or private companies could be achieved by using significant level of debt as part of the acquisition financing. Since the 1980s, PE has grown significantly in terms of the areas that it touches and the quantum of capital that has been attracted to the asset class.

The primary rationale for investing in PE is to generate excess returns over equivalent quoted equity benchmarks. Given the low yield environment prevalent over the last decade, institutional interest in the asset class has grown significantly, such that private equity assets under management have almost trebled, from £1,425.1bn in 2008 to £4,105.5bn as of 30 June 2019[2].

Investment routes

There are several routes to investing in PE, ranging from commitments to funds or funds of funds, direct investments, and co-investments made alongside a PE fund manager. Each involves different costs and offers an investor varying levels of control over individual private equity assets.

We note that the vast majority of investments in PE made by institutional investors are through **funds**. When choosing to invest in PE via funds, investors are able to commit to **primary funds**, whereby they commit to a blind pool of capital (fund) being raised by a PE manager, which will be invested over the finite term of the fund. Alternatively, investors are able to invest in a **secondary position**, acquiring a stake in an existing close-ended fund from an existing investor who wishes to exit their investment ahead of the fund's termination date, or by committing to a **secondary fund**, where the manager deploys capital to acquire several such secondary positions.

Funds vary broadly in terms of size, geographical focus, sector focus and strategy, enabling investors to access a diverse range of assets in return for paying a management fee and carried interest (a share of any profits generated which is allocated to the investment manager, also known as "carry"). It is important to note, however, that conducting thorough due diligence of a PE manager is time intensive and requires substantial knowledge of the asset class. Should an investor wish to make commitments to several managers (such as the commitment to five managers over a two-year period discussed below), the manager selection process will likely need to be extensive to ensure proper diversification and will, therefore, be more expensive than traditional market searches.

[1] by Georges Doriot (regarded as the founding father of US Venture Capital) to encourage private sector investments in businesses run by soldiers who were returning from World War II. ARDC's significance was primarily that it was the first institutional PE investment firm that accepted money from sources other than wealthy families.

[2] Source: Preqin, Charts, Dry Powder & AUM, Assets under Management breakdown, excludes fund of funds and secondaries to avoid double counting.

Investors are also able to access PE investments by committing to a **fund of funds**, which is a fund that invests in numerous other PE funds. This route to investment is particularly advantageous for smaller or newer investors seeking broad exposure to PE, as they are able to access several funds, managers, strategies, sectors, vintages (the year a fund was launched) and regions via a single investment vehicle, thus presenting a lower due diligence and governance burden than allocating to individual funds. Additionally, a fund of funds will often allocate to a combination of primaries and secondaries and sometimes also to directs and co-investments (defined below), enhancing diversification. A disadvantage of this approach is that returns will be impacted by the double layer of fees charged by both the underlying fund manager and the fund of funds manager.

Where an investor's commitment size is large enough, some managers may be willing to invest a separately managed account (SMA) on their behalf, although the minimum commitment size tends to be around £100m (this will vary by manager). With an SMA, investors may be able engage a PE manager to invest directly in a portfolio of private companies or engage with a fund of funds manager who will make commitments to several funds / other managers.

Fund structure

Typically, PE funds are structured as finite-term (generally 10-12-years), close-ended limited partnerships[3]; the manager assumes the role of "general partner" (GP) with unlimited responsibility for investing the fund commitments, while investors have limited liability as "limited partners" (LPs).

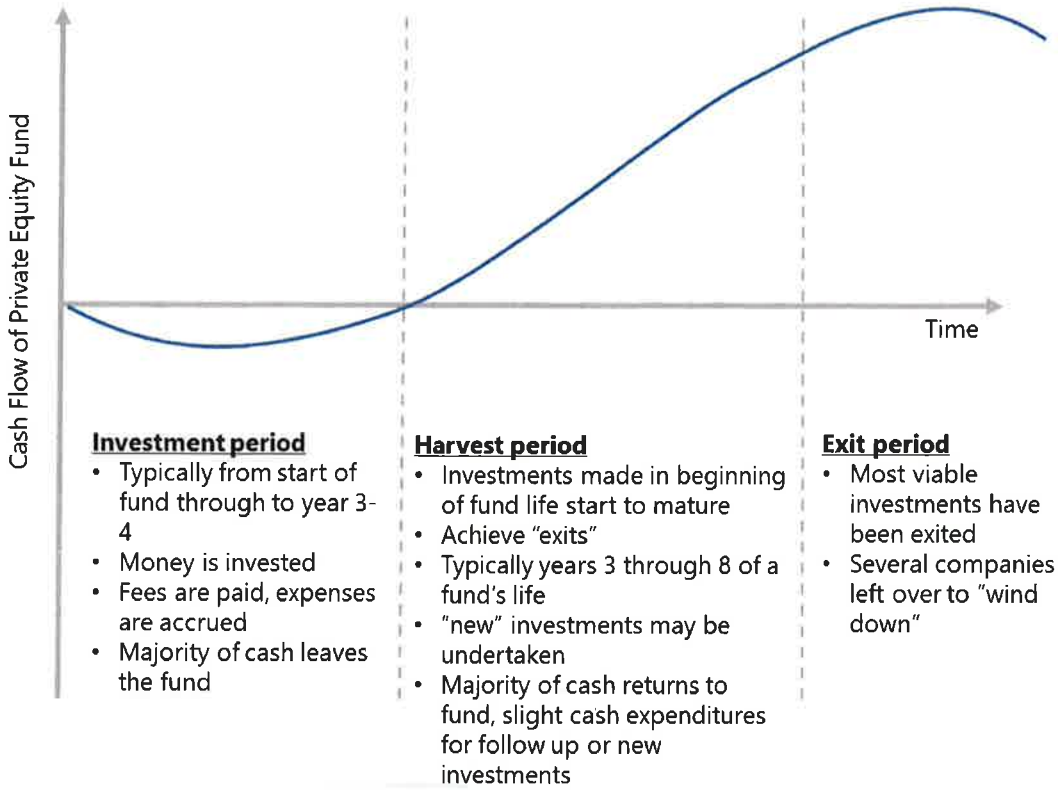
With a primary fund investment, it takes time for a manager to deploy committed capital and construct the portfolio, since transactions in the private market take time to negotiate. Fees are often payable on committed capital before it has been invested (although there is mounting pressure within the industry for this to change, and for fees to be charged on invested capital). The current convention of charging management fees on committed capital subjects investors to the payoff "j-curve," whereby returns are negative as capital is drawn (called) by the manager and used to acquire assets during a defined investment period (typically 3-4 years) before investments are sold and capital is returned gradually (via distributions) during a harvesting phase.

Acquiring an interest in an existing fund, referred to as a secondary position or investing in a fund which targets existing PE funds, mitigates the j-curve effect by giving new investors immediate access to a more mature portfolio, without having to pay fees on undeployed capital during the investment period. Moreover, secondaries are typically sold at a discount to the net asset value (NAV) of the portfolio and can represent good value immediately (although in this high valuation environment with significant dry powder[4] in the market, some secondary positions have been sold at a premium). However, because the seller of a secondary is an existing investor in a primary fund, the buyer has to guard against any asymmetry of information.

