BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

THE LONDON BOROUGH
www.bromley.gov.uk

TELEPHONE: 020 8464 3333
CONTACT: Graham Walton
graham.walton@bromley.gov.uk

DIRECT LINE: 020 8461 7743
FAX: 020 8290 0608

DATE: 23 November 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

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

A virtual meeting of the Pensions Investment Sub-Committee will be held on **TUESDAY 1 DECEMBER 2020 AT 6.00 PM.**

PLEASE NOTE: This is a 'virtual meeting' and members of the press and public can see and hear the Sub-Committee by visiting the following page on the Council's website: –
https://www.bromley.gov.uk/councilmeetingslive

Live streaming will commence shortly before the meeting starts.

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 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 13 FEBRUARY, 28 JULY AND 15 SEPTEMBER 2020, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 14)

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

5 QUESTIONS BY MEMBERS OF THE PUBLIC

In accordance with the Council's Constitution, questions that are not specific to reports on the agenda must have been received in writing 10 working days before the date of the meeting – by Tuesday 17th November 2020.

Questions specifically relating to reports on the agenda should 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 Wednesday 25th November 2020.**

Please note that written replies will be provided.

6 LONDON CIV

7 PENSION FUND PERFORMANCE Q2 (Pages 15 - 42)

8 PENSIONS ADMINISTRATION (Pages 43 - 50)

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

10 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
11	**CONFIRMATION OF EXEMPT MINUTES - 13 FEBRUARY AND 15 SEPTEMBER 2020** (Pages 51 - 54)	
12	**UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)**	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
13	**LONDON CIV (PART 2)**	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 13 February 2020

Present:

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

Also Present:

John Arthur, MJ Hudson Allenbridge

64 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

65 DECLARATIONS OF INTEREST

There were no declarations of interest.

66 QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received.

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

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

68 PENSION FUND PERFORMANCE Q3 2019/20

Report FSD20027

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

RESOLVED that the report be noted.

69 PENSION FUND INVESTMENT STRATEGY STATEMENT

Report FSD20028

The Sub-Committee considered the proposed new Investment Strategy Statement (ISS) for the Pension Fund under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and a revised Funding Strategy Statement (FSS) to reflect the outcome of the 2019 actuarial valuation.

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

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

RESOLVED that

(1) The Investment Strategy Statement at Appendix 1 be approved.

(2) The Funding Strategy Statement at Appendix 2 be approved.

(3) Any final changes to these documents be undertaken by the Director of Finance with the agreement of the Chairman and Vice-Chairman.

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

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

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

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

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

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

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

RESOLVED that

(1) The report and the presentation from Franklin Templeton be noted.

(2) Final changes to the asset allocation strategy be agreed.

(3) Procurement of an investment manager for international property be conducted by MJ Hudson Allenbridge.

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

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

RESOLVED that

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

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

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

RESOLVED that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

**The following summaries
refer to matters
involving exempt information**

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

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

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

The Sub-Committee received an update from the Chairman.

The Meeting ended at 9.54 pm.

Chairman

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.

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the special meeting held at 6.00pm on 15 September 2020

Present:

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

84 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence. Councillors Simon Fawthrop, Simon Jeal, David Jefferys and Gary Stevens joined the meeting by phone line.

85 DECLARATIONS OF INTEREST

There were no declarations of interest.

86 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 item 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 summary refers to matters involving exempt information

87 INTERNATIONAL PROPERTY FUND MANAGER SELECTION

The Sub-Committee received a summary of the tender process for the appointment of International Property fund managers, and received presentations from the three shortlisted fund managers. The Sub-Committee agreed the appointment of a fund manager.

The Meeting ended at 9.35pm.

Chairman

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Report No.
FSD20090

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**December 1st 2020**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q2 2020/21**
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 provides a summary of the investment performance of Bromley's Pension Fund in the 2nd quarter of 2020/21. More detail on investment performance is provided in a separate report from the Fund's external adviser, MJ Hudson Allenbridge, which is attached as Appendix 5. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the contents of the report;

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: £44.6m expenditure (pensions, lump sums, etc); £49.8m income (contributions, investment income, etc); £1,218m total fund market value at 30th September 2020)

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): 5,875 current employees; 5,628 pensioners; 6,076 deferred pensioners as at 30th September 2020

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Fund Value

3.1.1 The market value of the Fund ended the September quarter at £1,218.0m, up from £1,177.4m as at 30th June. The comparable value as at 30th September 2019 was £1,117.7m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1.

3.2 Performance Targets and Investment Strategy

3.2.1 Historically, the Fund's investment strategy was broadly based on a high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines, and, a comprehensive review of the Fund's investment strategy in 2012 confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGF) and a 70% allocation to global equities, with a 20% protection element remaining in place for investment in corporate bonds and gilts.

3.2.2 The asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash flow shortfall in future years, and a revised strategy was agreed on 5th April 2017. The revised strategy introduced allocations to Multi Asset Income Funds (20%) and Property Funds (5%), removed Diversified Growth Funds, and reduced the allocations to Global Equities (to 60%) and Fixed Income (to 15%). In order to implement the revised strategy, it was agreed to sell all of the Diversified Growth Funds and the Blackrock Global Equities assets.

3.2.3 At the meetings on 21st November and 14th December 2017 the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI fund mandates and Fidelity to manage a UK pooled property fund mandate. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018 and the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property fund was completed in August 2018. The final drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock fund was completed in May 2019 and transferred to Fidelity's MAI Fund, as agreed by this Committee at its meeting held on 15th May 2019.

3.2.4 The asset allocation strategy was reviewed again during 2019/20, and a revised strategy has been finalised. The revised strategy has amended the allocations as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property (5**%**).

3.3 Summary of Fund Performance

3.3.1 <u>Performance data for 2020/21 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 30th September 2020 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. The total fund return for the second quarter was +3.89% against the benchmark of +2.27%. Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provided in Appendix 2.

3.3.2 Medium and long-term performance data

The Fund's medium and long-term returns have remained very strong overall, although due to the Covid-19 pandemic the total return in 2019/20 was -2.74% against a benchmark of -1.98%. The returns for 2018/19 and 2017/18 were 8.0% and 6.7% against the benchmark of 8.3% and 3.1% respectively.

The overall Fund ranked twenty second against the 63 funds in the PIRC LGPS universe for the year to 31st March 2020, third over 3 years, third over 5 years, second over 10 years and first over 20 and 30 years.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31st March. The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority Average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
2019/20	***-2.74***	***-1.87***	***-4.8***	***22***
2018/19	8.0	8.3	6.6	11
2017/18	6.7	3.1	4.5	3
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
3 year ave to 31/3/19	***13.5***	***11.6***	***10.5***	***1***
2015/16	10.6	8.9	8.3	1
2014/15	14.6	13.4	11.2	1
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/19	***11.6***	***10.3***	***8.8***	***2***
2013/14	11.5	9.8	8.8	2
2012/13	13.6	12.0	10.7	1
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/19	***13.7***	***n/a***	***10.7***	***1***
20 year ave to 31/3/19	***7.9***	***n/a***	***6.4***	***1***
30 year ave to 31/3/19	***9.2***	***n/a***	***8.4***	***1***

*The most recent LA averages and ranking as at 31/03/20 are based on the PIRC LA universe containing 63 of the 89 funds.

3.3.3 In addition to winning the LGPS Investment Performance of the Year in 2017, the LGPS Fund of the Year (assets under £2.5bn) in 2018, Bromley was also in the final shortlist for 2019 and is currently one of three funds short-listed for the LGPS Fund of the Year 2020. Bromley also recently won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards 2019, recognising the consistent high performance of the Fund.

3.3.4 Performance Measurement Service

As previously reported in April 2016, the Council was informed that WM Company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian with effect from June 2016. There are currently no providers offering a like for like service so the Council is using its main custodian, BNY Mellon, to provide performance measurement information and the 2nd quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data and, at the time of writing, has 63 of the 89 LGPS funds (71%) signed up to the service including the London Borough of Bromley.

3.4 Early Retirements

3.4.1 Details of early retirements by employees in the Fund are shown in Appendix 3.

3.5 Admission agreements for outsourced services

3.5.1 The cessation debt and deficit repayment plan for MyTime Active has been finalised and was signed and sealed on 17th March 2020. MyTime has been paying monthly contributions since April and LBB is seeking to formalise an arrangement for the remaining balance (including interest for late payment) but has yet to determine a date.

3.5.2 The final transfer payment for GS Plus was commissioned to our Actuary on July 6th 2020. Our actuary is waiting to hear back from Barnett Waddingham if they agree to the approach being proposed. An update will be provided to this Sub-Committee when we have the results.

3.5.3 There is currently one admission agreement being arranged relating to Academies that have outsourced services; Red Hill Primary.

3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2020/21. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings is as follows although this may change given future social-distancing requirements:

Meeting 27th January 2021 – MFS (global equities)
Meeting 29th April 2021 - Baillie Gifford (global equities and fixed income)

4. POLICY IMPLICATIONS

4.1.1 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

5.1.1 Details of the final outturn for the 2019/20 Pension Fund Revenue Account and the position after the second quarter of 2020/21 are provided in Appendix 4 together with fund membership numbers. A net surplus of £19.5m occurred during 2019/20 and total membership numbers rose by 136. In the first half of 2020/21, a net surplus of £5.5m has arisen, and membership numbers decreased by 198.

5.1.2 It should be noted that the net surplus of £19.5m in 2019/20 includes investment income of £12.1m which was re-invested in the funds so, in cashflow terms, there would have been a £7.4m cash surplus for the year. The first half of 2020/21 would be a cash surplus of £5m excluding reinvested income.

6. LEGAL IMPLICATIONS

6.1.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended). 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)	Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Schroders.

