PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the virtual meeting held at 6.00 pm on 28 July 2020

Present:

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

Also Present:
John Arthur, MJ Hudson Allenbridge

76 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

77 DECLARATIONS OF INTEREST

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

78 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

Four questions had been received from members of the public – the written replies provided are attached as Appendix A.

79 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 13 FEBRUARY 2020, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The Democratic Services Manager apologised to the Sub-Committee that the minutes from the meeting held on 13th February 2020 were not yet available.

80 UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR

The Director of Finance reported on the McCloud judgement, an age discrimination case raised by the unions regarding changes to the Pension Scheme in 2014 which benefitted scheme members nearing retirement age This would add some cost to the Pension Fund, although the Actuary had taken the impact of the judgement into account. The judgement was retrospective, and the current contractual arrangement with Liberata did not allow for the required changes to be made. He would report back to a future meeting to cover the resource implications.

The Chairman explained that he had asked for fund manager visits to be deferred until December, but he hoped that the Sub-Committee would be able to hold a real meeting in September. Cllr Jeal understood the need to postpone fund manager visits, but asked whether questions could still be asked about their reports. The Chairman suggested that questions be put through Mr Turner and copied to all members of the Sub-Committee.

The Chairman reported that the London CIV had held its AGM – the Director of Finance stated that papers for the CIV meetings could be circulated to Sub-Committee members. Cost transparency was an issue that had been raised frequently; there was a London CIV workshop on 7th August and an independent working group had been established to look at the matter. The Chairman was interested to know what the net savings from pooling were – he had asked John Arthur to give a presentation on this in September, and Mr Arthur offered to try to provide performance tables for the funds. There were two particular areas of concern with the CIV where progress had been made – one was the defined benefit pension scheme for its staff, and agreement had been reached with all 32 boroughs on closing this to new entrants; the other was the change of business permissions, where agreement had been reached that authorities wanting additional services from the CIV would have to pay for them.

The Chairman thanked Mr Turner and his Finance Team and Mr Arthur for their continued briefing of himself and the Vice-Chairman, and Cllr Fawthrop thanked the Chairman and Vice-Chairman for their remarkable achievements in affecting the work of the London CIV.

81 PENSION FUND PERFORMANCE Q1 2020/21

Report FSD200

The Sub-Committee received a summary of the investment performance of Bromley’s Pension Fund in the first quarter of 2020/1 including a report from the external advisor, MJ Hudson Allenbridge. The report also contained information on general financial and membership trends of the Pension Fund and summarised information on early retirements. The Chairman was pleased to note that the Fund had risen to a total value of £1.171bn.

Mr Arthur briefed the Sub-Committee on the report, emphasising that performance had been strong, with an increase of 17.7% over the quarter, driven in particular by Baillie Gifford. The situation remained very volatile, with the likelihood of a further wave of the pandemic and the United States presidential election. The Fund was over-weighted towards equities at 66.6%, rather than the 60% in the asset allocation strategy. He recommended a re-balancing towards around 63%, which the Sub-Committee supported. The position on cash-flow was noted and would continue to be monitored.

The report included a part 2 appendix on International Real Estate Manager selection. John Arthur stated that, despite the changes accelerated by Covid-19 to the office and retail sectors, this was still a good time to invest in international property through an adept investment manager looking to add value to particular properties. He also wanted to see greater diversification in the Fund. These funds ran on a limited lifecycle of roughly ten years, and there were limited timeframes for investing. The issue of honing the terms of reference further in view of the events of the last six months was raised, but it was considered that it was important that the process remained outcome focussed and the fund managers should have flexibility.

Members agreed that the decision made earlier in the year to diversify into international property was sound, and wanted to proceed with the selection process for a fund manager in September. The chairman suggested that this should be done in a physical meeting if possible.

Members considered the Council's fixed interest mandate, which as at the end of June was 13% of the Fund. The recommendation from MJ Hudson, which Members supported, was to move UK Government Gilts to UK Investment Grade Credit by switching both the current mandates into the Fidelity Sterling Corporate Bond Fund.

RESOLVED that

(1) The contents of the report be noted.

(2) The latest cash-flow position and that the situation will continue to be closely monitored as outlined in the MJ Hudson report be noted.

(3) No action be taken on the recommendation to consider currency hedging to cover a value of up to 50% for the fund's global equities, as outlined in the MJ Hudson report.

(4) In relation to the weighting of asset classes, 3.5% of the Fund (approximately £40m) be switched from Global equities to Multi-Asset Income, as recommended in the MJ Hudson report.

(5) The latest shortlist for the international property procurement be noted, and it is agreed that the final selection will take place at the meeting in September as outlined in Appendix 6 on the Part 2 agenda.

(6) The Baillie Gifford fixed interest fund is transferred to the Fidelity Sterling Corporate Bond Fund.