[3] The common legal structure for PE Funds is the Limited Partnership. A concise definition of a Limited Partnership is "a partnership with at least one general partner and a limited partner, the latter contributing financially but not otherwise involved in the business or, generally, personally liable for the debts of the partnership".

[4] "Dry powder" is a common term used in the PE industry to refer to capital which has been committed to PE strategies but has not yet been deployed.

Chart to illustrate the "j-curve" effect



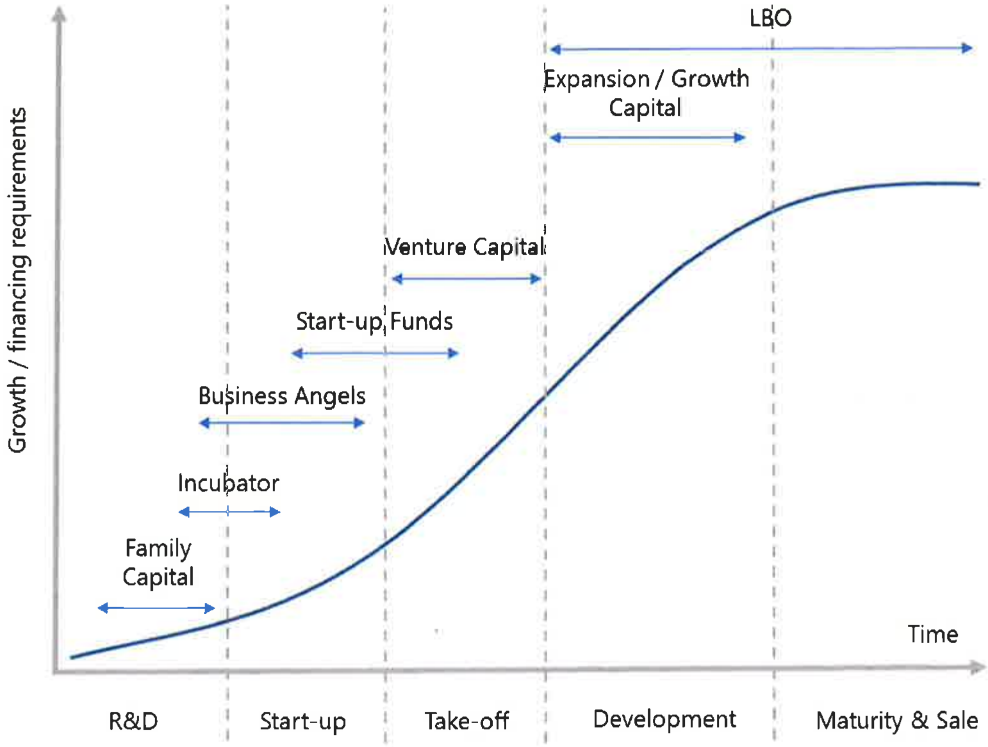
Other investment routes

As the name suggests, **direct investing** involves making an investment directly into a private company asset and bypassing the need for an investment manager. However, this is only an option for the largest institutional investors with their own in-house PE teams, as well as the sizeable balance sheet necessary to commit to a single asset without it exposing their portfolio to significant concentration risk.

Co-investments are direct investments in private companies made alongside an investment manager and are similarly more common amongst large investors, due to the larger investment sizes typically involved in such transactions. More recently, a number of managers have begun to raise dedicated **co-investment fund** vehicles. These provide an alternative source of capital for a manager to draw from more easily when too little capital is available in its primary fund to finance a particular deal (perhaps the manager has sourced this new deal late into the fund's investment period and investing would leave insufficient capital in reserve for follow-on or add-on investments) or when the investment size would introduce significant concentration risk to the portfolio.

PE strategies

PE is a broad asset class and covers a wide range of strategies and an institutional portfolio will usually comprise a mixture of strategies to provide diversification. Investment strategies within PE are often categorised based on the stage of investment and include venture capital (VC), growth and or expansion capital, buyout and distressed, as highlighted in the following chart and table below:



Types of PE strategies

Strategies	Details
Early and late stage VC	VC is investing into newly formed companies that are innovative and have the capacity to grow exponentially. Early stage describes businesses that range from being conceptual through to those having a product in development and late stage, which is where a company may be generating initial revenues and needs capital to grow the customer base and expand the product offering. VC groups invest in "rounds" with each round priced to reflect the milestones that have been achieved. VC is high risk as the rate of failure can be high and therefore Venture Capitalist investors require significantly higher returns from the winners to compensate for the losers.
Expansion/growth capital for small and mid-sized companies	Some small to mid-sized private companies require an injection of capital to help their businesses grow. This may be by acquiring additional plant and equipment, recruiting additional staff or by making acquisitions. In this case, the owners of the company will not want to relinquish control and offer the investor a minority equity position. However, the investor will generally ask for specific rights of which the most crucial is the timing of an exit. This may be in the form of a trade sale but it could be in the form of a "Put" where the owner is obligated to buy back the investor's shares at a predetermined valuation.
Buyouts	A buyout is the purchase or acquisition of a company's shares in which the acquirer gains controlling interest of the targeted firm. Buyouts are divided into two main strategies: **Management buyouts ("MBO"):** MBOs range from small to large and in most instances, it is the incumbent management team acquiring the interest of existing owners. The investors use a combination of debt

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	and equity to finance the acquisition and they expect the acquiring management team to invest alongside them to ensure an alignment of interests. However, the investor has a controlling interest and can make changes, including firing management, to keep the company on track for an exit. **Leveraged buyouts ("LBO"):** In an LBO, the investor takes total control of the company and either brings in new management or re-incentivises existing management. LBOs are distinguished from MBOs in terms of size and targets can be public as well as private companies. The other salient feature is that LBOs are usually highly debt financed with a thin strip of equity. This adds significantly to risk but if the company has sufficient cash flows to pay interest and repay the debt, the return to equity can be enhanced significantly too.
Acquisition of distressed PE interests and distressed debt	Not all investments work out, which can be for a host of reasons although the primary causes are poor management, poor oversight and an excessive debt burden. Rather than seeing a business wither and die, niche PE groups will generally acquire debt or equity (or a combination of both) at huge discounts to NAVs. Often, a business will have filed for bankruptcy and the PE group would steer it through the process as well as developing a plan of action, alongside management, to improve its prospects. There are a number of different strategies emerging today, ranging from low risk acquisitions of distressed senior debt that are collateralised and have a relatively low yield to acquiring highly risky subordinated debt that offer high yields but have a higher probability of failure.

MJ Hudson Allenbridge has published a number of research documents covering the Private Equity market. We attach some of the more recent reports for your interest and to provide you with a fuller understanding of some of the issues that may arise when in investing in this area.