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	**Baillie Gifford**					**Fidelity**					**Blackrock**	**MFS**	**Standard Life**	**Schroders**	**CAAM**	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	**GRAND TOTAL**
	£m	£m	£m	£m	£m	£m	£m			£m	£m	£m	£m	£m	£m	£m
31/03/2002	113.3				113.3	112.9				112.9						226.2
31/03/2003	90.2				90.2	90.1				90.1						180.3
31/03/2004	113.1				113.1	112.9				112.9						226.0
31/03/2005	128.5				128.5	126.7				126.7						255.2
31/03/2006	172.2				172.2	164.1				164.1						336.3
31/03/2007	156.0				156.0	150.1				150.1					43.5	349.6
31/03/2008	162.0				162.0	151.3				151.3					44.0	357.3
31/03/2009	154.4				154.4	143.0				143.0						297.4
31/03/2010	235.4				235.4	210.9				210.9						446.3
31/03/2011	262.6				262.6	227.0				227.0						489.6
31/03/2012	269.7				269.7	229.6				229.6						499.3
31/03/2013#	315.3	26.5			341.8	215.4				215.4			26.1			583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4			58.4	122.1	123.1	27.0			625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6			66.6	150.5	150.8	29.7			742.9
31/03/2016		44.8	51.8	247.9	344.5		67.4			67.4	145.5	159.2	28.3			744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3			74.3	193.2	206.4	28.5			943.8
31/03/2018$&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8				970.7
31/03/2019			59.2	416.5	475.7		78.7	78.8	48.6	206.1	11.4	230.2		115.8		1,039.2
31/03/2020			60.9	411.85	472.7		83.5	80.6	47.0	211.1		220.3		96.1		1,000.3
30/06/2020			65.0	529.8	594.8		88.4	87.5	45.6	221.5		254.3		106.8		1,177.4
30/09/2020/			65.4	524.8	590.2		89.0	128.3	44.7	262.0		259.2		106.6		1,218.0

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.

$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.

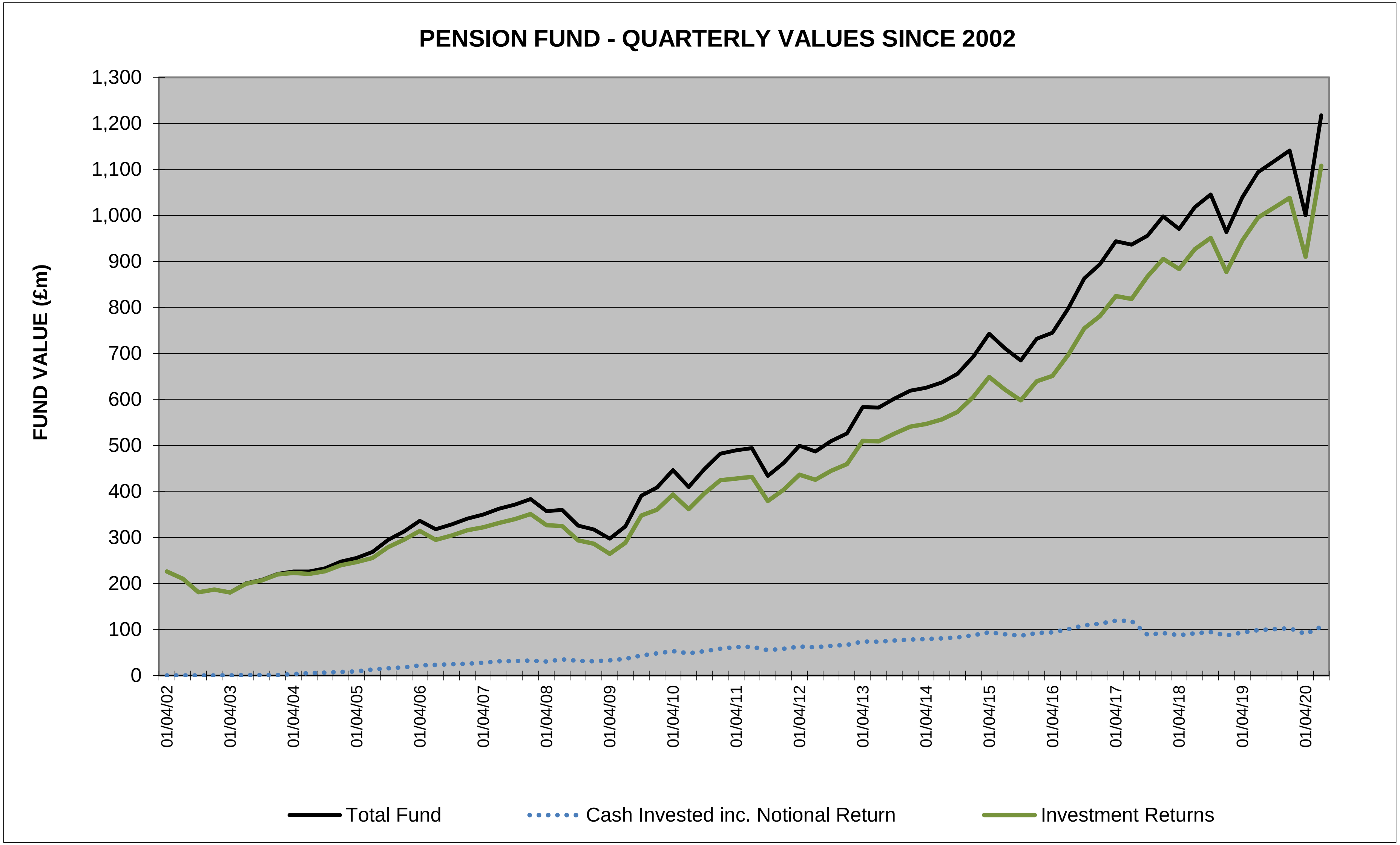
& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.

£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.

^ Assets sold by Blackrock (£20m) in August 2018 to fund Fidelity Property fund.

* Assets sold by Blackrock (£13.7m) in December 2018 to fund Fidelity Property fund.

" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI.
/ Assets sold by Baillie Gifford (£41.2m) in Aug 2020 to fund Fidelity MAI fund


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
01/04/02
01/04/03
01/04/04
01/04/05
01/04/06
01/04/07
01/04/08
01/04/09
01/04/10
01/04/11
01/04/12
01/04/13
01/04/14
01/04/15
01/04/16
01/04/17
01/04/18
01/04/19
01/04/20
Total Fund
Cash Invested inc. Notional Return
Investment Returns

Appendix 2

PENSION FUND MANAGER PERFORMANCE TO SEPT 2020

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	0.81	7.19	37.70	25.66	15.88	20.52	9.58
Benchmark	0.27	3.46	23.96	5.80	9.02	14.47	7.85
Excess Return	0.54	3.72	13.74	19.85	6.86	6.06	1.73
Baillie Gifford Fixed Income	1.44	0.78	8.05	4.17	5.02	5.41	5.90
Benchmark	0.97	-0.15	4.98	3.18	4.93	5.47	5.74
Excess Return	0.47	0.93	3.06	0.99	0.09	-0.06	0.16
Fidelity Fixed Income	1.58	0.66	6.59	5.44	6.08	6.55	6.72
Benchmark	1.08	-0.06	4.68	3.88	5.36	5.43	5.87
Excess Return	0.50	0.72	1.91	1.56	0.72	1.12	0.84
Fidelity MAI	-0.10	0.59	10.37	-2.82			1.81
Benchmark	0.33	0.99	1.98	4.00			4.00
Excess Return	-0.43	-0.39	8.39	-6.82			-2.19
Fidelity Property	-0.12	-0.07	-2.99	-3.21			-0.03
Benchmark	0.18	0.24	-3.83	-4.18			0.93
Excess Return	-0.31	-0.31	0.84	0.97			-0.96
MFS Global Equity	2.44	1.92	17.74	-0.65	7.26	13.32	11.91
Benchmark	0.23	3.35	23.64	5.27	8.45	13.85	11.21
Excess Return	2.20	-1.43	-5.90	-5.92	-1.20	-0.53	0.70
Schroder MAI	-0.63	2.32	13.18	-3.44			-0.39
Benchmark	0.41	1.23	2.47	5.00			5.00
Excess Return	-1.04	1.09	10.71	-8.44			-5.39
Total Fund	0.98	3.89	22.33	10.09	9.40	13.61	9.01
Benchmark	0.38	2.27	14.90	4.85	7.23	11.26	
Excess Return	0.60	1.62	7.42	5.24	2.16	2.35	

N.B. returns may differ to fund manager reports due to different valuation/return calculation methods

EARLY RETIREMENTS

A summary of early retirements and early release of pension on redundancy by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the last valuation of the Fund (as at 31st March 2019) the actuary assumed a figure of 0.9% of pay (approx. £1.4m p.a from 2020/21) compared to £1.2m in the 2016 valuation, £1m in the 2013 valuation and £82k p.a. in the 2010 valuation. In 2015/16 there were nine ill-health retirements with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, in 2017/18 there were five with a long-term cost of £537k, in 2018/19 there were five with a long-term cost of £698k and in 2019/20 there were 3 with a long-term cost of £173k Provision has been made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other (non-ill-health) early retirements or early release of pension, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2015/16 there were 23 non ill-health retirements with a total long-term cost of £733k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were ten with a long-term cost of £245k, in 2018/19 there were eight with a long-term cost of £392k and in 2019/20 there were 14 with a long-term cost of £433k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements are recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
April – Sept 20 - LBB	1	289	2	-
- Other	2	156	3	78
- Total	3	445	5	78
Actuary's assumption - 2019 to 2022		1,400 p.a.		N/a
- 2016 to 2019		1,200 p.a.		N/a
- 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2019/20	3	173	14	433
– 2018/19	5	698	8	392
– 2017/18	5	537	10	245
– 2016/17	6	235	22	574
– 2015/16	9	1,126	14	734
– 2014/15	7	452	19	272
– 2013/14	6	330	26	548
– 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2019/20 £'000	Estimate 2020/21 £'000	Actuals to 30/09/20 £'000
INCOME			
Employee Contributions	7,091	7,400	3,430
Employer Contributions			
- Normal	24,969	23,700	10,632
- Past-deficit	2,501	-	-
Transfer Values Receivable	5,511	3,900	1,055
Investment Income			
- Re-invested	12,114	6,100	5,045
- Distributed to Fund	10,554	8,700	5,047
Total Income	62,740	49,800	25,209
EXPENDITURE			
Pensions	29,076	29,600	14,761
Lump Sums	5,658	6,100	2,805
Transfer Values Paid	3,064	3,600	918
Administration			
- Manager fees	4,144	3,900	875
- Other (incl. pooling costs)	1,175	1,200	282
Refund of Contributions	133	200	32
Total Expenditure	43,250	44,600	19,673
Surplus/Deficit (-)	19,490	5,200	5,536

MEMBERSHIP	**31/03/2020**	**30/09/2020**
Employees	6,253	5,875
Pensioners	5,592	5,628
Deferred Pensioners	5,945	6,076
	17,568	17,579

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APPENDIX 5

MJ HUDSON
Allenbridge

London Borough of Bromley

Quarterly Report

Q3 2020

Contacts:

John Arthur

Senior Analyst
+44 20 7079 1000
John.Arthur@mjhudson.com

Adrian Brown

Senior Analyst
+44 20 7079 1000
Adrian.Brown@mjhudson.com

Performance Summary

As I write this, we are still awaiting confirmation of the result of the US Presidential election. It appears that Joe Biden has won the popular vote and enough electoral college votes to become the 46th President of the United States but Donald Trump has yet to concede and has launched several lawsuits suggesting voting irregularities. There is still scope for the outgoing President to cause major social unrest by attempting to undermine US democracy. It does look like the Republicans have retained control of the Senate for the time being. What the election has not done is to consign the Trumpian version of the Republican party to the history books. Donald Trump still won over 70m votes and around 48.5% of the popular vote.