82 PENSION FUND DRAFT ANNUAL REPORT 2019/20
Report FSD20054

The Sub-Committee received the draft annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2020 which the Council was required to publish under the Local Government Pension Scheme Regulations 2013. In accordance with the regulations, the annual report included a number of stand-alone documents that required the approval of the Sub-Committee (the Governance Policy Statement, the Funding Strategy

Statement, the Investment Strategy Statement and the Communications Policy Statement). The draft annual report (attached to the report at Appendix 1) was subject to audit by the Fund's external auditor, Ernst & Young LLP. In accordance with the regulations, the Council would publish the final Annual Report on its website by 1st December 2020.

RESOLVED that

(1) The draft Pension Fund Annual Report 2019/20 be noted and approved.

(2) The Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Communications Policy Statement, as outlined in paragraph 3.2 of the report, be approved.

(3) It is noted that the final Pension Fund Annual Report 2019/20 will be reported to this Sub-Committee on 15th September 2020 following conclusion of the audit.

(4) Arrangements be made to ensure publication by the statutory deadline of 1st December 2020.

83 PENSION FUND RISK REGISTER
Report FSD20056

The Pension Fund Risk Register covered those risks which impacted on the ability to deliver its priorities and objectives. The Sub-Committee received a report which set out the risks and the actions taken to control them.

RESOLVED that the current Pension Fund Risk Register and the existing controls in place to mitigate risks be noted.

The Meeting ended at 8.17 pm

Chairman

Appendix A

PENSIONS INVESTMENT SUB-COMMITTEE

28TH JULY 2020

QUESTIONS FROM MEMBERS OF THE PUBLIC FOR WRITTEN REPLY

(1) From Gill Slater
(7) Pension Fund Annual Report 2019/20

ISS (e) outlines the approach to ESG considerations. DWP (PCRIG) have produced a draft guide for trustees of occupational pensions schemes on the risks and opportunities associated with climate change (welcomed by the Pensions Regulator, March 2020). When will the committee revisit its processes in line with the guide to embed climate-risk considerations into governance, risk management and strategy?

Reply:
The Fund's primary aim and fiduciary responsibility is to secure the payment of member pensions both now and into the future. The Fund's strong funding basis and performance against its LGPS peer group over the long term are testimony to the Sub-Committee's focus on this.

The Sub-Committee believes in investing over the long term with asset managers who are research driven and build high conviction portfolios rather than rely on replicating market indices. It is because of this research driven, active and long-term investment approach that the Fund's asset managers have to imbed Environmental, Social and Governance (ESG) issues, including climate risks, into their fundamental research process. The Sub-Committee and its Adviser meet with the Fund's asset managers on a regular basis to discuss these issues.

The Sub-Committee recognises the increased emphasis that the DWP and the Pensions Regulator are placing on climate change and will continue to engage with their asset managers on these issues going forward.

(2) From Sheila Grace
(7) Pension Fund Annual Report 2019/20 & (9) Pension Fund Risk Register

Whilst scientific evidence connects fossil fuels with climate change, the report and register omit any reference to climate change / fossil fuels. With the government being advised to take active steps to prepare for an increase of 4 degrees, does the committee understand what a 4 degree increase will mean for humanity and does it consider its pensions investments have any role to play in reducing these impacts?

Reply:
The Sub-Committee recognises the importance of climate change and believes that Pension Funds can play a role in encouraging change in corporate behaviour to help mitigate these risks. As noted in the previous response, the Sub-Committee believes that by investing in actively managed portfolios driven by fundamental research and invested for the long term, it is best placed to imbed these issues into its investments.

(3) From Sheila Grace
(7) Pension Fund Annual Report 2019/20

It is stated that the fund has appointed asset managers who explicitly consider ESG issues in their research (page 98). But the report does not include how asset managers invest or divest from funds with material ESG issues. Investments in environmentally harmful funds which include fossil fuels and factory farming are proving to be a greater risk as well as impacting negatively on climate and biodiversity. How is this compatible with the Fund's fiduciary responsibility?

Reply:
The Sub-Committee expects its asset managers to research and understand the environmental impact of each of the investments they make on behalf of the Fund. Because of this it does not believe in excluding specific companies from investment but for its asset managers to work with the companies they are invested in to improve the ESG profile of the Fund. It is occasionally those companies which are most challenged by issues such as climate change and are making serious efforts to tackle those challenges, which, by changing their behaviour, can have the biggest impact and through this change, become a highly profitable investment for the Fund.

(4) From Gill Slater
(6) Pension Fund Performance Q1 2020/21

The report indicates a fall in the rankings for the past 4 years & significantly in 2019/20. Appendix 5 notes the impact of COVID 19 and what it refers to as 'the seeds of the next crisis' (rising inflation, lower spending & slow growth) but completely ignores the looming climate crisis other than a single passing reference to the future of fossil fuels in respect of the US election. Does the committee know which of its funds involve fossil fuel investments and the extent of that investment and can that be communicated in simple terms for fund members to understand?

Reply:
The Sub-Committee is aware of which of its asset managers have investments in fossil fuel companies and will ask its Adviser to include this information in the next quarterly report.