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Report No.
FSD20019

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**30th January 2020**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**London Collective Investment Vehicle (CIV) – Pension Guarantee and Pension Recharge Agreements**
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1 This report seeks formal agreement of the Committee to sign the London Collective Investment Vehicle (CIV) Pension Guarantee and Pension Recharge Agreements.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the content of the report;

(b) agree to sign the guarantee and recharge agreements on the basis that the LGPS scheme is closed to new starters

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,118m total fund market value at 30th September 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,072 current employees; 5,502 pensioners; 5,828 deferred pensioners as at 30th September 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 London CIV Pension Recharge and Guarantee Agreement

3.1.1 At its meeting on 3rd December 2019, the Pensions Investment Sub-Committee received an update from the Director of Finance about progress on the London CIV and how work was underway to include additional wording in the guarantee, confirming that the staff defined benefit scheme will be closed to new members.

3.1.2 The London CIV has written to London Boroughs confirming that the CIV Board has agreed to close the schemes to new hires, but reiterating that this decision can only be implemented once all of the 32 signed guarantees and recharge agreements have been received by the CIV, and that until all guarantees and recharge agreements have been signed the scheme remains open to new hires.

3.1.3 The Committee has previously indicated support for the closure of the LGPS scheme for new starters used by the CIV, as this will reduce potential additional liability costs from continuing with the scheme which ultimately will be met by member authorities.

3.1.4 The Sub-Committee is requested to agree to sign both the Pension Guarantee and Pension Recharge Agreement and return these to the London CIV. The Guarantee and Agreement are attached at Appendix A.

3.1.5 A verbal update will be given at the meeting of how many authorities to date have signed the Pension Guarantee and Pension Recharge Agreements.

3.2 Next Steps

3.2.1 The Sub-Committee will receive further updates on the progress of the London CIV at further meetings.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 These are no direct financial implications arising from the recommendation in this report.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and

	Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Pension Guarantee and Pension Recharge Agreements (Appendix A)

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APPENDIX A

EVERSHEDS
SUTHERLAND

CITY OF LONDON

Dated: 2018

(1) LONDON LGPS CIV LIMITED

(2) EACH OF THOSE ENTITIES SPECIFIED IN SCHEDULE 1

(3) THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON

Pension Guarantee Agreement

CONTENTS

THIS AGREEMENT is made on the day of 2018

BETWEEN

(1) **LONDON LGPS CIV LIMITED**, a company incorporated in England and Wales (registered number 09136445) whose registered office is at Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES (the **"Admission Body"**);

(2) **EACH OF THOSE ENTITIES LISTED IN SCHEDULE 1** (together the **"Shareholders"**); and

(3) **THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON** of Guildhall, PO Box 270, London, EC2P 2EJ acting in its capacity as the administering authority of the City of London Corporation Pension Fund (the "**Administering Authority**")

BACKGROUND

(A) The Administering Authority administers and maintains the Fund.

(B) The Admission Body is an admission body within the meaning of paragraph 1(e) of Part 3 of Schedule 2 to the 2013 Regulations and is admitted to the Fund under the terms of the Admission Agreement.

(C) The Admission Body has been formed as an entity to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow Shareholders in their respective capacities as administering authorities within the Scheme to pool some or all of their respective Scheme investments.

(D) The Shareholders are the current sole shareholders of the Admission Body following the merger of the pension fund maintained by the London Borough of Richmond upon Thames into the pension fund maintained by the London Borough of Wandsworth pursuant to The Local Government Pension Scheme (Wandsworth and Richmond Fund) Regulations 2016 (SI 2016/1241).

(E) If the Admission Body was to cease to employ any active members in the Fund or if the Admission Agreement was to terminate then the Administering Authority must, in accordance with Regulation 64(2) of the 2013 Regulations, obtain an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the Admission Body's current and former employees and a revised rates and adjustments certificate showing the exit payment due from the Admission Body in respect of those benefits. This payment is referred to as the Exit Payment in this Agreement.

(F) Subject to the provision of a guarantee in the form of this Agreement, the Administering Authority and the Admission Body have entered into the Admission Agreement.

(G) At the request of the Admission Body, the Shareholders have agreed to enter into this Agreement as a guarantee in a form acceptable to the Administering Authority.

NOW IT IS AGREED as follows:

1. **Interpretation**

This Clause sets of the definitions which apply to the Agreement.

1.1 The following expressions have the following meanings:

"2013 Regulations"	The Local Government Pension Scheme Regulations 2013.
"Actuary"	the actuary appointed from time to time by the Administering Authority in relation to the Fund.

"Admission Agreement"	the admission agreement made between the Administering Authority and the Admission Body to allow the Admission Body to be admitted to the Scheme and to participate in the Fund.
"Business Day"	any day other than a Saturday or a Sunday or a public or bank holiday in England.
"Exit Payment"	a payment required by the Administering Authority in accordance with Regulation 64(2) of the 2013 Regulations.
"Fund"	the City of London Corporation Pension Fund.
"Proportionate Share"	means the fraction X/Y where X equals one and Y equals the number of authorities listed from time to time in **Schedule 1**.
"Rates and Adjustments Certificate"	means the rates and adjustments certificate put in place in respect of the Admission Body pursuant to Regulation 67 of the 2013 Regulations.
"Regulations"	the 2013 Regulations and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.
"Scheme"	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under Sections 7 and 12 of the Superannuation Act 1972.
"Shareholders' Agreement"	the agreement dated 6 November 2015 made between certain of the Shareholders and the Admission Body to record the terms of the Shareholders' relationship with each other in relation to the Admission Body and to regulate certain aspects of their affairs and dealings with the Admission Body (as amended or varied from time to time).

1.2 Expressions have the same meaning as in the Regulations except where the context otherwise requires.

1.3 This Agreement includes a heading and a box at the start of each Clause which outlines its provisions. These are included for information only.

1.4 Any reference in this Agreement to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended, extended, consolidated, re-enacted and/or replaced and in force from time to time.

2. Guarantee

This Clause sets out the terms of the guarantee given by the Shareholders to the Fund.

2.1 The Admission Body will pay the Administering Authority for credit to the Fund such employer contributions as are required from time to time pursuant to the Regulations in accordance with the Rates and Adjustments Certificate in force from time to time.

2.2 If for whatever reason the Admission Body fails to pay an Exit Payment (in whole or in part) to the Administering Authority, each Shareholder (other than the Administering Authority) shall on a several basis be responsible for paying to the Administering

Authority its Proportionate Share of such sum as the Administering Authority claims in respect of the unpaid Exit Payment.

2.3 Any claim by the Administering Authority shall be made by the service of a written demand and shall be accepted by the Shareholders as conclusive evidence for all purposes that the amount claimed is due to the Administering Authority.

2.4 Each Shareholder shall pay the sum so demanded of it within 20 Business Days of receipt of the demand (or such longer period as may be agreed in writing with the Administering Authority).

2.5 All sums paid by each Shareholder in accordance with **clause 2.2** shall be held and applied by the Administering Authority for the purpose of paying and discharging the Exit Payment.

2.6 Any payment to be made by a Shareholder shall be made in sterling free, clear of and without any deduction for taxes, levies, duties, charges, fees and deductions or withholdings for or on account of any set-off or counterclaim.