My initial thoughts are as follows:

Joe Biden is an experienced political operator used to building consensus and fashioning compromise. With a Republican controlled Senate and the political climate in the US still deeply riven by the experiences of the last 4 years, he will need all his negotiating skills to make any progress on his agenda. This may mean that those on the left of the Democrat party politically may have less influence than they hoped. Markets will take the constraint of a Republican Controlled Senate on the Democratic President as a positive.

This reduces the likelihood of a major ($3tn) economic stimulus package being agreed. Any resulting stimulus package is therefore likely to be delayed and smaller in scale and Republicans may quickly revert to championing a lower budget deficit having suspended this belief during the Trump tax cuts.

Internationally, the President elect will have more scope and early moves to bring the US back into the UN Human Rights Council; World Health Organisation and The Paris Accord on climate will be taken as a positive sign of a US wishing to reconnect on the global stage.

Joe Biden's Irish roots will make a Brexit deal that does not create a customs border between Ireland and Northern Ireland more likely. This may increase pressure on the UK government to compromise and find a deal on Brexit, leaving the UK with closer ties to the EU in order to keep trade flowing freely across Europe.

On Covid-19, the US will now have a President who will listen to scientific data and attempt to bring the virus under control. This may mean a form of economic lockdown which would not be popular across swaths of the US and could destabilise global markets, but I suspect his actions will fall short of this.

Outside of the US, the central expectation remains that the Covid-19 pandemic will be bought under control and a vaccine developed in due course, but roll-out is likely to be through 2021 and any full economic recovery not achieved until 2022/3. An eventual recovery should unwind the Covid-19 related pressure on bond yields and should lead to the yield on UK Government bonds rising back to 1% or slightly above in due course, although inflationary pressure remains muted.

Total Fund Performance

The Fund rose by 3.89% over the quarter, outperforming the benchmark return by 1.62%. The majority of this outperformance was driven by the continued strong performance of the Baillie Gifford Global Equity mandate which returned 7.2%, outperforming its benchmark by 2.7% in the quarter. On a one-year view this mandate has outperformed its benchmark by an incredible 19.9% and by 6.1% per annum over 5 years. This is against their performance target of outperforming by 2-3% per annum over a rolling 5 years. This underlines how exceptional this outperformance has been but also the concentration of risk within the portfolio. It has been slightly offset by the underperformance of MFS in their global equity mandate. MFS are marginally behind their benchmark over 5 years but have underperformed by -5.9% over the last year. The two managers have a different investment philosophy and process and are held in tandem to diversify risk. Compared to a pure 'Value' style manager, MFS has performed well over the short and longer term.

With market returns being low in the third quarter across all asset classes, the performance effect of the Tactical Asset Allocation (overweight global equities and underweight all other asset classes) had a small positive effect. The Fund ended the quarter valued at an all time high of £1.22bn. The long-term performance figures remain very strong with the Fund returning 9% per annum over the last 23 years (since we have records) and outperforming its benchmark over all time periods.

Asset Allocation

During the quarter, £40m was sold from the Baillie Gifford Global Equity mandate, taking advantage of its exceptionally strong performance, and reinvested into the Fidelity Multi-Asset Income Fund. This move reduced the level of investment risk within the Fund marginally, moved the tactical asset allocation of the Fund back towards the Strategic Benchmark and boosted Fund cash-flow at a time when there is pressure on the income generated by all the Fund's portfolios.

Asset class	Asset Allocation as at 31/12/2019	SAA as at 31/12/2019	Position against the existing SAA	Asset Allocation as at 30/9/2020	New SAA going forward	Position against the new SAA
Equities	64.6%	60%	+4.6%	64.4%	57.5%	+6.9%%
Fixed Interest	12.7%	15%	-2.3%	12.7%	12.5%	+0.2%
Property	4.2%	5%	-0.8%	3.7%	5%	-1.3%
Multi-Asset Income	18.5%	20%	-1.5%	19.3%	20%	-0.7%
Int'l Property	n/a	n/a	N/a	0%	5%	-5.0%

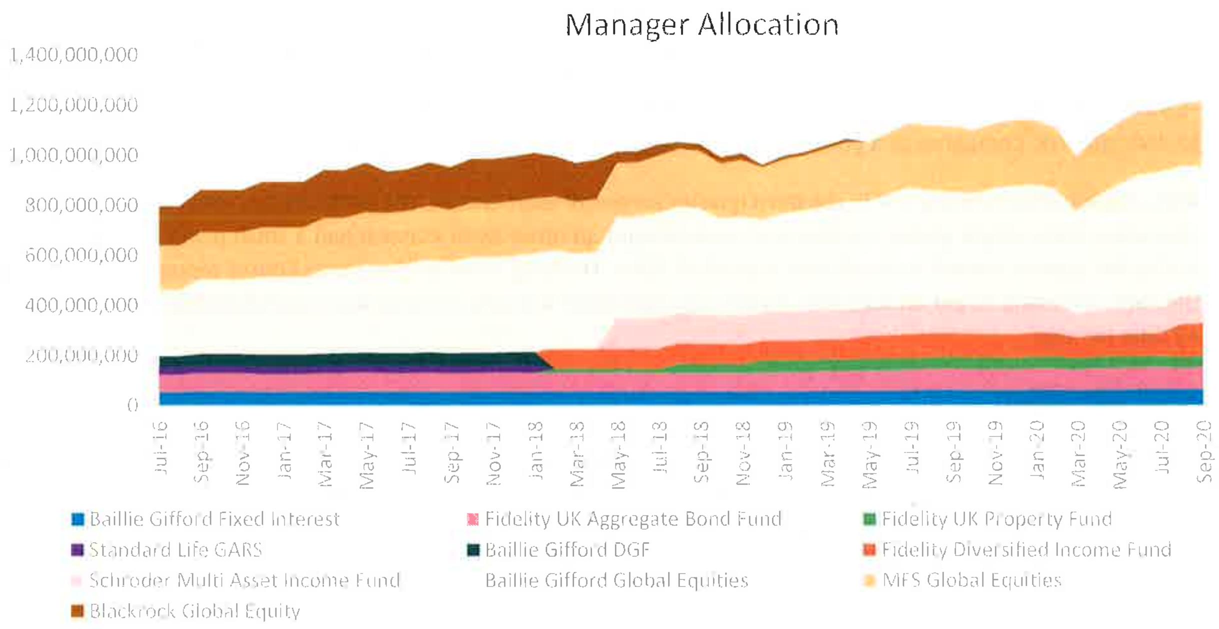
Figures may not add up due to rounding

In addition, the Baillie Gifford Fixed Interest mandate was sold and reinvested with Fidelity. Both these asset movements were made in accordance with the decisions at the last Pensions Committee meeting. Because both the Baillie Gifford and the Fidelity Fixed Interest mandates are held as units in a fund, the transition cost incurred is the difference in the bid/offer spread for the underlying funds. This would have totalled £500k but by transferring approximately 26% of the assets in-specie this cost was kept down to £350k or 0.54% of the £65m asset transfer.

The change of manager within one of the Fund's Fixed Interest mandates does alter the exposure of that specific portfolio slightly but, in my mind, does not increase the risk at the Total Fund level. The Baillie Gifford Fixed Interest mandate has performed in-line with its benchmark since inception but had tended to underperform in down markets. The portfolio was 88% invested in UK Gilts and Investment Grade Corporates and 6% invested in each of High Yield and Emerging Market Bonds. The new Fidelity Fixed Interest Mandate is wholly invested in UK Investment Grade Corporate Bonds.

Going forward, only the Fidelity Sterling Aggregate bond portfolio has exposure to UK Government Gilts within the Fund's benchmark following the decision at the last Pensions Committee meeting not to combine this portfolio with the new Fidelity UK Corporate Bond portfolio, although both of the Fund's Multi-Asset Income portfolios do allow for investment into this asset class if the manager believes this will add value. Government Bonds now account for approximately 5% of the Fund's assets.

The chart below shows the Fund's assets by manager/mandate



Because the investment returns have surpassed the level assumed by the discount rate, the funding level should have improved, all else being equal. Of course, everything else has not stayed constant and the Fund's liabilities will have increased slightly due to the McCloud judgement and a number of other legisaltive issues. In addition, falling yields on UK Government Gilts may also have affected the actuaries calculation of the discount rate. These calculations are for the Fund as an open, ongoing Defined Benefit Scheme. If the Scheme was to close, less risk could be taken within the investment portfolios and the discount rate would be lower, raising the value of the Fund's future liabilties and hence reducing the lower funding level.

The allocation to the Morgan Stanley International Property fund will be financed by selling down the overweight position in Global Equities. The greater diversification this will provide should lower the investment risk within the Fund marginaly.

Cash Flow

Currently, the Fund can cover pension and lump sum payments as well as its manager fees and admin costs from pension contributions and the investment income received. Excess investment income is reinvested within the Global Equity and Fixed Income portfolios and paid out from the Multi-Asset Income and UK Property portfolios. With a number of companies cutting dividends to conserve cashflow, income for the Global Equity portfolios is predicted to fall this year. In addition, rental income from the UK Property portfolio will be reduced and UK Gilt yields have fallen further. Investment income coming into the Fund is, therefore, expected to fall this year and only recover slowly going forward.

Cost Transparency Initiative (CTI)

In 2018, the CTI was tasked by the FCA with designing a standardised cost transparency template for asset managers to report all costs associated with managing an institutional client's money. The CTI is supported by Pensions and

Lifetime Savings Association (PLSA), Investment Association (IA) and Local Government Pension Scheme Advisory Board (LGPS SAB).

