PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 14 July 2021

Present:

Councillor Keith Onslow (Chairman)
Councillor Gary Stevens (Vice-Chairman)
Councillors Simon Fawthrop, Kira Gabbert, Simon Jeal, Christopher Marlow and Tony Owen

Also Present:

John Arthur, MJ Hudson Allenbridge

122 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence – all Members were present.

123 DECLARATIONS OF INTEREST

Councillor Simon Fawthrop declared an interest as his daughter worked for Barnett Waddingham.

Councillor Tony Owen declared an interest as he was a Bromley pensioner.

124 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

125 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 29 APRIL 2021, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 29 April 2021 be confirmed.

126 PRESENTATION FROM BAILLIE GIFFORD

The Committee received a presentation from John Carnegie and Tim Gooding from Baillie Gifford on their Global Alpha Fund. John Carnegie began by reporting that as at 31st March 2021, the Fund had been worth nearly £600m and it was now at about £620m. The approach to investment was to seek out companies that were well-placed to grow, rather than to focus on markets and cycles. Growth of 7-10% from equity markets was expected and Tesla and SEA Limited had contributed strong performance in recent quarters. A table of the Global Alpha portfolio and transactions showed companies divided into

four categories – growth stalwarts, rapid growth, cyclical growth and latent growth.

Tim Gooding addressed the issue of investing in China. He recognised the concerns about human rights and government control but emphasised that the opportunities in China could not be ignored and that their focus was on investing in a small number of privately owned companies, not state-owned enterprises. Baillie Gifford's research agenda was wide ranging and covered issues such as Web 3.0 and energy transition. Stewardship was important and focused through five key principles – prioritisation of long-term value creation, having a constructive and purposeful board, long-term focussed remuneration with stretching targets, fair treatment of all stakeholders and sustainable business practices. He gave a number of examples where these principles had supported engagement with particular companies.

Members then asked questions, focussing initially on China, and noting that no engagement examples had been given involving Chines Companies. There were 11 Chinese companies in the portfolio, making up about 10% of the Fund, and a brief description was given for each. There would be engagement examples in the next report, including Alibaba. Baillie Gifford were aware of the risks around trade wars, the technology battle between China and the USA, the situation in Taiwan, and governance, but emphasised their focus on investing in the right companies. Members had concerns around forced labour in supply chains, but Baillie Gifford confirmed that they did carry out due diligence to at least tier 3 suppliers. Members raised concerns about hostile governments spying on companies and investors, but Bailie Gifford responded that this was always a risk, and the greater risks came from government regulation impacting on these companies. The fund also had a small holding in a Russian company - Baillie Gifford were aware of the risks, but these were factored into the price.

A Member asked whether the rapid growth seen in companies like Tesla, Spotify and Netflix was sustainable over the long term. Baillie Gifford considered that there was a huge market for electric vehicles, but accepted that it was possible that disruptors in the market could themselves be quickly overtaken by new disruptors. On the issue of ESG, they commented that information was often poor, and one of their first engagements with any company was to seek metrics on ESG issues.

John Arthur commented that fund performance had been exceptional in the last year, but Members should be wary of expecting this to continue. He asked for comments on Paris-aligned funds and on the likelihood of continuing high growth. Bailley-Gifford explained that they did run a couple of screens, but some good companies, such as airlines, would always have difficulty becoming carbon-neutral.

The Chairman thanked Mr Carnegie and Mr Gooding for their attendance and their valuable presentation.

127 PENSION FUND PERFORMANCE Q4, 2020/21
Report FSD21043

The Committee received a summary of the investment performance of Bromley's Pension Fund in the 4th quarter of 2020/21. The report also contained information on general financial and membership trends and summarised information on early retirements. The report gave an update on the repayment plan variation for Mytime which had now been agreed – the Director of Finance confirmed that the April, May and June payments had been received on 28th June as agreed.

The report also included a quarterly report from John Arthur of MJ Hudson. Mr Arthur commented that the meeting was slightly too close to the end of the quarter, so final figures were not yet available, but he confirmed that performance for the quarter was still good. (He suggested that ideally for these reports meetings should be about six weeks after the end of each quarter.) He highlighted that the fund had deviated further from the Strategic Asset Allocation benchmark, and the cashflow situation was comfortable. He recommended taking the income from the two Fidelity Bond portfolios into the fund as cash, rather than re-investing. He also recommended taking up to £10m from global equity portfolios to cover expected future drawdowns, and that the sales be split within global equities with a target of achieving a 60/40 split between Baillie Gifford and MFS.