2.7 Following payment in full by the Shareholders, the Administering Authority shall provide the Shareholders with a written account showing how the payments have been applied to the Fund within 30 Business Days of receipt of payment. If the payments exceeds the amount required to discharge the Exit Payment, the Administering Authority shall refund any overpayment to the Shareholders in the same proportions as they contributed.

2.8 The Shareholders' obligations and liabilities under this **clause 2** shall not be reduced, discharged, impaired or affected by the giving of time or any other indulgence, forgiveness or forbearance by the Administering Authority.

2.9 The Administering Authority as a shareholder shall be responsible for its Proportionate Share of the unpaid Exit Payment as a shareholder and shall discharge its obligations by transferring assets equal to the value of its Proportionate Share of the unpaid Exit Payment from its own notional allocation of assets within the Fund as a Scheme employer to the Admission Body's notional allocation of assets within the Fund.

3. Change in Status

This Clause deals with issues relating to changes in the status of the Admission Body and what happens if a Shareholder ceases to be a shareholder in the Admission Body.

3.1 This Agreement shall remain in operation notwithstanding any variation made in the terms of the Admission Agreement or the Regulations and notwithstanding the insolvency, winding-up or liquidation of the Admission Body (compulsory or otherwise) or it otherwise ceasing to exist or function. This Agreement shall not be affected by any disclaimer of the Admission Body's contracts or liabilities by a liquidator.

3.2 The obligations and liabilities of a Shareholder under this Agreement shall continue even if the Shareholder ceases to hold the legal and/or beneficial entitlement in any or all of its shares in the Admission Body notwithstanding any provision in the Shareholders' Agreement. A Shareholder shall only cease to be liable under this Agreement if the Shareholder is removed from the list at **Schedule 1** of this Agreement in accordance with **clause 6**.

4. Expiry Date

This Clause sets out the circumstances in which this Agreement shall expire.

This Agreement shall expire (and the obligations and liabilities of the Shareholders shall cease and determine absolutely) on the full payment of the Exit Payment by the Admission Body (or by the Shareholders under **clause 2**) which fully discharges the Admission Body's obligations and liabilities to the Fund.

5. **Notices**

This Clause sets out how any written notices are to be served.

All notices under this Agreement shall be in writing and shall be served by sending the same by first class post, facsimile or by hand or leaving the same at the registered office or headquarters address (as appropriate) of the Admission Body, the Shareholders or the Administering Authority.

6. **Amendment**

This Clause sets out how the Agreement may be amended.

6.1 The parties to this Agreement may, with the agreement of all of them in writing, amend this Agreement by deed.

6.2 This Agreement may be amended by the Administering Authority alone to add or remove shareholders in the Admission Body to or from **Schedule 1** where the addition or removal of that shareholder for the purposes of this Agreement has been agreed in writing by the Shareholders and notified to the Administering Authority.

7. **More than one Counterpart**

This Clause sets out how the Agreement can be executed in counterparts.

This Agreement may be executed in more than one counterpart, which together constitute one agreement. When each signatory to this agreement has executed at least one part of it, it will be as effective as if all the signatories to it had executed all of the counterparts. Each counterpart Agreement will be treated as an original.

8. **Assignment and Restructuring**

This Clause sets out when the Agreement may be assigned.

8.1 No party shall assign the benefit or burden of the whole or any part of this Agreement without the prior written consent of the other parties (such consent not to be unreasonably withheld or delayed).

9. **Laws**

This Clause sets out the legal framework which governs the Agreement.

9.1 This Agreement shall be governed by and interpreted in accordance with the laws of England and Wales.

9.2 Any rights that a third party may have under the Contracts (Rights of Third Parties) Act 1999 are excluded.

10. **Warranty of Authority**

This Clause confirms that the Shareholders have the relevant authority power and capacity to enter into this Agreement.

10.1 Each Shareholder separately warrants and represents to each other and to the Admission Body that it has all necessary authority, power and capacity to enter into and perform its obligations under this Agreement, that all necessary actions have been taken to enter into this Agreement properly and lawfully, and that this Agreement constitutes obligations binding on it in accordance with its terms.

EXECUTED as a deed and delivered on the date stated at the beginning of this Agreement.

EXECUTED as a deed by **LONDON LGPS CIV LIMITED** acting by a director

Signature of Director

in the presence of:

Witness signature: ....

Witness Name: ....

Witness Address: ....

Witness Occupation: ....

EXECUTED as a deed when the seal of **THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON** (in its capacity as a shareholder) was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BARNET** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BARKING AND DAGENHAM** was affixed

in the presence of:

Being an officer of the Council of the said London Borough duly authorised to attest the common seal thereof

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BEXLEY** was affixed

in the presence of:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BRENT** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BROMLEY** was affixed

in the presence of:

Mayor/Councillor

Director of Corporate Services/Senior Solicitor

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF CAMDEN** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF CROYDON** was affixed

in the presence of:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF EALING** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF ENFIELD** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HACKNEY** was affixed

in the presence of:

Authorised Signatory

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HARINGEY** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HARROW** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HAVERING** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Common Seal of **THE MAJOR AND BURGESSES** of **THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM** was hereunto affixed by order in the presence of:

Authorised Officer

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HOUNSLOW** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF ISLINGTON** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF LAMBETH** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF LEWISHAM** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF MERTON** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF NEWHAM** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Corporate Seal of **THE MAJOR AND BURGESSES** of **THE LONDON BOROUGH OF REDBRIDGE** was hereunto affixed in the presence of:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF SOUTHWARK** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF SUTTON** was affixed

in the presence of:

Authorised Signatory:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF TOWER HAMLETS** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF WALTHAM FOREST** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HILLINGDON** was affixed

in the presence of:

Member of the Council:

Authorised Officer:

EXECUTED as a deed when the seal of the **ROYAL BOROUGH OF GREENWICH** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Common Seal of **THE MAYOR AND BURGESSES** of **THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA** was hereunto affixed to this deed in the presence of:

Authorised Officer

The Common Seal of **THE MAJOR AND BURGESSES** of **THE ROYAL BOROUGH OF KINGSTON UPON THAMES** was hereunto affixed to this deed in the presence of:

Major

Corporate Solicitor

EXECUTED as a deed when the seal of the **WANDSWORTH LONDON BOROUGH COUNCIL** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Common Seal of **THE LORD MAYOR AND CITIZENS OF THE CITY OF WESTMINSTER** was hereunto affixed by order in the presence of:

Authorised Officer

EXECUTED as a deed when the seal of **THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON** (in its capacity as administering authority) was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

SCHEDULE

List of Shareholders

1. City of London Corporation
2. London Borough of Barnet
3. London Borough of Barking and Dagenham
4. London Borough of Bexley
5. London Borough of Brent
6. London Borough of Bromley
7. London Borough of Camden
8. London Borough of Croydon
9. London Borough of Ealing
10. London Borough of Enfield
11. London Borough of Hackney
12. London Borough of Haringey
13. London Borough of Harrow
14. London Borough of Havering
15. London Borough of Hammersmith and Fulham
16. London Borough of Hounslow
17. London Borough of Islington
18. London Borough of Lambeth
19. London Borough of Lewisham
20. London Borough of Merton
21. London Borough of Newham
22. London Borough of Redbridge
23. London Borough of Southwark
24. London Borough of Sutton
25. London Borough of Tower Hamlets
26. London Borough of Waltham Forest
27. London Borough of Hillingdon
28. Royal Borough of Greenwich
29. Royal Borough of Kensington and Chelsea
30. Royal Borough of Kingston upon Thames