The CTI has now launched a standard template for managers to complete which details all costs borne by the investor, including management fees; admin and custody fees and transaction costs. The LGPS SAB has set up an LGPS Cost Transparency Compliance and Validation System with a company called BYHIRAS https://lgps.byhiras.com/ which can be accessed by LGPS Funds. The Cost Transparency Template is to be completed annually by investment managers but is voluntary.

Of the Fund's four asset managers, Baillie Gifford; MFS; Fidelity and Schroders, only Schroders is not a member of the CTI; however, all four managers complete a Cost Transparency Template which they make available to clients through BYHIRAS. I have reviewed the Cost Transparency templates for all the Fund's mandates and regard them as fit for purpose. The management fees shown are competitive and in line with the agreements that I am aware of and the transaction costs borne by each portfolio are acceptable. The two global equity portfolios, in particular, have low transaction costs compared to the industry average because both managers invest for the long-term and have a low turnover of holdings. Within the less liquid portfolios, the templates are of less value and the reporting of the transaction cost much less detailed. This should improve going forward and the information in these reports should get more standardised next year. Some of the managers have already provided these reports to Bromley, others are happy to do so upon request.

The table below shows the charges borne by the Fund for each mandate for the fiscal year 2019/20 as reported by the managers:

Mandate	AuM (average over period)	Management Fee (inc VAT)	Transaction Costs	Comment
Baillie Gifford Global Equity	£452m	0.4478% (£2,023,019)	0.0223% (£100,559)	transaction costs do not include full market impact
MFS Global Equity	£251m	0.5083% (£1,278,290)	0.0912% (£229,401)	A more complete estimate of transaction costs
Fidelity Fixed Interest	£83m	0.2512%[1] (£207,322)	0.1188% (£98,077)	
Baillie Gifford Fixed Interest	£62m	0.3609 (£223,163)	0.3852% (£238,200)	
Fidelity Multi-Asset Income	£90m	0.4275%[2] (£383,998)	0.0211% (£18,972)	Pooled fund so the transaction cost not fully included
Schroders Multi-Asset Income	£110m	0.214% (£235,390)	0.250% (£275,299)	Management fee is 0.35%+VAT. 9-month fee holiday post switch to the UK Domiciled fund last year.
Fidelity UK Property	£48m	0.746% (£357,726)	Not recorded	Illiquid asset so difficult to report transaction costs

I would treat these figures with care, there is plenty of scope for managers to interpret the requirements differently particularly around transition costs and the treatment of pooled funds. In particular, with Schroders not signing up to the CTI, their figures are not set out in the same manner and therefore harder to compare. The figures do suggest that moving the Fixed Interest portfolio from Baillie Gifford to Fidelity should have reduced costs.

[1] Includes 40% fee discount for aggregation with Multi-Asset Income Fund
[2] Includes 33% fee discount for aggregation with Fixed Interest

Key Indicators at a Glance

Market Indicators

Asset Class	Index (Local Currency)	Q3 2020	Quarter-on-Quarter	YTD
Equities				
UK Equities	FTSE 100	5,866.1	-4.0%	-20.1%
UK Equities	FTSE All-Share	3,282.3	-2.9%	-19.8%
US Equities	S&P 500	3,363.0	8.9%	5.6%
European Equities	EURO STOXX 50	3,193.6	-0.7%	-12.6%
Japanese Equities	Nikkei 225	23,185.1	4.6%	1.6%
Emerging Markets Equities	MSCI Emerging Markets	1,082.0	9.7%	-1.0%
Global Equities	MSCI World	2,367.3	8.0%	2.1%
Government Bonds				
UK Govt Bonds	Bloomberg Barclays UK Govt All Bonds TR	430.7	-1.3%	8.2%
UK Govt Bonds Over 15 Years	FTSE Actuaries Govt Securities UK Gilts TR Over 15 Yr	6,575.0	-2.5%	12.6%
UK Govt Index-Linked Bonds Over 5 Years	FTSE Actuaries Govt Securities UK Index Linked TR Over 5 Yr	6,312.8	-2.5%	10.8%
UK Govt Index-Linked Bonds Over 15 Years	FTSE Actuaries Govt Securities UK Index Linked TR Over 15 Yr	8,086.8	-3.5%	12.7%
European Govt Bonds	Bloomberg Barclays EU Govt All Bonds TR	261.3	1.6%	3.7%
US Govt Bonds	Bloomberg Barclays US Treasury TR Unhedged USD	2,580.8	0.2%	8.9%
Bond Indices				
Pan-European Investment Grade	Bloomberg Barclays Pan-European Aggregate Corporate TR Index Value Unhedged	245.3	1.9%	0.3%
Pan-European High Yield	Bloomberg Barclays Pan-European HY TR Index Value Unhedged	398.9	2.6%	-3.4%
US Corporate Investment Grade	Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged	213.8	1.5%	6.6%
US High Yield	Bloomberg Barclays US Corporate High Yield TR Index Value Unhedged	2,196.4	4.6%	0.6%
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	401.1	1.4%	4.8%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, bbl.	41.0	-0.5%	-38.0%
Natural Gas	Generic 1st Natural Gas, MMBtu	2.5	44.3%	15.4%
Gold	Generic 1st Gold, 100oz	1,887.5	4.8%	23.9%
Copper	Generic 1st Copper, lb	303.3	11.8%	8.4%
Currencies				
GBP/EUR	GBP/EUR Spot Exchange Rate	1.10	0.0%	-6.9%
GBP/USD	GBP/USD Spot Exchange Rate	1.29	4.3%	-2.6%
EUR/USD	EUR/USD Spot Exchange Rate	1.17	4.3%	4.5%
USD/JPY	USD/JPY Spot Exchange Rate	105.53	-2.1%	-2.8%
Dollar Index	Dollar Index Spot	93.89	-3.6%	-2.6%
AUD/USD	AUD/USD Spot Exchange Rate	0.72	4.1%	2.1%
USD/CAD	USD/CAD Spot Exchange Rate	1.33	-2.2%	2.5%
USD/CNY	USD/CNY Spot Exchange Rate	6.79	-3.9%	-2.5%
USD/CHF	USD/CHF Spot Exchange Rate	0.92	-2.7%	-4.7%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,226.3	1.6%	-18.1%
Private Equity	S&P Listed Private Equity Index	138.9	2.9%	-13.7%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	15,053.3	5.4%	1.8%
Property				
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,148.8	-2.5%	-17.5%
Volatility				
VIX	Chicago Board Options Exchange SPX Volatility Index	26.4	-13.3%	91.4%

* All return figures quoted are Total Return, calculated with gross dividends reinvested   Source: Bloomberg

Executive Summary

Following the strong bounce back witnessed across major markets in Q2 and early Q3, markets appeared to run out of steam in September as evidence emerged of a resurgence in European COVID-19 cases and investors anticipated the recessionary effects of the tailing-off of the economic stimulus packages, as well as the uncertainty of a close US presidential election.

While most major economies had reopened by mid-way through the quarter, **forecasts for 2020 global real GDP growth are around -5% (nearer -10% for UK).** While daily COVID cases were declining in the United States, cases in Europe have been rising rapidly and a second wave is now resulting in renewed economic lockdowns. It is clear that some restrictions are likely to be in place well into next year, and global GDP may not reach pre-COVID-19 levels before 2021/22.

It is worth highlighting the following themes, impacting investment markets:

- **Policy has, and is likely to continue, to support asset markets.** Whilst many governments have pulled back on their fiscal stimulus programmes, the European Union was a notable exception, with the 27-member bloc agreeing to a pandemic recovery package worth €750bn in July. Equally, central banks have continued with their unprecedented levels of monetary support: speculation continues on the possibility of negative interest rates in the UK, while the US Federal Reserve has shifted its mandate to target an *average* inflation rate of 2% pa rather than a target of 2% to give itself more monetary flexibility. **This has maintained investors' appetite for risk, albeit on somewhat nervous foundations, due to relatively high valuations, notably in US equities.**
- With today's low interest rates, it is hard to see government bonds delivering a good return, especially in real terms. However, they may still provide some (though limited) diversification of equity risk. **The Fund has reduced its exposure to UK Government Gilts with the move of one of the Fixed Interest portfolios from Baillie Gifford to Fidelity with a pure UK Corporate Credit mandate.**
- **Increasing dispersion of returns.** The gap between the winners and losers from COVID-19 restrictions continues to grow, as manufacturing has demonstrated by recovering more quickly than services. Sectors benefitting from the changes have continued to outperform strongly. For example, the global tech sector is up 23% year to date (YTD), while energy is down -40% YTD. This partly explains the continued outperformance of growth-style equities (up +16% YTD) over value-style (down -15% YTD), and also the wide dispersion of regional equity returns (US and emerging markets up nearly 10% in Q3, compared to the UK down -3% and Europe flat). **These extreme dispersions highlight the importance of managing the portfolios' risk in asset allocation and the recent reallocation from Global Equities to Multi-Asset Income has been a part of this risk control.**
- **Warning lights on currency risk.** The extraordinary amount of policy support in addition to the vast debt being accumulated provides fertile ground for investor nervousness, as the weakness in the US dollar over Q3 has shown. A contested US presidential election and, for Sterling-based investors, Brexit, help explain some of the enthusiasm for other currencies, including some emerging markets currencies. Other safe havens, including gold, have also benefitted. **Investors may want to consider hedging some of their currency risk.** This was discussed last quarter and I will continue to keep under review.
- **Inflation.** While further COVID-19 restrictions are clearly deflationary in the short-term, **markets still expect sustained moderate (3% to 4% pa in UK) inflation in the medium term.** However, clearly these expectations are likely to be pushed further out, the longer economic restrictions last.

Many of the geopolitical themes from Q2 have continued into Q3. With the US presidential election fast approaching on 3rd November. Market moves in the immediate aftermath may well prove to be wrong in the longer-term with a contested result the major concern at present.

- Sino-centric tensions have continued, with escalations in the US-China trade war (including a new emphasis on technology firms) as well as renewed tensions with both India and Taiwan.
- Negotiations between the EU and UK on a post-Brexit trade deal have intensified, with political rhetoric and tensions increasing due to the UK Internal Market Bill and the corresponding legal action that the EU has launched to enforce the Withdrawal Agreement. Expectations of a "No-Deal" Brexit have risen, although this is still not regarded as the most likely scenario.

- Shinzo Abe announced his intention to resign as Prime Minister of Japan in August, stepping down on 16th September. Expectations of tighter monetary policy boosted the Yen and put pressure on equities in the aftermath of the news. His former right-hand man, Yoshihide Suga, was elected as his replacement.

