PENSIONS INVESTMENT SUB-COMMITTEE COMMITTEE

Minutes of the meeting held at 6.30 pm on 29 April 2021

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

110 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

111 DECLARATIONS OF INTEREST

There were no declarations of interest.

112 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

113 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 27 JANUARY 2021, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 27 January 2021 be confirmed.

114 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

There were no matters outstanding not covered elsewhere.

115 PENSION FUND PERFORMANCE Q4, 2020/21

Report FSD21026

The report provided a summary of the investment performance of Bromley's Pension Fund in the final quarter of 2020/21. More detail on investment performance was provided in a separate report from the Fund's external adviser, John Arthur of MJ Hudson Allenbridge, which was attached as Appendix 1.

Mr Arthur reported that the Funds were performing as expected, with most managers exceeding benchmarks in the last quarter. With Baillie Gifford there was a slight under performance, but this followed massive over performance – outperforming its benchmark by 17% over a year. This was unlikely to occur again, and had to be viewed as an isolated event in an unusual year. With the scale of government stimulus, there had been a rapid recovery, but there were concerns about inflation, and falls in government bond yields in the UK and the USA.

Asked about the different investment strategies of MFS and Baillie Gifford, Mr Hudson responded that different approaches were needed for diversification and balance, and it was likely that in the high growth environment of the next eighteen months MFS was more likely to continue to outperform the benchmarks. However, Baillie Gifford's expertise in research and stock selection was still resulting in impressive performance. His expectation was rapid growth for two years, leading to a relatively stable and slow moving global economy by 2025. He recommended maintaining long-term relationships with managers, rather than facing the transition costs and risks associated with chasing short term performance.

The Director of Finance reported that the overall fund had increased by 34.1% over the year, outperforming the benchmark by around 11%. Full details would be reported to the next meeting. It was confirmed that the market value of the fund had been £1,000.3m as at 31st March 2020, and had risen to £1,313m as at 31st December 2020. The Chairman thanked members of the Sub-Committee and the Director and his team for their contributions to the success of the fund.

John Arthur outlined his thoughts on inflation, which he saw as a key issue for at least the next two years. He considered that inflation in the USA was likely to be over 3% for the rest of the year, and there was a possibility of a period of 10- 20 years of higher inflation. It was important to position the Fund for this – fixed interest investments would remain relatively unattractive, and the Fund was already addressing this. Property was a better hedge against inflation than fixed interest or equities – changes in inflation expectations could undermine equity values. In view of the current asset allocation situation, which was overweight in equities as they had performed well, he recommended adding £20m to the UK Property Portfolio, where fund managers were confident of good returns from properties currently being refurbished, to bring the weighting back to 5%. He also recommended allocating an additional £20m to the Fund's Multi-Asset Income portfolios.

The Sub-Committee considered these recommendations. Liquidity was a concern for some Members with property funds, but there was general support for adding £20m to the property portfolio, and some members suggested moving an additional £20m to property rather than to Multi Asset Income, although this was not pursued. The Sub-Committee also discussed whether it was right to adjust their asset allocation, but Mr Arthur advised that his recommendations were intended to re-balance the Fund in line with the principles established at the last asset allocation review in 2020.

A third recommendation in Mr Arthur's report relating to the drawdown into the Morgan Stanley International Property Fund required no action but the situation would be monitored.

The report mentioned the Shareholder Rights Directive 11 (SRD11) which required EU and UK institutional investors and fund managers to make disclosures about their shareholder engagement and stewardship activities. It was confirmed that no action was required from the Fund.

The Chairman recommended that Sub-Committee members take advantage of training on public sector pensions/LGPS issues.

RESOLVED that

(1) The contents of the report be noted.

(2) £20m be added to the Fidelity UK property portfolio to bring its weighting back into line with the SAA, the money to come from the Baillie Gifford equity fund.

(3) No action be taken on the recommendation to allocate an additional £20m from the Baillie Gifford fund to the Multi Asset Income portfolio to bring the weighting back to the SAA.

116 FUND MANAGER - MFS

The Sub-Committee received a presentation from Elaine Alston, Relationship Manager, Paul Fairbrother, Institutional Portfolio Manager and Gary Hampton, Investment Product Specialist, of MFS. Paul Fairbrother began with a summary of world market conditions, describing five phases of global equity performance during the crisis – pre-crisis, crisis, recovery, reappraisal and, since February 2021, rotation. There had been a remarkable recovery of 78% since the lowest point. There was pent-up inflationary pressure, with the Biden stimulus and governments unlikely to return to austerity. The OECD was predicting growth of 5.5% for 2021 (6.5% in the USA.) The biggest opportunities for investors now were likely to be in businesses or sectors that had not yet seen large growth, such as consumer staples and healthcare.

Gary Hampton continued the presentation, emphasising that MFS were concentrating on identifying high quality companies rather than short-term growth. They were wary of a technology bubble, and had not made major investments in the large technology companies - the portfolio was under-weight in the Information Technology and Consumer Discretionary sectors. Recent major purchases included Tesco, Bank of America, T-Mobile, BNP Paribas and Boston Scientific.