31. Wandsworth London Borough Council

32. Westminster City Council

APPENDIX A

EVERSHEDS SUTHERLAND

Dated: 2018

(1) LONDON LGPS CIV LIMITED

(2) THE LONDON BOROUGH OF BROMLEY

Pension Cost Recharge Agreement

CONTENTS

THIS AGREEMENT is made on the day of 2018

BETWEEN

(1) **LONDON LGPS CIV LIMITED**, a company incorporated in England and Wales (registered number 09136445) whose registered office is at Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES (the **"Admission Body"**); and

(2) **THE LONDON BOROUGH OF BROMLEY** (the **"Authority"**)

BACKGROUND

(A) The Admission Body is an admission body within the meaning of paragraph 1(e) of Part 3 of Schedule 2 to the 2013 Regulations and is admitted to the Fund under the terms of the Admission Agreement.

(B) The Admission Body has been formed as an entity to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow Shareholders in their respective capacities as administering authorities within the Scheme to pool some or all of their respective Scheme investments.

(C) The Authority is a shareholder in the Admission Body. The Shareholders (as defined below) are the current sole shareholders in the Admission Body following the merger of the pension fund maintained by the London Borough of Richmond upon Thames into the pension fund maintained by the London Borough of Wandsworth pursuant to The Local Government Pension Scheme (Wandsworth and Richmond Fund) Regulations 2016 (SI 2016/1241).

(D) Under the 2013 Regulations, the Administering Authority must obtain:

(i) an actuarial valuation of the assets and liabilities of the Fund as at 31st March 2016 and on 31st March in every third year afterwards;

(ii) a report by the Actuary in respect of the valuation; and

(iii) a rates and adjustments certificate prepared by the Actuary.

(E) A rates and adjustments certificate must specify the Admission Body's primary and secondary rate of employer contributions as defined in the Regulations.

(F) The primary rate is effectively the cost of future accruals in the Fund expressed as a percentage of the pay of employees who are active members of the Fund.

(G) The secondary rate of the Admission Body is any percentage or amount by which, in the Actuary's opinion, contributions at the primary rate should, in the case of the Admission Body, be increased or reduced by reason of any circumstances peculiar to the Admission Body. For example the secondary rate could include percentage or amount to fund any deficit revealed in respect of the Admission Body by the last actuarial valuation of the Fund.

(H) A rates and adjustments certificate may be revised between triennial valuations in circumstances prescribed in Regulation 64 of the 2013 Regulations.

(I) The Admission Body must contribute to the Fund in each year covered by a rates and adjustment certificate. During each of those years the Admission Body must make payments to the Fund on account of the amount required for the whole year. These contributions are referred to as Regular Employer Contributions in this Agreement.

(J) If the Admission Body was to cease to employ any active members in the Fund or if the Admission Agreement was to terminate then the Administering Authority must, in accordance with Regulation 64(2) of the 2013 Regulations, obtain an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the Admission Body's current and former employees and a revised rates and adjustments certificate showing the exit payment due from the Admission Body in respect of those benefits. This payment is referred to as the Exit Payment in this Agreement.

(K) The Admission Body's annual financial statements are prepared in accordance with Financial Reporting Standard 102. In applying the general recognition principle in paragraph 28.3 of the Standard to defined benefit plans such as the Scheme, the Admission Body shall recognise a liability for its obligations under the Fund net of its share of Fund assets. For this purpose, liabilities are calculated on a different basis to the basis used by the Actuary to carry out Fund valuations.

(L) Under paragraph 28.28 of Financial Reporting Standard 102 if the Admission Body is virtually certain that another party or parties will reimburse some or all of the expenditure required to settle a defined benefit obligation, the Admission Body shall recognise its right to reimbursement as a separate asset in the annual financial statements and shall treat that asset in the same way as Scheme assets.

(M) The Authority has agreed to reimburse the Admission Body in connection with its participation in the Fund in accordance with the terms of this Agreement.

(N) This Agreement is intended to act as an asset for the purposes of paragraph 28.28 of Financial Reporting Standard 102.

(O) The Shareholders may also be required to pay a separate annual service charge in accordance with clause 3.1 of the Shareholders' Agreement. Both the estimated Regular Employer Contribution and the annual service charge may be invoiced at the same time. There shall be no double payment of the same pension costs by Shareholders under this Agreement and the annual service charge.

(P) This Agreement shall have effect on and from the Effective Date (even if it is dated after that date).

NOW IT IS AGREED as follows:

1. **Interpretation**

This Clause sets out the definitions which apply to the Agreement.

1.1 The following expressions have the following meanings:

"2013 Regulations"	The Local Government Pension Scheme Regulations 2013.
"Actuary"	the actuary appointed from time to time by the Administering Authority in relation to the Fund.
"Additional Employer Contributions"	additional employer contributions other than Regular Employer Contributions or an Exit Payment that the Admission Body is required to pay to the Fund under the Admission Agreement or the Regulations.
"Administering Authority"	the City of London Corporation as the administering authority of the Fund.
"Admission Agreement"	the admission agreement made between the Administering Authority and the Admission Body to allow the Admission Body to be admitted to the Scheme and to participate in the Fund.
"Business Day"	any day other than a Saturday or a Sunday or a public or bank holiday in England.
"Effective Date"	31 March 2018.
"Exit Payment"	a payment required by the Administering Authority in accordance with Regulation 64(2) of the 2013 Regulations.

"Fund"	the City of London Corporation Pension Fund.
"Guarantee Agreement"	the guarantee agreement to be made between the Administering Authority, the Shareholders and the Admission Body pursuant to which the Shareholders will provide a guarantee to the Administering Authority in connection with the Admission Body's participation in the Fund.
"Payment Notice"	a notice substantially in the form of the notice of **Schedule 2** (Specimen Payment Notice).
"Proportionate Share"	means the fraction X/Y where X equals one and Y equals the number of authorities listed from time to time in **Schedule 1** (List of Shareholders).
"Rates and Adjustments Certificate"	means the rates and adjustments certificate put in place in respect of the Admission Body pursuant to Regulation 67 of the 2013 Regulations.
"Regular Employer Contributions"	the contributions the Admission Body is required to pay to the Fund in accordance with the Rates and Adjustments Certificate comprising of contributions at both the primary and secondary rates.
"Regulations"	the 2013 Regulations and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.
"Scheme"	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under Sections 7 and 12 of the Superannuation Act 1972.
"Shareholders"	each of those authorities listed from time to time in **Schedule 1** (List of Shareholders).
"Shareholders' Agreement"	the agreement dated 6 November 2015 made between certain of the Shareholders and the Admission Body to record the terms of the Shareholders' relationship with each other in relation to the Admission Body and to regulate certain aspects of their affairs and dealings with the Admission Body (as amended or varied from time to time).