After the unprecedented slump to global GDP in Q2, most major economies are poised for record rebounds in Q3 following the lifting of national lockdowns. However, it is becoming apparent that the previous forecasts of a steep "V-shaped" recovery are levelling off towards what economists are referring to as a "reverse-square root sign". The US economy is forecast to have the highest Q3 GDP growth out of the economies that we track (+20%), followed by the UK (+14%), the Eurozone (+7.5%) and Japan (+3.8%). However, these rebounds need to be considered in the context of the falls in GDP during Q2: the US experienced the greatest slump in GDP (-31.4%), followed by the UK (-19.8%), the Eurozone (-11.8%) and then Japan (-7.8%). More interesting than the bounce back is perhaps the build-up of government debt to finance it. The FY2020 budget deficit in the US alone is projected to reach $3.3 trillion, with US government debt set to exceed the size of the economy for the first time since the Second World War.

- Current inflation remains well below recent levels among the major economies. In the UK, CPI growth fell from 0.6% in June to an estimated 0.2% in September, while Eurozone CPI fell from 0.3% in June to 0.1% in September. In contrast, US CPI increased from 0.6% in June to an estimated 1.4% in September, with large price increases for second-hand motor vehicles being one factor for this change.

Global equities generally had a strong Q3, although performance diverged as the US, Asia and emerging markets enjoyed gains, while the UK and Europe lagged in comparison. Emerging markets were the frontrunner with a quarterly return of 9.7%, followed by the US, where the S&P 500 saw a return of 8.9%. In contrast, UK equities were the weakest performers with the FTSE 100 returning -4.0%, though this was partially due to the strengthening of Sterling over the quarter. Volatility, as measured by the VIX index, fell from 30.4 on 30 June to 26.4 on 30 September.

- In the US, consumer discretionary and materials companies were boosted as the economy re-opened, while aviation and energy companies have continued to perform poorly. Meanwhile technology, the standout sector during the pandemic, experienced a tough September with significant sell-offs.
- The UK and Europe saw similar trends to the US in terms of consumer discretionary and materials sector performance. However, for the UK in particular, the outsized exposure to stocks in the financial services and oil sectors hampered performance.
- Emerging market equities recorded the strongest returns over Q3 as Asian manufacturing-led economies recovered, helped also by the relative weakness of the dollar. Markets such as China, Taiwan and India performed well, in contrast to the likes of Turkey, Thailand, Russia and Brazil.

On the **fixed income** front, risk appetite remained strong. Defaults have continued at lower than average levels, given fiscal support packages. However, it is likely that they will increase markedly next year as stimulus is withdrawn. As investors continue to hunt for yield in the all-time low interest rate environment, high yield credit performed the best over Q3, followed by investment grade credit. Government bonds yields were generally unchanged over the quarter.

- US high yield credit spreads fell by around 1.1% in Q3. Most of this occurred in July, due to strong investor inflows along with default and downgrade rates slowing in pace. The inability for Democrats and Republicans in the US to agree on refreshed stimulus measures pushed up yields in September.
- US Treasuries and investment grade credit yields were broadly stable over the quarter. The impact on Treasuries of the change in the Federal Reserve's inflation policy in August was muted. Likewise, high levels of corporate issuance over the quarter has had limited effect on corporate bond yields.
- UK Gilts yields rose slightly over the quarter (prices fell) as renewed fears around a disorderly Brexit transition weighed on investor sentiment, while investors increasingly expect UK interest rates to drop below zero during 2021.
- The positive performance of corporate bonds continues to contrast with credit rating trends. 37% of the companies rated by S&P now have downgrade warnings. Between 70% and 85% of energy, transport, media, and automotive firms have either experienced a credit downgrade, or a downgrade warning since the start of the COVID outbreak.[3]

Commodities had a strong quarter after the turmoil caused by COVID-19 in the first half of the year.

- Gold continued its strong performance due to the continued economic uncertainty. Prices reached all-time highs in August, breaking the $2000 per troy ounce barrier for the first time in history. Overall gold posted a 4.8% price increase over the quarter, ending at a price of $1887 per troy ounce.

[3] Reuters, "S&P Global sees U.S., European corporate default rates doubling", October 2020.

- Oil had made modest gains over the quarter with the price of a barrel reaching a high of $46 in August. These gains were reversed in September amid fears over the sustainability of the global recovery.
- Natural gas prices rebounded over Q3 from the lows in Q2 (a level which had not been seen since the 1990's) due to a collapse in demand. As suppliers cut production in response to the historically weak prices, prices increased by 44% over the quarter.
- Copper, seen as an indicator of economic activity, continued its rebound in Q3.

Property had a mixed quarter with pricing much dependant on region and sector. Global Listed property delivered negative returns, with the FTSE Global property index down -2.5% in Q3. This index is now down -17.5% since the start of the year. Properties in Asia Pacific performed the strongest over the quarter, followed by Europe, the US, and then the UK.

- Green Street Advisor's US Commercial Property Price Index rose by 1.3% in the first two months of the quarter. The industrial and apartment sectors enjoyed gains over the quarter, while other sectors such as office, retail and self-storage were steady.
- In contrast to the performance of the FTSE UK Property index, the Nationwide UK house price index rose by 4.5% in Q3 due to the temporary suspension of stamp duty, the continuing release of pent-up lockdown demand as well as shifts in housing preferences.

Currencies continued to reflect the risk-on attitude adopted by investors this quarter. The dollar lost further strength and reached a two-year low during Q3, as loose monetary policy in the US continued. The euro and Sterling both gained 4.3% against the Dollar, although Brexit uncertainty pared further gains for Sterling and it ended the quarter flat against the euro.

Global Outlook 2020 Q1

The massive injection of Quantitative Easing (QE) supplied by central banks across the globe has continued to expand in response to a resurgence in the global pandemic which has again forced a number of Governments, particularly across Europe, to shut down their economies to reduce its transmission through lower social contact.

QE creates digital money which the central banks are then using to purchase government and corporate bonds and hence push down yields across the maturity spectrum thereby making borrowing cheaper in the hope that this stimulates a weak economy. By providing a willing buyer for large quantities of government debt, QE has also enabled Governments to increase their borrowing without worrying about investors demanding higher interest rates.

The unanswered questions here are firstly, will QE actually boost the economy and secondly is this money creation inflationary? From a monetarist perspective, whilst Central Banks have increased the amount of money available, it is commercial banks who distribute this into the economy. Since the Global Financial Crisis (GFC) in 2008/9, demand for investment has remained subdued so the flow of the increase in money supply into the economy has been slow. QE seems to have staved off a potential economic collapse post the GFC and again at the onset of Covid-19 but done little more than offset the negative effects of these two events. It has not led to noticeably faster economic growth. What it does appear to have done is to force asset prices higher as the central bank purchasing of low risk bonds has forced other investors further out along the risk curve in the hunt for yield.

From an inflationary perspective the jury is also out, as noted above, the extra money created by QE is not flowing into the economy but rather into assets, raising prices. Because economic activity is not increasing much there is very limited inflationary pressure. However, the sheer scale of money created is a risk and any sign that the global economy is recovering rapidly and investment demand is picking up, may lead to higher inflation (and possibly lower asset prices).

In this environment investors are forced to hold risk assets because cash and government bonds do not provide a yield which matches inflation. This is likely to keep the valuation of risk assets high and introduce increased price volatility as investors are forced to remain invested and collect a yield above inflation whilst they can but will not wish to lose money and will therefore rush for the exit en-masse when this becomes a concern.

This increased volatility and the reduced portfolio protection provided by government bonds makes portfolio diversification more important and I would continue to recommend that the Fund look to acquire real assets over the medium term to help mitigate the inflation risk.

Performance report

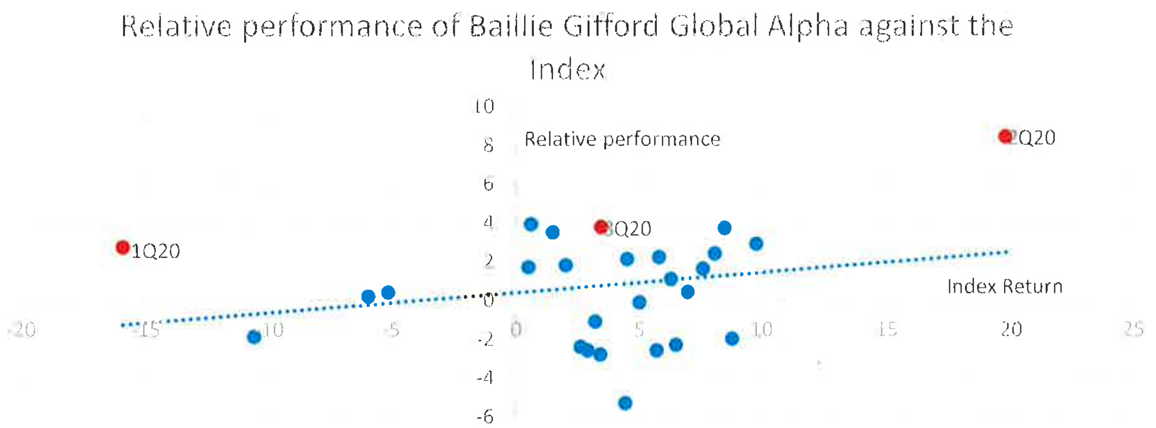
Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£525m Segregated Fund; 43% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to exceed their performance target significantly
Last meeting with manager	By phone during the quarter
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

The portfolio rose by 7.2% over the quarter, outperforming the benchmark by 3.5%. The outperformance this year is certainly the strongest quarterly outperformance by this portfolio since the reorganisation on 31/12/13 and probably in the portfolio's 20-year history. The portfolio is up 25.7% over the last 12 months, outperforming its benchmark by a huge 19.9%, it has outperformed its benchmark by 6.1% per annum over 5 years, well in excess of its challenging performance target of benchmark + 2-3% per annum over a rolling 5 years. The portfolio has outperformed it's benchmark by 1.7% per annum since inception over twenty years ago. The outperformance of this portfolio alone has added £87m to the value of the Fund over the last 12 months.

I have huge admiration for what Baillie Gifford have achieved over the last ten years and see this not as luck but as the result of the sound application of a well thought through investment philosophy. Over the last 5 years in particular, Baillie Gifford have increased the focus of their portfolio on rapidly growing, asset light, business disrupting companies which are often changing the competitive dynamic in an entire industry. Nonetheless, it is as important to challenge exceptionally good performance as much as exceptionally bad.