The Committee discussed these recommendations. On the first recommendation, Councillor Simon Fawthrop suggested that the conversion of Fidelity Bond portfolios should be staggered to create a gradual transition, with 50% in year one, 75% in year two and 100% in year three. Other Members suggested that this was over-complicating the issue. The Director of Finance assured the Committee that he could use treasury management facilities to ensure that the money was used, and would report back to the Committee if the surplus became significant.

The Committee discussed the second recommendation, which was to give delegated authority to the Director of Finance in consultation with the Chairman to raise up to £10m from global equity portfolios to cover future drawdowns to the Morgan Stanley International Property Fund. The Director informed Members that he would use treasury management flexibilities rather than hold cash. Councillor Christopher Marlow commented that there was a foreign exchange risk over the four year period, and suggested liquidating funds sooner to provide a pool of US dollars for the Morgan Stanley fund. He proposed that this could be done by purchasing US corporate bonds.

The third recommendation was to discuss the desired balance between the two global equity portfolios (Baillie Gifford and MFS) to inform the level of sales. He proposed a 60/40 split, and this was agreed by the Committee.

The Committee discussed other issues from the report. It was noted that in Appendix 4 to the report the membership total as at 31/3/20 added up to 17,790, not 17,568. Auto enrolment had caused increases in membership,

and the Chairman requested a more detailed breakdown of where the increases were occurring.

It was noted that the Taskforce for Climate Related Financial Disclosure (TCFD) recommendations would require additional reporting requirements. John Arthur reported that the extra costs would be borne by investment managers, and he would provide a consolidated report for Bromley. The Committee could consider at its next meeting the level of reporting that it would need in future.

Mr Arthur rounded up a number of other significant points from his report – in particular he mentioned that the Fund now had a 60% exposure to equities, but it was well funded and could afford to bear this level of risk. He also commented that inflation was likely to be around 4% in both the USA and the UK by the end of the year. He suggested that the Committee should begin to think about the next asset allocation review and the level of risk it wanted to take. The next review was likely to be more complex than the last one.

RESOLVED that the report be noted and

(1) Fidelity Bond portfolios be converted to income distribution rather than reinvestment as at present.

(2) The Director of Finance be authorised to divest up to $20m from the global equity portfolio to purchase US corporate bonds for funds to be available for drawdown to the Morgan Stanley International Property Fund.

(3) The desired balance between the two global equity portfolios (Baillie Gifford and MFS) so as to inform the sales be targeted at 60/40.

(Councillor Simon Fawthrop requested that his vote against the first recommendation be recorded.)

128 PENSION FUND INVESTMENT STRATEGY STATEMENT
Report FSD21045

The Committee considered the Council's draft Funding Strategy Statement (FSS). The Statement had been updated to reflect the Fund's draft policies on operating the employer contribution flexibilities introduced in the Regulations late last year, and the introduction of the "low risk" termination basis that had been agreed (for admissions without a guarantor but where a contract was in place between the letting employer and the admission body.) Once agreed, the Statement would be issued to the Fund's employers for a four-week consultation period.

The Director of Finance introduced the report and confirmed that Mercers had advised on the wording of the Statement. The overall aim was to protect the Pension Fund, and in some circumstances it was better for an employer to

make up a deficit in tranches than to have to pay up front, putting the organisation at risk.

Councillors commented on the following sections –

6. Solvency Funding Target: The Policy for employers who have a guarantor participating in the Fund: Councillor Simon Fawthrop asked whether the deficit/surplus was for the particular employer or the whole scheme.

Appendix C – Policy for spreading exit payments – Paragraph 4: Councillor Marlow commented that spreading payments over six months seemed too long and the period should be shortened.

Councillors also discussed elements of the Statement in Part 2.

RESOLVED that

(1) The draft Funding Strategy Statement at Appendix 1 to the report be approved.

(2) Any final changes needed to the Statement be undertaken by the Director of Finance with the agreement of the Chairman and Vice-Chairman.

129 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**

130 CONFIRMATION OF EXEMPT MINUTES - 29 APRIL 2021

The exempt minutes of the meeting held on 29 April 2021 were confirmed.

131 LONDON COLLECTIVE INVESTMENT VEHICLE

The Committee considered a report on the Council's membership of the London Collective Investment Vehicle (LCIV.)

The Meeting ended at 10.04 pm

Chairman