1.2 Expressions have the same meaning as in the Regulations except where the context otherwise requires.

1.3 This Agreement includes a heading and a box at the start of each Clause which outlines its provisions. These are included for information only.

1.4 Any reference in this Agreement to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended, extended, consolidated, re-enacted and/or replaced and in force from time to time.

2. **Pension Cost Reimbursement**

This Clause sets out how pension costs will be reimbursed to the Admission Body.

2.1 **Reimbursement of Regular Employer Contributions**

2.1.1 The Admission Body will pay the Administering Authority for credit to the Fund such Regular Employer Contributions as are required from time to time pursuant to the Regulations in accordance with the Rates and Adjustments Certificate in force from time to time. For the avoidance of doubt this shall cover employer contributions at the primary rate for future membership in the Fund and employer contributions at the secondary rate for circumstances peculiar to the Admission Body, including deficits in the Fund relating to accrued membership.

2.1.2 The Admission Body will invoice the Authority annually in advance for the Authority's Proportionate Share of the estimated Regular Employer Contributions payable for the next financial year (commencing 1 April to the following 31 March). There shall be a corresponding adjustment in the following year's invoice to the extent that the estimated Regular Employer Contributions for the year in question prove to be higher or lower than the actual Regular Employer Contributions for that year. This may be invoiced at the same time as the annual service charge the Authority is required to pay in accordance with clause 3.1 of the Shareholders' Agreement.

2.1.3 The Authority undertakes to the Admission Body that it will pay the Admission Body the amount invoiced to it in accordance with **clause 2.1.2**.

2.1.4 The Authority will ensure that any payment made to the Admission Body pursuant to **clause 2.1.2** is made within no more than 10 Business Days of commencement of the financial year in question so that the Admission Body is able to pay the first monthly instalment of the relevant Regular Employer Contribution to the Fund on or before the first due date.

2.2 **Reimbursement of Additional Employer Contributions**

2.2.1 The Admission Body will provide the Authority with a Payment Notice for the Authority's Proportionate Share of any Additional Employer Contributions that the Admission Body is required to pay to the Fund (together with the due date(s) for payment in accordance with the demand).

2.2.2 The Authority undertakes to the Admission Body that it will pay the Admission Body an amount equal to its Proportionate Share of the Additional Employer Contributions notified to it by the Admission Body pursuant to **clause 2.2.1**.

2.2.3 The Authority will ensure that any payment made to the Admission Body pursuant to **clause 2.2.2** is made at least 5 Business Days in advance of the due date for payment so that the Admission Body is able to pay the relevant Additional Employer Contribution to the Fund on or before the due date.

2.3 **Reimbursement of Exit Payment**

2.3.1 The Admission Body will provide the Authority with a Payment Notice for the Authority's Proportionate Share of any Exit Payment that the Admission Body is required to pay to the Fund (together with the due date(s) for payment in accordance with the demand).

2.3.2 The Authority undertakes to the Admission Body that it will pay the Admission Body an amount equal to its Proportionate Share of the Exit Payment notified to it by the Admission Body pursuant to **clause 2.3.1**.

2.3.3 The Authority will ensure that any payment made to the Admission Body pursuant to **clause 2.3.2** is made at least 5 Business Days in advance of the due date for payment so that the Admission Body is able to pay the Exit Payment to the Fund on or before the due date.

2.4 **Service of Invoice or Payment Notice**

The service of an invoice under **clause 2.1.2** or a Payment Notice by the Admission Body shall be accepted by the Authority as conclusive evidence for all purposes that the amount claimed is due to the Admission Body.

2.5 **Obligations and Liabilities**

The Authority's obligations and liabilities under this Agreement shall not be reduced, discharged, impaired or affected by the giving of time or any other indulgence, forgiveness or forbearance by the Admission Body.

3. **Guarantee Agreement**

This Clause refers to the Guarantee Arrangement to be entered into between the Administering Authority, the Shareholders and the Admission Body.

The Authority and the Admission Body acknowledge and agree that they (together with the other Shareholders and the Administering Authority) shall enter into the Guarantee Agreement.

4. **Effective and Expiry Dates**

This Clause sets out the circumstances in which this Agreement shall be effective from and shall expire.

4.1 This Agreement shall have effect on and from the Effective Date. Where the Agreement is dated after the Effective Date it shall be deemed to have retrospective effect on and from the Effective Date.

4.2 This Agreement shall expire (and the obligations and liabilities of the Authority shall cease and determine absolutely) on the full payment of the Exit Payment by the Admission Body (or by the Shareholders under the Guarantee Agreement) which fully discharges the Admission Body's obligations and liabilities to the Fund.

5. **Change in Status**

This Clause deals with issues relating to changes in the status of the Admission Body and what happens if a Shareholder ceases to be a shareholder in the Admission Body.

5.1 This Agreement shall remain in operation notwithstanding any variation made in the terms of the Admission Agreement or the Regulations and notwithstanding the insolvency, winding-up or liquidation of the Admission Body (compulsory or otherwise) or it otherwise ceasing to exist or function. This Agreement shall not be affected by any disclaimer of the Admission Body's contracts or liabilities by a liquidator.

5.2 The obligations and liabilities of the Authority under this Agreement shall continue even if the Authority ceases to hold the legal and/or beneficial entitlement in any or all of its shares in the Admission Body notwithstanding any provision in the Shareholders' Agreement. The Authority shall only cease to be liable under this Agreement if the Authority is removed from the list at **Schedule 1** (List of Shareholders) of this Agreement in accordance with **clause 7**.

6. **Notices**

This Clause sets out how any written notices are to be served.

All notices under this Agreement shall be in writing and shall be served by sending the same by first class post, facsimile or by hand or leaving the same at the registered office or headquarters address (as appropriate) of the Admission Body or the Authority.

7. **Amendment**

This Clause sets out how the Agreement may be amended.

7.1 The parties to this Agreement may, with the agreement of all of them in writing, amend this Agreement by deed.

7.2 This Agreement may be amended by the Admission Body alone to add or remove shareholders in the Admission Body to or from **Schedule 1** (List of Shareholders) where the addition or removal of that shareholder for the purposes of this Agreement has been agreed in writing by the Shareholders and notified to the Admission Body.

8. **More than one Counterpart**

This Clause sets out how the Agreement can be executed in counterparts.

This Agreement may be executed in more than one counterpart, which together constitute one agreement. When each signatory to this agreement has executed at least one part of it, it will be as effective as if all the signatories to it had executed all of the counterparts. Each counterpart Agreement will be treated as an original.

9. **Assignment and Restructuring**

This Clause sets out when the Agreement may be assigned.

No party shall assign the benefit or burden of the whole or any part of this Agreement without the prior written consent of the other parties (such consent not to be unreasonably withheld or delayed).

10. **Laws**

This Clause sets out the legal framework which governs the Agreement.

10.1 This Agreement shall be governed by and interpreted in accordance with the laws of England and Wales.

10.2 Any rights that a third party may have under the Contracts (Rights of Third Parties) Act 1999 are excluded.

11. **Warranty of Authority**

This Clause confirms that the Authority has the relevant authority power and capacity to enter into this Agreement.