The chart below shows the quarterly relative returns of the portfolio against the returns of the index since this portfolio was restructured at the end of 2013. The dotted line is the line of best fit (trend line). The chart shows that the portfolio is outperforming in most market conditions and has a beta of greater than one (the portfolio tends to outperform as markets rise and vice versa).

The dots highlighted in red are for the most recent three quarters. The chart shows how extreme the index return was in the first and second quarter of this year but also the exceptional scale of the outperformance over the last 3 quarters. This raises the question as to whether the portfolio has a higher concentration of risk than in the past and what market conditions could undermine the portfolio.



The Baillie Gifford portfolio has undoubtedly benefitted from the strong performance of 'Growth' as an investment style. It focused on companies which they believe are capable of doubling sales over the next 5 years. This has led to a bias towards asset light companies often using new technology to disrupt existing businesses, an area which has played out exceptionally well through the economic lockdown as customers have turned to the internet to fulfil more of their consumption of goods and services. I would note that Baillie Gifford have been taking profits in a number of these positions in the last 6 months including Tesla, Amazon and Facebook and purchasing smaller, faster growing companies in the e-commerce space but also a number of cyclical growth companies and companies where the recent disruption has undermined the share price in what they believe are high quality, long-term growth businesses.

Market environments which may prove more challenging for the Baillie Gifford portfolio could include a strong economic recovery as we come out of this Covid-19 era when cyclical, 'Value' stocks may do well; a rising interest rate environment, which I don't forecast happening for few years yet; or if the next virus is a computer based one; but these are just suppositions. The important issue is not to rely on this portfolio continuing to deliver the exceptional outperformance of the past few years. This portfolio is already one of the major determinants of the future performance of the Fund. The recent sale of £40m from this portfolio is important from a risk mitigation standpoint.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£254m Segregated Fund; 21.6% of the Fund
Benchmark/ Target	MSCI World Index
Adviser opinion	meeting long term performance targets, underperforming short-term
Last meeting with manager	29/10 Elaine Alston/John Arthur
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

The MFS portfolio rose by 1.9% during the quarter, underperforming its benchmark by -1.4%. This poor performance has bought the longer-term performance figures down and the manager is now below the benchmark over 1, 3 and 5 years but has still outperformed their benchmark since inception in 2013 by 0.7% per annum. Given the managers' 'Value' style bias and the pressure this style has been under in performance terms recently, the longer-term outperformance is important.

The MFS philosophy is to invest in quality companies with an above average return on capital but at a below average valuation. This focus means they tend to fall into the 'Value' style category and have seen this approach struggle somewhat, particularly during the rapid market recovery seen in the second quarter which was led by a small number of high growth technology stocks. In addition, during a period of such rapid change in many industries, a number of previously stable and highly regarded businesses now find their operating model under threat. It is noticeable that the turnover within this portfolio has increased as the manager has recognised that some, previously stable, business models are under threat and that the market collapse during March presented an opportunity for the manager to buy a number of favoured holdings at a price they were comfortable with. Whilst MFS remain under-exposed to the kind of high growth business disrupter favoured by Baillie Gifford, they have bought a number of suppliers to the technology sector recently including Intel (semi-conductors) and Quest Diagnostics.

MFS do not hold Apple, Amazon, Alphabet, Google or Tesla, seeing them as expensive. These stocks have benefitted from the switch to the internet by both consumers and businesses, particularly during the recent pandemic. They have been a major contributor to the recovery in the US and Global Equity markets. Not holding just these 5 stocks has contributed 90% of the underperformance year to date by this portfolio.

I continue to believe MFS have a credible investment philosophy and process. Current market conditions have been unfavourable to them but holding this portfolio provides useful diversification and lowers the investment risk across the Total Fund.

MFS have announced a number of personnel changes including their executive chairman as well as the lead manager for this portfolio. I regard these as normal business issues as both are due to the retirement of longstanding employees and the announcements have been made 6 to 12 months prior to the individuals' departure. Their replacements are long standing MFS employees who will understand the culture and investment approach of the company.

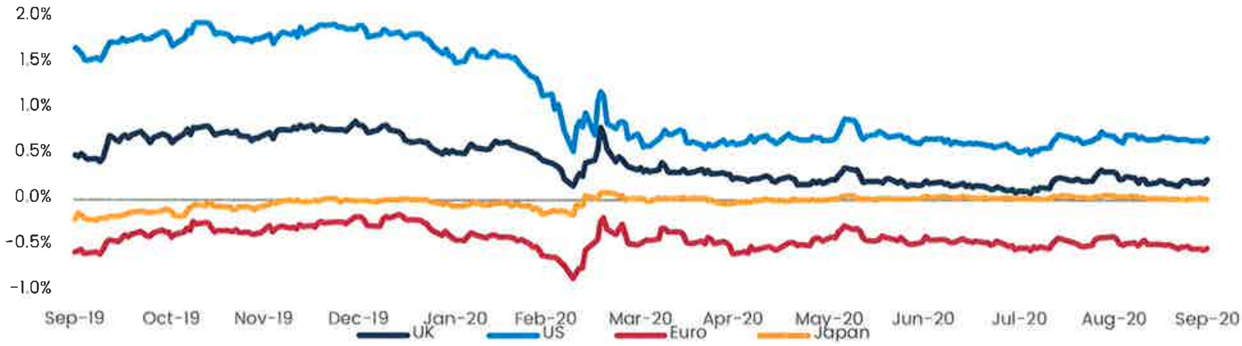
Asset Class/Manager	Fixed Interest/ Fidelity
Fund AuM	£88m Unit Trust; 7.5% of the Fund
Performance target	50% Sterling Gilts; 50% Sterling Non-Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	4/8 John Arthur/Paul Harris/Suzy Fredjohn
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

The portfolio returned 0.7% over the quarter, ahead of the benchmark return of -0.1%. The portfolio has outperformed over all time periods and is meeting the performance target over the longer term including since inception 22 years ago. This is a strong performance.

UK Gilt prices fell slightly (yields rose) during the third quarter but, with a slight contraction in credit spreads driven by continued central bank buying and investors search for yield, UK Investment Grade Corporate Bonds produced a marginally positive return. It was this credit risk exposure which aided the portfolio performance during the quarter.

The economic slowdown caused by the Covid-19 pandemic and ensuing economic lockdowns has pushed more bonds into a negative yield. As of today, even 5-year Italian Government bonds have a negative yield and for Germany this is the case for bond maturities out to over 30 years.

Chart 4: Government 10-year Bond Yields



Source Bloomberg US Generic Govt 10 Year Yield (Ticker USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker GUKG10 Index), Euro Generic Govt Bond 10 Year (Ticker GECU10YR Index)

Despite it seeming non-sensical to purchase bonds on a negative yield, the current largescale QE across the developed world is likely to continue and the Bank of England extended its QE program yet further post the end of the third quarter. This will anchor bond yields to low levels for some time yet but I would expect yields to unwind the falls seen in April this year as economies emerge from the Covid-19 related economic lockdowns.

The portfolio is broadly neutral against its benchmark in duration terms and any non-Sterling exposure (currently at 17%) is hedged back to Sterling.

Asset Class/Manager	Fixed Interest/ Baillie Gifford
Fund AuM	£65m consists of holdings in three separate funds; 5.4% of the Fund
Performance target	44% Sterling Gilts; 44% Sterling Non-Gilts; 6% Emerging Market debt; 6% High Yield. Index +0.75 p.a rolling 3 year
Adviser opinion	[illegible]
Last meeting with manager	By phone during the quarter
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

The portfolio returned 0.8% over the quarter, outperforming its benchmark by 0.9%. The portfolio has returned 5.9% per annum since inception on 1/12 13 against a benchmark return of 5.74% but these figures are gross and so before manager fees of 0.4% approx. per annum.

Post quarter end this portfolio was sold on 2/10/20 and the assets reinvested into the Fidelity UK Corporate Bond fund. The expectation is that Fidelity as a manager should be more able to meet the performance target for this portfolio. The Fidelity portfolio is entirely focused on Investment Grade Corporate bonds and whilst there is some leeway for the manager to hold off-benchmark positions it is likely to be credit risk and the direction of credit spreads which will drive the performance of this portfolio.

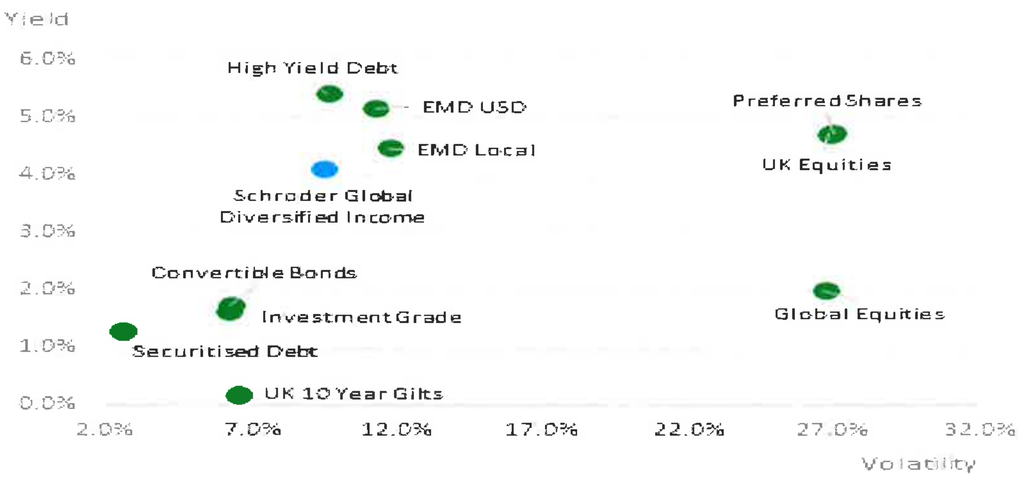
The Fund now holds two quite similar Fidelity bond portfolios, UK Aggregate Bond which is 50/50 UK Government Gilts and UK Investment Grade Credit and the new portfolio which is entirely focused on UK Investment Grade Credit. 10-year return forecasts for UK Government Gilts are close to zero against 1-2% per annum for UK Investment Grade Corporates but the portfolios do provide diversification from the Fund's exposure to Global Equities.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£107m Pooled Fund; 8.8% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	Slightly disappointing to date
Last meeting with manager	By phone during the quarter: John Arthur/ Russel Smith/Remi Olu-Pitan
Fees	0.35% of fund value

The Schroders Multi-Asset Income portfolio returned 2.3% over the quarter. This is an acceptable return in a quarter where Global Equities rose 3.4%; UK Gilts fell 1.4% and Investment Grade Credit rose 1.3%. The portfolio is invested approximately 30% in equities with a bias towards quality as a style and a high exposure to Real Estate Investment Trusts (REIT's) for the yield; 50% in Fixed Interest of which approximately half is in low risk Government and Investment Grade Bonds with the other half being invested in EM Debt and High Yield Credit i.e. return seeking but with a high yield and 15% in Preference Shares and Convertible Bonds which are Bond/Equity hybrids. The balance is invested into diversifying yield plays: Catastrophe Insurance and Renewable Infrastructure.