In response to questions, the MFS representatives commented that ESG issues were fully integrated into their investment approach; they had no separate ESG team, but focussed on influencing management teams to be part of the solution on ESG issues. They were expecting markets to return to some normality after the last year or so, and there were good prospects for sectors such as elective healthcare and hospitality. Stocks had performed exceptionally well over the past ten years, but this was unlikely to be repeated over the next ten years. MFS were looking for stocks with reliable 5-6% growth per annum – these stocks were not always easy to buy, but the unusual conditions of recent months opened up opportunities that were not always noticed by other investors. There were signs of inflationary pressure in the USA, so they were looking for companies with strong market positions and a sustainable business model. Turnover of stocks within the fund was low at around 15%, and most stocks were held for 6-7 years. Regulation would be a big factor affecting technology companies in the coming years.

A Councillor asked what the attitude of MFS was to issues around working from home. Elaine Alston confirmed that most staff had been working from home, but they were planning a gradual return to the office, particularly for the investment team who benefitted from face to face collaboration and exchange of ideas. During lockdown they had rolled out MS Teams, and used various video conferencing platforms – they anticipated continuing to work in a hybrid environment.

The Chairman thanked the MFS representatives for their presentation.

117 FUND MANAGER - FIDELITY

The Sub-Committee received a presentation from Paul Harris, relationship Director, Suzy Fredjohn, Associate Relationship Director and Alison Puhar, Director, UK Real Estate, of Fidelity on their UK Real Estate Fund.

Paul Harris introduced the presentation by explaining that the Council had invested in four tranches in 2018, with a current valuation of over £46m. The fund was UK and income focussed, producing income of around 4%. There was a bias towards retail, and a wide geographical diversification.

Alison Puhar explained that rental recovery was around 95%, and most of the remainder was deferred rather than lost. This was because there was a focus on good quality companies. Fidelity took the view that sustainability and ESG would deliver performance in the medium to long term, even if there were shorter term costs. The aim was to achieve rental growth through investment in the properties in the portfolio. There was currently a 19.5% vacancy rate, but a number of properties were close to being let, and there was latent performance potential of 26% income growth.

In response to questions, she was confident that there were attractive deals available in the market on which to use money coming into the fund. Institutional investors were cautious about investing in property at the moment, but the Fund was well-placed to take advantage of the current situation. Asked about opportunities for installing solar panels on the flat roofs of warehouse buildings, she explained that often there were technical difficulties with this, and sometimes tenants were reluctant to allow landlords to do this because of the potential complications. Bromley's contribution to the Fund of around £50m was just under 10%; the largest investor, another public sector organisation, had contributed £130m, or about 25% of the Fund. Of the thirty investors, about ten had invested more than £20m. Asked about how properties were valued in the Fund, she explained that valuers were very aware of where voids existed and allowed more value as properties got closer to letting. She felt that the market was more positive now than six or twelve months previously. The demand for properties related to distribution and warehousing was still strong; availability of land, planning permission and power supply continued to be issues. The impact of Government policy in terms of levelling up and encouraging investment in northern England was difficult to assess; the impact was possibly less than that of Brexit. They had not looked at investing in freeports – they were more likely to target properties in adjoining areas. There was likely to be some fallout from the ending of Covid protections such as the furlough scheme and tenants being protected from eviction, but as very few of the companies in the portfolio were struggling the Fund would be in a good position. A Member commented that the Fund had done well to ride out the one-in- a-hundred year event of Covid.

The Chairman thanked Fidelity for their presentation.

118 GOVERNANCE REVIEW OF THE LGPS
Report FSD21023

The Sub-Committee considered a report setting out the results of the Good Governance Phase III report published by Hymans Robertson in relation to Local Government Pension Schemes in February 2021 commissioned by the Scheme Advisory Board (SAB). The report was a continuation of the Good Governance project and it provided further detail on the implementation of the proposals that were included in the Phase II report as accepted by the SAB in February 2020. The Ministry for Housing, Communities and Local Government (MHCLG) attended meetings of the SAB and was expected to accept most of the recommendations from the Review.

Members accepted that there were some good points in the Review, notably the requirements for training, but there was also a likelihood that additional costs and regulation would be involved. There were proposals relating to representation from scheme members and non-administering employers on Pensions Committees, and Members considered that voting ought to be the responsibility of elected Members only. The original proposals for each fund to have a separate S.151 Officer had been modified.

RESOLVED that the contents of the report be noted.

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

The Sub-Committee agreed to extend the meeting beyond the normal three hours.

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

120 CONFIRMATION OF EXEMPT MINUTES - 27 JANUARY 2021

The exempt minutes of the meeting held on 27 January 2021 were confirmed.

121 UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)

The Sub-Committee received an update from the Chairman.

As this was the last meeting of the Council year, the Chairman thanked the members of the Sub-Committee, the officers and Mr Arthur for their work. In particular, he thanked the Vice-Chairman, Councillor Gareth Allatt, who was stepping down from the Sub-Committee.

The Meeting ended at 9.49 pm

Chairman