The Authority warrants and represents to the Admission Body that it has all necessary authority, power and capacity to enter into and perform its obligations under this Agreement, that all necessary actions have been taken to enter into this Agreement properly and lawfully, and that this Agreement constitutes obligations binding on it in accordance with its terms.

EXECUTED as a deed and delivered on the date stated at the beginning of this Agreement.

EXECUTED as a deed by **LONDON LGPS CIV LIMITED** acting by a director

Signature of Director

in the presence of:

Witness signature: ....

Witness Name: ....

Witness Address: ....

Witness Occupation: ....

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BROMLEY** was affixed

in the presence of:

Mayor/Councillor

Director of Corporate Services/Senior Solicitor

SCHEDULE 1

List of Shareholders

1. City of London Corporation
2. London Borough of Barnet
3. London Borough of Barking and Dagenham
4. London Borough of Bexley
5. London Borough of Brent
6. London Borough of Bromley
7. London Borough of Camden
8. London Borough of Croydon
9. London Borough of Ealing
10. London Borough of Enfield
11. London Borough of Hackney
12. London Borough of Haringey
13. London Borough of Harrow
14. London Borough of Havering
15. London Borough of Hammersmith and Fulham
16. London Borough of Hounslow
17. London Borough of Islington
18. London Borough of Lambeth
19. London Borough of Lewisham
20. London Borough of Merton
21. London Borough of Newham
22. London Borough of Redbridge
23. London Borough of Southwark
24. London Borough of Sutton
25. London Borough of Tower Hamlets
26. London Borough of Waltham Forest
27. London Borough of Hillingdon
28. Royal Borough of Greenwich
29. Royal Borough of Kensington and Chelsea

30. Royal Borough of Kingston upon Thames

31. Wandsworth London Borough Council

32. Westminster City Council

SCHEDULE 2

Specimen Payment Notice

To: **[Shareholder]**

From: **[Admission Body]**

[DATE**]**

PENSION COST REIMBURSEMENT AGREEMENT REF: [ ]

We refer to the Agreement and certify that [Additional Employer Contributions]/[an Exit Payment] is/are due to the Fund. We attach a copy of [INSERT] confirming that these contributions/payments are due and the due date(s) for payment.

The sum of **[ ]** pounds sterling (£) is properly due in respect of your Proportionate Share (x%) of the above contributions/payments.

We demand payment of the above amount at least within 5 (Business Days) in advance of the due date(s).

The above amount should be paid to us by transfer to the following account:

Account Number	**[ ]**
Sort Code	**[ ]**
Account Name	**[ ]**
Bank	**[ ]**
Bank Address	**[ ]**

....

Duly authorised for and on behalf of the Admission Body

Report No.
FSD20013

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**LOCAL PENSION BOARD** **PENSIONS INVESTMENT SUB COMMITTEE** **GENERAL PURPOSES & LICENSING COMMITTEE** **COUNCIL**
Date:	**22nd January 2020** **30th January 2020** **11th February 2020** **24th February 2020**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**LOCAL PENSION BOARD - ANNUAL REPORT**
Contact Officer:	Thi Bang Hoang, Pensions Manager Tel: 0208 313 4822 E-mail: ThiBang.Hoang@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	Borough Wide

1. Reason for report

1.1 The Local Pension Board Terms of Reference require that an Annual Report is produced and provided to the Pensions Manager each year. In a report to the Pensions Investment Sub Committee, General Purposes and Licensing Committee and Council in February 2015, it was also confirmed that the Local Pension Board's Annual Report, would be provided to Council via the Pensions Investment Sub-Committee and the General Purposes and Licensing Committee.

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2. RECOMMENDATIONS

2.1 Members of the Local Pension Board are asked to approve the draft LPB Annual Report at Appendix 1.

2.2 Members of the Pensions Investment Sub Committee, General Purposes and Licensing Committee and Council are asked to note the contents of the report.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A

Corporate Policy

1. Policy Status: Existing Policy. The Council's pension fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.

2. BBB Priority: Excellent Council

Financial

1. Cost of proposal: No Cost

2. Ongoing costs: N/A.

3. Budget head/performance centre: Any costs associated with the reimbursement to Board Members of directly incurred expenses are chargeable to the Pension Fund.

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,118m total fund market value at 30th September 2019.

5. Source of funding: Contributions to Pension Fund

Personnel

1. Number of staff (current and additional): The Local Pension Board comprises of 2 Employer Representatives and 2 Member Representatives. The Board is supported by the Pensions Manager.

2. If from existing staff resources, number of staff hours: N/A

Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).

2. Call-in: Not Applicable.

Procurement

1. Summary of Procurement Implications: N/A

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,072 current active members, 5,828 deferred pensioners and 5,502 pensioner members (for all employers in the Fund) as at 30th September 2019.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The London Borough of Bromley Local Pension Board was established by Council on 23rd February 2015. The Board held an introductory meeting on 27th July 2015 and its first formal annual meeting on 26th October 2015.

3.2 In accordance with the Terms of Reference the Board are required to produce a single annual report to the Pensions Manager. This report should include:

- A summary of the work of the Local Pension Board and a work plan for the coming year
- Details of areas of concern reported to or raised by the Board and recommendations made
- Details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed
- Any areas of risk or concern the Board wish to raise with the Scheme Manager
- Details of training received and identified training needs
- Details of any expenses and costs incurred by the Local Pension Board and any anticipated expenses for the forthcoming year.

3.3 Members are asked to note the contents of the Local Pension Board Annual Report.

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

N/A

5. POLICY IMPLICATIONS

5.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.

6. FINANCIAL IMPLICATIONS

6.1 Although permitted under Regulations, Local Pension Board members are not paid an allowance. As set out in the terms of reference, remuneration for Board members is limited to a refund of actual expenses incurred in attending meetings and training.

6.2 As the administering authority the Council is required to facilitate the operation of the Local Pension Board including providing suitable accommodation for Board meetings as well as administrative support, advice and guidance. This is currently done within existing in-house resources.

6.3 Any costs arising from the establishment and operation of the Local Pension Board are treated as appropriate administration costs of the scheme and, as such, are chargeable to the Pension Fund.

6.4 There were reimbursement claims for cost of travel totalling £19.00 within the relevant period.

7. PERSONNEL IMPLICATIONS

N/A

8. LEGAL IMPLICATIONS

8.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014. A requirement is the establishment of Local Pension Boards.

9. PROCUREMENT IMPLICATIONS

N/A

Non-Applicable Sections:	Procurement Implications; Personnel Implications; Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme (Amendment) (Governance) Regulations 2015; Local Government Pension Scheme Regulations 2013; Local Pension Board Report, Supplementary Report and Appendices to Pensions Investment Sub-Committee, General Purposes & Licensing Committee and Council 3rd, 10th and 23rd February 2015.

LONDON BOROUGH OF BROMLEY

LOCAL PENSION BOARD

ANNUAL REPORT DECEMBER 2019

LONDON BOROUGH OF BROMLEY - LOCAL PENSION BOARD
ANNUAL REPORT
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1. Foreword

1.1 The purpose of this London Borough of Bromley Local Pension Board Annual report is to provide information regarding the activities and role of the Board for Scheme Members, Scheme Employers and the Scheme Manager (Administering Authority).