Over twelve months the portfolio is down -3.4% which is a poor return given Global Equities returned 5.5% and UK Gilts 3% over that period. The Portfolio aims to be diversified and the last twelve months has been a continuation of recent history where diversification has failed to add value. The portfolio is currently yielding 4.1% gross and continues to make monthly distributions of income to the Fund.

The chart below compares the yield and price volatility of different asset classes and underlines that a 4% yield is a reasonably challenging target at present.



Schroders

Asset Class/Manager	Multi Asset Income / Fidelity
Fund AuM	£87m Pooled Fund; 7.4% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	4/8 John Arthur/ Paul Harris
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

The Fidelity Multi-Asset income portfolio returned 0.6% over the quarter, slightly behind the Schroders equivalent. Over a year the portfolio has returned -2.8*% against Schroders at -3.4%. Neither portfolio has built-up a 3 year performance history yet. The Fidelity portfolio has a slightly lower return target than the Schroders equivalent and does appear to be more defensively managed.

The chart below shows the asset allocation of the two portfolios, each manager will position differently within individual asset classes, but the Schroders portfolio is more reliant on the performance of equities and appears slightly less diversified. I also see it as slightly faster moving with more frequent adjustments to the asset allocation.

Asset Class	Fidelity Multi-Asset Income	Schroders Multi-Asset Income
Equities	14.9%	29.0%
Preferred Shares/ Convertible Bonds	7.5%	14.0%
High Yield Bonds	18.6%	20.4%
Emerging Market Debt	7.6%	6.8%
Loans/Structured Credit	6.6%	
Infrastructure	4.5%	
Property	2.2%	
Other Alternatives		3.2%
Investment Grade Credit	32.5%	19.5%
Government Bonds	4.0%	5.8%
Cash	1.1%	1.3%
Hedges (risk reducing positions)	-3.5%	-4.1%

Figures may no add up due to rounding

With the combined Multi-Asset income portfolios accounting for 20% of the Fund's investments, they do bring diversification to the Fund. The yield they provide covers the Fund's forecast negative cashflow and through this enables the Fund to carry a higher level of investment risk. Because these portfolios distribute their income to the Fund, their weighting within the total Fund should fall over time especially if equity markets rise. Keeping these two portfolios at 20% of Total Fund assets is good discipline and helps reduce risk within the Fund.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£45m Pooled Fund; 3.7% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Has outperformed the peer group during the recent market turbulence
Last meeting with manager	4/8; 29/10 John Arthur/Paul Harris
Fees	0.75% of fund value

The UK Commercial Property portfolio managed by Fidelity fell by -0.1% over the quarter and has fallen -3.2% over the last year. This has been driven by the economic disruption caused by the economic lockdown with the majority of consumer facing businesses being forced to shut down. Valuations declined by -7% for high street retail and -3% for retail warehouses against rising 1% in industrial over the period. The valuation of offices was more mixed depending on the length of the remaining lease and the quality of the tenant.

Rental collection dipped to 90% in the second quarter as the economic lockdown took effect. This reduction has continued with 93% of third quarter rent collected to date. This is above the industry average. The unpaid rent is deferred rather than lost and the majority should be recovered once the economic lockdown ends. In a small number of cases Fidelity have agreed short tern rental holidays in exchange for the removal of future break clauses or for agreeing longer lease terms. This has only been done where the manager views the tenant as of sufficient quality.

The portfolio is under-exposed to retail which accounts for only 12% of the portfolio, 7% of the portfolio is in cash with no purchases or sales planned at the current time.

There are three properties undergoing planned refurbishments and then reletting, in addition, one further property is now being refurbished following the exercise of a break clause by the tenant. In all four cases the manager expects to remarket the refurbished property at a premium to the previous rental rate and is progressing well with the refurbishment at the present time despite some delays due to the economic lockdown lengthening supply lines.

The four properties currently undergoing refurbishment are as follows:

- Industrial Units in Wigan – valued at 5% of the portfolio AuM. Refurbishment completed in August 2020 and currently being marketed although this is being delayed due to the current lockdown. The expectation is to achieve a rent above the previous level.
- Office in Cardiff – The client exercised a break clause in the lease enabling them to vacate the property earlier than expected. This property is now being refurbished with completion due end November 2020. The energy efficiency of the property has been improved and the expectation is to achieve a rental level 10%+ above the previous rent.
- Office in Southampton – This was a planned redevelopment due to lease expiry. Planning permission has been granted to add a fourth floor and infill the atrium with completion expected in mid-2021. The manager is targeting an uplift in rent of over 25% upon completion of the refurbishment.
- Barley Wood where the manager is looking for change of use from Office to Industrial.

The current vacancy rate is very high at 21% but over 16% of this relates to the four properties commented on above. Reletting these properties once the refurbishments are completed will drive rental and asset value growth through 2021 and beyond and puts the portfolio in a good position, albeit I am sure the manager would have preferred not to be managing the refurbishments and re-lettings through an economic lockdown. I view the portfolio as well positioned for the next few years but with short term operational risks due to the high vacancy rate at present.

International Real Estate (RE) Manager Selection

Following a review of the terms and conditions for investing in the proposed RE fund, contracts were signed on the 10th November qualifying the Fund for a 25% fee discount for the next four years as an initial investor. In addition the Fund has negotiated an observer seat on the RE funds' advisory panel which is made up of large ($250m+) investors, had a Most Favoured Nations (MFN) clause included in a side letter to the agreement which ensures that no other investor committing a similar or smaller size of investment will receive more favourable terms and negotiated the consolidation of all LGPS commitments to the RE fund for fee calculations. There are no other LGPS investors in the RE fund at present but if any do invest prior to the final close this could feed through to a lower management fee for the Fund.

Morgan Stanley had raised $2bn by the first closing date (10/11/20) and are targeting $3.5bn by final close next year.

8 Old Jewry, London, EC2R 8DN, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson-allenbridge.com

Report No.
FSD20093

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**PENSIONS INVESTMENT SUB-COMMITTEE**
Date:	**1st December 2020**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSIONS ADMINISTRATION**
Contact Officer:	David Dobbs, Head of Corporate Finance and Accounting Tel: 020 8313 4145 Email: david.dobbs@bromley.gov.uk
Chief Officer:	Peter Turner, Director of Finance Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk
Ward:	Borough Wide

1. REASON FOR REPORT

1.1 The purpose of this report is to provide information regarding the forthcoming changes to the LGPS and how they will impact on the Pension Fund's administration.

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2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

(a) note the ongoing and proposed changes to the Local Government Pension Scheme and the impact that these changes will have on fund administration at the Council

(b) consider the updated assessment of resourcing needs for pension administration, including the changes outlined for the outsourced (Liberata) and client-side (Council) arrangements

(c) agree that the Director of Finance will discuss the finalised resource requirements with the Sub-Committee Chairman and Vice-Chairman, with the outcome reported to the Committee

(d) comment on and note the Council's proposed approach concerning the implementation of the £95k Exit Cap.

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: Recurring Cost. Total administration cost £5.3m (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); £1,000.3m total fund market value at 31st March 2020

5. Source of funding: Contributions to Pension Fund

Personnel

1. Number of staff (current and additional): 1.3 FTE

2. If from existing staff resources, number of staff hours: 45 hours per week

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Legal

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

2. Call-in: N/A.

Procurement

1. Summary of Procurement Implications: N/A

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,253 current employees; 5,592 pensioners; 5,945 deferred pensioners (for all employers in the Fund) as at 31st March 2020.

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Pension Fund Administration

3.1 The Pension Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. Operationally the administration of the Fund is partly outsourced to Liberata and partly carried out by Council staff. The Council and Liberata staff work in partnership to provide a seamless service to scheme employers and scheme members. Overall, the fund continues to operate at a high standard to support its members despite the financial uncertainty and other challenges associated with Covid-19 pandemic.

3.2 The Pension Fund's current administration function is a partnership between Liberata (through the exchequer services contract) and an in-house 1.0 FTE resource who holds the post of Pensions Manager. It is worth noting that Bromley has fewer resources than most London Borough's in relation to the Pension Fund. Whilst the fund's value exceeds £1bn, the 1.0 FTE (Pensions Manager) is supported only by approximately 0.3 FTE of resource from the wider Control team, in addition to a small proportion of time from the Head of Department and Director of Finance.

3.3 The administrative activities completed by Liberata include:

- Responding to members' general queries
- Processing and issuing leaver benefit statement and annual benefit statements
- Providing estimates and processing payment for refund, retirements (normal, ill-health, redundancy, and flexible), transfer value, and death grants
- Processing and updating record in relation to starters, opt-out members, and leavers
- Drafting the fund's annual newsletter
- Providing accounting and valuation data
- Supporting Council officers with contributions reconciliation and regulatory returns.

3.4 The primary role of the Pensions Manager is to monitor Liberata's performance in relation to the performance of its administrative activities as well as:

- Ensuring that the Council complies with its statutory responsibilities and that appropriate arrangements or policies are in place
- Providing relevant information and communicating with other employers
- Managing and monitoring the administration of admitted bodies, complaints and the Internal Dispute Resolution Procedure
- Responding to ad-hoc queries from the Directors, other officers and Councillors on all pensions matters and preparing reports to relevant Committees meetings
- Supporting the Council's Pensions Board
- Liaising with the scheme actuary regarding actuarial valuations and other matters.

New and Proposed Changes to LGPS Regulations

3.5 There are a number of recently implemented and proposed changes to LGPS regulations, which will impact on pensions administration. Most significant amongst these are the McCloud Judgement and its proposed remedy, and the Restriction of Public Sector Exit Payments Regulations (i.e. the £95k severance payment cap).