1.2 The Local Pension Board was established by the London Borough of Bromley Pension Fund in response to new regulatory requirements introduced into the Local Government Pension Scheme Regulations 2013

1.3 The role of the Local Pension Board is to provide assistance to the London Borough of Bromley in its role as an Administering Authority within the Local Government Pension Scheme in ensuring it remains compliant with the relevant legislation and requirements of the Pensions Regulator.

2. Background

2.1 The Local Government Pension Scheme Regulations 2013 (as amended) required that the Local Pension Board be established by 1st April 2015 to assist the Administering Authority (London Borough of Bromley) to:

- Secure compliance with the Local Government Pension Scheme (LGPS) regulations and the requirements imposed by the Pensions Regulator.
- Ensure effective and efficient governance and administration of the LGPS

2.2 The Local Pension Board is not a decision making body but is expected to support the Council's current committee structure.

2.3 The London Borough of Bromley Local Pension Board was approved at Full Council on 23rd February 2015.

3. Board Membership

3.1 The London Borough of Bromley Local Pension Board requires a total of four members. The membership is constituted as follows:

- 2 members representing the interests of the Fund's employers – Employer Representatives.
- 2 members representing the interests of the Fund's members – Member Representatives.

3.2 At the last meeting of Local Pension Board held on 12th June 2019, the board members were:

Employer Representatives:

- Pinny Borg
- Emma Downie

Member Representatives:

- Lesley Rickards
- Vacant (new appointment from 1st July 2019)

3.3 On 24th January 2019, one of the member representatives, Geoffrey Wright resigned from the Board. The term of office for the remaining three members expired on 30th June 2019.

3.4 Applications were invited from all staff, trade union representatives, departmental representatives, other employers in the Bromley Fund, and from Councillors.

3.5 Only four expressions of interest were received by the deadline of 28th April 2019. On 16th May 2019, the General Purposes and Licensing Committee appointed Lesley Rickards and Vinit Shukle to act in the capacity of member representatives and recommended that Council formally appoint Pinny Borg and Emma Downie to act in the capacity of employer representatives for a term of 4 years from 1 July 2019. This was approved by Council on 22nd May 2019.

4. Board Meetings

4.1 Following an introductory meeting of the Local Pension Board Members which took place on Monday 27th July 2015, formal meetings of the Board took place on Monday 26th October 2015, Thursday 10th November 2016, Tuesday 10th April 2018, Tuesday 6th November 2018, and Wednesday 12 June 2019. The table below shows the attendance of those meetings:

	Employer Representatives					Member Representatives				
	Mr B Toms	Ms J Harding	Ms J Reynolds	Ms P Borg	Ms E Downie	Mr G Kelly	Mr T Conboy	Mrs L Rickards	Mr G Wright	Mr V Shukle
Introductory Meeting 27-07-15	✓	✓	N/A	N/A	N/A	✓	N/A	✓	N/A	N/A
Formal Meeting 26-10-15	✓	✓	N/A	N/A	N/A	X	N/A	✓	N/A	N/A
Formal Meeting 10-11-16	✓	✓	N/A	N/A	N/A	N/A	X	✓	N/A	N/A
Formal Meeting 10-04-18	N/A	N/A	✓	✓	N/A	N/A	N/A	✓	✓	N/A
Formal Meeting 06-11-18	N/A	N/A	N/A	✓	✓	N/A	N/A	✓	X	N/A
Formal Meeting 12-06-19	N/A	N/A	N/A	✓	✓	N/A	N/A	✓	N/A	✓*

* The member had not been formally appointed and was acting as an observer at the meeting

4.2 At the Local Pension Board meeting held on 10th November 2016, Mrs Lesley Rickards was elected by the members of the Board to act as its Chair for a period of 12 months, succeeding Mr Brian Toms, in line with the requirements of the Terms of Reference.

4.3 A meeting of the Local Pension Board was held on 10th April 2018 at which Pinny Borg was elected the Chair of the Pension Board. At the meeting on 6 November 2018, it was agreed that Pinny Borg would continue as Chair of the Pension Board until the term of office for all Board Members expires on 30th June 2019.

4.4 At the meeting on 12th June 2019, Emma Downie was elected the new Chair of the Pension Board, effective from 1 July 2019.

5. Board Activity

5.1 Members of the Board are also invited to attend meetings of the Pensions Investment Sub-Committee and where appropriate meetings of the General Purposes and Licensing Committee.

5.2 In accordance with the work plan agreed by the Local Pension Board members, members have been provided throughout the year with monthly Pensions Administration Reports for review. These reports are produced by Liberata UK Ltd, and include a monthly summary of activity, and details of key Performance Indicators (KPI's). To date no issues have been raised by Board members in connection with such reports.

5.3 The Pension Act 2004 and the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 require the Administering Authority to hold accurate data on scheme members. It is also essential to hold accurate data for efficient administration.

6. Training

6.1 It is a requirement of the Public Service Pensions Act that Board members have the capacity to become conversant with the rules governing the Local Government Pension Scheme and the policy documents of the Administering Authority.

6.2 The following training has been made available to the Local Pension Board members:

- The Pensions Regulator e-learning package, covering conflicts of interest, managing risk and internal controls, maintaining accurate member data, maintaining member contributions, providing information to members and others, resolving internal disputes and reporting breaches of the law.
- A presentation on the Introduction to the LGPS was presented to the Local Pension Board Meeting on Tuesday 6th November 2018 by the Pensions Manager.
- A training update on "Pensions Made Simple" will be carried out verbally by the Pensions Manager at the next Local Pension Board Meeting on Wednesday 22nd January 2020.
- Board members are invited to attend the Members Pension Seminar led by the Director of Finance.

6.3 Members have also been provided with the following documentation;

- The Local Government Pension Scheme Regulations
- Administration, HR, Payroll and Member Guides to the Local Government Pension Scheme
- Guidance on the creation and operation of Local Pension Boards
- Mercer Newsletters 'Local Government Pension Scheme – Current Issues'
- Agendas and reports for the Pensions Investment Sub-Committee meetings

7. Board Observations and Comments

7.1 The Local Pension Board terms of reference set out that the Board should raise any areas of risk or concern with the Scheme Manager in the first instance. No such matters have been raised during the reporting period.

8. Conflicts of Interest

8.1 It is explained to each Board member that they are required to observe both the Code of Conduct for Councillors/Co-opted Members and Data Protection policies of the London Borough of Bromley. Members are also required to complete 'The Notification of Disclosable Pecuniary Interests Form', 'The Notification of Non-Pecuniary Interests Form' and a 'Declaration of Acceptance of Office Form'

8.2 No declarations of interests were made at the formal meeting of the Board on 6th November 2018 or 12th June 2019.

9. Expenses and Costs

9.1 All costs regarding the administration of the Local Pension Board have been contained within existing resources. There were reimbursement claims for cost of travel totalling £19.00 within the relevant period

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Agenda Item 9

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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