3.6 In light of these changes and other proposed developments, there is an opportunity to consider their impact on administration and to strategically re-examine the resource requirements for Pensions Administration to ensure that these changes can be delivered successfully and properly communicated to scheme members.

McCloud Case and Proposed Remedy

3.7 The McCloud case affected reforms that moved the LGPS from a final salary to a career average salary basis in 2014. The Court of Appeal ruled that measures to protect older members from the effects of the change, based on their age on 1 April 2012, directly discriminated against younger members.

3.8 In summary, the proposed remedy will protect qualifying members by the application of a revised underpin calculation. Qualifying members will be all who were active in 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break.

3.9 Any qualifying members who have already left the scheme will have the revised underpin applied retrospectively and so benefits for all qualifying leavers since 1 April 2014 will need to be revisited to determine whether the underpin will produce a higher benefit. The underpin check will be a two-stage process, with a provisional check on leaving active membership, or reaching the underpin date (if later), and a final check when benefits are taken (the "underpin crystallisation date"). This is so that the effect of early and late retirement factors on the 2008 Scheme and 2014 Scheme benefits can be considered in calculating whether the underpin gives a higher benefit.

3.10 Implementing these changes is likely to represent a significant challenge, particularly with an expected commencement date of 1 April 2022. There are many different aspects of work that will need to be carried out to implement the changes, including:

- Communicating changes to members and employers
- Collecting and validating additional data from employers, including obtaining part-time hours and service break data from April 2014, from all employers
- Incorporating the underpin in the annual benefit statements
- Producing calculations for the qualifying members since 1 April 2014 that have already left, retired or deceased
- Calculate the underpin for current active employees pre-April 14 joiners.

3.11 The additional administration costs may mean that administering bodies request an updated valuation in advance of triennial 2022 valuation. Whilst the benefit cost for the McCloud remedy was been estimated and included in the 2019 valuation for all affected employers, the administration cost for McCloud was not included in the administrative cost recharged to employers, though it is possible that some of the cost can be recouped after the next valuation by passing the costs onto employers.

95K cap and exit payment reform

3.12 Having first been proposed in 2015, this reform restricts the total value of an exit package (including redundancy, severance and other payments) to £95k. The cap also includes pension strain costs for those aged 55 and over. Whilst the implementing legislation came into force on 4th November 2020, the relevant scheme regulations for the LGPS are not yet in place. This creates some ambiguity and is an urgent issue for administering authorities to respond to, particularly where exits, from the Council or other fund employers, may already be in progress.

3.13 In a letter dated 28th October, MHCLG wrote to all LGPS administering authorities, setting out the Government's view that the Exit Cap Regulations effectively curtail the use of LGPS regulations to pay an immediate unreduced pension when the cap is breached. Therefore, a capped member should only receive an immediate pension (with full actuarial reductions applied) or a deferred pension, plus a cash alternative payable by the employer.

3.14 The letter states that '…the recommended course of action for an administering authority to act consistently with its legal duties is that the provisions of Regulation 30(7) are subject to the cap and so the provisions of Regulation 8 of the 2020 Regulations and Regulation 30(5) of the LGPS 2013 Regulations should be engaged. The Government's view is that LGPS members in that position should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost'.

3.15 Based on the position set out above and to eliminate any ambiguity, there is an immediate and pressing need for the Council, as administering authority, to clearly set out its position regarding this matter. The Director of Finance has confirmed that, consistent with advice of MHCLG, there will be an immediate adoption of the cap. It is also noted that, depending on the circumstances, there is a risk of legal challenge from affected individuals – should these arise then they will be addressed on a case by case basis.

3.16 The impact on administration for this change will include:

- Communicating changes to members and employers
- Practical issues around ensuring that the member's share of the pension strain has been recovered before benefits are put into payment
- Additional time for dealing and explaining the options with employers and members
- If a software system solution is not available, then this will require manual calculations.

Employer contribution and exit payment flexibility

3.17 New regulations came into force on 23 September 2020 providing LGPS (Local Government Pension Scheme) employers with flexibility on meeting exit payments and LGPS funds with the flexibility to review employer contributions between valuations. These regulations are specifically aimed at 'other' employers in the fund where their situation has changed significantly, and they elect to cease participating in the fund. These changes will involve additional administrative work including drafting, reviewing and approving termination agreements of deferred debt arrangements.

GMP indexation and equalisation

3.18 On 7 October 2020, the government published its Public Service Pensions Guaranteed Minimum Pension Indexation consultation. The consultation seeks views on a proposal to extend beyond 5 April 2021 the current interim solution for dealing with GMP indexation in public service pension schemes, including the LGPS. The consultation considers whether the government should discount conversion as a long-term policy solution and make the interim solution, of full indexation, permanent.

Goodwin case

3.19 This is following a successful case against the Teachers' Pension Scheme, where historical widowers' pensions in the public sector pension schemes were discriminated against male members. Such that, male survivors of female members receive lower pension than same sex survivor. The equalising of widower benefits in public service schemes Treasury statement was issued on 20 July 2020. MHCLG is to consult on and take forward changes early next year. For the LGPS this will most likely affect surviving widowers where their deceased spouse left prior the LGPS to April 1998.

2020 Cost management exercise

3.20 All public service schemes have a cost management process governed by the Public Service Pensions Act 2013 (PSPA). There are two cost control mechanisms in place for the LGPS. One is calculated by the Treasury (HMT) and the other is calculated by the Scheme Advisory Board (SAB). The administration team has provided GAD with the valuation data as at 31 March 2019 to assist with the cost management process and a response/outcome from this process is awaited.

Improving data quality

3.21 Fundamentally, the purpose of the fund is to pay the correct pension benefits to its members when they become due. It is therefore imperative that the fund achieves and maintains the highest possible data quality standards, to comply with its core functions and to ensure the cost-effective use of resources. Improving data quality will be a key administrative priority and will include, for example, screening the member database for overpayments, fraud, inappropriate communications/mailings where members have deceased.

Member self-service

3.22 A proposal for the implementation of a self-service web portal is currently being considered. This will help streamline administration, allowing members to view their details online, including the ability to amend personal details, view payslips and obtain a projection if estimated benefits.

Internal Audit of Pension Administration

3.23 An internal audit was commissioned and completed in February 2020. The audit looked at the arrangements in place for oversight and control of pension administration activity which impact on the reliability of records, integrity of information and compliance with relevant regulations.

3.24 The audit resulted in a Reasonable Assurance audit opinion and included one low and two medium priority recommendations, as summarised below:

- *Pensions Team Management should ensure minutes of the relevant Committee meetings are taken and made available on the website promptly after they have been finalised (Low Priority).* This was accepted and implemented immediately.

- *Pensions Team Management should ensure compliance with the Myners Principles is assessed in the Investment Strategy Statement (Medium Priority).* This was accepted and the Investment Strategy Statement will be updated accordingly.

- *Management should ensure reconciliations are prepared in a timely manner, by an agreed day of each following month. Management should ensure the fund manager asset reconciliations are signed off and dated by the officers preparing and reviewing the file (Low Priority).* This was accepted and implemented immediately.

Pension Fund Accounts and Annual Report

3.25 It is a requirement of Pension Fund administering authorities to publish an Annual Report on or before the 1st December after the end of each scheme year. The Annual report will detail, inter alia, the management and financial performance during the year of the fund, its funding strategy statement, statement of investment principles, governance compliance statement and its audited accounts.

3.26 Bromley's draft Annual Report was presented to the Sub-Committee at its July meeting and the audit of the Council's Statement of Accounts and Pension Fund started in August. Originally, it was planned that the audits would be completed at the end of October, and despite good progress being made, we are now working to a revised sign-off date of March 2021. The delay is mainly due to the need to make some significant remedial adjustments (for 2019/20 and the prior year) to asset depreciation in the main Council accounts; whilst this does not affect the Pension Fund accounts directly, EY has indicated to its Local Authority clients that it will not sign-off Pension Fund accounts before the main Council accounts audit has been completed.

Resourcing Need

3.27 The narrative in this report describes a number of changes to regulation in the LGPS that will impact on the Council's Pension Fund administration. Additionally, reference has also been made to improvements in administration (improving member experience and data governance) which will also impact on resourcing needs. Furthermore, there are specific proposals concerning how Section 151 officers support Pension Funds due for consideration by the LGPS Scheme Advisory Board and these will also drive a resourcing need in fund administration.

3.28 Our initial assessment is that any increase in the resourcing capacity will predominantly be needed on the outsourced (Liberata) side of the administrative function. To this end, Liberata was asked to prepare a contract variation in response to the changes outlined in this report and this is currently under review. The additional costs will ultimately be passed on to the Pension Fund as an administrative expense.

3.29 In addition to the above, we have also considered the capacity within the in-house team and have concluded that this could benefit from some additional resources to address the client-side requirements of the additional administrative work already outlined in this report, but also to provide additional resilience and flexibility in the administration team, which currently consists of just one full-time officer. The role would also provide broader support to the Control Team, which provides the pensions accounting function, including investment administration and annual closing of the Pension Fund. At this stage, it is anticipated that the overall need can be met by the recruitment of one full-time officer and that, subject to approval, recruitment for this post would commence in the first half of 2021. A recharge of the ongoing cost of this post would be applied to the Pension Fund as an administrative expense.

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 2013 (as amended), 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 The amount and cost of any additional resourcing for pensions administration is still under consideration by officers. Costs will be recharged to the Pension Fund as appropriate. To provide some context the Pension Fund is currently valued in excess of £1bn, with direct in-house support of 1.3 FTE, and the Liberata contract which is valued at £439,800.

5.2 This report proposes additional resources to address the considerable changes that have been outlined. These costs, subject to final confirmation, will comprise an additional in-house post (at the proposed M6 grade: £39,239 to £58,857) and a variation to the Liberata contract, the value of which is currently being discussed, to allow additional resources to be recruited. These costs will need to be met by the Pension Fund and where appropriate recovered from employers.

6. PERSONNEL IMPLICATIONS

6.1 The report states that additional resources will mainly be required on the outsourced (Liberata) side of the pension administration function. On the Council side, it is proposed that an additional post is recruited to the Control Team and that this post will support the client-side pension administration function.

7. LEGAL IMPLICATIONS

7.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended). 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:	Impact on Vulnerable Adults and Children; Procurement Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2013 (as amended); LGPS (Management and Investment of Funds) regulations 2016;

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